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October 30, 2013

**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**

OCT 30 2013

**Pennsylvania**  
**Insurance Department**

**Re: 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 quarter ending September 30, 2013 on a non-confidential basis. 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

**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  
September 30, 2013  
(Dollars in '000)**

	<u>ACTUAL</u>
<b>ASSETS</b>	
Cash & Cash Equivalents	\$ 33,405
Short-Term Investments	5,139
Current Debt Service Funds	7,184
Net Patient Accounts Receivable	155,837
Other Receivables	10,356
Amounts Due from Third Party Payors	9,105
Inventories	23,038
Prepaid Expenses & Other Current Assets	19,681
	<u>Total Current Assets 263,745</u>
Unrestricted	
Board Designated Funds	156,419
Insurance Reserve Funds	10,521
Debt Service Reserve Funds	8,958
Project Funds	41,497
Letters of Credit	1,174
Other	11,474
Temporarily Restricted	24,392
Permanently Restricted	239,762
	<u>Total Assets Restricted As To Use 494,197</u>
Property, Plant & Equipment - Net	381,589
Investments	51,291
Other Assets, Net	65,638
	<u>Total Long-Term Assets 498,518</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 1,256,460</u></u>
<b>LIABILITIES &amp; NET ASSETS</b>	
Accounts Payable	\$ 76,393
Accrued Expenses	17,436
Accrued Salaries & Vacation	48,259
Current Portion of Long-Term Liabilities	27,892
	<u>Total Current Liabilities 169,980</u>
Long-Term Debt	970,883
Deferred Revenue	34,290
Self Insurance Liabilities	62,934
Accrued Pension Obligation	263,423
Other Noncurrent Liabilities	32,183
	<u>Total Noncurrent Liabilities 1,363,713</u>
	<u>Total Liabilities 1,533,693</u>
Unrestricted Net Assets	(541,387)
Temporarily Restricted Net Assets	24,392
Permanently Restricted Net Assets	239,762
	<u>Total Net Deficit (277,233)</u>
<b>TOTAL LIABILITIES &amp; NET DEFICIT</b>	<u><u>\$ 1,256,460</u></u>

**West Penn Allegheny Health System**  
**Consolidated Statement of Operations - UNAUDITED**  
**Quarter Ended September 30, 2013**  
(Dollars in '000)

	ACTUAL AS OF SEPTEMBER 30, 2013	BASE CASE PROJECTION FOR FYE JUNE 30, 2014	DOWNSIDE PROJECTION FOR FYE JUNE 30, 2014
TOTAL NET PATIENT REVENUES	376,108	1,660,400	1,544,100
Other Operating Revenues	20,840		
Net Assets Released From Restrictions	887		
<b>TOTAL REVENUES AND GAINS</b>	<b>397,835</b>	<b>1,736,000</b>	<b>1,619,700</b>
<b>OPERATING EXPENSES</b>			
Salaries	194,102		
Benefits	32,944		
Professional Fees & Purchased Services	41,797		
Supplies and Drugs	79,336		
Insurance	7,345		
Other Operating Expenses	30,535		
Depreciation and Amortization	15,493		
Interest Expense	8,937		
Restructuring	474		
<b>TOTAL OPERATING EXPENSES</b>	<b>410,963</b>	<b>1,774,200</b>	<b>1,718,200</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(13,128)</b>		
(+) Depreciation and Amortization	15,493		
(+) Interest Expense	8,937		
<b>EBIDA</b>	<b>11,302</b>	<b>83,400</b>	<b>23,100</b>
Investment Income	2,244		
Gifts and Donations	146		
System Wide Services	-		
Gain (Loss) in Joint Venture Investment	-		
<b>NET INCOME (LOSS)</b>	<b>(10,738)</b>	<b>(25,800)</b>	<b>(86,800)</b>
<b>EBIDA</b>	<b>2.8%</b>	<b>4.8%</b>	<b>1.4%</b>
<b>Operating Margin</b>	<b>-3.3%</b>	<b>-2.2%</b>	<b>-6.1%</b>
<b>Net Margin</b>	<b>-2.7%</b>	<b>-1.5%</b>	<b>-5.4%</b>

**West Penn Allegheny Health System**  
**Consolidated Statement of Cash Flows - UNAUDITED**  
**Quarter Ended September 30, 2013**  
(Dollars in '000)

**Cash Flow from Operating Activities**

Net Income	(10,738)
Depreciation & Amortization	15,493
Unrealized Loss	427
(Increase)/Decrease in:	
Current Debt Service Funds	(1,108)
Net Patient Accounts Receivable	(4,306)
Other Receivables	600
Amounts due from Third Party Payors	(2,123)
Inventories	(649)
Prepaid Expenses & Other Current Assets	(1,350)
Assets Restricted As to Use	16,954
Other Long-term Assets	(3,865)
Other	5,128
Increase/(Decrease) in:	
Accounts Payable	(19,247)
Accrued Expenses	(6,409)
Accrued Salaries & Vacation	(8,629)
Due to (from) Affiliates, Net	9
Deferred Revenue	(757)
Self Insurance Liabilities	304
Accrued Pension Liabilities	(10,365)
Other Noncurrent Liabilities	9,741
<b>Cash Flow from Operating Activities</b>	<b>(20,890)</b>

**Cash Flow from Investing Activities**

Capital Expenditures	(8,877)
<b>Cash Flow from Investing Activities</b>	<b>(8,877)</b>

**Cash Flow from Financing Activities**

Borrowing/(Payment) of Existing Debt	(1,178)
<b>Cash Flow from Financing Activities</b>	<b>(1,178)</b>

**Cash Summary**

Beginning Cash Balance - July 1, 2013	64,350
Net Change in Cash	(30,945)
<b>Ending Cash Balance - September 30, 2013</b>	<b>33,405</b>

**West Penn Allegheny Health System**  
**Days Cash on Hand - UNAUDITED**  
**Quarter Ended September 30, 2013**  
(Dollars in '000)

	Actual	Sept.	Base Case
	30, 2013	June 30, 2014	Projected
Cash and cash equivalents	\$	33,405	295,600
Investments		56,430	5,100
Board designated		156,419	73,600
2007A Project Funds		41,497	-
<b>Total</b>	<b>\$</b>	<b>287,751</b>	<b>374,300</b>
Total operating expenses	\$	410,963	1,774,200
Less: depreciation and amortization		(15,493)	(82,300)
<b>Operating expenses less depreciation and amortization</b>		<b>395,470</b>	<b>1,691,900</b>
Days in quarter/year ending September 30, 2013/June 30, 2014		92	365
<b>Operating expense per day</b>	<b>\$</b>	<b>4,299</b>	<b>4,635</b>
<b>DAYS CASH ON HAND</b>		<b>66.9</b>	<b>80.8</b>

**West Penn Allegheny Health System**  
**Debt Service Coverage Ratio - UNAUDITED**  
**Quarter Ended September 30, 2013**  
(Dollars in '000)

	<b>Actual</b>
Excess of expenses over revenues	\$ (10,738)
Plus: depreciation and amortization	15,493
Plus: interest expense	8,937
Plus: net unrealized investment losses	427
<b>Total</b>	<b>14,119</b>
Debt Service Requirement *	\$ 4,000
<b>ANNUAL DEBT SERVICE COVERAGE RATIO</b>	<b>3.53</b>

\* - Calculated in accordance with the Master Indenture of Trust for the 2007A Bonds. Based upon cash outflows for principal and interest in the measurement year.

West Penn Allegheny Health System  
Schedule of Capital Expenditures  
Quarter Ending September 30, 2013

Buildings and Building Improvements	3,219,771
Equipment/Software	2,901,386
Fixed Asset Purchases	<u>1,992,949</u>
	<u><u>8,114,106</u></u>

\* Amounts relate to direct fixed asset purchases (e.g. not a project related capital expenditure)

West Penn Allegheny Health System  
Schedule of Inpatient and Outpatient Discharge Volume  
Quarter Ending September 30, 2013

	<u>ACTUAL</u>
Inpatient Discharges (Acute/Psych/Rehab)	13,762
Outpatient Registration	199,195

West Penn Allegheny Health System  
Schedule of Occupancy Rates  
Quarter Ending September 30, 2013

	<u>Actual</u>
Total	57%

West Penn Allegheny Health System  
Schedule of Salaried and Non-Salaried employees on an FTE basis  
Quarter Ending September 30, 2013

	<u>EXEMPT</u>	<u>NON-EXEMPT</u>	<u>TOTAL</u>
Total	3,154	6,643	9,797

West Penn Allegheny Health System  
Schedule of Occupied Beds  
Quarter Ending September 30, 2013

Total	<u>Actual</u> 842
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West Penn Allegheny Health System  
Schedule of FTE/Occupied Bed (and FTE/Adjusted Occupied Bed)  
Quarter Ending September 30, 2013

	<u>Actual</u>
FTE/Occupied Bed	8.33
FTE/Adjusted Occupied Bed	4.50