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Office of Corporate and Financial Regulation

JAN 30 2014

**Pennsylvania  
Insurance Department**

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January 30, 2014

**VIA HAND DELIVERY**

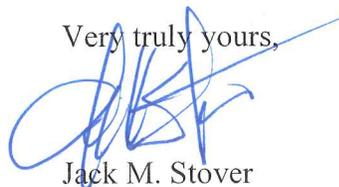
Mr. Stephen J. Johnson, CPA  
Deputy Insurance Commissioner  
Office of Corporate and Financial Regulation  
Pennsylvania Insurance Department  
1345 Strawberry Square  
Harrisburg, PA 17120

**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 period ending December 31, 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

This unaudited financial information does not include all required accounting adjustments to reflect purchase accounting for the consummation of the Affiliation Agreement between WPAHS and Highmark Inc. which occurred on April 29, 2013.

**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  
December 31, 2013  
(Dollars in '000)**

	<u>ACTUAL</u>
<b><u>ASSETS</u></b>	
Cash & Cash Equivalents	\$ 68,350
Short-Term Investments	5,154
Current Debt Service Funds	17
Net Patient Accounts Receivable	150,793
Other Receivables	11,761
Amounts Due from Third Party Payors	9,647
Inventories	25,523
Prepaid Expenses & Other Current Assets	17,148
	<u>288,393</u>
Total Current Assets	<u>288,393</u>
Unrestricted	162,596
Temporarily Restricted	21,388
Permanently Restricted	254,641
	<u>438,625</u>
Total Assets Restricted As To Use	<u>438,625</u>
Property, Plant & Equipment - Net	395,346
Investments	84,317
Other Assets, Net	56,807
	<u>536,470</u>
Total Long-Term Assets	<u>536,470</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,263,488</u></b>
 <b><u>LIABILITIES &amp; NET ASSETS</u></b>	
Accounts Payable	\$ 83,609
Accrued Expenses	16,727
Accrued Salaries & Vacation	53,460
Current Portion of Long-Term Liabilities	34,239
	<u>188,035</u>
Total Current Liabilities	<u>188,035</u>
Long-Term Debt	958,212
Deferred Revenue	33,800
Self Insurance Liabilities	62,681
Accrued Pension Obligation	247,550
Other Noncurrent Liabilities	39,175
	<u>1,341,418</u>
Total Noncurrent Liabilities	<u>1,341,418</u>
	<u>1,529,453</u>
Total Liabilities	<u>1,529,453</u>
Unrestricted Net Assets	(541,994)
Temporarily Restricted Net Assets	21,388
Permanently Restricted Net Assets	254,641
	<u>(265,965)</u>
Total Net Deficit	<u>(265,965)</u>
<b>TOTAL LIABILITIES &amp; NET DEFICIT</b>	<b><u>\$ 1,263,488</u></b>

**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  
Six Months Ended December 31, 2013  
(Dollars in '000)**

	<b>ACTUAL</b>	<b>Base Case Projection at December 31, 2013</b>	<b>Downside Case Projection at December 31, 2013</b>
<b>TOTAL NET PATIENT REVENUES</b>	757,230	818,400	760,000
Other Operating Revenues	45,116		
Net Assets Released From Restrictions	1,893		
<b>TOTAL REVENUES AND GAINS</b>	<b>804,239</b>	<b>856,200</b>	<b>797,800</b>
<b>OPERATING EXPENSES</b>			
Salaries	387,949		
Benefits	64,184		
Professional Fees & Purchased Services	84,449		
Supplies and Drugs	162,430		
Insurance	14,121		
Other Operating Expenses	56,653		
Depreciation and Amortization	27,959		
Interest Expense	20,077		
Restructuring	1,631		
<b>TOTAL OPERATING EXPENSES</b>	<b>819,453</b>	<b>879,500</b>	<b>851,600</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(15,214)</b>	<b>(23,300)</b>	<b>(53,800)</b>
(+) Depreciation and Amortization	27,959		
(+) Interest Expense	20,077		
<b>EBIDA</b>	<b>32,822</b>	<b>35,600</b>	<b>5,100</b>
Investment Income	4,735		
Gifts and Donations	196		
System Wide Services	-		
Gain (Loss) in Joint Venture Investment	(3,025)		
<b>NET INCOME (LOSS)</b>	<b>(13,308)</b>	<b>(17,000)</b>	<b>(47,600)</b>

**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  
Six Months Ended December 31, 2013  
(Dollars in '000)**

**Cash Flow from Operating Activities**

Increase in Net Decifit	15,868
Depreciation & Amortization	27,959
Unrealized Loss	160
(Increase)/Decrease in:	
Current Debt Service Funds	6,180
Net Patient Accounts Receivable	(2,262)
Other Receivables	(805)
Amounts due from Third Party Payors	(2,665)
Inventories	(3,134)
Prepaid Expenses & Other Current Assets	1,639
Assets Restricted As to Use	70,227
Investments	(33,237)
Other Long-term Assets	3,097
Other	(855)
Increase/(Decrease) in:	
Accounts Payable	(17,579)
Accrued Expenses	(6,267)
Accrued Salaries & Vacation	(2,899)
Due to (from) Affiliates, Net	(864)
Deferred Revenue	581
Self Insurance Liabilities	(51)
Accrued Pension Liabilities	(26,238)
Other Noncurrent Liabilities	15,675
<b>Cash Flow from Operating Activities</b>	<b>44,530</b>

**Cash Flow from Investing Activities**

Capital Expenditures	<u>(29,053)</u>
<b>Cash Flow from Investing Activities</b>	<b>(29,053)</b>

**Cash Flow from Financing Activities**

Borrowing/(Payment) of Existing Debt	<u>(11,477)</u>
<b>Cash Flow from Financing Activities</b>	<b>(11,477)</b>

**Cash Summary**

Beginning Cash Balance - July 1, 2013	<u>64,350</u>
Net Change in Cash	<u>4,000</u>
<b>Ending Cash Balance - Sptember 30, 2013</b>	<b><u>68,350</u></b>

Fixed asset additions in accounts payable and accrued expenses 2,673

**Response to Condition 14 of the Pennsylvania Insurance Department's Approving Determination  
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**West Penn Allegheny Health System  
Days Cash on Hand - UNAUDITED  
Six Months Ended December 31, 2013  
(Dollars in '000)**

	<b>Actual at Dec. 31, 2013</b>	<b>Base Case at Dec. 31, 2013</b>
Cash and cash equivalents	\$ 68,350	248,500
Investments	89,471	5,100
Board designated	82,987	73,600
2007A Project Funds	41,498	-
<b>Total</b>	<b>\$ 282,306</b>	<b>\$ 327,200</b>
Total operating expenses	\$ 819,453	\$ 879,400
Less: depreciation and amortization	(27,959)	(39,300)
<b>Operating expenses less depreciation and amortization</b>	<b>791,494</b>	<b>840,100</b>
<b>Days in six months/year ending December 31, 2013</b>	<b>184</b>	<b>184</b>
<b>Operating expense per day</b>	<b>\$ 4,302</b>	<b>\$ 4,566</b>
<b>DAYS CASH ON HAND</b>	<b>65.6</b>	<b>71.7</b>

**Response to Condition 14 of the Pennsylvania Insurance Department's Approving Determination  
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**West Penn Allegheny Health System  
Debt Service Coverage Ratio - UNAUDITED  
Six Months Ended December 31, 2013  
(Dollars in '000)**

	<u>Actual</u>
Excess of expenses over revenues	\$ (13,308)
Plus: depreciation and amortization	27,959
Plus: interest expense	20,077
Plus: net unrealized investment losses	160
Plus: net unrealized loss in joint venture investment	<u>3,025</u>
<b>Total</b>	<b>37,913</b>
Debt Service Requirement *	<u>\$ 16,241</u>
<b>ANNUAL DEBT SERVICE COVERAGE RATIO</b>	<b><u>2.33</u></b>

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

**Response to Condition 14 of the Pennsylvania Insurance Department's Approving Determination  
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**West Penn Allegheny Health System  
Schedule of Capital Expenditures  
Six Months Ended December 31, 2013**

**Paid Capital from July 1 through December 31, 2013**

Building and building improvements	5,818,666
Equipment/software	20,551,348
Capitalized interest and salaries	2,682,886
Fixed asset additions in accounts payable and accrued expenses	<u>2,673,000</u>
	<u><u>31,725,900</u></u>

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**Response to Condition 14 of the Pennsylvania Insurance Department's Approving Determination  
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**West Penn Allegheny Health System  
Schedule of Inpatient and Outpatient Discharge Volume  
Six Months Ended December 31, 2013**

	<u>ACTUAL</u>
Inpatient Discharges (Acute/Psych/Rehab)	27,006
Outpatient Registrations	396,026

**Response to Condition 14 of the Pennsylvania Insurance Department's Approving Determination  
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**West Penn Allegheny Health System  
Schedule of Occupancy Rates  
Six Months Ended December 31, 2013**

	<u>Actual</u>
Total	56%

**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  
December 31, 2013**

	<u>EXEMPT</u>	<u>NON-EXEMPT</u>	<u>TOTAL</u>
Total	3,333	6,817	10,150

**Response to Condition 14 of the Pennsylvania Insurance Department's Approving Determination  
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**West Penn Allegheny Health System  
Schedule of Occupied Beds  
Six Months Ended December 31, 2013**

Total	<u>Actual</u> 831
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**Response to Condition 14 of the Pennsylvania Insurance Department's Approving Determination  
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**West Penn Allegheny Health System  
Schedule of FTE/Occupied Bed (and FTE/Adjusted Occupied Bed)  
Six Months Ended December 31, 2013**

	<u>Actual</u>
FTE/Occupied Bed	8.37
FTE/Adjusted Occupied Bed	4.50