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Corporate & Financial Regulation

JUL 30 2015

**Pennsylvania  
Insurance Department**

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July 30, 2015

**VIA HAND DELIVERY**

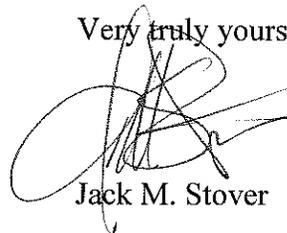
Mr. Stephen J. Johnson, CPA  
Deputy Insurance Commissioner  
Office of Corporate and Financial Regulation  
Pennsylvania Insurance Department  
1345 Strawberry Square  
Harrisburg, PA 17120

**Re: Highmark Health**

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 West Penn Allegheny Health System for the period ending June 30, 2015 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  
June 30, 2015  
(Dollars in '000)**

	<u>ACTUAL</u>
<b><u>ASSETS</u></b>	
Cash & Cash Equivalents	\$ 93,035
Net Patient Accounts Receivable	209,466
Other Receivables	35,931
Amounts Due from Third Party Payors	9,394
Inventories	27,403
Prepaid Expenses & Other Current Assets	17,120
	<u>Total Current Assets</u> 392,349
Unrestricted	
Board Designated Funds	69,592
Insurance Reserve Funds	800
Letters of Credit	233
Other	16,166
Temporarily Restricted	14,838
Permanently Restricted	265,809
	<u>Total Assets Restricted As To Use</u> 367,438
Property, Plant & Equipment - Net	595,145
Investments	155,268
Goodwill	103,999
Other Assets, Net	68,261
	<u>Total Long-Term Assets</u> 922,673
<b>TOTAL ASSETS</b>	<b><u>\$ 1,682,460</u></b>
 <b><u>LIABILITIES &amp; NET ASSETS</u></b>	
Accounts Payable	\$ 145,840
Accrued Expenses	87,622
Current Portion of Long-Term Liabilities	22,218
	<u>Total Current Liabilities</u> 255,680
Long-Term Debt	1,025,147
Deferred Revenue	25,516
Self Insurance Liabilities	67,451
Accrued Pension Obligation	233,196
Other Noncurrent Liabilities	39,304
	<u>Total Noncurrent Liabilities</u> 1,390,614
	<u>Total Liabilities</u> 1,646,294
Unrestricted Net Deficit	(244,481)
Temporarily Restricted Net Assets	14,838
Permanently Restricted Net Assets	265,809
	<u>Total Net Assets</u> 36,166
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b><u>\$ 1,682,460</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 June 30, 2015  
(Dollars in '000)**

	<b>ACTUAL</b>	<b>Base Case Projection</b>	<b>Downside Case Projection</b>
<b>TOTAL NET PATIENT REVENUES</b>	\$ 434,043	\$ 507,800	\$ 427,000
Other Operating Revenues	23,319		
Net Assets Released From Restrictions	691		
<b>TOTAL REVENUES</b>	<b>458,053</b>	<b>527,000</b>	<b>446,200</b>
<b>OPERATING EXPENSES</b>			
Salaries	208,320		
Benefits	33,166		
Professional Fees & Purchased Services	73,884		
Patient Care Supplies & Drugs	91,718		
Insurance	6,077		
Other Operating Expenses	32,596		
Depreciation and Amortization	17,224		
Interest Expense	3,703		
Restructuring	1,071		
<b>TOTAL OPERATING EXPENSES</b>	<b>467,759</b>	<b>501,100</b>	<b>461,700</b>
<b>OPERATING (LOSS) INCOME</b>	<b>(9,706)</b>	<b>25,900</b>	<b>(15,500)</b>
(+) Depreciation and Amortization	17,224		
(+) Interest Expense	3,703		
<b>EBIDA</b>	<b>11,221</b>	<b>60,000</b>	<b>18,600</b>
Investment Income	5,245		
Gifts and Donations	121		
Net Loss in Joint Venture Investment	160		
Net Loss Attributable to Non Controlling Interest	(466)		
Gain on Extinguishment of Debt	7,494		
<b>NET INCOME (LOSS)</b>	<b>\$ 2,848</b>	<b>\$ 29,500</b>	<b>\$ (12,800)</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 June 30, 2015  
(Dollars in '000)

**Cash Flow from Operating Activities**

Increase in Net Assets	14,437
Depreciation & Amortization	17,224
Gain on Extinguishment of Debt	(7,494)
(Increase)/Decrease in:	
Net Patient Accounts Receivable	(11,280)
Other Receivables	4,550
Amounts due from Third Party Payors	3,466
Inventories	408
Prepaid Expenses & Other Current Assets	171
Other	6,660
Increase/(Decrease) in:	
Accounts Payable	1,264
Accrued Expenses	15,595
Deferred Revenue	5,595
Self Insurance Liabilities	(1,474)
Accrued Pension Liabilities	(9,033)
Other Noncurrent Liabilities	(3,608)
	<hr/>
<b>Cash Flow from Operating Activities</b>	<b>36,481</b>

**Cash Flow from Investing Activities**

Capital Expenditures	(23,771)
Net Sales of Investments	16,056
	<hr/>
<b>Cash Flow from Investing Activities</b>	<b>(7,715)</b>

**Cash Flow from Financing Activities**

Payment of Existing Debt	(8,123)
Borrowing on Highmark Loan	18,400
	<hr/>
<b>Cash Flow from Financing Activities</b>	<b>10,277</b>

**Cash Summary**

Beginning Cash Balance - March 31, 2015	<hr/> 53,992
Net Change in Cash	39,043
<b>Ending Cash Balance - June 30, 2015</b>	<hr/> <b>93,035</b> <hr/>

Fixed asset additions in accounts payable and accrued expenses 5,989

**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, 2015**

(Dollars in '000)

	<b>Actual</b>	<b>Base Case</b>
	<b>Jun 30, 2015</b>	<b>Quarter Ended Jun 30, 2015</b>
Cash and cash equivalents	\$ 93,035	385,200
Investments	155,268	5,100
Board designated	69,592	73,600
<b>Total</b>	<b>\$ 317,895</b>	<b>\$ 463,900</b>
Total operating expenses	\$ 467,759	\$ 501,100
Less: depreciation and amortization	(17,224)	(23,900)
<b>Operating expenses less depreciation and amortization</b>	<b>450,535</b>	<b>477,200</b>
<b>Days in 3 months ending June 30, 2015</b>	<b>91</b>	<b>91</b>
<b>Operating expense per day</b>	<b>\$ 4,951</b>	<b>\$ 5,244</b>
<b>DAYS CASH ON HAND</b>	<b>64.2</b>	<b>88.5</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 June 30, 2015  
(Dollars in '000)**

	<u>Actual</u>
Excess of revenues over expenses/(expenses over revenues)	\$ 2,848
Plus: depreciation and amortization	17,224
Plus: interest expense	3,703
Plus: net unrealized investment losses	<u>403</u>
<b>Total</b>	<b>24,178</b>
Debt Service Requirement (*)	<u>\$ 5,300</u>
<b>DEBT SERVICE COVERAGE RATIO</b>	<b><u><u>4.56</u></u></b>

\* Debt service requirement (utilizing actual cash outflows of P&I) for the three months ending June 30, 2015.

**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, 2015**

**Paid Capital From April 1 through June 30, 2015**

Building and building improvements	\$	8,117,786
Equipment/software		15,010,069
Capitalized interest and salaries		643,610
Change in fixed asset additions in accounts payable and accrued expenses.		(2,047,067)
	\$	<u>21,724,398</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, 2015**

	<u>ACTUAL</u>
Inpatient Discharges (Acute/Psych/Rehb)	14,452
Outpatient Registrations	211,595

**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, 2015**

	<u>Actual</u>
Consolidated	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, 2015**

	<u>EXEMPT</u>	<u>NON-EXEMPT</u>	<u>TOTAL</u>
Total	3,229	6,429	9,658

**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, 2015**

	<u>Actual</u>
Total	797

**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  
Quarter Ended June 30, 2015**

	<u>Actual</u>
Schedule of FTE/Occupied Bed	8.31
Schedule of FTE/Adjusted Occupied Bed	4.37

**West Penn Allegheny Health System**  
**Consolidated Balance Sheet - UNAUDITED**  
**June 30, 2015**  
(Dollars in '000)

	<b>ACTUAL</b>
<b><u>ASSETS</u></b>	
Cash & Cash Equivalents	\$ 93,035
Net Patient Accounts Receivable	209,466
Other Receivables	35,931
Ambunts Due from Third Party Payors	9,394
Inventories	27,403
Prepaid Expenses & Other Current Assets	17,120
Total Current Assets	392,349
Unrestricted	
Board Designated Funds	69,592
Insurance Reserve Funds	800
Letters of Credit	233
Other	16,166
Temporarily Restricted	14,838
Permanently Restricted	265,809
Total Assets Restricted As To Use	367,438
Property, Plant & Equipment - Net	595,145
Investments	155,268
Goodwill	103,999
Other Assets, Net	68,261
Total Long-Term Assets	922,673
<b>TOTAL ASSETS</b>	<b>\$ 1,682,460</b>
 <b><u>LIABILITIES &amp; NET ASSETS</u></b>	
Accounts Payable	\$ 145,840
Accrued Expenses	87,622
Current Portion of Long-Term Liabilities	22,218
Total Current Liabilities	255,680
Long-Term Debt	1,025,147
Deferred Revenue	25,516
Self Insurance Liabilities	67,451
Accrued Pension Obligation	233,196
Other Noncurrent Liabilities	39,304
Total Noncurrent Liabilities	1,390,614
Total Liabilities	1,646,294
Unrestricted Net Deficit	(244,481)
Temporarily Restricted Net Assets	14,838
Permanently Restricted Net Assets	265,809
Total Net Assets	36,166
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$ 1,682,460</b>

**West Penn Allegheny Health System**  
**Consolidated Statement of Operations - UNAUDITED**  
**Six Months Ended June 30, 2015**  
(Dollars in '000)

	<u>ACTUAL</u>	<u>Base Case Projection</u>	<u>Downside Case Projection</u>
<b>TOTAL NET PATIENT REVENUES</b>	\$ 856,092	\$ 1,013,700	\$ 852,100
Other Operating Revenues	45,930		
Net Assets Released From Restrictions	1,220		
<b>TOTAL REVENUES</b>	<u>903,242</u>	<u>1,052,100</u>	<u>890,500</u>
<b>OPERATING EXPENSES</b>			
Salaries	413,738		
Benefits	69,349		
Professional Fees & Purchased Services	139,840		
Patient Care Supplies & Drugs	180,122		
Insurance	12,254		
Other Operating Expenses	63,179		
Depreciation and Amortization	33,948		
Interest Expense	7,581		
Restructuring	2,677		
<b>TOTAL OPERATING EXPENSES</b>	<u>922,688</u>	<u>1,000,900</u>	<u>921,900</u>
<b>OPERATING (LOSS) INCOME</b>	<u>(19,446)</u>	<u>51,200</u>	<u>(31,400)</u>
(+) Depreciation and Amortization	33,948		
(+) Interest Expense	7,581		
<b>EBIDA</b>	22,083	119,000	36,400
Investment Income	9,803		
Gifts and Donations	188		
Net Loss in Joint Venture Investment	(1,640)		
Net Loss Attributable to Non Controlling Interest	(734)		
Gain on Extinguishment of Debt	7,494		
<b>NET (LOSS) INCOME</b>	<u>\$ (4,335)</u>	<u>\$ 58,100</u>	<u>\$ (26,000)</u>

**West Penn Allegheny Health System**  
**Consolidated Statement of Cash Flows - UNAUDITED**  
**Six Months Ended June 30, 2015**  
(Dollars in '000)

**Cash Flow from Operating Activities**

Increase in Net Assets	17,205
Depreciation & Amortization	33,948
Gain on Extinguishment of Debt	(7,494)
Assets Acquired Through Acquisition	(25,362)
(Increase)/Decrease in:	
Net Patient Accounts Receivable	(35,959)
Other Receivables	8,938
Amounts due from Third Party Payors	7,512
Inventories	88
Prepaid Expenses & Other Current Assets	(1,483)
Other	5,107
Increase/(Decrease) in:	
Accounts Payable	23,596
Accrued Expenses	11,559
Deferred Revenue	17,905
Self Insurance Liabilities	(2,445)
Accrued Pension Liabilities	(16,107)
Other Noncurrent Liabilities	(6,035)
	<hr/>
<b>Cash Flow from Operating Activities</b>	<b>30,973</b>

**Cash Flow from Investing Activities**

Capital Expenditures	(51,644)
Net Sale of Investments	36,599
Cash Acquired Through Acquisitions	8,100
	<hr/>
<b>Cash Flow from Investing Activities</b>	<b>(6,945)</b>

**Cash Flow from Financing Activities**

Payment of Existing Debt	(13,468)
Borrowing on Highmark Loan	18,400
	<hr/>
<b>Cash Flow from Financing Activities</b>	<b>4,932</b>

**Cash Summary**

Beginning Cash Balance - December 31, 2014	<hr/> 64,075
Net Change in Cash	28,960
<b>Ending Cash Balance - June 30, 2015</b>	<hr/> <hr/> <b>93,035</b>

Fixed asset additions in accounts payable and accrued expenses	5,989
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**West Penn Allegheny Health System**  
**Days Cash on Hand - UNAUDITED**  
**Six Months Ended June 30, 2015**  
(Dollars in '000)

	<b>Actual</b>	<b>Base Case</b>
	<b>Jun 30, 2015</b>	<b>Six Months ended Jun 30, 2015</b>
Cash and cash equivalents	\$ 93,035	385,200
Investments	155,268	5,100
Board designated	69,592	73,600
<b>Total</b>	<b>\$ 317,895</b>	<b>\$ 463,900</b>
Total operating expenses	\$ 922,688	\$ 1,000,900
Less: depreciation and amortization	(33,948)	(47,400)
<b>Operating expenses less depreciation and amortization</b>	<b>888,740</b>	<b>953,500</b>
<b>Days in 6 months ending June 30, 2015</b>	<b>181</b>	<b>181</b>
<b>Operating expense per day</b>	<b>\$ 4,910</b>	<b>\$ 5,268</b>
<b>DAYS CASH ON HAND</b>	<b>65</b>	<b>88</b>

**West Penn Allegheny Health System**  
**Debt Service Coverage Ratio - UNAUDITED**  
**Six Months Ended June 30, 2015**  
(Dollars in '000)

	<b>Actual</b>
Excess of (expenses over revenues)/revenues over expenses	\$ (4,335)
Plus: depreciation and amortization	33,948
Plus: interest expense	7,581
Plus: net unrealized investment gains	<u>(1,344)</u>
<b>Total</b>	<b>35,850</b>
Debt Service Requirement (*)	<u>\$ 14,700</u>
<b>DEBT SERVICE COVERAGE RATIO</b>	<b><u><u>2.44</u></u></b>

\* Debt service requirement (utilizing actual cash outflows of P&I) for the six months ending June 30, 2015.

**West Penn Allegheny Health System  
Schedule of Capital Expenditures  
Six Months Ended June 30, 2015**

**Paid Capital From January 1 through June 30, 2015**

Building and building improvements	\$	23,476,131
Equipment/software		26,653,899
Capitalized interest and salaries		1,600,960
Change in fixed asset additions in accounts payable and accrued expenses		<u>(363,372)</u>
	\$	<u>51,367,618</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  
Six Months Ended June 30, 2015**

	<u>ACTUAL</u>
<b>Inpatient Discharges (Acute/Psych/Rehab)</b>	<b>28,816</b>
<b>Outpatient Registrations</b>	<b>407,462</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  
Schedule of Occupancy Rates  
Six Months Ended June 30, 2015**

	<u>Actual</u>
Consolidated	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**  
**June 30, 2015**

	<u>EXEMPT</u>	<u>NON-EXEMPT</u>	<u>TOTAL</u>
Total	3,229	6,428	9,657

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  
Six Months Ended June 30, 2015**

	<u>Actual</u>
Total	816

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)  
Six Months Ended June 30, 2015**

	<u>Actual</u>
Schedule of FTE/Occupied Bed	8.15
Schedule of FTE/Adjusted Occupied Bed	4.36