



December 1, 2015

Jack M. Stover, Esquire
Buchanan Ingersoll & Rooney PC
One South Market Square
213 Market Street, 3rd Floor
Harrisburg, PA 17101-2121

RE: Pennsylvania Insurance Department's Approving Determination and Order (Order No ID-RC-13-06) (the "2013 Order") – Financial Commitment Expenditure Reports

Dear Mr. Stover:

As you know, on June 19, 2015, the Department issued an approval, subject to the terms and conditions contained therein, of the request by Highmark Inc. ("Highmark") to provide up to \$175 million (the "175M Financial Commitment") in the grants, donations or other transfers to Allegheny Health Network ("AHN") pursuant to Conditions 10 and 11(c) of the 2103 Order (the "Approval Letter").

Pursuant to Section III(C) of the Approval Letter, on August 31, 2015 and on October 30, 2015 Highmark filed Financial Commitment Expenditure Reports (the "Expenditure Reports").

In reviewing the Expenditure Reports, the Department noted that the amount of the expenditures for each line-item category of expenses in the Expenditure Report filed on October 30, 2015 is the same as the amount of expenses in the Expenditure Report filed on August 31, 2015. We understand that Highmark representatives advised our consultants that Highmark does not report an expenditure on the Expenditure Report until funds are actually transferred from Highmark to AHN, even though AHN has already expended the funds or incurred the obligation to expend the funds.

In its request for approval dated March 9, 2015 relating to the \$175M Financial Commitment, Highmark stated that AHN did not have the funds to make all of its critical investments without additional funding from Highmark. Specifically it stated, "[a]t this time, AHN is not able to make all of these critical investments without additional funding from Highmark." Page 3 of the March 9 Request.

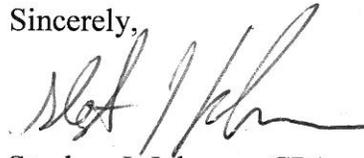
The purpose of the Expenditure Reports is to identify on a quarterly basis the status of expenditures of the \$175 million so that the public and the Department will know what portions of the \$175 million have been expended and the purposes for which those "critical investments" have been made.

Based upon statements from Highmark, the Department anticipated that AHN would not have funds to pay for the expenses without prior funding by Highmark. It now appears that AHN has sufficient funds to pay for at least certain expenditures and then seek reimbursement from Highmark. Thus, the filed Expenditure Reports do not accurately reflect the status of the expenditures on a quarterly basis.

If AHN incurs obligations and/or makes expenditures that are to be included in the scheduled uses of funds in advance of the funding by Highmark, these obligations and/or expenditures need to be properly reflected on the quarterly Expenditure Report, with proper disclosure as to the amount not yet reimbursed or advanced by Highmark. For future quarterly reports, please make certain that the Expenditure Report reflects obligations incurred and/or expenditures made by AHN for the scheduled uses of funds, whether or not yet funded by Highmark, together with proper disclosure as to the amount not yet reimbursed or advanced by Highmark.

Please let me know if you have any questions about this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "S. Johnson", written over a horizontal line.

Stephen J. Johnson, CPA
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation