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Corporate & Financial Regulation

AUG 1 2016

Pennsylvania
Insurance Department

409 North Second Street
Suite 500
Harrisburg, PA 17101-1357
T 717 237 4800
F 717 233 0852
www.bipc.com

Jack M. Stover
717 237 4837
jack.stover@bipc.com

August 1, 2016

VIA HAND DELIVERY

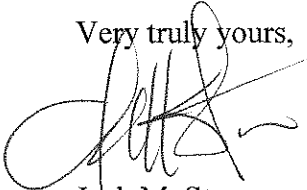
Joseph DiMemmo, CPA
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation
Pennsylvania Insurance Department
1345 Strawberry Square
Harrisburg, PA 17120

**Re: Highmark Health
Condition 14 of Order No. ID-RC-13-06**

Dear Deputy Commissioner DiMemmo:

In compliance with Condition 14 of the above-captioned Order, Highmark Health is submitting the enclosed Allegheny Health Network financial reports for the period ending June 30, 2016 on a non-confidential basis. I have forwarded a copy of the reports to Mr. Beaser and Mr. DeLacey by e-mail.

Very truly yours,



Jack M. Stover

JMS/cb

Enclosure

cc: Lawrence J. Beaser, Esquire (via e-mail)
Patrick T. DeLacey (via e-mail)

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

	ACTUAL	CAP*
<u>ASSETS</u>		
Cash & Cash Equivalents	\$ 203,498	\$ 96,829
Net Patient Accounts Receivable	309,579	245,833
Other Receivables	76,075	61,629
Inventory, Net	49,834	47,700
Prepaid Expenses & Other Current Assets	46,714	45,090
Total Current Assets	<u>685,700</u>	<u>497,081</u>
Unrestricted - Board Designated Funds	121,058	162,620
Temporarily Restricted	25,568	19,400
Permanently Restricted	253,884	268,500
Total Assets Restricted As To Use	<u>400,510</u>	<u>450,520</u>
Property, Plant & Equipment, Net	1,078,743	1,081,160
Investments	260,495	336,100
Goodwill & Other Intangible Assets, Net	116,519	118,400
Other Assets, Net	183,092	173,700
Total Long-Term Assets	<u>1,638,849</u>	<u>1,709,360</u>
TOTAL ASSETS	<u>\$ 2,725,059</u>	<u>\$ 2,656,961</u>
<u>LIABILITIES & NET ASSETS</u>		
Accounts Payable & Accrued Expenses	\$ 269,553	\$ 220,850
Accrued Salaries & Benefits	122,800	98,800
Total Debt	1,419,649	1,421,184
Benefit Plan Liabilities	377,049	358,993
Other Liabilities	289,466	253,300
Total Liabilities	<u>2,478,517</u>	<u>2,353,127</u>
Unrestricted Net Assets	(32,910)	15,934
Temporarily Restricted Net Assets	25,568	19,400
Permanently Restricted Net Assets	253,884	268,500
Total Net Assets	<u>246,542</u>	<u>303,834</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 2,725,059</u>	<u>\$ 2,656,961</u>

*Corrective Action Plan

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

	QTD		YTD	
	ACTUAL	CAP	ACTUAL	CAP
Net Patient Revenues	\$ 656,447		\$ 1,294,768	
Other Operating Revenues	52,583		103,651	
TOTAL REVENUES	709,030	684,798	1,398,419	1,368,869
Salaries	342,078		682,202	
Benefits	35,694		77,825	
Professional Fees & Purchased Services	78,837		153,386	
Patient Care Supplies & Drugs	137,706		273,105	
Insurance	9,135		17,082	
Other Operating Expenses	72,321		147,687	
Depreciation & Amortization	29,850		60,124	
Restructuring	2,287		3,714	
TOTAL OPERATING EXPENSES	707,908	693,737	1,415,125	1,382,989
OPERATING INCOME (LOSS)	1,122	(8,939)	(16,706)	(14,120)
Interest Expense	(6,839)		(13,773)	
Investment Income	8,056		14,123	
Gifts & Donations	31		165	
Other Expense	(259)		(2,503)	
Net Income Attributable to Non-Controlling Interest	(679)		(1,255)	
Income Tax Benefit	490		1,227	
NET INCOME (LOSS)	\$ 1,922	\$ (11,707)	\$ (18,722)	\$ (21,088)

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

	QTD		YTD	
	ACTUAL	CAP	ACTUAL	CAP
<u>Cash Flow from Operating Activities</u>				
Increase (Decrease) in Net Assets	\$ 67,592	\$ (11,282)	\$ 65,434	\$ 74,560
Depreciation & Amortization	29,850		60,124	
Change in Fair Value of Derivative Financial Instruments	2,271		12,325	
Provision for Doubtful Accounts	17,284		41,279	
CAPEX Equity Transfer from Highmark	(61,588)		(94,706)	
Restricted Contributions	(717)		(1,200)	
(Increase)/Decrease in:				
Accounts Receivable	(18,221)		(61,862)	
Other Receivables	17,606		17,912	
Inventories, Prepaid Expenses & Other Current Assets	(7,833)		(14,676)	
Other Long-Term Assets	4,118		(9,261)	
Increase/(Decrease) in:				
Accounts Payable & Accrued Expenses	31,039		43,941	
Accrued Pension Liabilities	(4,507)		(6,975)	
Other Liabilities	8,388		22,091	
Cash Flow from Operating Activities	85,282	22,619	74,426	41,818
<u>Cash Flow from Investing Activities</u>				
Capital Expenditures	(36,457)		(83,715)	
(Purchases)/Sales Of Investments	(2,208)		16,185	
Cash Flow from Investing Activities	(38,665)	(23,725)	(67,530)	(139,449)
<u>Cash Flow from Financing Activities</u>				
Payment of Debt	(4,971)		(8,691)	
CAPEX Equity Transfer from Highmark	31,861		64,979	
Restricted Contributions	717		1,200	
Additional Financing	597		1,497	
Cash Flow from Financing Activities	28,204	(2,984)	58,985	92,165
<u>Cash Summary</u>				
Beginning Cash Balance	128,677	100,919	137,617	102,295
Net Change in Cash	74,821	(4,090)	65,881	(5,466)
Ending Cash Balance	\$ 203,498	\$ 96,829	\$ 203,498	\$ 96,829

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

	QTD		YTD	
	ACTUAL	CAP	ACTUAL	CAP
Cash & Cash Equivalents	\$ 203,498	\$ 96,829	\$ 203,498	\$ 96,829
Investments	260,495	336,100	260,495	336,100
Unrestricted - Board Designated Funds	121,058	162,620	121,058	162,620
Total	\$ 585,051	\$ 595,549	\$ 585,051	\$ 595,549
Total Operating Expenses	\$ 707,908	\$ 693,737	\$ 1,415,125	\$ 1,382,989
Add: Interest Expense	6,839	7,413	13,773	14,857
Less: Depreciation & Amortization	(29,850)	(34,071)	(60,124)	(68,121)
Total	\$ 684,897	\$ 667,079	\$ 1,368,774	\$ 1,329,725
Days in Period	91	91	182	182
Operating Expense Per Day	\$ 7,526	\$ 7,331	\$ 7,521	\$ 7,306
DAYS CASH ON HAND	77.7	81.2	77.8	81.5

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

	QTD		YTD	
	ACTUAL	CAP	ACTUAL	CAP
Net Income (Loss)	\$ 1,922	\$ (11,707)	\$ (18,722)	\$ (21,088)
Add: Depreciation & Amortization	29,850	34,071	60,124	68,121
Add: Interest Expense	6,839	7,413	13,773	14,857
Less: Unrealized Investment Gains	(3,303)	-	(6,453)	-
Total	35,308	29,777	48,722	61,890
Debt Service Requirement	\$ 11,810	\$ 11,999	\$ 22,464	\$ 20,698
DEBT SERVICE COVERAGE RATIO	<u>2.99</u>	<u>2.48</u>	<u>2.17</u>	<u>2.99</u>

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

Year-to-Date June 30, 2016						
	INPATIENT DISCHARGES		OUTPATIENT REGISTRATIONS		OCCUPANCY RATES USING AVAILABLE BEDS	
	ACTUAL	CAP	ACTUAL	CAP	ACTUAL	CAP
WPAHS	29,139	29,218	425,894	425,749	56.0%	56.2%
JRMC	7,291	7,317	122,613	135,491	56.2%	53.7%
SVH	7,227	7,283	101,777	101,489	52.8%	48.3%
Total AHN	<u>43,657</u>	<u>43,818</u>	<u>650,284</u>	<u>662,729</u>	<u>55.5%</u>	<u>54.4%</u>

Year-to-Date June 30, 2016	
ACTUAL OCCUPANCY RATES USING BEDS IN SERVICE	
WPAHS	71.6%
JRMC	61.7%
SVH	57.6%
Total AHN	<u>67.4%</u>

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

	FTES (EXEMPT)		FTES (NON-EXEMPT)		TOTAL FTES	
	ACTUAL	CAP	ACTUAL	CAP	ACTUAL	CAP
Total AHN	4,238	4,093	12,264	11,889	16,502	15,982

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

	QTD	YTD
Total AHN	1,160	1,188

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

	QTD	YTD
<u>Schedule of FTE/Occupied Bed</u>		
Total AHN	8.81	8.58
<u>Schedule of FTE/Adjusted Occupied Bed</u>		
Total AHN	4.34	4.27

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

	2016 CAP	2016 Spend		2016 CAP	2016 Spend
Allegheny General Hospital					
Nursing Unit Renovations	\$ 12.7	\$ 9.8			
Lab/Radiology Renovations	13.8	0.2			
General Hospital Renovations	14.6	9.7			
Replacements and Leases	15.2	11.0			
Total Allegheny General Hospital	\$ 56.3	\$ 30.7			
Allegheny Valley Hospital					
General Hospital Renovations	\$ 0.1	\$ 0.1			
Replacements and Leases	0.5	0.8			
Total Allegheny Valley Hospital	\$ 0.6	\$ 0.9			
Canonsburg Hospital					
General Hospital Renovations	\$ -	\$ 0.8			
Replacements and Leases	0.5	0.8			
Total Canonsburg Hospital	\$ 0.5	\$ 1.6			
Forbes Hospital					
ICU Renovations	\$ -	\$ 3.1			
General Hospital Renovations	5.3	4.0			
Replacements and Leases	1.4	5.7			
Total Forbes Hospital	\$ 6.7	\$ 12.8			
Allegheny Health Network/IT					
Renovations		\$ 2.9		\$ 0.7	
Strategic Acquisitions		4.0		-	
Replacements and Leases		23.8		8.8	
Total AHN/IT		\$ 30.7		\$ 9.5	
Jefferson Hospital					
Bethel Park ASC	\$ -	\$ 0.3			
Strategic Acquisition-Radiation Onc.	-	0.1			
Women's Health	3.6	-			
General Hospital Renovations	1.7	0.5			
Replacements and Leases	9.8	1.3			
Total Jefferson Hospital	\$ 15.1	\$ 2.2			
Saint Vincent Hospital					
Outpatient Facility	\$ 7.8	\$ -			
Nursing Unit Renovations	2.5	1.0			
General Hospital Renovations	10.4	0.5			
Replacements and Leases	2.0	9.5			
Total Saint Vincent Hospital	\$ 22.7	\$ 11.0			
West Penn Hospital					
NICU	\$ 3.3	\$ 0.7			
Autoimmune Specialty Suite	7.8	-			
General Hospital Renovations	0.5	0.3			
Replacements and Leases	7.2	5.4			
Total West Penn Hospital	\$ 18.8	\$ 6.4			
Allegheny Health Network/IT					
Renovations		\$ 2.9		\$ 0.7	
Strategic Acquisitions		4.0		-	
Replacements and Leases		23.8		8.8	
Total AHN/IT		\$ 30.7		\$ 9.5	
Allegheny Clinic					
Physician Practice Acquisition	\$ -	\$ 0.2			
Physician Office Renovations	2.2	2.9			
Replacements and Leases	0.2	0.7			
Total Allegheny Clinic	\$ 2.4	\$ 3.8			
ASRI					
Replacements and Leases	\$ 0.2	\$ 0.1			
Total ASRI	\$ 0.2	\$ 0.1			
Core Lab					
Replacements and Leases	\$ 0.9	\$ 0.6			
Total Core Lab	\$ 0.9	\$ 0.6			
Wexford					
Replacements and Leases	\$ -	\$ 0.1			
Total Wexford	\$ -	\$ 0.1			
AHN Combined Total					
				\$ 151.9	\$ 79.7