

Jack M. Stover
717 237 4837
jack.stover@bipc.com

409 North Second Street
Suite 500
Harrisburg, PA 17101-1357
T 717 237 4800
F 717 233 0852
www.bipc.com

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Corporate & Financial Regulation

January 29, 2016

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Pennsylvania
Insurance Department

VIA HAND DELIVERY

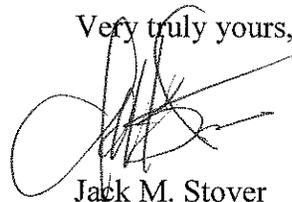
Joseph DiMemmo, CPA
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation
Pennsylvania Insurance Department
1345 Strawberry Square
Harrisburg, PA 17120

Re: *Order No. ID-RC-13-06*
June 19, 2015 Approval Letter, Section III(D)

Dear Deputy Commissioner DiMemmo:

Pursuant to Section III(D) of the above-captioned Approval Letter, Highmark Health is filing with the Department the attached non-confidential Benchmark Report.

Very truly yours,



Jack M. Stover

JMS/gmt
Enclosure

cc: Lawrence J. Beaser, Esquire (via email: Beaser@BlankRome.com)
Eric Coburn (via email: Eric.Coburn@RaymondJames.com)

Allegheny Health Network
Consolidated Balance Sheet - UNAUDITED
December 31, 2015
(Dollars in Thousands)

	ACTUAL	CAP*
<u>ASSETS</u>		
Cash & Cash Equivalents	\$ 137,617	\$ 102,295
Net Patient Accounts Receivable	288,996	258,683
Other Receivables	64,260	65,431
Inventory, Net	50,269	47,700
Prepaid Expenses & Other Current Assets	31,603	45,110
Total Current Assets	<u>572,745</u>	<u>519,219</u>
Unrestricted - Board Designated Funds	112,450	165,620
Temporarily Restricted	25,580	19,400
Permanently Restricted	252,684	268,500
Total Assets Restricted As To Use	<u>390,714</u>	<u>453,520</u>
Property, Plant & Equipment - Net	1,060,433	1,071,832
Investments	270,919	271,100
Goodwill and Other Intangible Assets, Net	119,699	118,400
Other Assets, Net	187,545	173,700
Total Long-Term Assets	<u>1,638,596</u>	<u>1,635,032</u>
TOTAL ASSETS	<u>\$ 2,602,055</u>	<u>\$ 2,607,771</u>
<u>LIABILITIES & NET ASSETS</u>		
Accounts Payable and Accrued Expenses	\$ 259,626	\$ 219,600
Accrued Salaries and Benefits	95,149	98,800
Total Debt	1,426,843	1,427,025
Benefit Plan Liabilities	384,024	379,772
Other Liabilities	255,305	253,300
Total Liabilities	<u>2,420,947</u>	<u>2,378,497</u>
Unrestricted Net Assets	(97,156)	(58,626)
Temporarily Restricted Net Assets	25,580	19,400
Permanently Restricted Net Assets	252,684	268,500
Total Net Assets	<u>181,108</u>	<u>229,274</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 2,602,055</u>	<u>\$ 2,607,771</u>

*Corrective Action Plan

Allegheny Health Network
Consolidated Statements of Operations - UNAUDITED
Periods Ended December 31, 2015
(Dollars in Thousands)

	QTD		YTD	
	ACTUAL	CAP	ACTUAL	CAP
Net Patient Revenues	\$ 656,462		\$ 2,450,839	
Other Operating Revenues	47,396		190,642	
TOTAL REVENUES	703,858	653,535	2,641,481	2,612,790
Salaries	334,617		1,276,541	
Benefits	53,733		150,708	
Professional Fees & Purchased Services	80,439		309,481	
Patient Care Supplies & Drugs	129,528		503,749	
Insurance	4,274		28,793	
Other Operating Expenses	70,044		275,237	
Depreciation and Amortization	32,306		123,390	
Restructuring	2,860		10,045	
TOTAL OPERATING EXPENSES	707,801	663,636	2,677,944	2,660,793
OPERATING (LOSS) INCOME	(3,943)	(10,101)	(36,463)	(48,003)
Interest Expense	(7,471)		(29,695)	
Investment (Loss) Income	5,266		7,862	
Gifts and Donations	8,502		8,974	
Other (Expense) Income	(2,172)		8,653	
Net Income Attributable to Non-Controlling Interest	808		(409)	
Income Tax (Expense) Benefit	1,440		2,072	
NET (LOSS) INCOME	\$ 2,430	\$ (14,037)	\$ (39,006)	\$ (46,338)

Allegheny Health Network
Consolidated Statement of Cash Flows - UNAUDITED
Periods Ended December 31, 2015
(Dollars in Thousands)

	QTD		YTD	
	ACTUAL	CAP	ACTUAL	CAP
<u>Cash Flow from Operating Activities</u>				
Increase (Decrease) in Net Assets	\$ 37,145	\$ 42,763	\$ 65,825	\$ 108,527
Depreciation & Amortization	32,306		123,390	
Assets Acquired Through Acquisition	-		(26,531)	
Gain on Extinguishment of Debt	-		(7,494)	
Change in Fair Value of Derivative Financial Instruments	(8,161)		4,311	
Provision for Doubtful Accounts	20,366		66,017	
CAPEX Equity Transfer from Highmark	(15,537)		(59,228)	
Other Equity Transfers	(18,932)		(47,417)	
Restricted Contributions	(8,622)		(11,374)	
(Increase)/Decrease in:				
Accounts Receivable	(27,830)		(115,893)	
Other Receivables	(9,379)		20,180	
Inventories, Prepaid Expenses & Other Current Assets	5,884		(2,630)	
Other Long-Term Assets	(32,619)		(10,991)	
Increase/(Decrease) in:				
Accounts Payable & Accrued Expenses	(16,330)		19,626	
Accrued Pension Liabilities	322		(40,118)	
Other Liabilities	1,920		12,088	
Cash Flow from Operating Activities	(39,467)	14,581	(10,239)	30,223
<u>Cash Flow from Investing Activities</u>				
Capital Expenditures	(62,435)		(179,946)	
(Purchases)/Sales Of Investments	41,424		81,951	
Cash Flow from Investing Activities	(21,011)	(42,057)	(97,995)	(205,421)
<u>Cash Flow from Financing Activities</u>				
Payment of Debt	(2,108)		(32,941)	
CAPEX Equity Transfer from Highmark	15,537		59,228	
Other Equity Transfers	18,932		47,417	
Stock Issuance to Noncontrolling Interest	-		700	
Restricted Contributions	8,622		11,374	
Additional Financing	2,312		26,473	
Cash Flow from Financing Activities	43,295	57,499	112,251	143,893
<u>Cash Summary</u>				
Beginning Cash Balance	154,800	72,272	133,600	133,600
Net Change in Cash	(17,183)	30,023	4,017	(31,305)
Ending Cash Balance	\$ 137,617	\$ 102,295	\$ 137,617	\$ 102,295

Allegheny Health Network
Consolidated Days Cash on Hand - UNAUDITED
Periods Ended December 31, 2015
(Dollars in Thousands)

	QTD		YTD	
	ACTUAL	CAP	ACTUAL	CAP
Cash & Cash Equivalents	\$ 137,617	\$ 102,295	\$ 137,617	\$ 102,295
Investments	270,919	271,100	270,919	271,100
Unrestricted - Board Designated Funds	112,450	165,620	112,450	165,620
Total	\$ 520,986	\$ 539,015	\$ 520,986	\$ 539,015
Total Operating Expenses	\$ 707,801	\$ 663,636	\$ 2,677,944	\$ 2,660,793
Add: Interest Expense	7,471	8,261	29,695	31,342
Less: Depreciation and Amortization	(32,306)	(33,227)	(123,390)	(125,543)
Total	\$ 682,966	\$ 638,670	\$ 2,584,249	\$ 2,566,592
Days in Period	92	92	365	365
Operating Expense Per Day	\$ 7,424	\$ 6,942	\$ 7,080	\$ 7,032
DAYS CASH ON HAND	70.2	77.6	73.6	76.7

Allegheny Health Network
Consolidated Debt Service Coverage Ratio - UNAUDITED
Periods Ended December 31, 2015
(Dollars in Thousands)

	QTD		YTD	
	ACTUAL	CAP	ACTUAL	CAP
Net (Loss) Income	\$ 2,430	\$ (14,037)	\$ (39,006)	\$ (46,338)
Add: Depreciation and Amortization	32,306	33,227	123,390	125,543
Add: Interest Expense	7,471	8,261	29,695	31,342
Less/Add: Unrealized Investment Gains/Losses*	(85)	-	11,431	-
Less: Gain on Extinguishment of Debt*	-	-	(7,494)	-
Total	42,122	27,451	118,016	110,547
Debt Service Requirement	\$ 9,579	\$ 9,161	\$ 62,636	\$ 60,683
DEBT SERVICE COVERAGE RATIO	4.40	3.00	1.88	1.82

Note: 2015 YTD debt service includes payments on WPAHS Floating Rate Restructuring Certificates of approximately \$8 million and balloon payments on the WPAHS 2006 Series B debt of approximately \$11 million. All such amounts were paid prior to the fourth quarter.

*The YTD Debt Service Coverage Ratio (DSCR) in the original CAP filing excluded unrealized investment gains of \$1,766 and a gain on the extinguishment of debt of \$7,500. Inclusion of such items in the above YTD CAP calculation would result in a DSCR at December 31, 2015 of 1.67.

Allegheny Health Network
Schedule of Statistical Information by System
Periods Ended December 31, 2015

Year-to-Date December 31, 2015						
	INPATIENT DISCHARGES (ACUTE/PSYCH/REHAB)		OUTPATIENT REGISTRATIONS		OCCUPANCY RATES USING AVAILABLE BEDS	
	ACTUAL	CAP	ACTUAL	CAP	ACTUAL	CAP
WPAHS	57,191	56,847	834,471	810,838	54.3%	54.6%
JRMC	14,802	14,217	251,391	258,324	53.5%	52.1%
SVH	14,187	14,753	207,491	202,347	49.3%	48.8%
Total AHN	86,180	85,817	1,293,353	1,271,509	53.3%	53.2%

Year-to-Date December 31, 2015
ACTUAL OCCUPANCY RATES USING BEDS IN SERVICE

WPAHS	73.0%
JRMC	58.7%
SVH	59.3%
Total AHN	68.0%

**Allegheny Health Network
Full Time Equivalents (FTEs)
Year Ended December 31, 2015**

	FTEs (EXEMPT)		FTEs (NON-EXEMPT)		TOTAL FTEs	
	ACTUAL	CAP	ACTUAL	CAP	ACTUAL	CAP
Total AHN	4,014	3,963	11,559	11,548	15,573	15,511

**Allegheny Health Network
Schedule of Occupied Beds
Periods Ended December 31, 2015**

	QTD	YTD
Total AHN	1,102	1,162

Allegheny Health Network
Schedule of FTE/Occupied Bed (and FTE/Adjusted Occupied Bed)
Periods Ended December 31, 2015

		QTD	YTD
<u>Schedule of FTE/Occupied Bed</u>			
	Total AHN	9.09	8.52
<u>Schedule of FTE/Adjusted Occupied Bed</u>			
	Total AHN	4.41	4.26

**Allegheny Health Network
Capital Investment Detail
As of December 31, 2015
(Dollars in Millions)**

	2015 CAP	2015 Spend		2015 CAP	2015 Spend		2015 CAP	2015 Spend
Allegheny General Hospital			Jefferson Hospital			Allegheny Clinic		
Nursing Unit Renovations	\$ 13.5	\$ 12.9	Bethel Park ASC	\$ 22.0	\$ 9.9	Physician Practice Acquisition	\$ 2.0	\$ 0.2
Lab/Radiology Renovations	1.5	1.9	Strategic Acquisition-Radiation Onc.	4.0	3.9	Physician Office Renovations	4.6	0.9
General Hospital Renovations	28.4	18.9	General Hospital Renovations	3.4	2.5	Replacements	2.2	2.2
Replacements	18.2	25.0	Replacements	6.6	3.1	Total Allegheny Clinic	\$ 8.8	\$ 3.3
Total Allegheny General Hospital	\$ 61.6	\$ 58.7	Total Jefferson Hospital	\$ 36.0	\$ 19.4	ASRI		
Allegheny Valley Hospital			Saint Vincent Hospital			Replacements	\$ -	\$ 0.4
General Hospital Renovations	\$ 1.1	\$ 0.5	Nursing Unit Renovations	\$ 2.8	\$ 2.2	Total ASRI	\$ -	\$ 0.4
Replacements	4.3	3.9	General Hospital Renovations	5.7	1.5	Bethel		
Total Allegheny Valley Hospital	\$ 5.4	\$ 4.4	Replacements	11.2	9.9	Replacements	\$ 0.6	\$ -
Canonsburg Hospital			Total Saint Vincent Hospital	\$ 19.7	\$ 13.6	Total Bethel	\$ 0.6	\$ -
General Hospital Renovations	\$ 1.5	\$ 0.9	West Penn Hospital			Core Lab		
Replacements	4.8	2.9	NICU	\$ 1.4	\$ 0.8	Replacements	\$ 1.1	\$ 1.8
Total Canonsburg Hospital	\$ 6.3	\$ 3.8	Autoimmune Specialty Suite	0.3	-	Total Core Lab	\$ 1.1	\$ 1.8
Forbes Hospital			Unit Renovations (Post Partum)	3.9	5.1	Monroeville		
ICU Renovations	\$ 18.1	\$ 16.9	General Hospital Renovations	4.5	2.6	Replacements	\$ 0.2	\$ 0.2
General Hospital Renovations	0.3	2.0	Replacements	9.1	5.7	Total Monroeville	\$ 0.2	\$ 0.2
Replacements	2.4	2.8	Total West Penn Hospital	\$ 19.2	\$ 14.2	Wexford		
Total Forbes Hospital	\$ 20.8	\$ 21.7	Allegheny Health Network/IT			Replacements	\$ 0.8	\$ 1.5
			Renovations	\$ 9.2	\$ 8.8	Total Wexford	\$ 0.8	\$ 1.5
			Strategic Acquisitions	2.0	1.0			
			Replacements	21.4	15.5			
			Total AHN/IT	\$ 32.6	\$ 25.3			
						AHN Combined Total	\$ 213.1	\$ 169.3