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July 31, 2014

VIA HAND DELIVERY

Mr. Stephen J. Johnson, CPA
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation
Pennsylvania Insurance Department
1345 Strawberry Square
Harrisburg, PA 17120

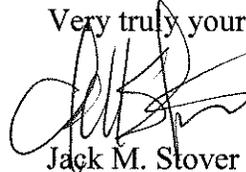
RECEIVED
Corporate & Financial Regulation
JUL 31 2014
Pennsylvania
Insurance Department

Re: Condition 14 Financial Reports

Dear Deputy Commissioner Johnson:

In compliance with Condition 14 of the Approving Determination dated April 29, 2013, Highmark Health is submitting the enclosed financial reports for the period ending June 30, 2014 on a non-confidential basis. This filing replaces in its entirety the filing made by Highmark Health on July 30, 2014. I have forwarded a copy of the reports to Mr. Beaser and Mr. Newman by email.

Very truly yours,



Jack M. Stover

JMS/skm
Enclosure

DIVIDER PAGE

**Response to Condition 14 of the Pennsylvania Insurance Department's Approving Determination
and Order (Order No. ID-RC-13-06)**

**West Penn Allegheny Health System
Consolidated Balance Sheet - UNAUDITED
June 30, 2014
(Dollars in '000)**

	<u>ACTUAL</u>
<u>ASSETS</u>	
Cash & Cash Equivalents	\$ 129,514
Net Patient Accounts Receivable	167,233
Other Receivables	21,396
Amounts Due from Third Party Payors	17,383
Inventories	25,320
Prepaid Expenses & Other Current Assets	16,859
	<u>377,705</u>
Total Current Assets	<u>377,705</u>
Unrestricted	
Board Designated Funds	183,167
Insurance Reserve Funds	2,100
Letters of Credit	1,076
Other	17,616
Temporarily Restricted	14,550
Permanently Restricted	261,287
	<u>479,796</u>
Total Assets Restricted As To Use	<u>479,796</u>
Property, Plant & Equipment - Net	569,577
Investments	90,382
Goodwill	86,737
Other Assets, Net	47,019
	<u>793,715</u>
Total Long-Term Assets	<u>793,715</u>
TOTAL ASSETS	<u>\$ 1,651,216</u>
<u>LIABILITIES & NET ASSETS</u>	
Accounts Payable	\$ 96,893
Accrued Expenses	3,134
Accrued Salaries & Vacation	59,051
Current Portion of Long-Term Liabilities	47,082
	<u>206,160</u>
Total Current Liabilities	<u>206,160</u>
Long-Term Debt	1,048,872
Deferred Revenue	32,965
Self Insurance Liabilities	66,986
Accrued Pension Obligation	235,847
Other Noncurrent Liabilities	19,535
	<u>1,404,205</u>
Total Noncurrent Liabilities	<u>1,404,205</u>
	<u>1,610,365</u>
Total Liabilities	<u>1,610,365</u>
Unrestricted Net Deficit	(234,986)
Temporarily Restricted Net Assets	14,550
Permanently Restricted Net Assets	261,287
	<u>40,851</u>
Total Net Assets	<u>40,851</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 1,651,216</u>

**Response to Condition 14 of the Pennsylvania Insurance Department's Approving Determination
and Order (Order No. ID-RC-13-06)**

**West Penn Allegheny Health System
Consolidated Statement of Operations - UNAUDITED
Quarter Ended June 30, 2014
(Dollars in '000)**

	ACTUAL	Base Case Projection	Downside Case Projection
TOTAL NET PATIENT REVENUES	392,037	423,300	394,200
Other Operating Revenues	15,552		
Net Assets Released From Restrictions	5,976		
TOTAL REVENUES	413,565	442,200	413,100
OPERATING EXPENSES			
Salaries	187,253		
Benefits	32,924		
Professional Fees & Purchased Services	55,104		
Patient Care Supplies & Drugs	76,138		
Insurance	6,065		
Other Operating Expenses	31,025		
Depreciation and Amortization	15,660		
Interest Expense	8,857		
Restructuring	788		
TOTAL OPERATING EXPENSES	413,814	449,000	435,100
OPERATING INCOME (LOSS)	(249)	(6,800)	(22,000)
(+) Depreciation and Amortization	15,660		
(+) Interest Expense	8,857		
EBIDA	24,268	25,000	9,800
Investment Income	2,711		
Gifts and Donations	177		
Gain (Loss) in Joint Venture Investment	(347)		
Loss on Debt Refinancing	(4,087)		
NET INCOME (LOSS)	\$ (1,795)	\$ (3,700)	\$ (19,200)

**Response to Condition 14 of the Pennsylvania Insurance Department's Approving Determination
and Order (Order No. ID-RC-13-06)**

**West Penn Allegheny Health System
Consolidated Statement of Cash Flows - UNAUDITED
Quarter Ended June 30, 2014
(Dollars in '000)**

Cash Flow from Operating Activities

Decrease in Net Decifit	(8,766)
Depreciation & Amortization	15,660
(Increase)/Decrease in:	
Current Debt Service Funds	1,435
Net Patient Accounts Receivable	(5,749)
Other Receivables	2,916
Amounts due from Third Party Payors	(22,609)
Inventories	499
Prepaid Expenses & Other Current Assets	2,156
Assets Restricted As to Use	(43,302)
Investments	(339)
Other	(4,769)
Increase/(Decrease) in:	
Accounts Payable	12,622
Accrued Expenses	(7,085)
Accrued Salaries & Vacation	4,651
Deferred Revenue	619
Self Insurance Liabilities	1,998
Accrued Pension Liabilities	(7,563)
Other Noncurrent Liabilities	(22,629)
	<hr/>
Cash Flow from Operating Activities	(80,255)

Cash Flow from Investing Activities

Capital Expenditures	<hr/> (14,894)
Cash Flow from Investing Activities	(14,894)

Cash Flow from Financing Activities

Borrowing/(Payment) of Existing Debt	<hr/> 184,434
Cash Flow from Financing Activities	184,434

Cash Summary

Beginning Cash Balance - March 31, 2014	<hr/> 40,229
Net Change in Cash	89,285
Ending Cash Balance - June 30, 2014	<hr/><hr/>129,514

Fixed asset additions in accounts payable and accrued expenses	2,470
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**Response to Condition 14 of the Pennsylvania Insurance Department's Approving Determination
and Order (Order No. ID-RC-13-06)**

West Penn Allegheny Health System

Days Cash on Hand - UNAUDITED

Quarter Ended June 30, 2014

(Dollars in '000)

	Actual	Base Case
	June 30, 2014	June 30, 2014
Cash and cash equivalents	\$ 129,514	295,600
Investments	90,382	5,100
Board designated	183,167	73,600
Total	\$ 403,063	\$ 374,300
Total operating expenses	\$ 413,814	\$ 449,000
Less: depreciation and amortization	(15,660)	(21,900)
Operating expenses less depreciation and amortization	398,154	427,100
Days in 3 months/year ending June 30, 2014	91	91
Operating expense per day	\$ 4,375	\$ 4,693
DAYS CASH ON HAND	92.1	79.8

**Response to Condition 14 of the Pennsylvania Insurance Department's Approving Determination
and Order (Order No. ID-RC-13-06)**

**West Penn Allegheny Health System
Debt Service Coverage Ratio - UNAUDITED
Quarter Ended June 30, 2014
(Dollars in '000)**

	<u>Actual (*)</u>
Excess of (expenses over revenues)/revenues over expenses	\$ (1,795)
Plus: depreciation and amortization	15,660
Plus: interest expense	8,857
Plus/minus: net unrealized investment (gains)/losses	<u>(392)</u>
Total	22,330
Debt Service Requirement	<u>\$ 4,700</u>
DEBT SERVICE COVERAGE RATIO	<u>4.75</u>

* Debt service requirement (utilizing actual cash outflows of P&I) for the 3 months ending June 30, 2014. This is calculated and prepared in accordance with the 2007A Master Indenture of Trust.

**Response to Condition 14 of the Pennsylvania Insurance Department's Approving Determination
and Order (Order No. ID-RC-13-06)**

**West Penn Allegheny Health System
Schedule of Capital Expenditures
Quarter Ended June 30, 2014**

Capital From January 1 through June 30, 2014

Building and building improvements	\$	2,091,903
Equipment/software		11,984,951
Capitalized interest and salaries		817,026
Fixed asset additions in accounts payable and accrued expenses		2,470,034
	\$	<u>17,363,914</u>

**Response to Condition 14 of the Pennsylvania Insurance Department's Approving Determination
and Order (Order No. ID-RC-13-06)**

**West Penn Allegheny Health System
Schedule of Inpatient and Outpatient Discharge Volume
Quarter Ended June 30, 2014**

	<u>Actual</u>
Inpatient Discharges (Acute/Psych/Rehab)	13,706
Outpatient Registrations	206,182

**Response to Condition 14 of the Pennsylvania Insurance Department's Approving Determination
and Order (Order No. ID-RC-13-06)**

**West Penn Allegheny Health System
Schedule of Occupancy Rates
Quarter Ended June 30, 2014**

	<u>Actual</u>
Total	54%

**Response to Condition 14 of the Pennsylvania Insurance Department’s Approving Determination
and Order (Order No. ID-RC-13-06)**

**West Penn Allegheny Health System
Schedule of Salaried and Non-Salaried employees on an FTE basis
June 30, 2014**

	<u>EXEMPT</u>	<u>NON-EXEMPT</u>	<u>TOTAL</u>
Total	3,315	6,516	9,831

**Response to Condition 14 of the Pennsylvania Insurance Department's Approving Determination
and Order (Order No. ID-RC-13-06)**

**West Penn Allegheny Health System
Schedule of Occupied Beds
Quarter Ended June 30, 2014**

Total	<u>Actual</u> 803
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**Response to Condition 14 of the Pennsylvania Insurance Department's Approving Determination
and Order (Order No. ID-RC-13-06)**

**West Penn Allegheny Health System
Schedule of FTE/Occupied Bed (and FTE/Adjusted Occupied Bed)
Quarter Ended June 30, 2014**

	<u>Actual</u>
FTE/Occupied Bed	8.43
FTE/Adjusted Occupied Bed	4.39

West Penn Allegheny Health System
Consolidated Balance Sheet - UNAUDITED
June 30, 2014
(Dollars in '000)

	ACTUAL
<u>ASSETS</u>	
Cash & Cash Equivalents	\$ 129,514
Net Patient Accounts Receivable	167,233
Other Receivables	21,396
Amounts Due from Third Party Payors	17,383
Inventories	25,320
Prepaid Expenses & Other Current Assets	16,859
	Total Current Assets 377,705
Unrestricted	
Board Designated Funds	183,167
Insurance Reserve Funds	2,100
Letters of Credit	1,076
Other	17,616
Temporarily Restricted	14,550
Permanently Restricted	261,287
	Total Assets Restricted As To Use 479,796
Property, Plant & Equipment - Net	569,577
Investments	90,382
Goodwill	86,737
Other Assets, Net	47,019
	Total Long-Term Assets 793,715
TOTAL ASSETS	\$ 1,651,216
 <u>LIABILITIES & NET ASSETS</u>	
Accounts Payable	\$ 96,893
Accrued Expenses	3,134
Accrued Salaries & Vacation	59,051
Current Portion of Long-Term Liabilities	47,082
	Total Current Liabilities 206,160
Long-Term Debt	1,048,872
Deferred Revenue	32,965
Self Insurance Liabilities	66,986
Accrued Pension Obligation	235,847
Other Noncurrent Liabilities	19,535
	Total Noncurrent Liabilities 1,404,205
	Total Liabilities 1,610,365
Unrestricted Net Deficit	(234,986)
Temporarily Restricted Net Assets	14,550
Permanently Restricted Net Assets	261,287
	Total Net Assets 40,851
TOTAL LIABILITIES & NET ASSETS	\$ 1,651,216

West Penn Allegheny Health System
Consolidated Statement of Operations - UNAUDITED
Six Months Ended June 30, 2014
(Dollars in '000)

	ACTUAL	Base Case Projection	Downside Case Projection
TOTAL NET PATIENT REVENUES	769,352	842,100	783,900
Other Operating Revenues	40,079		
Net Assets Released From Restrictions	6,783		
TOTAL REVENUES	816,214	879,900	821,700
OPERATING EXPENSES			
Salaries	379,695		
Benefits	68,186		
Professional Fees & Purchased Services	102,686		
Patient Care Supplies & Drugs	154,122		
Insurance	12,732		
Other Operating Expenses	62,520		
Depreciation and Amortization	30,424		
Interest Expense	19,372		
Restructuring	1,888		
TOTAL OPERATING EXPENSES	831,625	894,800	866,700
OPERATING INCOME (LOSS)	(15,411)	(14,900)	(45,000)
(+) Depreciation and Amortization	30,424		
(+) Interest Expense	19,372		
EBIDA	34,385	47,800	17,700
Investment Income	5,305		
Gifts and Donations	277		
Gain (Loss) in Joint Venture Investment	(347)		
Loss on Debt Refinancing	(4,087)		
NET INCOME (LOSS)	\$ (14,263)	\$ (8,900)	\$ (39,500)

West Penn Allegheny Health System
Consolidated Statement of Cash Flows - UNAUDITED
Six Months Ended June 30, 2014
(Dollars in '000)

Cash Flow from Operating Activities

Decrease in Net Decifit	(20,779)
Depreciation & Amortization	30,424
Amortization of debt write down	1,400
(Increase)/Decrease in:	
Current Debt Service Funds	17
Net Patient Accounts Receivable	(16,402)
Other Receivables	(8,338)
Amounts due from Third Party Payors	(11,398)
Inventories	628
Prepaid Expenses & Other Current Assets	(574)
Assets Restricted As to Use	(41,171)
Investments	(911)
Other	(12,152)
Increase/(Decrease) in:	
Accounts Payable	11,431
Accrued Expenses	(13,362)
Accrued Salaries & Vacation	5,526
Deferred Revenue	1,109
Self Insurance Liabilities	6,305
Accrued Pension Liabilities	(11,703)
Other Noncurrent Liabilities	(11,458)
Cash Flow from Operating Activities	(91,408)

Cash Flow from Investing Activities

Capital Expenditures	(31,036)
Cash Flow from Investing Activities	(31,036)

Cash Flow from Financing Activities

Borrowing/(Payment) of Existing Debt	183,608
Cash Flow from Financing Activities	183,608

Cash Summary

Beginning Cash Balance - December 31, 2013	68,350
Net Change in Cash	61,164
Ending Cash Balance - June 30, 2014	129,514

Fixed asset additions in accounts payable and accrued expenses	2,470
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West Penn Allegheny Health System
Days Cash on Hand - UNAUDITED
Six Months Ended June 30, 2014
(Dollars in '000)

	Actual	Base Case
	June 30, 2014	June 30, 2014
Cash and cash equivalents	\$ 129,514	295,600
Investments	90,382	5,100
Board designated	183,167	73,600
Total	\$ 403,063	\$ 374,300
Total operating expenses	\$ 831,625	\$ 894,800
Less: depreciation and amortization	(30,424)	(42,900)
Operating expenses less depreciation and amortization	801,201	851,900
Days in 6 months/year ending June 30, 2014	181	181
Operating expense per day	\$ 4,427	\$ 4,707
DAYS CASH ON HAND	91.0	79.5

West Penn Allegheny Health System
Debt Service Coverage Ratio - UNAUDITED
Six Months Ended June 30, 2014
(Dollars in '000)

	Actual (*)
Excess of (expenses over revenues)/revenues over expenses	\$ (14,263)
Plus: depreciation and amortization	30,424
Plus: interest expense	19,372
Plus/minus: net unrealized investment (gains)/losses	(1,050)
Total	34,483
Debt Service Requirement	\$ 5,700
DEBT SERVICE COVERAGE RATIO	6.05

* Debt service requirement (utilizing actual cash outflows of P&I) for the 6 months ending June 30, 2014. This is calculated and prepared in accordance with the 2007A Master Indenture of Trust.

**West Penn Allegheny Health System
Schedule of Capital Expenditures
Six Months Ended June 30, 2014**

Paid Capital From January 1 through June 30, 2014

Building and building improvements	5,140,876
Equipment/software	24,057,194
Capitalized interest and salaries	1,837,360
Fixed asset additions in accounts payable and accrued expenses	<u>2,470,034</u>
	<u><u>33,505,464</u></u>

**West Penn Allegheny Health System
Schedule of Inpatient and Outpatient Discharge Volume
Six Months Ended June 30, 2014**

	<u>Actual</u>
Inpatient Discharges (Acute/Psych/Rehab)	27,178
Outpatient Registrations	390,593

**West Penn Allegheny Health System
Schedule of Occupancy Rates
Six Months Ended June 30, 2014**

Total	<u>Actual</u> 57%
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West Penn Allegheny Health System
Schedule of Salaried and Non-Salaried employees on an FTE basis
June 30, 2014

	<u>EXEMPT</u>	<u>NON-EXEMPT</u>	<u>TOTAL</u>
Total	3,315	6,516	9,831

**West Penn Allegheny Health System
Schedule of Occupied Beds
Six Months Ended June 30, 2014**

Total	<u>Actual</u> 835
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**West Penn Allegheny Health System
Schedule of FTE/Occupied Bed (and FTE/Adjusted Occupied Bed)
Six Months Ended June 30, 2014**

	<u>Actual</u>
FTE/Occupied Bed	8.18
FTE/Adjusted Occupied Bed	4.35

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