

OCT 31 2016

**Pennsylvania**  
**Insurance Department**

**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

October 31, 2016

**VIA HAND DELIVERY**

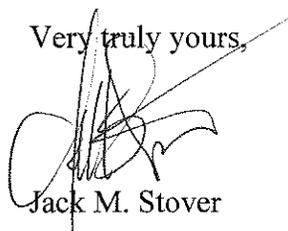
Joseph DiMemmo, CPA  
Deputy Insurance Commissioner  
Office of Corporate and Financial Regulation  
Pennsylvania Insurance Department  
1345 Strawberry Square  
Harrisburg, PA 17120

**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. I have forwarded a copy to Larry Beaser and Patrick DeLacey.

Very truly yours,



Jack M. Stover

JMS/gmt  
Enclosure

cc: Lawrence J. Beaser, Esquire (via Email)  
Patrick T. DeLacey (via Email)

**Allegheny Health Network**  
**Consolidated Balance Sheet - UNAUDITED**  
**September 30, 2016**  
(Dollars in Thousands)

|   | <b>ACTUAL</b>              | <b>CAP*</b>                |
|---|----------------------------|----------------------------|
| <b>ASSETS</b>                             |                            |                            |
| Cash & Cash Equivalents                   | \$ 194,033                 | \$ 103,409                 |
| Net Patient Accounts Receivable           | 319,286                    | 244,158                    |
| Other Receivables                         | 63,213                     | 63,528                     |
| Inventory, Net                            | 51,267                     | 47,700                     |
| Prepaid Expenses & Other Current Assets   | 32,692                     | 45,080                     |
| Total Current Assets                      | <u>660,491</u>             | <u>503,875</u>             |
| Unrestricted - Board Designated Funds     | 128,019                    | 162,620                    |
| Temporarily Restricted                    | 25,545                     | 19,400                     |
| Permanently Restricted                    | 258,310                    | 268,500                    |
| Total Assets Restricted As To Use         | <u>411,874</u>             | <u>450,520</u>             |
| Property, Plant & Equipment, Net          | 1,069,476                  | 1,085,693                  |
| Investments                               | 265,278                    | 306,100                    |
| Goodwill & Other Intangible Assets, Net   | 115,766                    | 118,400                    |
| Other Assets, Net                         | 178,361                    | 173,700                    |
| Total Long-Term Assets                    | <u>1,628,881</u>           | <u>1,683,893</u>           |
| <b>TOTAL ASSETS</b>                       | <b><u>\$ 2,701,246</u></b> | <b><u>\$ 2,638,288</u></b> |
| <b>LIABILITIES &amp; NET ASSETS</b>       |                            |                            |
| Accounts Payable & Accrued Expenses       | \$ 267,700                 | \$ 221,475                 |
| Accrued Salaries & Benefits               | 117,189                    | 98,800                     |
| Total Debt                                | 1,417,381                  | 1,420,584                  |
| Benefit Plan Liabilities                  | 375,918                    | 344,040                    |
| Other Liabilities                         | 270,864                    | 253,300                    |
| Total Liabilities                         | <u>2,449,052</u>           | <u>2,338,199</u>           |
| Unrestricted Net Assets                   | (31,661)                   | 12,189                     |
| Temporarily Restricted Net Assets         | 25,545                     | 19,400                     |
| Permanently Restricted Net Assets         | 258,310                    | 268,500                    |
| Total Net Assets                          | <u>252,194</u>             | <u>300,089</u>             |
| <b>TOTAL LIABILITIES &amp; NET ASSETS</b> | <b><u>\$ 2,701,246</u></b> | <b><u>\$ 2,638,288</u></b> |

\*Corrective Action Plan

**Allegheny Health Network**  
**Consolidated Statements of Operations - UNAUDITED**  
**Periods Ended September 30, 2016**  
(Dollars in Thousands)

|   | QTD                |                   | YTD                |                    |
|---|--------------------|-------------------|--------------------|--------------------|
|   | ACTUAL             | CAP               | ACTUAL             | CAP                |
| Net Patient Revenues                                | \$ 664,999         |                   | \$ 1,959,767       |                    |
| Other Operating Revenues                            | 46,690             |                   | 150,341            |                    |
| <b>TOTAL REVENUES</b>                               | <b>711,689</b>     | <b>694,829</b>    | <b>2,110,108</b>   | <b>2,063,698</b>   |
| Salaries  | 346,117            |                   | 1,028,319          |                    |
| Benefits  | 39,308             |                   | 117,133            |                    |
| Professional Fees & Purchased Services              | 85,096             |                   | 238,482            |                    |
| Patient Care Supplies & Drugs                       | 141,559            |                   | 414,664            |                    |
| Insurance   | 17,146             |                   | 34,228             |                    |
| Other Operating Expenses                            | 65,223             |                   | 212,910            |                    |
| Depreciation & Amortization                         | 32,412             |                   | 92,536             |                    |
| Restructuring                                       | 2,476              |                   | 6,190              |                    |
| <b>TOTAL OPERATING EXPENSES</b>                     | <b>729,337</b>     | <b>695,766</b>    | <b>2,144,462</b>   | <b>2,078,755</b>   |
| <b>OPERATING INCOME (LOSS)</b>                      | <b>(17,648)</b>    | <b>(937)</b>      | <b>(34,354)</b>    | <b>(15,057)</b>    |
| Interest Expense                                    | (7,791)            |                   | (21,564)           |                    |
| Investment Income                                   | 8,167              |                   | 22,290             |                    |
| Gifts & Donations                                   | 109                |                   | 274                |                    |
| Other Expense                                       | 839                |                   | (1,664)            |                    |
| Net Income Attributable to Non-Controlling Interest | (633)              |                   | (1,888)            |                    |
| Income Tax Benefit                                  | 650                |                   | 1,877              |                    |
| <b>NET INCOME (LOSS)</b>                            | <b>\$ (16,307)</b> | <b>\$ (4,173)</b> | <b>\$ (35,029)</b> | <b>\$ (25,261)</b> |

**Allegheny Health Network**  
**Consolidated Statement of Cash Flows - UNAUDITED**  
**Periods Ended September 30, 2016**  
(Dollars in Thousands)

|  | QTD               |                   | YTD               |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | ACTUAL            | CAP               | ACTUAL            | CAP               |
| <b><u>Cash Flow from Operating Activities</u></b>        |                   |                   |                   |                   |
| Increase (Decrease) in Net Assets                        | \$ 5,652          | \$ (3,745)        | \$ 71,086         | \$ 70,815         |
| Depreciation & Amortization                              | 32,412            |                   | 92,536            |                   |
| Gain (loss) on sale of PP&E                              | 53                |                   | 53                |                   |
| Change in Fair Value of Derivative Financial Instruments | (5,300)           |                   | 7,025             |                   |
| Provision for Doubtful Accounts                          | 14,323            |                   | 55,602            |                   |
| CAPEX Equity Transfer from Highmark                      | (11,022)          |                   | (105,728)         |                   |
| Restricted Contributions                                 | (884)             |                   | (2,084)           |                   |
| (Increase)/Decrease in:                                  |                   |                   |                   |                   |
| Accounts Receivable                                      | (24,030)          |                   | (85,892)          |                   |
| Other Receivables  | (6,397)           |                   | 11,515            |                   |
| Inventories, Prepaid Expenses & Other Current Assets     | 12,589            |                   | (2,087)           |                   |
| Other Long-Term Assets                                   | (10,262)          |                   | (19,523)          |                   |
| Increase/(Decrease) in:                                  |                   |                   |                   |                   |
| Accounts Payable & Accrued Expenses                      | (9,783)           |                   | 34,158            |                   |
| Accrued Pension Liabilities                              | (1,131)           |                   | (8,106)           |                   |
| Other Liabilities  | (13,803)          |                   | 8,288             |                   |
| <b>Cash Flow from Operating Activities</b>               | <b>(17,583)</b>   | <b>14,291</b>     | <b>56,843</b>     | <b>56,109</b>     |
| <b><u>Cash Flow from Investing Activities</u></b>        |                   |                   |                   |                   |
| Capital Expenditures                                     | (19,501)          |                   | (103,216)         |                   |
| Proceeds from sale of PP&E                               | 294               |                   | 294               |                   |
| (Purchases)/Sales Of Investments                         | (1,572)           |                   | 14,613            |                   |
| <b>Cash Flow from Investing Activities</b>               | <b>(20,779)</b>   | <b>(8,725)</b>    | <b>(88,309)</b>   | <b>(148,174)</b>  |
| <b><u>Cash Flow from Financing Activities</u></b>        |                   |                   |                   |                   |
| Payment of Debt  | (2,881)           |                   | (11,572)          |                   |
| CAPEX Equity Transfer from Highmark                      | 30,281            |                   | 95,260            |                   |
| Restricted Contributions                                 | 884               |                   | 2,084             |                   |
| Additional Financing                                     | 613               |                   | 2,110             |                   |
| <b>Cash Flow from Financing Activities</b>               | <b>28,897</b>     | <b>1,014</b>      | <b>87,882</b>     | <b>93,179</b>     |
| <b><u>Cash Summary</u></b>                               |                   |                   |                   |                   |
| Beginning Cash Balance                                   | 203,498           | 96,829            | 137,617           | 102,295           |
| Net Change in Cash                                       | (9,465)           | 6,580             | 56,416            | 1,114             |
| <b>Ending Cash Balance</b>                               | <b>\$ 194,033</b> | <b>\$ 103,409</b> | <b>\$ 194,033</b> | <b>\$ 103,409</b> |

**Allegheny Health Network**  
**Consolidated Days Cash on Hand - UNAUDITED**  
**Periods Ended September 30, 2016**  
(Dollars in Thousands)

|                                       | QTD               |                   | YTD                 |                     |
|---------------------------------------|-------------------|-------------------|---------------------|---------------------|
|                                       | ACTUAL            | CAP               | ACTUAL              | CAP                 |
| Cash & Cash Equivalents               | \$ 194,033        | \$ 103,409        | \$ 194,033          | \$ 103,409          |
| Investments                           | 265,278           | 306,100           | 265,278             | 306,100             |
| Unrestricted - Board Designated Funds | 128,019           | 162,620           | 128,019             | 162,620             |
| <b>Total</b>                          | <b>\$ 587,330</b> | <b>\$ 572,129</b> | <b>\$ 587,330</b>   | <b>\$ 572,129</b>   |
| Total Operating Expenses              | \$ 729,337        | \$ 695,766        | \$ 2,144,462        | \$ 2,078,755        |
| Add: Interest Expense                 | 7,791             | 7,921             | 21,564              | 22,778              |
| Less: Depreciation & Amortization     | (32,412)          | (34,192)          | (92,536)            | (102,313)           |
| <b>Total</b>                          | <b>\$ 704,716</b> | <b>\$ 669,495</b> | <b>\$ 2,073,490</b> | <b>\$ 1,999,220</b> |
| Days in Period                        | 92                | 92                | 274                 | 274                 |
| Operating Expense Per Day             | \$ 7,660          | \$ 7,277          | \$ 7,567            | \$ 7,296            |
| <b>DAYS CASH ON HAND</b>              | <b>76.7</b>       | <b>78.6</b>       | <b>77.6</b>         | <b>78.4</b>         |

**Allegheny Health Network**  
**Consolidated Debt Service Coverage Ratio - UNAUDITED**  
**Periods Ended September 30, 2016**  
(Dollars in Thousands)

|                                    | QTD           |               | YTD           |               |
|------------------------------------|---------------|---------------|---------------|---------------|
|                                    | ACTUAL        | CAP           | ACTUAL        | CAP           |
| Net Income (Loss)                  | \$ (16,307)   | \$ (4,173)    | \$ (35,029)   | \$ (25,261)   |
| Add: Depreciation & Amortization   | 32,412        | 34,192        | 92,536        | 102,313       |
| Add: Interest Expense              | 7,791         | 7,921         | 21,564        | 22,778        |
| Less: Unrealized Investment Gains  | (5,213)       | -             | (11,666)      | -             |
| <b>Total</b>                       | <b>18,683</b> | <b>37,940</b> | <b>67,405</b> | <b>99,830</b> |
| Debt Service Requirement           | \$ 10,672     | \$ 8,521      | \$ 33,136     | \$ 29,219     |
| <b>DEBT SERVICE COVERAGE RATIO</b> | <b>1.75</b>   | <b>4.45</b>   | <b>2.03</b>   | <b>3.42</b>   |

**Allegheny Health Network  
Schedule of Statistical Information by System  
Periods Ended September 30, 2016**

| <b>Year-to-Date September 30, 2016</b> |                                 |               |                                     |                |   |              |
|--|---------------------------------|---------------|-------------------------------------|----------------|---|--------------|
|  | <b>INPATIENT<br/>DISCHARGES</b> |               | <b>OUTPATIENT<br/>REGISTRATIONS</b> |                | <b>OCCUPANCY RATES<br/>USING AVAILABLE BEDS</b> |              |
|  | <b>ACTUAL</b>                   | <b>CAP</b>    | <b>ACTUAL</b>                       | <b>CAP</b>     | <b>ACTUAL</b>                                   | <b>CAP</b>   |
| WPAHS                                  | 43,809                          | 43,825        | 643,139                             | 637,580        | 55.5%   | 56.0%        |
| JRMC                                   | 11,062                          | 10,945        | 185,318                             | 202,679        | 57.8%   | 53.4%        |
| SVH                                    | 10,779                          | 11,200        | 154,688                             | 156,080        | 53.1%   | 49.3%        |
| Total AHN                              | <u>65,650</u>                   | <u>65,970</u> | <u>983,145</u>                      | <u>996,339</u> | <u>55.5%</u>                                    | <u>54.4%</u> |

| <b>Year-to-Date<br/>September 30, 2016</b>                  |              |
|---|--------------|
| <b>ACTUAL OCCUPANCY<br/>RATES USING BEDS IN<br/>SERVICE</b> |              |
| WPAHS   | 70.6%        |
| JRMC  | 63.5%        |
| SVH   | 58.0%        |
| Total AHN   | <u>67.2%</u> |

**Allegheny Health Network  
Full Time Equivalents (FTEs)  
September 30, 2016**

|           | FTEs (EXEMPT) |       | FTEs (NON-EXEMPT) |        | TOTAL FTEs |        |
|-----------|---------------|-------|-------------------|--------|------------|--------|
|           | ACTUAL        | CAP   | ACTUAL            | CAP    | ACTUAL     | CAP    |
| Total AHN | 4,231         | 4,129 | 12,282            | 11,967 | 16,513     | 16,096 |

**Allegheny Health Network  
Schedule of Occupied Beds  
Periods Ended September 30, 2016**

|           | <b>QTD</b> | <b>YTD</b> |
|-----------|------------|------------|
| Total AHN | 1,188      | 1,188      |

**Allegheny Health Network**  
**Schedule of FTE/Occupied Bed (and FTE/Adjusted Occupied Bed)**  
**Periods Ended September 30, 2016**

|  | QTD  | YTD  |
|--|------|------|
| <u>Schedule of FTE/Occupied Bed</u>          |      |      |
| Total AHN                                    | 8.59 | 8.58 |
| <u>Schedule of FTE/Adjusted Occupied Bed</u> |      |      |
| Total AHN                                    | 4.23 | 4.25 |

**Allegheny Health Network  
Capital Investment Detail  
As of September 30, 2016  
(Dollars in Millions)**

|   | 2016<br>CAP    | 2016<br>Spend  |                                      | 2016<br>CAP    | 2016<br>Spend  |                                | 2016<br>CAP     | 2016<br>Spend  |
|---|----------------|----------------|--------------------------------------|----------------|----------------|--------------------------------|-----------------|----------------|
| Allegheny General Hospital              |                |                | Jefferson Hospital                   |                |                | Allegheny Clinic               |                 |                |
| Nursing Unit Renovations                | \$ 12.7        | \$ 10.0        | Bethel Park ASC                      | \$ -           | \$ 0.2         | Physician Practice Acquisition | \$ -            | \$ 0.9         |
| Lab/Radiology Renovations               | 13.8           | 0.2            | Strategic Acquisition-Radiation Onc. | -              | 0.1            | Physician Office Renovations   | 2.2             | 4.0            |
| General Hospital Renovations            | 14.6           | 12.6           | Women's Health                       | 3.6            | -              | Replacements and Leases        | 0.2             | 1.0            |
| Replacements and Leases                 | 15.2           | 15.1           | General Hospital Renovations         | 1.7            | 1.4            | <b>Total Allegheny Clinic</b>  | <b>\$ 2.4</b>   | <b>\$ 5.9</b>  |
| <b>Total Allegheny General Hospital</b> | <b>\$ 56.3</b> | <b>\$ 37.9</b> | Replacements and Leases              | 9.8            | 1.4            | ASRI                           |                 |                |
|   |                |                | <b>Total Jefferson Hospital</b>      | <b>\$ 15.1</b> | <b>\$ 3.1</b>  | Replacements and Leases        | \$ 0.2          | \$ 0.1         |
| Allegheny Valley Hospital               |                |                | Saint Vincent Hospital               |                |                | <b>Total ASRI</b>              | <b>\$ 0.2</b>   | <b>\$ 0.1</b>  |
| General Hospital Renovations            | \$ 0.1         | \$ 0.2         | Outpatient Facility                  | \$ 7.8         | \$ -           | Core Lab                       |                 |                |
| Replacements and Leases                 | 0.5            | 1.7            | Nursing Unit Renovations             | 2.5            | 1.3            | Replacements and Leases        | \$ 0.9          | \$ 0.5         |
| <b>Total Allegheny Valley Hospital</b>  | <b>\$ 0.6</b>  | <b>\$ 1.9</b>  | General Hospital Renovations         | 10.4           | 0.9            | <b>Total Core Lab</b>          | <b>\$ 0.9</b>   | <b>\$ 0.5</b>  |
| Canonsburg Hospital                     |                |                | Replacements and Leases              | 2.0            | 10.8           | Wexford                        |                 |                |
| General Hospital Renovations            | \$ -           | \$ 0.9         | <b>Total Saint Vincent Hospital</b>  | <b>\$ 22.7</b> | <b>\$ 13.0</b> | Replacements and Leases        | \$ -            | \$ 0.1         |
| Replacements and Leases                 | 0.5            | 0.8            | West Penn Hospital                   |                |                | <b>Total Wexford</b>           | <b>\$ -</b>     | <b>\$ 0.1</b>  |
| <b>Total Canonsburg Hospital</b>        | <b>\$ 0.5</b>  | <b>\$ 1.7</b>  | NICU                                 | \$ 3.3         | \$ 0.9         | AHN Combined Total             | <b>\$ 154.9</b> | <b>\$ 89.0</b> |
| Forbes Hospital                         |                |                | Autoimmune Specialty Suite           | 7.8            | -              |                                |                 |                |
| ICU Renovations                         | \$ -           | \$ 3.1         | General Hospital Renovations         | 0.5            | 0.3            |                                |                 |                |
| General Hospital Renovations            | 5.3            | 4.3            | Replacements and Leases              | 7.2            | 7.6            |                                |                 |                |
| Replacements and Leases                 | 1.4            | 5.7            | <b>Total West Penn Hospital</b>      | <b>\$ 18.8</b> | <b>\$ 8.8</b>  |                                |                 |                |
| <b>Total Forbes Hospital</b>            | <b>\$ 6.7</b>  | <b>\$ 13.1</b> | Allegheny Health Network/IT          |                |                |                                |                 |                |
|   |                |                | Renovations                          | \$ 2.9         | \$ 0.6         |                                |                 |                |
|   |                |                | Strategic Acquisitions               | 4.0            | -              |                                |                 |                |
|   |                |                | Replacements and Leases              | 23.8           | 12.3           |                                |                 |                |
|   |                |                | <b>Total AHN/IT</b>                  | <b>\$ 30.7</b> | <b>\$ 12.9</b> |                                |                 |                |