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**RECEIVED**  
Corporate & Financial Regulation

OCT 30 2014

Pennsylvania  
Insurance Department

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October 30, 2014

**VIA HAND DELIVERY**

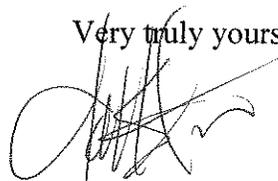
Mr. Stephen J. Johnson, CPA  
Deputy Insurance Commissioner  
Office of Corporate and Financial Regulation  
Pennsylvania Insurance Department  
1345 Strawberry Square  
Harrisburg, PA 17120

**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 quarter and nine-month period ending September 30, 2014 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/gmt  
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, 2014**  
(Dollars in '000)

	<u>ACTUAL</u>
<b><u>ASSETS</u></b>	
Cash & Cash Equivalents	\$ 117,156
Net Patient Accounts Receivable	174,464
Other Receivables	27,505
Amounts Due from Third Party Payors	20,313
Inventories	25,085
Prepaid Expenses & Other Current Assets	21,926
	<u>Total Current Assets</u> 386,449
Unrestricted	
Board Designated Funds	145,851
Insurance Reserve Funds	2,100
Letters of Credit	1,076
Other	18,443
Temporarily Restricted	14,697
Permanently Restricted	266,213
	<u>Total Assets Restricted As To Use</u> 448,380
Property, Plant & Equipment - Net	574,961
Investments	85,452
Goodwill	86,737
Other Assets, Net	55,755
	<u>Total Long-Term Assets</u> 802,905
<b>TOTAL ASSETS</b>	<b><u>\$ 1,637,734</u></b>
<b><u>LIABILITIES &amp; NET ASSETS</u></b>	
Accounts Payable	\$ 93,545
Accrued Expenses	52,599
Current Portion of Long-Term Liabilities	56,298
	<u>Total Current Liabilities</u> 202,442
Long-Term Debt	1,048,451
Deferred Revenue	32,555
Self Insurance Liabilities	68,721
Accrued Pension Obligation	218,624
Other Noncurrent Liabilities	17,322
	<u>Total Noncurrent Liabilities</u> 1,385,673
	<u>Total Liabilities</u> 1,588,115
Unrestricted Net Deficit	(231,291)
Temporarily Restricted Net Assets	14,697
Permanently Restricted Net Assets	266,213
	<u>Total Net Assets</u> 49,619
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b><u>\$ 1,637,734</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**  
**Quarter Ended September 30, 2014**  
(Dollars in '000)

	ACTUAL	Base Case Projection	Downside Case Projection
<b>TOTAL NET PATIENT REVENUES</b>	<b>\$ 409,258</b>	<b>\$ 460,800</b>	<b>\$ 410,400</b>
Other Operating Revenues	21,206		
Net Assets Released From Restrictions	1,690		
<b>TOTAL REVENUES</b>	<b>432,154</b>	<b>480,000</b>	<b>429,600</b>
<b>OPERATING EXPENSES</b>			
Salaries	195,070		
Benefits	31,871		
Professional Fees & Purchased Services	60,761		
Patient Care Supplies & Drugs	84,990		
Insurance	6,599		
Other Operating Expenses	33,371		
Depreciation and Amortization	15,205		
Interest Expense	4,643		
Restructuring	(284)		
<b>TOTAL OPERATING EXPENSES</b>	<b>432,226</b>	<b>477,000</b>	<b>452,300</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(72)</b>	<b>3,000</b>	<b>(22,700)</b>
(+) Depreciation and Amortization	15,205		
(+) Interest Expense	4,643		
<b>EBIDA</b>	<b>19,776</b>	<b>35,500</b>	<b>9,800</b>
Investment Income	4,486		
Gifts and Donations	52		
Gain (Loss) in Joint Venture Investment	57		
Loss on Debt Refinancing	-		
Goodwill impairment	-		
<b>NET INCOME (LOSS)</b>	<b>\$ 4,523</b>	<b>\$ 6,300</b>	<b>\$ (19,800)</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**  
**Quarter Ended September 30, 2014**  
(Dollars in '000)

**Cash Flow from Operating Activities**

Increase in Net Assets	8,768
Depreciation & Amortization	15,205
(Increase)/Decrease in:	
Net Patient Accounts Receivable	(7,231)
Other Receivables	(6,109)
Amounts due from Third Party Payors	(2,930)
Inventories	235
Prepaid Expenses & Other Current Assets	(5,067)
Assets Restricted As to Use	31,416
Investments	4,930
Other	(6,844)
Increase/(Decrease) in:	
Accounts Payable	(4,248)
Accrued Expenses	(16,586)
Deferred Revenue	7,274
Self Insurance Liabilities	1,735
Accrued Pension Liabilities	(17,223)
Other Noncurrent Liabilities	33
<b>Cash Flow from Operating Activities</b>	<b>3,358</b>

**Cash Flow from Investing Activities**

Capital Expenditures	<u>(14,581)</u>
<b>Cash Flow from Investing Activities</b>	<b>(14,581)</b>

**Cash Flow from Financing Activities**

Borrowing/(Payment) of Existing Debt	<u>(1,135)</u>
<b>Cash Flow from Financing Activities</b>	<b>(1,135)</b>

**Cash Summary**

Beginning Cash Balance - June 30, 2014	<u>129,514</u>
Net Change in Cash	<u>(12,358)</u>
<b>Ending Cash Balance - September 30, 2014</b>	<b><u>117,156</u></b>

Fixed asset additions in accounts payable and accrued expenses 7,900

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 September 30, 2014**  
(Dollars in '000)

	<b>Actual</b>	<b>Base Case</b>
	<b>Sept 30, 2014</b>	<b>Sept 30, 2014</b>
Cash and cash equivalents	\$ 117,156	299,400
Investments	85,452	5,100
Board designated	145,851	73,600
<b>Total</b>	<b>\$ 348,459</b>	<b>\$ 378,100</b>
Total operating expenses	\$ 432,226	\$ 477,000
Less: depreciation and amortization	(15,205)	(22,600)
<b>Operating expenses less depreciation and amortization</b>	<b>417,021</b>	<b>454,400</b>
<b>Days in 3 months ending September 30, 2014</b>	<b>92</b>	<b>92</b>
<b>Operating expense per day</b>	<b>\$ 4,533</b>	<b>\$ 4,939</b>
<b>DAYS CASH ON HAND</b>	<b>76.9</b>	<b>76.6</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**  
**Debt Service Coverage Ratio - UNAUDITED**  
**Quarter Ended September 30, 2014**  
(Dollars in '000)

	<u>Actual (*)</u>
Excess of (expenses over revenues)/revenues over expenses	\$ 4,523
Plus: depreciation and amortization	15,205
Plus: interest expense	4,643
Plus/minus: net unrealized investment (gains)/losses	<u>(309)</u>
<b>Total</b>	<b>24,062</b>
Debt Service Requirement	<u>\$ 5,900</u>
<b>DEBT SERVICE COVERAGE RATIO</b>	<b><u><u>4.08</u></u></b>

\* Debt service requirement (utilizing actual cash outflows of P&I) for the  
three months ending September 30, 2014.

**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 September 30, 2014**

**Paid Capital From July 1 through September 30, 2014**

Building and building improvements	2,450,178
Equipment/software	11,799,233
Capitalized interest and salaries	332,079
Fixed asset additions in accounts payable and accrued expenses	7,899,593
	<u>22,481,083</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 September 30, 2014**

	<u>ACTUAL</u>
Inpatient Discharges (Acute/Psych/Rehab)	13,738
Outpatient Registrations	209,359

**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 September 30, 2014**

	<u>Actual</u>
Total	55%

**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  
September 30, 2014**

	<u>EXEMPT</u>	<u>NON-EXEMPT</u>	<u>TOTAL</u>
Total	3,282	6,489	9,771

**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 September 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 September 30, 2014**

	<u>Actual</u>
FTE/Occupied Bed	8.50
FTE/Adjusted Occupied Bed	4.43

**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, 2014  
(Dollars in '000)**

	<u>ACTUAL</u>
<b><u>ASSETS</u></b>	
Cash & Cash Equivalents	\$ 117,156
Net Patient Accounts Receivable	174,464
Other Receivables	27,505
Amounts Due from Third Party Payors	20,313
Inventories	25,085
Prepaid Expenses & Other Current Assets	21,926
	<u>Total Current Assets</u> 386,449
Unrestricted	
Board Designated Funds	145,851
Insurance Reserve Funds	2,100
Letters of Credit	1,076
Other	18,443
Temporarily Restricted	14,697
Permanently Restricted	266,213
	<u>Total Assets Restricted As To Use</u> 448,380
Property, Plant & Equipment - Net	574,961
Investments	85,452
Goodwill	86,737
Other Assets, Net	55,755
	<u>Total Long-Term Assets</u> 802,905
	<u><b>TOTAL ASSETS</b></u> <u>\$ 1,637,734</u>
<b><u>LIABILITIES &amp; NET ASSETS</u></b>	
Accounts Payable	\$ 93,545
Accrued Expenses	52,599
Current Portion of Long-Term Liabilities	56,298
	<u>Total Current Liabilities</u> 202,442
Long-Term Debt	1,048,451
Deferred Revenue	32,555
Self Insurance Liabilities	68,721
Accrued Pension Obligation	218,624
Other Noncurrent Liabilities	17,322
	<u>Total Noncurrent Liabilities</u> 1,385,673
	<u>Total Liabilities</u> 1,588,115
Unrestricted Net Deficit	(231,291)
Temporarily Restricted Net Assets	14,697
Permanently Restricted Net Assets	266,213
	<u>Total Net Assets</u> 49,619
	<u><b>TOTAL LIABILITIES &amp; NET ASSETS</b></u> <u>\$ 1,637,734</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**  
**Nine Months Ended September 30, 2014**  
(Dollars in '000)

	<u>ACTUAL</u>	<u>Base Case Projection</u>	<u>Downside Case Projection</u>
<b>TOTAL NET PATIENT REVENUES</b>	<b>\$ 1,178,610</b>	<b>\$ 1,302,900</b>	<b>\$ 1,194,300</b>
Other Operating Revenues	61,285		
Net Assets Released From Restrictions	8,473		
<b>TOTAL REVENUES</b>	<b>1,248,368</b>	<b>1,359,900</b>	<b>1,251,300</b>
<b>OPERATING EXPENSES</b>			
Salaries	574,765		
Benefits	100,057		
Professional Fees & Purchased Services	163,447		
Patient Care Supplies & Drugs	238,862		
Insurance	19,331		
Other Operating Expenses	96,141		
Depreciation and Amortization	45,629		
Interest Expense	24,015		
Restructuring	1,604		
<b>TOTAL OPERATING EXPENSES</b>	<b>1,263,851</b>	<b>1,371,800</b>	<b>1,319,000</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(15,483)</b>	<b>(11,900)</b>	<b>(67,700)</b>
(+) Depreciation and Amortization	45,629		
(+) Interest Expense	24,015		
<b>EBIDA</b>	<b>54,161</b>	<b>83,300</b>	<b>27,500</b>
Investment Income	9,791		
Gifts and Donations	329		
Gain (Loss) in Joint Venture Investment	(290)		
Loss on Debt Refinancing	(4,087)		
Goodwill impairment	-		
<b>NET INCOME (LOSS)</b>	<b>\$ (9,740)</b>	<b>\$ (2,600)</b>	<b>\$ (59,300)</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**  
**Nine Months Ended September 30, 2014**  
(Dollars in '000)

**Cash Flow from Operating Activities**

Increase in Net Decifit	(12,011)
Depreciation & Amortization	45,629
Amortization of debt write down	1,400
(Increase)/Decrease in:	
Current Debt Service Funds	17
Net Patient Accounts Receivable	(23,633)
Other Receivables	(14,447)
Amounts due from Third Party Payors	(14,328)
Inventories	863
Prepaid Expenses & Other Current Assets	(11,859)
Assets Restricted As to Use	(9,755)
Investments	4,019
Other	(18,996)
Increase/(Decrease) in:	
Accounts Payable	13,401
Accrued Expenses	(24,422)
Deferred Revenue	8,383
Self Insurance Liabilities	8,040
Accrued Pension Liabilities	(28,926)
Other Noncurrent Liabilities	(11,425)
<b>Cash Flow from Operating Activities</b>	<b>(88,050)</b>

**Cash Flow from Investing Activities**

Capital Expenditures	(45,617)
<b>Cash Flow from Investing Activities</b>	<b>(45,617)</b>

**Cash Flow from Financing Activities**

Borrowing/(Payment) of Existing Debt	182,473
<b>Cash Flow from Financing Activities</b>	<b>182,473</b>

**Cash Summary**

Beginning Cash Balance - December 31, 2014	68,350
Net Change in Cash	48,806
<b>Ending Cash Balance - September 30, 2014</b>	<b>117,156</b>

Fixed asset additions in accounts payable and accrued expenses 7,900

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**  
**Nine Months Ended September 30, 2014**  
(Dollars in '000)

	Actual	Base Case
	Sept 30, 2014	Sept 30, 2014
Cash and cash equivalents	\$ 117,156	299,400
Investments	85,452	5,100
Board designated	145,851	73,600
<b>Total</b>	<b>\$ 348,459</b>	<b>\$ 378,100</b>
Total operating expenses	\$ 1,263,851	\$ 1,371,800
Less: depreciation and amortization	(45,629)	(65,500)
<b>Operating expenses less depreciation and amortization</b>	<b>1,218,222</b>	<b>1,306,300</b>
<b>Days in 9 months ending September 30, 2014</b>	<b>273</b>	<b>273</b>
<b>Operating expense per day</b>	<b>\$ 4,462</b>	<b>\$ 4,785</b>
<b>DAYS CASH ON HAND</b>	<b>78.1</b>	<b>79.0</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**  
**Debt Service Coverage Ratio - UNAUDITED**  
**Nine Months Ended September 30, 2014**  
(Dollars in '000)

	<u>Actual (*)</u>
Excess of (expenses over revenues)/revenues over expenses	\$ (9,740)
Plus: depreciation and amortization	45,629
Plus: interest expense	24,015
Plus/minus: net unrealized investment (gains)/losses	<u>(1,359)</u>
<b>Total</b>	<b>58,545</b>
Debt Service Requirement	<u>\$ 11,600</u>
<b>DEBT SERVICE COVERAGE RATIO</b>	<b><u>5.05</u></b>

\* Debt service requirement (utilizing actual cash outflows of P&I) for the nine months ending September 30, 2014.

**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  
Nine Months Ended September 30, 2014**

**Paid Capital From January 1 through September 30, 2014**

Building and building improvements	7,591,054
Equipment/software	35,856,427
Capitalized interest and salaries	2,169,435
Fixed asset additions in accounts payable and accrued expenses	7,899,591
	<hr/>
	<b>53,516,507</b>
	<hr/> <hr/>

**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  
Nine Months Ended September 30, 2014**

	<u>Actual</u>
Inpatient Discharges (Acute/Psych/Rehab)	40,916
Outpatient Registrations	599,952

**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  
Nine Months Ended September 30, 2014**

	<u>Actual</u>
<b>Total</b>	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  
September 30, 2014**

	<u>EXEMPT</u>	<u>NON-EXEMPT</u>	<u>TOTAL</u>
<b>Total</b>	3,282	6,489	9,771

**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  
Nine Months Ended September 30, 2014**

	<u>Actual</u>
<b>Total</b>	826

**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)  
Nine Months Ended September 30, 2014**

	<u>Actual</u>
FTE/Occupied Bed	8.27
FTE/Adjusted Occupied Bed	4.38