Highmark Health

EIN 45-3674900
Reports on Federal Awards in Accordance with OMB Circular A-133
December 31, 2014 and 2013

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Independent Auditor's Report

To the Board of Directors of Highmark Health:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Highmark Health and its subsidiaries and affiliates (the "Corporation"), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, except for the financial statements of HVHC Inc., which were not audited in accordance with Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 30, 2015 on our consideration of Highmark Health's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended 2014. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Highmark Health's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

March 30, 2015, except for Note 17, which is dated September 30 2015

Highmark Health
Consolidated Balance Sheets
December 31, 2014 and 2013

(in thousands of dollars)

	2014	2013
Assets		
Cash and cash equivalents	$ 1,108,618	$ 1,274,475
Accounts receivable		
Insurance, less allowance for doubtful accounts of $43,200 and $37,702, respectively	2,232,097	2,025,468
Patient service, less allowance for doubtful accounts of $92,592 and $99,614, respectively	152,650	156,975
Other	152,846	135,589
Investments		
Debt securities, available-for-sale at fair value	3,224,940	3,536,012
Equity securities, available-for-sale at fair value	945,685	957,474
Board designated, restricted and other investments at fair value	744,646	736,142
Investment in affiliates	275,581	322,764
Other	156,230	147,767
Reinsurance recoverables	323,119	104,317
Securities lending invested collateral	258,899	242,084
Inventory, net	124,100	111,929
Income tax recoverable, net	35,924	87,558
Deferred income taxes, net	108,079	28,336
Property and equipment, net	1,628,845	1,546,536
Goodwill and other intangible assets, net	833,124	839,517
Prepaid pension plan assets	1,750	55,172
Other assets	546,214	497,681
Total assets	$ 12,853,347	$ 12,805,796
Liabilities and Net Assets		
Claims outstanding	$ 2,391,493	$ 2,371,710
Unearned premium revenue	300,490	313,758
Amounts held for others	488,643	608,259
Accrued salaries and benefits	322,066	305,962
Other payables and accrued expenses	961,177	786,575
Securities lending payable	258,929	242,086
Benefit plan liabilities	811,615	511,537
Debt	1,703,736	1,638,116
Other liabilities	204,232	225,360
Total liabilities	7,442,381	7,003,363
Net Assets		
Unrestricted	5,127,925	5,518,908
Temporarily restricted	18,787	24,663
Permanently restricted	264,254	258,862
Total net assets	5,410,966	5,802,433
Total liabilities and net assets	$ 12,853,347	$ 12,805,796

The accompanying notes are an integral part of these consolidated financial statements.

Highmark Health
Consolidated Statements of Operations
Years Ended December 31, 2014 and 2013

(in thousands of dollars)

	2014	2013
Unrestricted revenue and other support		
Premium revenue	$ 12,812,956	$ 12,629,289
Net patient service revenue	1,645,992	1,069,665
Vision revenue	1,246,978	1,113,645
Management services revenue	851,408	766,921
Other operating revenue	182,504	202,419
Net assets released from restriction	11,476	6,784
Total unrestricted revenue and other support	16,751,314	15,788,723
Expenses		
Claims incurred	10,641,620	10,693,456
Salaries, wages and fringe benefits	3,226,248	2,625,950
Patient care supplies	445,326	279,053
Depreciation and amortization	288,786	236,319
Other operating expenses	2,327,376	1,769,290
Goodwill impairment	-	310,997
Total operating expenses	16,929,356	15,915,065
Operating loss	(178,042)	(126,342)
Net investment income, including net realized gains on investments	253,779	253,150
Interest expense	(62,755)	(66,463)
Net assets acquired through affiliations	-	63,485
Nonoperating expenses	(3,313)	(112,443)
Excess of revenue over expenses before income taxes	9,669	11,387
Income tax provision	92,701	145,574
Deficit of revenue over expenses from continuing operations	(83,032)	(134,187)
Discontinued operations		
Discontinued operations and gain on sale, net of tax of $0 and $2,464, respectively	-	7,688
Deficit of revenue over expenses	$ (83,032)	$ (126,499)

Highmark Health
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2014 and 2013

(in thousands of dollars)

	2014	2013
Unrestricted net assets		
Deficit of revenue over expenses	$ (83,032)	$ (126,499)
Unrealized net holding gains (losses) on available-for-sale securities, net of tax of ($28,353) and $11,723, respectively	52,657	(16,586)
Reclassification for net gains on available-for-sale securities included in income, net of tax of $26,346 and $17,039, respectively	(48,929)	(31,645)
Benefit plan asset and liability changes, net of tax of $95,731 and and $(75,782), respectively	(315,414)	232,665
Net assets released from restriction for acquisition of equipment	3,190	3,690
Income tax benefit on transfers to related parties	-	43,834
Other	545	(179)
(Decrease) increase in unrestricted net assets	(390,983)	105,280
Temporarily restricted net assets		
Net assets assumed through affiliations	-	29,746
Contributions	7,485	5,261
Net investment income	1,464	84
Net assets released from restrictions used for:		
Operations	(11,476)	(6,784)
Acquisition of equipment	(3,190)	(3,690)
Other	(159)	46
(Decrease) increase in temporarily restricted net assets	(5,876)	24,663
Permanently restricted net assets		
Net assets assumed through affiliations	-	245,262
Contributions	1	309
Net investment income	15,824	19,955
Transfer out of trusts to investment income	(10,485)	(6,818)
Other	52	154
Increase in permanently restricted net assets	5,392	258,862
(Decrease) increase in net assets	(391,467)	388,805
Net assets		
Beginning of the year	5,802,433	5,413,628
End of the year	$ 5,410,966	$ 5,802,433

Highmark Health
Consolidated Statements of Cash Flows
Years Ended December 31, 2014 and 2013

(in thousands of dollars)

	2014	2013
Cash flows from operating activities		
(Decrease) increase in net assets	$ (391,467)	$ 388,805
Decrease in net assets from discontinued operations	-	(7,688)
Adjustments to reconcile net assets from continuing operations to	(391,467)	381,117
net cash (used in) provided by operating activities		
Provision for doubtful accounts	101,141	96,869
Depreciation and amortization	311,036	263,748
Change in premium deficiency reserves	(16,354)	(137,355)
Goodwill impairment	-	310,997
Net realized gains on investments	(118,595)	(100,052)
Net unrealized (gains) losses on investments	(879)	42,672
Dividends received from affiliates	3,926	18,156
Undistributed losses (earnings) of affiliates	33,855	(29,330)
Benefit plan asset and liability changes	315,414	(232,665)
Deferred income tax provision	9,277	27,137
Income tax benefit on related party transfers	-	(43,834)
Restricted contributions	(7,484)	(5,570)
Net assets acquired through affiliations	-	(348,493)
(Decrease) increase due to change in		
Accounts receivable	(256,252)	72,722
Reinsurance recoverables	(218,802)	1,631
Other assets	(55,018)	(11,351)
Claims outstanding	19,783	(30,144)
Unearned premium revenue	(13,268)	21,921
Other liabilities	16,522	(12,888)
Net cash (used in) provided by continuing operating activities	(267,165)	285,288
Net cash provided by discontinued operating activities	-	12,997
Cash flows from investing activities		
Purchases of investments	(3,525,712)	(4,246,395)
Proceeds from sales and maturities of investments	3,972,282	4,315,768
Issuance of notes receivable	(1,838)	(42,293)
Purchases of property and equipment	(362,496)	(361,386)
Change in securities lending invested collateral	(16,844)	5,070
Net proceeds from sale of subsidiary	-	103,271
Cash acquired in conjunction with affiliations	-	69,775
Net cash provided by (used in) investing activities	65,392	(156,190)
Net cash used in discontinued investing activities	-	(603)
Cash flows from financing activities		
Restricted contributions	7,484	5,570
Change in book overdrafts	(119)	(58,891)
Receipts from contract deposits	283,974	186,677
Withdrawals from contract deposits	(345,062)	(214,081)
Change in securities lending payable	16,843	(5,070)
Proceeds from issuance of debt	700,000	620,010
Repayment of debt	(627,204)	(448,269)
Net cash provided by financing activities	35,916	85,946
Net cash used in discontinued financing activities	-	(780)
Effect of exchange rate changes on cash of discontinued operations	-	973
(Decrease) increase in cash and cash equivalents	(165,857)	215,044
Increase in cash and cash equivalents related to discontinued operations	-	12,587
Cash and cash equivalents		
Beginning of year	1,274,475	1,046,844
End of year	$ 1,108,618	$ 1,274,475

The accompanying notes are an integral part of these consolidated financial statements.

Highmark Health
Consolidated Statements of Cash Flows
Years Ended December 31, 2014 and 2013

(in thousands of dollars)

		2014		2013
Supplemental disclosure of cash flow information				
Interest paid, net, continuing operations	$	63,082	$	86,028
Interest received, net, discontinued operations	$	-	$	(69)
Income taxes paid, net, continuing operations	$	23,939	$	116,976
Income taxes paid, net, discontinued operations	$	-	$	1,033
Supplemental disclosure of noncash investing and financing				
Assets acquired through other payables, continuing operations	$	6,080	$	29,299
Assets acquired through other payables, discontinued operations	$	-	$	(35)
Supplemental schedule of investing and financing activities				
Details of affiliation transactions				
Fair value of assets acquired	$	-	$	2,364,071
Liabilities assumed		-		(2,015,578)
Net assets acquired	$	-	$	348,493

The accompanying notes are an integral part of these consolidated financial statements.

(in thousands of dollars)

1. Nature of Operations

Highmark Health is incorporated as a nonprofit corporation in the Commonwealth of Pennsylvania and is federally recognized as a 501(c)(3). Highmark Health, through its affiliates, Highmark Inc. and its subsidiaries and affiliates (collectively “Highmark”), HM Health Solutions (“HMHS”) and Allegheny Health Network and its subsidiaries and affiliates (collectively “Allegheny Health”), is a diversified health and wellness enterprise based in Pittsburgh. Highmark Health, Highmark, HMHS and Allegheny Health are herein referred to as the “Corporation”.

On April 29, 2013, the Pennsylvania Insurance Department (the “Department”) approved, with conditions, a change in control of Highmark Inc. in favor of Highmark Health. Following the consummation of the change in control transaction, Highmark Health became the sole corporate member of Highmark Inc. and Allegheny Health Network. Highmark Health also became the primary Blue Cross Blue Shield Association (“BCBSA”) licensee. The consolidated financial results of Highmark Health are presented on a consolidated basis as if the change in control transaction of Highmark Inc. occurred at the beginning of the period.

Highmark Inc. is incorporated as a nonprofit corporation and operates as a hospital plan corporation and a professional health services plan in the Commonwealth of Pennsylvania. Highmark Inc.’s affiliates, Highmark West Virginia Inc. (“Highmark WV”) and Highmark BCBSD Inc. (“Highmark DE”), are nonprofit health services corporations. As a licensee of the BCBSA, Highmark underwrites various indemnity and managed care health insurance products for national accounts (primarily groups headquartered in Pennsylvania that have operations in other locations), regional accounts and individual accounts. In addition, Highmark also underwrites Medicare Advantage, Medicare Part D prescription drug and Medicare supplemental insurance products.

Highmark also jointly markets various health insurance products with Independence Blue Cross and Hospital Service Association of Northeastern Pennsylvania d/b/a Blue Cross of Northeastern Pennsylvania (“BCNEPA”). On February 18, 2014, Highmark Inc. entered into a Merger Agreement (the “Merger Agreement”) with BCNEPA. If the transactions contemplated by the Merger Agreement are consummated, BCNEPA will be merged with and into Highmark Inc. with Highmark Inc. being the surviving corporation. The merger is subject to various conditions precedent, including approval by the Department.

Highmark’s diversified health business includes vision and dental business. Highmark Inc.’s wholly owned for-profit subsidiary, HVHC Inc. (“HVHC”), through its subsidiaries, operates two distinct lines of vision business: retail and managed vision care. The retail line of business operates specialty optical retail stores, and the managed vision care line of business provides fully integrated eye care services. Through November 2013, HVHC also operated a third line of vision business, an international brands business. Highmark Inc.’s wholly owned for-profit subsidiary, United Concordia Companies, Inc. ("UCCI") and its subsidiaries, provide dental services through preferred provider and managed care networks as well as third party administrative services. Highmark Inc.’s other for-profit subsidiaries, including HM Insurance Group, Inc. (“HMIG”) offers workers’ compensation insurance, stop-loss insurance and other services.

(in thousands of dollars)

Allegheny Health Network is incorporated as a nonprofit corporation in the Commonwealth of Pennsylvania and is federally recognized as a 501(c)(3). Allegheny Health Network's subsidiaries and affiliates are nonprofit health care providers offering routine and tertiary healthcare services, clinical support and healthcare education in Western Pennsylvania. Additionally, Allegheny Health Network's other for-profit and nonprofit subsidiaries manage and develop outpatient medical facilities, which offer a variety of services including pharmacies, primary care and imaging and provide group hospital purchasing services.

2. Affiliations

Celtic Healthcare

Effective January 1, 2015, West Penn Allegheny Health System, Inc. ("WPAHS"), an affiliate of Allegheny Health Network, finalized a contribution agreement with Celtic Healthcare, Inc. to create a new entity ("JV Holdco") by combining each organization's home health and hospice businesses within western Pennsylvania. WPAHS has the ability to elect 60% of the Board of Directors and maintains approximately 60% of the outstanding shares of JV Holdco. Total unaudited net assets of JV Holdco were $22,761 at January 1, 2015. In accordance with the acquisition method of accounting, an analysis of the fair value of JV Holdco assets and liabilities, including review of identifiable intangible assets and goodwill, is currently being performed. The financial position, results of operations and cash flows of JV Holdco will be included in the consolidated financial statements as of the effective date of the transaction, January 1, 2015.

Saint Vincent Health System ("SVHS")

Effective July 1, 2013, Highmark Inc., Highmark Health and Allegheny Health Network finalized an affiliation agreement with SVHS. In accordance with the SVHS affiliation agreement, Highmark Inc. provided grants in an aggregate amount of $25,000 to finance various capital projects and to support the capital and operational needs of SVHS. In exchange for the transfer and/or relinquishment by the Sisters of Saint Joseph (the "Sisters"), the sponsor and sole member of SVHS prior to the transactions contemplated by the affiliation agreement, of all membership and other interest in SVHS, a contribution of $10,000 was made by Allegheny Health Network to the Sisters. In accordance with the terms of the affiliation agreement, Allegheny Health Network is now the sole member of SVHS. Highmark Health has the power to elect persons to the SVHS Board of Directors who control 75% of the voting power of all Directors. The consolidated financial statements include the financial position, results of operations and cash flows of SVHS from the affiliation date, July 1, 2013.

WPAHS

Effective April 29, 2013, Highmark Inc., Highmark Health and Allegheny Health Network affiliated with WPAHS, with Allegheny Health Network becoming the sole member of WPAHS. Highmark Health has the power to elect 75% of the Board of Directors of WPAHS. Highmark Inc. provided grants of $175,000 and loans of $300,000 to WPAHS in accordance with the affiliation agreement. At December 31, 2014, Highmark Inc. had funded the full amount of its $475,000 funding commitment to WPAHS as set forth in the affiliation agreement. The consolidated financial statements include the financial position, results of operations and cash flows of WPAHS from the affiliation date, May 1, 2013.

(in thousands of dollars)

Jefferson Regional Medical Center ("JRMC")
Effective March 1, 2013, Highmark affiliated with Jefferson Regional Medical Center ("JRMC") and subsequently transferred JRMC's net assets to Allegheny Health Network, which is now the sole member of JRMC. Highmark Health has the power to elect persons to the JRMC Board of Directors who control approximately 75% of the voting power of all Directors. Highmark Inc. also contributed $75,000 plus interest to the JRMC Foundation which was recognized in other nonoperating expense in the consolidated statement of operations. JRMC Foundation is not a consolidated subsidiary or affiliate of JRMC. Furthermore, Highmark Inc. committed to fund a maximum of $100,000, of which $62,720 was paid through December 31, 2014, for expansion of the hospital's emergency room, an ambulatory surgery suite and other capital projects. The consolidated financial statements include the financial position, results of operations and cash flows of JRMC from the affiliation date, March 1, 2013.

In connection with the affiliations, net assets acquired through affiliations of $63,485 were recorded in the consolidated statement of operations based on the fair value analysis of the assets and liabilities as of the date of affiliation. Additionally, temporarily restricted net assets assumed of $29,746 and permanently restricted net assets assumed of $245,262 were recorded as of the date of affiliation.

Total assets, liabilities and net assets at affiliation date were as follows:

	SVHS at 7/1/2013	**WPAHS at 5/1/2013**	**JRMC at 3/1/2013**
Cash and cash equivalents	$ 26,798	$ 36,369	$ 6,608
Board designated, restricted and other investments at fair value	71,865	483,149	114,610
Property and equipment, net	116,066	568,194	133,023
Goodwill	-	365,736	-
Other assets	90,714	278,122	72,817
Total assets	$ 305,443	$ 1,731,570	$ 327,058
Debt	$ 121,275	$ 788,483	$ 116,848
Benefit plan liabilities	64,254	298,126	92,683
Other liabilities	99,681	380,250	53,978
Total liabilities	285,210	1,466,859	263,509
Unrestricted	11,660	-	61,825
Temporarily restricted	4,732	23,606	1,408
Permanently restricted	3,841	241,105	316
Total net assets	20,233	264,711	63,549
Total liabilities and net assets	$ 305,443	$ 1,731,570	$ 327,058

(in thousands of dollars)

3. Divestiture

On December 3, 2013, HVHC completed the sale of its wholly owned subsidiary, Viva Optique, Inc. (“Viva”), which specializes in the design and distribution of eyewear globally, to an external third party. HVHC realized a gain on the sale of $3,106, net of tax. As a result of the sale, the results of operations and cash flows for Viva were separately reported in discontinued operations.

Viva’s results of operations for the period ended December 3, 2013 were as follows:

Vision revenue	$ 176,801
Other revenue	526
Operating expenses	168,251
Interest expense	1,894
Excess of revenue over expenses before income taxes	7,182
Income tax provision	3,143
Excess of revenue over expenses	$ 4,039

In addition to the operating results of Viva, certain intercompany eliminations related to Viva of $543 for the period ended December 3, 2013 were included in discontinued operations and gain on sale, net of tax, in the consolidated statements of operations.

4. Summary of Significant Accounting Policies

Basis of Financial Presentation
The accompanying consolidated financial statements include the accounts of the Corporation.

The consolidated financial statements are presented on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America (“GAAP”). All significant intercompany balances and transactions have been eliminated from the consolidated financial statements.

The Corporation uses the equity method of accounting for 50% or less owned affiliates or those affiliates for which the Corporation does not hold a controlling financial interest but may influence operating or financial decisions.

New Accounting Pronouncements
In August 2014, Financial Accounting Standards Board (“FASB”) issued new guidance regarding evaluation criteria about whether there is substantial doubt about an entity’s ability to continue as a going concern and enhanced related disclosures. The new guidance is effective for fiscal years ending after December 15, 2016. The adoption of this new guidance is not expected to have a material impact on the Corporation’s financial position, results of operations and cash flows.

In May 2014, FASB issued new guidance aligning accounting for repurchase-to-maturity transactions and repurchase agreements executed as repurchase financings with other typical repurchase agreements, resulting in these transactions generally being accounted for as secured borrowings. This guidance also requires additional disclosures. The new guidance is effective for fiscal years beginning after December 15, 2015. The adoption of this new guidance is not expected to have a material impact on the Corporation’s financial position, results of operations and cash flows.

(in thousands of dollars)

In May 2014, FASB issued new guidance related to revenue recognition for contracts with customers. This new guidance removes most industry-specific revenue recognition requirements and requires that an entity recognize revenue for the transfer of goods or services to a customer at an amount that reflects the consideration to which an entity expects to be entitled in exchange for the goods or services. Insurance contracts are not covered by this guidance. The new guidance also requires additional disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts. The new guidance is effective for fiscal years beginning after December 15, 2017 with early adoption permitted in 2017. The Corporation is evaluating the impact of the adoption of this new guidance on the financial position, results of operations and cash flows.

In April 2014, FASB issued new guidance related to discontinued operations which changes the criteria for discontinued operations presentation and modifies related disclosure requirements. The new guidance is effective for annual periods beginning on or after December 15, 2015 with early adoption permitted. The Corporation did not elect early adoption of this guidance.

In July 2013, FASB issued new guidance regarding the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The guidance requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, subject to certain exceptions. If certain conditions apply, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The new guidance is effective for fiscal years beginning after December 15, 2014. The Corporation is evaluating the impact of the adoption of this new guidance on the financial position, results of operations and cash flows.

In July 2011, FASB issued new guidance that addresses health insurers' recognition and classification of an annual non-tax deductible fee mandate by the Affordable Care Act as amended by the Health Care and Education Reconciliation Act of 2010 (collectively referred to as "ACA"). The guidance specifies that a liability be estimated and fully recognized in the calendar year the fee is payable once qualifying health insurance is provided. The Corporation adopted the new guidance on January 1, 2014.

Use of Estimates
The preparation of the Corporation's consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents
The Corporation considers all highly liquid investments with maturities of three months or less when purchased, excluding donor restricted trusts, to be cash equivalents.

Accounts Receivable
In the normal course of business, the Corporation grants credit to its customers under various contractual arrangements. The Corporation carries its accounts receivable at estimated net realizable value, which reflects the impact of potential credit losses.

(in thousands of dollars)

Insurance accounts receivable is specific to Highmark business and includes amounts related to health, dental, vision, workers' compensation, stop-loss and government program accounts receivable. Government program accounts receivable relate to amounts due from the government in connection with government business, including the Active Duty Dental Program, the Federal Employee Dental and Vision Program, the Federal Employee Program and Medicare Advantage and Part D products.

Patient service accounts receivable is specific to Allegheny Health business and includes amounts receivable from patients, third-party payors and others for services as they are rendered.

An allowance for doubtful accounts is based on a number of factors, including economic experience, past history, trends, coverage type and other indicators. When it is determined an accounts receivable balance is not collectible, it is written off.

Concentrations of credit risk are limited due to the large number of Highmark Health customers.

Investments
Debt and equity securities classified as available-for-sale are carried at fair value (based on quoted or estimated market prices), and unrealized gains and losses are reported in unrestricted net assets, net of deferred income taxes. Derivatives embedded within convertible debt securities are bifurcated, with changes in fair value included in earnings; any remaining unrealized gains or losses of the convertible bonds are reported in unrestricted net assets, net of deferred income taxes. Premiums and discounts are amortized using the effective interest method. Realized gains and losses on debt securities are based on amortized cost. Realized gains and losses on equity securities are based on cost (specific identification method). Realized gains and losses on available-for-sale debt and equity securities are reported in net investment income in the consolidated statements of operations.

Available-for-sale equity securities include mutual fund investments held in grantor trusts for the benefit of nonqualified retirement and deferred compensation plans. Available-for-sale equity securities also include private equity securities. These private equity securities are carried at fair value with changes in fair value reported as unrealized gains and losses in unrestricted net assets, net of deferred income taxes.

The Corporation monitors its available-for-sale investments portfolio for unrealized losses that appear to be other-than-temporary. At the time an equity security is determined to be other-than-temporarily impaired, the Corporation reduces the book value of the security to the current market value and records a realized loss in net investment income in the consolidated statements of operations.

In determining if an available-for-sale debt security is other-than-temporarily impaired, the Corporation considers whether it has intent to sell the available-for-sale debt security or whether it is more likely than not that the Corporation will be required to sell the available-for-sale debt security before recovery of its amortized cost basis, which may be at maturity. If the Corporation intends to sell the debt security or it is more likely than not that the Corporation will be required to sell the debt security before recovery of its amortized cost basis, an other-than-temporary impairment is recorded as a realized loss in net investment income in the consolidated statements of operations for the difference between fair value and amortized cost.

(in thousands of dollars)

Board designated, restricted and other investments include assets whose use is contractually limited by external parties and assets set aside by the Board of Directors for future capital improvements or liquidity, over which the Board retains control and may at its discretion subsequently use for other purposes, as well as assets held by trustees under indenture agreements. Other investments consist primarily of marketable debt and equity securities and marketable securities maintained in a master trust fund. Investment income or loss (including realized gains and losses, interest and dividends, and unrealized gains and losses) is recorded in net investment income in the consolidated statements of operations unless restricted by donor or law. Investment income related to temporarily and permanently restricted gifts is recorded based on donor restriction as part of the corresponding net asset class in the consolidated statements of changes in net assets.

Other investments include investments in private limited partnerships, real estate trusts and limited liability companies. Private limited partnerships are accounted for under the equity method. The Corporation has committed $41,551 and $36,973 to various private limited partnership investments at December 31, 2014 and 2013, respectively. These commitments are due upon capital calls by the general partners of the partnerships. Generally, limited liability companies are accounted for under the cost or equity method, dependent on certain factors including ownership of a controlling interest. Fair values of real estate investment trusts are approximated based on trustee estimates. The Corporation monitors its other investments for unrealized losses that appear to be other-than-temporary. At the time an investment is determined to be other-than-temporarily impaired, the Corporation reduces the book value to the current market value and records a realized loss in net investment income in the consolidated statements of operations.

The Corporation participates in securities lending transactions. The Corporation maintains effective control over the loaned securities and requires collateral initially equal to at least 102% of loaned domestic securities and 105% of loaned international securities at the loan date. Collateral received consists of cash and fixed-income securities. Noncash collateral is not recorded in the consolidated balance sheets, as the Corporation does not have the right to sell, pledge or otherwise reinvest the noncash collateral. Cash collateral is invested in short-term debt securities and is carried at fair value. Changes in fair value are reported as unrealized gains and losses within unrestricted net assets. The fair value of securities held as invested collateral was $258,899 and $242,084 at December 31, 2014 and 2013, respectively. The corresponding liability that represents the Corporation's obligation to return the collateral was $258,929 and $242,086 at December 31, 2014 and 2013, respectively.

The Corporation's assets are invested in a variety of financial instruments. Accordingly, the related values as presented in the consolidated financial statements are subject to various market fluctuations, which include changes in the interest rate environment, equity markets and general economic conditions.

Fair Value of Financial Instruments
In accordance with FASB fair value measurement guidance, financial assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level inputs used to measure their fair value.

Reinsurance Recoverables
In the normal course of business, the Corporation seeks to reduce losses that may arise from risks or occurrences of an unexpected nature that may cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers.

(in thousands of dollars)

Additionally, the Corporation participates in the ACA temporary reinsurance program. Reinsurance premiums and benefits paid or provided are accounted for in a manner consistent with the original policies issued and the terms of the reinsurance contracts. The Corporation also assumes reinsurance risks from other insurance companies. Such assumed reinsurance activity is recorded principally on the basis of reports received from the ceding companies.

Inventory, Net
Inventory consists primarily of vision related eyewear components and health care delivery related drugs, medical supplies and surgical supplies. Vision related eyewear components include frames, lenses and cases, contact lenses and solutions, laboratory supplies, and packaging materials. Inventory is stated at the lower of cost or market. Vision related inventory cost is determined using the weighted average or first-in first-out basis. Health care delivery related inventory cost is determined using the first-in first-out basis. Obsolescence reserves were $17,987 and $14,502 at December 31, 2014 and 2013, respectively.

Property and Equipment, Net
Property and equipment is recorded at cost, net of accumulated depreciation and amortization. If a donor contributes property and equipment, it is recorded at the fair market value on the date contributed. Maintenance, repairs and minor improvements are expensed as incurred. Certain costs related to the internal development of software or software purchased for internal use are capitalized. Gains or losses on sales or disposals of property and equipment are included in operations.

Depreciation is computed under the straight-line method by annual charges to expense over the estimated useful lives of the various asset types as follows: buildings and building or land improvements, up to 40 years; leasehold improvements, lesser of lease term or useful life; office furniture and equipment, three-30 years; and capitalized software, three-10 years.

Property and equipment is reviewed for impairment whenever changes in circumstances indicate that the carrying value of the assets may not be recoverable. Impairment losses are recognized to the extent the carrying amount of an asset exceeds the undiscounted future cash flows expected to result from the use of the asset and its eventual disposal. No impairment losses were recorded in 2014 or 2013.

Goodwill and Other Intangible Assets, Net
Intangible assets with definite lives are amortized using the straight-line method over their estimated lives, which range from three to 25 years. Intangible assets with indefinite useful lives, including goodwill, are not amortized, but are tested for impairment at least annually and more frequently if events or changes in circumstances indicate that an asset may be impaired. If fair value is less than carrying value, the asset is adjusted to the fair value and an impairment loss is recorded in the consolidated statements of operations. Management tested goodwill and other intangible assets with indefinite lives for impairment and concluded that no impairment existed at December 31, 2014. A goodwill impairment charge of $310,997 was recorded in 2013.

Other Assets
Other assets include prepaid expenses, pharmacy rebates receivable, insurance recoveries associated with medical malpractice, notes receivable and cash surrender values of corporate-owned life insurance policies held in grantor trusts.

(in thousands of dollars)

Pharmacy rebates receivable is an actuarial estimate based on prescriptions filled and terms of rebate contracts. The actuarial estimates are continually reviewed and any resulting adjustments are included in current operations. The Corporation carries its notes receivable at estimated net realizable value, which reflects the impact of potential credit losses. Changes in cash surrender value are reported in net investment income in the consolidated statements of operations.

Claims Outstanding

Claims outstanding include claims reported and adjudicated but unpaid as well as an estimate of incurred but not reported ("IBNR") claims. The liability for IBNR claims is an actuarial estimate based on historical claims paid data, modified for current conditions and coverage changes. The methods to determine the estimate of IBNR claims use past experience adjusted for current trends. The methods and assumptions are continually reviewed and any resulting adjustments are included in current operations. Corresponding administrative costs to process outstanding claims are estimated and accrued and are included in other payables and accrued expenses in the consolidated balance sheets.

In the ordinary course of business, the Corporation advances operating funds to health care providers. Claims outstanding are reported net of such advances, which were $18,621 and $20,165 at December 31, 2014 and 2013, respectively.

The Corporation recorded $951,837 and $993,432 in claim liabilities for certain non-risk administrative arrangements at December 31, 2014 and 2013, respectively. The non-risk administrative receivable is included in insurance accounts receivable and the corresponding provider liability is included in claims outstanding in the consolidated balance sheets.

Amounts Held for Others

Amounts held for others include reserves for refunds and deposits received from groups for non-risk administrative arrangements. At December 31, 2014 and 2013, the Corporation held deposits received from groups of $128,471 and $128,915, respectively. Amounts held for others also include amounts related to the BlueCard program, which allows the Highmark members to access other Blue Cross and Blue Shield plans' provider networks.

Other Liabilities

Other liabilities include medical malpractice reserves, deferred grant revenue, premium deficiency reserve, asset retirement obligations, book overdraft and interest rate swap liabilities.

The provision for medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported, including costs associated with litigating or settling claims. Anticipated insurance recoveries associated with reported claims are reported in other assets in the consolidated balance sheets at net realizable value.

The Corporation records deferred grant revenue as nongovernmental grant monies are received and governmental grant monies received for the acquisition of property and equipment.

(in thousands of dollars)

The Corporation establishes a premium deficiency reserve ("PDR") when it determines that it is probable that future claims incurred and related maintenance costs will exceed future premiums from contracts in force for a given line of business or product grouping within a contract period. The Corporation evaluates the need for a PDR by grouping policies consistent with the way the business is acquired, serviced and measured. In 2014 and 2013, the Corporation released premium deficiency reserves of $16,354 and $137,355, respectively, due primarily to the termination of products as a result of the ACA.

The Corporation accrues for asset retirement obligations in the period in which they are incurred if sufficient information is available to reasonably estimate the fair value of the obligation. Over time, the liability is accreted to its settlement value. Upon settlement of the liability, the Corporation recognizes a gain or loss for any difference between the settlement amount and liability recorded. The Corporation's asset retirement obligation relates to costs associated with future asbestos removal. The asset retirement obligation was $10,016 and $9,120 at December 31, 2014 and 2013, respectively.

Temporarily and Permanently Restricted Net Assets
Temporarily restricted net assets are those whose use is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the Corporation pursuant to those stipulations. Temporarily restricted net assets are available for capital and other program expenditures.

Permanently restricted net assets are those whose use is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by the actions of the Corporation. Investment earnings from permanently restricted net assets may be unrestricted or temporarily restricted for capital or operating needs depending upon the original intent of the donor. Allegheny Health elected a total return investment policy for certain trust accounts which permits income to be redefined as a percentage of a rolling average market value of the charitable trust as averaged over a period of at least three years provided the election is consistent with the charitable trust agreement and long term preservation of principal value of the charitable trust. The investment income percentage distribution is recorded as a transfer out of trusts in permanently restricted net assets.

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Net assets released from restrictions and used for operations are recorded in net assets released from restriction. Net assets released from restriction and used for capital purposes are recorded in unrestricted net assets in the consolidated statements of changes in net assets.

Insurance Revenue Recognition
Highmark's business consists of at-risk insurance arrangements and non-risk administrative arrangements. The administrative fees received under non-risk administrative arrangements are shown as management services revenue and recognized in the period in which the related services are performed. Management services revenue also include fees for management of medical services, claims processing and access to provider networks. Under non-risk administrative arrangements, the customer assumes the risk of funding claims. The Corporation does not record premium revenue or claims incurred on non-risk administrative arrangements.

(in thousands of dollars)

Risk business includes all insurance contracts. Premiums are generally billed in advance of the contractual coverage periods and are included in premium revenue as they are earned during the coverage period. The unearned portion of premiums collected is reflected in the consolidated balance sheets as unearned premium revenue. The expenses associated with administering the risk and non-risk business are included in salaries, wages and fringe benefits and other operating expenses in the consolidated statements of operations.

Vision Revenue

Vision revenue includes sales from fully integrated eye care services and optical retail stores. Fully integrated eye care service revenues are recognized based upon services rendered. Sales are recognized when title and the risk of loss transfer to the customer, there is evidence of a contractual arrangement and collectability of the resulting receivable is reasonably assured.

Net Patient Service Revenue

Net patient service revenue is comprised of gross patient service revenues less contractual allowances, charity care and provision for doubtful accounts. Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors and others for services rendered at the time the service is performed and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

Allegheny Health has agreements with third-party payors that provide for payments to Allegheny Health at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, per diem payments and contracted amounts. Allegheny Health recognizes patient service revenues associated with services provided to patients who have third-party payor coverage on the basis of established rates for services rendered. A summary of the payment arrangements with major third-party payors is as follows:

Medicare: Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. Allegheny Health is reimbursed for services rendered at a tentative rate with a final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. Medicare cost reports have been audited by the Medicare fiscal intermediary through the fiscal year ended June 30, 2011.

Medical Assistance: Inpatient and outpatient services rendered to Medical Assistance eligible patients are paid at prospectively determined rates.

Blue Cross Blue Shield Payors: Inpatient care and outpatient services rendered to subscribers of Blue Cross Blue Shield payors, including services provided under Highmark non-risk administrative arrangements and the BlueCard program, are paid at prospectively determined rates. The BlueCard program provides access to provider networks of other Blue Cross Blue Shield plans in other states and regions.

Other third-party payors: Inpatient and outpatient services generally rendered to commercial insurance and other payors are paid at prospectively determined rates.

(in thousands of dollars)

Net patient service revenue, by major payor in 2014 and 2013 was as follows:

	2014	2013
Medicare	$ 787,037	$ 538,145
Medical assistance	206,045	138,521
Blue Cross Blue Shield payors	358,932	248,402
Other third-party payors	306,233	202,629
Patients and residents	74,272	29,840
Total patient service revenue, net of contractual allowances and discounts	1,732,519	1,157,537
Less: Provision for doubtful accounts	(86,527)	(87,872)
Total net patient service revenue	$ 1,645,992	$ 1,069,665

In 2014, revenue from Medicare and Medical Assistance programs accounted for 45% and 12%, respectively, of patient service revenue, net of contractual allowances and discounts. In 2013, revenue from Medicare and Medical Assistance programs accounted for 46% and 12%, respectively, of patient service revenue, net of contractual allowances and discounts. Laws and regulations governing Medicare and Medical Assistance programs are extremely complex and subject to interpretation and there is at least a reasonable possibility that actual results could differ from those estimates.

Allegheny Health is subject to a Quality Care Assessment (the “Assessment”) imposed by the Pennsylvania Department of Public Welfare (“DPW”) under Pennsylvania Act 49 of 2010, and extended by Pennsylvania Act 55 of 2013. The Assessment was pursued by Pennsylvania in an effort to increase the federal share of Medical Assistance funding under the Medicaid Modernization Act. In turn, DPW provides additional reimbursement to Allegheny Health. The cost of the Assessment was $32,945 and $21,867 in 2014 and 2013, respectively, and was included in other operating expenses in the consolidated statements of operations. Additional reimbursement as a result of Act 55 in 2014 and 2013 was $29,307 and $21,963, respectively, and was included in net patient service revenue in the consolidated statements of operations.

Charity Care

Allegheny Health hospitals provide services to all patients regardless of ability to pay. Allegheny Health hospitals each have a charity care policy under which they provide care to patients at no charge or at discounted rates, provided the patients meet the eligibility requirements stipulated in their policies. The Corporation does not pursue collection of amounts determined to qualify for charity care; therefore, charity care amounts are not recorded as revenue or deducted from gross patient service revenue in arriving at net patient service revenue.

Other Operating Revenue

Other operating revenue includes pharmacy rebates earned on non-risk administrative arrangements, grants, contributions, physician stipends, Medicare and Medicaid electronic health record (“EHR”) incentive payments and other ancillary hospital services revenue such as parking, cafeteria, tuition and rent. Other operating revenue also includes the Corporation’s proportionate share of affiliate earnings.

(in thousands of dollars)

Donor-Restricted Contributions
Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received as unrestricted gifts within other operating revenue in the consolidated statements of operations. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year are reported as unrestricted contributions in the accompanying consolidated financial statements.

Income Taxes
Highmark Health and some of the entities within Allegheny Health are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code ("IRC") and are exempt from federal income taxes on exempt purpose income. These tax-exempt organizations are subject to federal taxes on unrelated business income under section 511 of the IRC. No such tax liability exists in 2014 or 2013, and as such, no provision for unrelated business income tax has been made in the consolidated financial statements.

Highmark Inc., Highmark WV and Highmark DE are subject to federal income taxes, although they remain exempt from state and local taxes. Highmark Inc., Highmark WV and Highmark DE file separate consolidated federal income tax returns with their respective wholly owned subsidiaries. Only the non-insurance subsidiaries and health maintenance organization of Highmark Inc., Highmark WV and Highmark DE are subject to state income taxes. Certain insurance subsidiaries are subject to state premium taxes. Provisions for any tax liability have been made in the consolidated financial statements for all for-profit entities of the Corporation.

Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using tax rates and laws that are expected to be in effect when the difference is reversed. The Corporation records a valuation allowance against its deferred tax assets when it determines that it is more likely than not that some portion or all of the deferred tax asset will not be realized.

Deficit of Revenue Over Expenses
The consolidated statements of operations includes a deficit of revenue over expenses. Changes in unrestricted net assets which are excluded from the deficit of revenue over expenses, consistent with industry practice, include unrealized gains and losses on available-for-sale securities, benefit plan asset and liability changes, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets) and certain tax benefits.

Reclassifications
Certain 2013 balances were reclassified to conform to the 2014 presentation. The reclassification affected reinsurance recoverables, other investments and other assets. Additionally, certain amounts were reclassified on the statement of operations impacting the performance indicator. These reclassifications affected interest expense, other operating expenses and nonoperating expenses.

(in thousands of dollars)

5. Insurance Regulation

Highmark Inc. and its insurance subsidiaries and affiliates file financial statements with insurance departments in their states of domicile. These financial statements are prepared in accordance with statutory accounting principles prescribed by such regulatory authorities. Prescribed statutory accounting principles include state laws, regulations and general administrative rules, as well as a variety of publications of the National Association of Insurance Commissioners ("NAIC"). Permitted statutory accounting practices encompass all accounting practices not prescribed.

Financial statements prepared for state insurance departments in accordance with statutory accounting principles differ from the consolidated financial statements prepared in accordance with GAAP. The principal differences in statutory accounting are: (1) certain assets, such as accounts receivable aged more than 90 days, office furniture and equipment, nonoperating software, certain provider advances, certain intangible assets, surplus notes and prepaid expenses, are excluded from statutory reserves; (2) pharmaceutical rebates receivable are limited based on the timing of billing and collection activities; (3) debt securities and certain preferred stock are carried at the lower of amortized cost or fair value, not fair value as required under GAAP; (4) equity income or loss of subsidiaries, affiliates and limited partnerships is recorded directly to reserves rather than in results of operations as required under GAAP, with dividends or distributions recognized in statutory net income when declared; (5) certain equity transfers to affiliates are expensed; (6) assets and liabilities pertaining to reinsurance transactions are reported net of reinsurance; (7) deferred tax asset recognition is limited; and (8) uncertain tax positions are fully recognized if the probability is greater than 50%.

As a result of the foregoing, statutory reserves at December 31, 2014 and 2013 and statutory net (loss) income for the years then ended were:

		2014		2013
Highmark (excluding Highmark WV and Highmark DE)				
Statutory reserves	$	3,932,807	$	4,386,279
Statutory net (loss) income	$	(81,139)	$	340,741
Highmark WV				
Statutory reserves	$	308,114	$	310,017
Statutory net income	$	9,484	$	1,445
Highmark DE				
Statutory reserves	$	138,405	$	157,733
Statutory net loss	$	(4,243)	$	(8,352)

(in thousands of dollars)

Highmark Inc. and its insurance subsidiaries and affiliates are subject to minimum risk-based capital ("RBC") requirements that were developed by the NAIC and adopted by various state legislatures. The formula for determining the amount of RBC specifies various weighting factors that are applied to financial balances and various levels of activity based on perceived degrees of risk.

The RBC ratios of Highmark Inc. and its insurance subsidiaries and affiliates are compared to authorized control levels established by the NAIC. Companies below specific ratio thresholds may be required to take specific corrective actions. At December 31, 2014 and 2013, Highmark Inc. and its insurance subsidiaries and affiliates exceeded their respective minimum RBC requirements.

The Pennsylvania Insurance Commissioner has determined that an appropriate sufficient operating surplus range for Highmark Inc. is 550% - 750% of the health RBC ratio or the Department's consolidated risk factor ratio, whichever is lower. As long as Highmark Inc. operates above the 550% ratio, it is not permitted to include a risk and contingency factor in its filed premium rates. If Highmark Inc.'s ratio exceeds 750%, it will be required to justify its surplus level and could be required to submit a plan to bring its surplus within the designated appropriate sufficient operating surplus range. At December 31, 2014 and 2013, Highmark Inc.'s health RBC ratio was within the appropriate sufficient operating surplus range determined by the Department.

The ACA enacted significant reforms to various aspects of the U.S. health insurance industry. Certain of these reforms became effective January 1, 2014, including the establishment of federally-facilitated or state-based exchanges which provide individuals and small businesses access to affordable and quality health insurance. Highmark participates in the Pennsylvania, West Virginia and Delaware markets.

The ACA imposes an annual premium-based fee on health insurers for each calendar year beginning on or after January 1, 2014, which is not deductible for tax purposes. The aggregate annual fee for all insurers was $8,000,000 for 2014. This amount was apportioned among all insurers based on a ratio designated to reflect relative market share of U.S. health insurance business. The amount of the fee was calculated on the basis of prior year net written premiums, excluding the carrier's first $25,000 and half of the second $25,000 in net premiums. The fee applies to applicable net premiums in excess of $50,000 and is based on the ratio of the Highmark's applicable net written premium to total applicable net premiums for all such issuers. Highmark is required to estimate a liability for the health insurer fee and record it in full once qualifying insurance coverage is provided in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized ratably to expense over the same calendar year. In September 2014, Highmark paid the federal government $141,321. The amount of the fee is expected to be approximately $202,000 in 2015.

The ACA also established three premium stabilization programs effective January 1, 2014. These risk spreading programs are applicable to certain commercial medical insurance products. In the aggregate, Highmark's commercial medical insurance products subject to the premium stabilization programs represented approximately 7% of the total premiums for the year ended December 31, 2014. These programs, commonly referred to as the "3Rs", include a permanent risk adjustment program, a temporary risk corridor program and a transitional reinsurance program designed to more evenly spread the financial risk borne by issuers and to mitigate the risk that issuers would have mispriced products. The transitional reinsurance and risk corridor programs are available for years 2014 through 2016.

(in thousands of dollars)

The permanent risk adjustment program adjusts the premiums that commercial individual and small group health insurance issuers receive based on the demographic factors and health status of each member as derived from current year medical diagnosis as reported throughout the year. This program transfers funds from lower risk plans to higher risk plans in the same state. The risk adjustment program is applicable to commercial individual and small group health plans (except certain exempt, grandfathered and grandmothered plans) operating both inside and outside of the health insurance exchanges established under the ACA. Under the risk adjustment program, a risk score is assigned to each covered member to determine an average risk score at the individual and small group level by legal entity in a particular market in a state. Additionally, an average risk score is determined for the entire subject population for each market in each state. Settlement amounts are determined by utilizing the U.S. Department of Health and Human Services ("HHS") risk transfer formula which averages all risk scores in risk adjustment covered plans and uses the plan average risk scores combined with other factors to calculate the settlement. Settlements are determined on a net basis by legal entity and state.

The estimate of amounts receivable or payable under the risk adjustment program is based on an estimate of both Highmark's and the state average risk scores. Assumptions used in these estimates include but are not limited to historical market experience, member demographics, including age and gender, pricing model, membership data, the mix of previously underwritten membership as compared to new members in plans compliant with the ACA, published third party studies and other publicly available data including regulatory plan filings. Highmark generally relies on providers to appropriately document all medical data, including the diagnosis data submitted with claims, as the basis for risk scores under the program.

For the permanent risk adjustment program, Highmark records receivables or payables as adjustments to premium revenue based on year-to-date experience when the amounts are reasonably estimable and collection is reasonably assured. Final revenue adjustments are determined by HHS in the year following the policy year.

The temporary risk corridor program applies to qualifying individual and small group Qualified Health Plans, as defined by HHS, operating both inside and outside of the exchanges. The risk corridor provisions limit issuer gains and losses by comparing allowable medical costs to a target amount, defined by HHS, and sharing the risk for allowable costs with the federal government. Allowable medical costs are adjusted for risk adjustment settlements, transitional reinsurance recoveries and cost sharing reductions received from HHS. Variances from the target exceeding certain thresholds may result in HHS making additional payments to Highmark or require Highmark to refund HHS a portion of the premiums received.

For the temporary risk corridor program, Highmark records receivables or payables as adjustments to premium revenue based on year-to-date experience when the amounts are reasonably estimable and collection is reasonably assured. Final revenue adjustments are determined by HHS in the year following the policy year.

Highmark anticipates calculating the risk corridor amount pursuant to HHS methodology and filing the required information in 2015 for the 2014 benefit year. As risk corridor payments are subject to the availability of risk corridor funds, Highmark did not record a receivable as the amounts are not reasonably assured of collection.

(in thousands of dollars)

The transitional reinsurance program requires Highmark to make reinsurance contributions for calendar years 2014 through 2016 based on a national contribution rate per covered member as determined annually by HHS. The contribution rate is five dollars and twenty-five cents per member per month for calendar year 2014. While all commercial medical plans, including self-funded plans, are required to fund the reinsurance entity, only fully-insured non-grandfathered plans compliant with the ACA in the individual commercial market will be eligible for recoveries if individual claims exceed a specific threshold. In 2014, the reinsurance program thresholds include an attachment point of $45 and a cap of $250 of eligible individuals claims. A coinsurance rate is applied to eligible individual claims that meet the program's criteria. Highmark estimated a coinsurance rate of 100% based on the anticipated excess funding in the transitional program and HHS's intention to distribute excess receipts. The total amount assessed through this provision is $25,000,000 in the 3-year period and additional administrative expense charge for 2014 of $20,300. The fee will be levied on a per-covered-life basis and be collected annually. Highmark's reinsurance contribution was $65,607 in 2014.

Reinsurance contributions associated with eligible individual plans are reported as ceded premiums and estimated reinsurance recoveries are reported as ceded claims. Reinsurance contributions for other insured business are reported in other operating expenses in the consolidated statements of operations. Final recoverable amounts are determined and settled with HHS in the year following the policy year.

The 3R receivable and payable amounts at December 31, 2014 were as follows:

	Risk Adjustment	Risk Corridor	Reinsurance	Total
Accounts receivable, insurance	$ 42,163	$ -	$ -	$ 42,163
Reinsurance recoverables	-	-	221,391	221,391
Other payables and accrued expenses	-	-	(58,537)	(58,537)
Net receivable	$ 42,163	$ -	$ 162,854	$ 205,017

Highmark is required to remit payment for the per member reinsurance contribution in January and November of the year following the benefit year, or January and November 2015 for the 2014 benefit year. Risk adjustment and reinsurance settlements will be completed and HHS will notify Highmark of recoveries due or payments owed under these programs by June 30 of the year following the benefit year. Payments due to HHS under the risk adjustment program must be remitted within 30 days of notification and will be collected prior to the distribution of recoveries by HHS. Following this notification, risk corridor calculations are then due by July 31 of the year following the benefit year. Payment and recovery amounts are expected to be settled with HHS annually in the second half of the year following the benefit year. Accordingly, for the 2014 benefit year, it is expected to receive or pay amounts due under these programs in the second half of 2015.

Amounts described above related to the 3Rs are estimates inherently subject to a number of highly variable circumstances. Consequently, actual results could differ materially from the amounts recorded in the consolidated financial statements.

(in thousands of dollars)

Highmark Inc. is subject to a Community Health Reinvestment ("CHR") Agreement with the Department, which establishes an annual CHR commitment for Highmark Inc. based on direct written health premiums. Highmark met its minimum social mission commitment of $77,482 in 2014 and the 2015 commitment is expected to approximate the 2014 amount. Highmark Inc. has the ability to direct the funds related to the CHR endeavors provided that the funds are used to provide health care coverage for persons who are uninsured or unable to pay for coverage, to fund programs for the prevention and treatment of disease or injury including mental health counseling or the promotion of health or wellness, to fund the prevention of conditions, behavior or activities that are adverse to good health or donations for the benefit of health care providers in furtherance of any of the foregoing purposes.

Because Highmark is not eligible to participate in a Pennsylvania-sponsored guarantee fund, it has established and funded a trust in order to meet a licensing requirement of BCBSA. The fair value of the trust was $330,915 and $313,874 at December 31, 2014 and 2013, respectively, and was reported as debt securities in the consolidated balance sheets.

Medicare Advantage and Medicare Part D Prescription Drug Plan products offered under contracts with Centers for Medicare & Medicaid Services ("CMS") accounted for 31.9% and 32.4% of total premiums for the years ended December 31, 2014 and 2013, respectively.

CMS uses a risk-adjustment model which apportions premiums paid to Medicare Advantage plans according to the health severity of their members. The risk-adjustment model pays higher premiums for members with certain medical conditions identified with specific diagnostic codes. Under the risk-adjustment methodology, all Medicare Advantage plan sponsors must collect and submit the necessary diagnosis code information from providers to CMS within prescribed deadlines. The CMS risk-adjustment model uses the diagnosis data to calculate the risk-adjusted premium payment to Medicare Advantage plans. Highmark generally relies on providers to code their claim submissions with appropriate diagnoses, which are sent to CMS as the basis for the payment received from CMS under the risk-adjustment model. Highmark also relies on these providers to document appropriately all medical data, including the diagnosis data submitted with claims.

CMS continues to perform audits of selected companies' Medicare Advantage contracts related to this risk adjustment diagnosis data. In February 2012, CMS announced a final Risk Adjustment Data Validation ("RADV") audit and payment adjustment methodology that it will utilize to conduct RADV audits beginning with the 2011 payment year. RADV audits review medical records in an attempt to validate provider medical record documentation and coding practices which influence the calculation of premium payments to Medicare Advantage plans. These audits may result in retrospective adjustments to payments made to health plans.

The final methodology, including the first application of extrapolated audit results to determine audit settlements, is expected to be applied to the next round of RADV contract level audits to be conducted on 2011 premium payments. Selected Medicare Advantage contracts will be notified of an audit after the close of the final reconciliation for the payment year being audited. Through the date of this report, Highmark has not been notified by CMS that any of its Medicare Advantage contracts have been selected for audit.

(in thousands of dollars)

6. Investments

The cost or amortized cost, gross unrealized gains and losses and fair value of investments in debt and equity securities classified as available-for-sale at December 31, 2014 were as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
U.S. Treasury and agency obligations	$ 800,700	$ 59,285	$ (1,324)	$ 858,661
Agency mortgage-backed securities	482,412	10,519	(1,059)	491,872
State and political obligations	63,290	1,557	(280)	64,567
Mortgage-backed securities	44,082	685	(139)	44,628
Asset-backed securities	62,461	2,234	(63)	64,632
Corporate and other debt securities	1,670,244	45,808	(15,472)	1,700,580
Total debt securities	3,123,189	120,088	(18,337)	3,224,940
Equity securities				
Domestic	353,191	158,380	(6,528)	505,043
Foreign	404,830	46,616	(10,804)	440,642
Total equity securities	758,021	204,996	(17,332)	945,685
Total	$ 3,881,210	$ 325,084	$ (35,669)	$ 4,170,625

The cost or amortized cost, gross unrealized gains and losses and fair value of investments in debt and equity securities classified as available-for-sale at December 31, 2013 were as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
U.S. Treasury and agency obligations	$ 698,798	$ 20,062	$ (13,118)	$ 705,742
Agency mortgage-backed securities	641,311	6,840	(14,061)	634,090
State and political obligations	42,464	601	(1,073)	41,992
Mortgage-backed securities	43,045	1,061	(766)	43,340
Asset-backed securities	52,601	2,592	(289)	54,904
Corporate and other debt securities	2,024,397	53,229	(21,682)	2,055,944
Total debt securities	3,502,616	84,385	(50,989)	3,536,012
Equity securities				
Domestic	320,891	172,791	(1,777)	491,905
Foreign	388,839	80,267	(3,537)	465,569
Total equity securities	709,730	253,058	(5,314)	957,474
Total	$ 4,212,346	$ 337,443	$ (56,303)	$ 4,493,486

(in thousands of dollars)

The gross unrealized losses and fair value of debt and equity investments classified as available-for-sale securities by investment category and length of time an individual security was in a continuous unrealized loss position at December 31, 2014 were as follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities						
U.S. Treasury and agency obligations	$ 238,752	$ (709)	$ 28,969	$ (615)	$ 267,721	$ (1,324)
Agency mortgage-backed securities	32,861	(78)	45,564	(981)	78,425	(1,059)
State and political obligations	26,953	(99)	9,263	(181)	36,216	(280)
Mortgage-backed securities	9,519	(24)	8,602	(115)	18,121	(139)
Asset-backed securities	23,582	(44)	1,398	(19)	24,980	(63)
Corporate and other debt securities	583,686	(13,502)	74,866	(1,970)	658,552	(15,472)
Total debt securities	915,353	(14,456)	168,662	(3,881)	1,084,015	(18,337)
Equity securities						
Domestic	92,652	(6,296)	6,422	(232)	99,074	(6,528)
Foreign	131,922	(7,188)	24,435	(3,616)	156,357	(10,804)
Total equity securities	224,574	(13,484)	30,857	(3,848)	255,431	(17,332)
Total	$ 1,139,927	$ (27,940)	$ 199,519	$ (7,729)	$ 1,339,446	$ (35,669)

The gross unrealized losses and fair value of debt and equity investments classified as available-for-sale securities by investment category and length of time an individual security was in a continuous unrealized loss position at December 31, 2013 were as follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities						
U.S. Treasury and agency obligations	$ 394,819	$ (11,880)	$ 14,915	$ (1,238)	$ 409,734	$ (13,118)
Agency mortgage-backed securities	326,767	(8,283)	99,415	(5,778)	426,182	(14,061)
State and political obligations	16,764	(923)	2,420	(150)	19,184	(1,073)
Mortgage-backed securities	24,188	(656)	1,702	(110)	25,890	(766)
Asset-backed securities	18,984	(287)	151	(2)	19,135	(289)
Corporate and other debt securities	834,991	(18,627)	39,805	(3,055)	874,796	(21,682)
Total debt securities	1,616,513	(40,656)	158,408	(10,333)	1,774,921	(50,989)
Equity securities						
Domestic	38,941	(1,461)	2,704	(316)	41,645	(1,777)
Foreign	42,762	(3,056)	2,627	(481)	45,389	(3,537)
Total equity securities	81,703	(4,517)	5,331	(797)	87,034	(5,314)
Total	$ 1,698,216	$ (45,173)	$ 163,739	$ (11,130)	$ 1,861,955	$ (56,303)

(in thousands of dollars)

At December 31, 2014 and 2013, the Corporation held available-for-sale debt securities with gross unrealized losses of $18,337 and $50,989, respectively. Management evaluated the unrealized losses and determined that they were due primarily to volatility in the interest rate environment and market conditions. The Corporation does not intend to sell the related debt securities and it is not likely that the Corporation will be required to sell the debt securities before recovery of their amortized cost basis, which may be maturity. Therefore, management does not consider the available-for-sale debt securities to be other-than-temporarily impaired as of December 31, 2014 and 2013.

At December 31, 2014 and 2013, the Corporation held available-for-sale equity securities with gross unrealized losses of $17,332 and $5,314, respectively. Management reviews equity securities in which fair value falls below cost. In determining whether an equity security is other-than-temporarily impaired, management considers both quantitative and qualitative information. The impairment review process is subjective and considers a number of factors, including, but not limited to, the length of time and extent to which the fair value has been less than book value, the financial condition and near-term prospects of the issuer, recommendations of investment advisors, the intent and ability to hold securities for a time sufficient to allow for any anticipated recovery in value and general market conditions and industry or sector-specific factors, including forecasts of economic, market or industry trends. The Corporation believes that the unrealized losses do not represent an other-than-temporary impairment at December 31, 2014 and 2013.

The amortized cost and fair value of available-for-sale debt securities at December 31, 2014 are shown below by contractual maturity. Expected maturities could differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due within one year or less	$ 200,594	$ 201,214
Due after one year through five years	1,172,810	1,191,800
Due after five years through ten years	820,120	825,541
Due after ten years	340,710	405,253
Mortgage- and asset-backed securities	588,955	601,132
Total debt securities	$ 3,123,189	$ 3,224,940

(in thousands of dollars)

Board designated, restricted and other investments by investment type at December 31, 2014 and 2013 consisted of the following:

	2014	2013
Cash and cash equivalents	$ 103,373	$ 139,623
Debt securities		
U.S. Treasury and agency obligations	128,749	135,384
Agency mortgage-backed securities	13,189	17,173
Asset and mortgage-backed securities	25,933	37,099
Corporate and other debt securities	102,729	77,490
Total debt securities	270,600	267,146
Equity securities		
Domestic	111,994	80,348
Foreign	27,533	23,275
Endowments managed by donor selected trustees	231,146	225,750
Total board designated, restricted and other investments	$ 744,646	$ 736,142

Board designated, restricted and other investments consist of the following components at December 31, 2014 and 2013:

	2014	2013
Unrestricted		
Other investments	$ 305,479	$ 242,032
Board designated		
Capital improvements	83,591	79,852
Foundation	41,011	40,957
Capital project funds	-	41,498
Debt service	5,590	14,384
Self-insurance reserves	4,412	13,333
Grant funds and other	21,522	20,561
Total unrestricted	461,605	452,617
Temporarily restricted	18,787	24,663
Permanently restricted	264,254	258,862
Total board designated, restricted and other investments	$ 744,646	$ 736,142

(in thousands of dollars)

The following is a summary of net investment income for the year ended December 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Interest and dividends	$ 150,041	$ 826	$ 4,454
Net realized gains on investments	96,538	849	14,736
Net unrealized gains (losses) on board designated, restricted and other investments	728	(211)	(3,366)
Net realized gain on extinguishment of debt (Note 12)	6,472	-	-
Total net investment income	$ 253,779	$ 1,464	$ 15,824

The following is a summary of net investment income for the year ended December 31, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Interest and dividends	$ 164,283	$ 447	$ 2,848
Net realized gains (losses) on investments	91,223	(22)	8,851
Net unrealized (losses) gains on board designated, restricted and other investments	(2,356)	(341)	8,256
Total net investment income	$ 253,150	$ 84	$ 19,955

Net realized gains (losses) on unrestricted investments include $2,867 and $2,656 in 2014 and 2013, respectively, in other-than temporary impairment charges on available-for-sale securities. Other-than-temporary impairments recognized in 2014 and 2013 resulted from the extent and duration of fair value declines due to market conditions, along with credit related concerns in certain instances. Impaired securities included mainly equity and debt securities within the domestic financial services, commodity and energy business sectors, along with international market holdings.

The recognition of unrealized gains and losses on investments that are restricted as to use are recorded directly to temporarily and permanently restricted net assets as required by donor or regulation. These investments consist primarily of equity securities, agency mortgage-backed securities, corporate debt securities and U.S. Treasury obligations. All unrealized gains and losses on marketable unrestricted board designated and other investments are recognized in net investment income.

Certain limited partnership and private equity interests of the Corporation have redemption restrictions relating to both timing and amounts of withdrawals. Distributions are received as the underlying investments generate income or are liquidated. The Corporation estimates that the underlying assets of private equity interests will be liquidated over the next seven to ten years, and the Corporation assumes that the interests will be held until liquidation.

(in thousands of dollars)

7. Fair Value of Financial Instruments

Input levels, as defined by Fair Value Measurement guidance, are as follows:

Level 1: Pricing inputs are based on unadjusted quoted market prices for identical financial assets or liabilities in active markets. Active markets are those in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Pricing inputs include observable inputs other than Level 1 pricing inputs, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Pricing inputs include observable inputs that are supported by little or no market activity and that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The following methods and assumptions were used to determine the fair value of each class of the following assets and liabilities recorded at fair value in the consolidated balance sheets:

Cash equivalents: Cash equivalents include highly rated money market funds, commercial paper or discount notes with maturities of three months or less and bank deposits, and are purchased or deposited daily with specified yield rates. Cash equivalents are designated as Level 1 or Level 2, depending on structure and the extent of credit-related features.

Debt securities, available-for-sale: Fair values of available-for-sale debt securities are based on quoted market prices, where available. These fair values are obtained primarily from a third party pricing service, which generally use Level 1 or Level 2 inputs, for the determination of fair value to facilitate fair value measurements and disclosures. U.S. Treasury securities generally are designated Level 1 securities, while Level 2 securities generally include corporate securities, state and political obligations, mortgage-backed securities, and asset-backed securities. Level 2 inputs that are often used in the valuation methodologies include, but are not limited to, broker quotes, benchmark yields, credit spreads, default rates and prepayment speeds. The Corporation has certain fixed maturity, corporate and other debt securities, which are designated as Level 3 securities. For these securities, the valuation methodologies may incorporate broker quotes or assumptions for benchmark yields, credit spreads, default rates and prepayment speeds that are not observable in the markets.

Equity securities, available-for-sale: Fair values of equity securities are generally designated as Level 1 and are based on quoted market prices for identical assets in active markets. For certain equity securities, quoted market prices for identical securities are not always available and the fair value is estimated by reference to similar or underlying securities for which quoted prices are available. These securities are designated Level 2. The Corporation also has certain equity securities, including private equity securities, for which fair value is estimated based on each security's current condition and future cash flow projections or based on the Corporation's share of the entities' undistributed earnings, which approximates fair value. Such securities are designated Level 3.

(in thousands of dollars)

Board designated, restricted and other investments: Board designated, restricted and other investments include cash equivalents, debt securities and equity securities that follow the same methods and assumptions and fair value designations described above. The fair value for endowments managed by donor selected trustees are designated as Level 3 securities with the interest in these trusts based on the fair value of the underlying trust investments, which approximates the present value of the expected future cash flows for which the Corporation is an income beneficiary.

Real estate investment trusts: The fair value of ownership interest in real estate trusts are approximated based on trustee estimates and are designated as Level 3 securities.

Securities lending invested collateral: Fair values of securities lending collateral are based on quoted market prices, where available. These fair values are obtained primarily from third party pricing services, which generally use Level 1 or Level 2 inputs for the determination of fair value to facilitate fair value measurements and disclosures.

The Corporation uses a third party pricing service to obtain quoted prices for each security. The third party service provides pricing based on recent trades of the specific security or like securities, as well as a variety of valuation methodologies for those securities where an observable market price may not exist. The third party service may derive pricing for Level 2 securities from market corroborated pricing, matrix pricing, discounted cash flow analyses and inputs such as yield curves and indices. Pricing for Level 3 securities may be obtained from investment managers for private placements or derived from discounted cash flows, or ratio analysis and price comparisons of similar companies. The Corporation performs an analysis of reasonableness of the prices received for fair value by monitoring month-to-month fluctuations and determining reasons for significant differences, selectively testing fair values against prices obtained from other sources, and comparing the combined fair value of a class of assets against an appropriate index benchmark. The Corporation did not make adjustments to the quoted market prices obtained from third party pricing services that were material to the consolidated financial statements.

(in thousands of dollars)

The following table summarizes fair value measurements by level at December 31, 2014 for financial assets measured at fair value on a recurring basis:

	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 1,108,618	$ 1,090,401	$ 18,217	$ -
Investments				
Debt securities, available-for-sale				
U.S. Treasury and agency obligations	858,661	466,790	391,871	-
Agency mortgage-backed securities	491,872	-	491,872	-
State and political obligations	64,567	-	64,567	-
Mortgage-backed securities	44,628	-	44,628	-
Asset-backed securities	64,632	-	64,632	-
Corporate and other debt securities	1,700,580	-	1,653,542	47,038
Total debt securities	3,224,940	466,790	2,711,112	47,038
Equity securities, available-for-sale				
Domestic	505,043	489,751	-	15,292
Foreign	440,642	236,935	203,707	-
Total equity securities	945,685	726,686	203,707	15,292
Board designated, restricted and other investments				
Cash and cash equivalents	103,373	103,373	-	-
Debt securities				
U.S. Treasury and agency obligations	128,749	92,156	36,593	-
Agency mortgage-backed securities	13,189	-	13,189	-
Asset and mortgage-backed securities	25,933	-	25,933	-
Corporate and other debt securities	102,729	-	102,729	-
Equity securities				
Domestic	111,994	111,994	-	-
Foreign	27,533	27,533	-	-
Endowments	231,146	-	-	231,146
Total board designated, restricted and other investments	744,646	335,056	178,444	231,146
Real estate investment trusts	8,198	-	-	8,198
Securities lending invested collateral	258,899	-	258,899	-
Total assets	$ 6,290,986	$ 2,618,933	$ 3,370,379	$ 301,674

(in thousands of dollars)

The following table summarizes fair value measurements by level at December 31, 2013 for financial assets measured at fair value on a recurring basis:

	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 1,274,475	$ 1,196,928	$ 77,547	$ -
Investments				
Debt securities, available-for-sale				
U.S. Treasury and agency obligations	705,742	425,270	280,472	-
Agency mortgage-backed securities	634,090	-	634,090	-
State and political obligations	41,992	-	41,992	-
Mortgage-backed securities	43,340	-	43,340	-
Asset-backed securities	54,904	-	54,904	-
Corporate and other debt securities	2,055,944	-	2,009,030	46,914
Total debt securities	3,536,012	425,270	3,063,828	46,914
Equity securities, available-for-sale				
Domestic	491,905	477,916	1,848	12,141
Foreign	465,569	256,930	208,639	-
Total equity securities	957,474	734,846	210,487	12,141
Board designated, restricted and other investments				
Cash and cash equivalents	139,623	139,623	-	-
Debt securities				
U.S. Treasury and agency obligations	135,384	130,147	5,237	-
Agency mortgage-backed securities	17,173	-	17,173	-
Asset and mortgage-backed securities	37,099	-	37,099	-
Corporate and other debt securities	77,490	-	77,490	-
Equity securities				
Domestic	80,348	80,183	-	165
Foreign	23,275	23,275	-	-
Endowments	225,750	-	-	225,750
Total board designated, restricted and other investments	736,142	373,228	136,999	225,915
Real estate investment trusts	8,078	-	-	8,078
Securities lending invested collateral	242,084	-	242,084	-
Total assets	$ 6,754,265	$ 2,730,272	$ 3,730,945	$ 293,048

Transfers between levels, if any, are recorded annually as of the end of the reporting period unless, with respect to a particular issue, a significant event occurred that necessitated the transfer be reported at the date of the event.

There were no material transfers between Levels 1 and 2 during the years ended December 31, 2014 and 2013.

(in thousands of dollars)

The changes in fair value for assets measured using significant unobservable inputs (Level 3) for the year ended December 31, 2014 was as follows:

	Corporate and other debt securities	Equity securities	Endowments	Real estate investment trusts	Total
Balance at January 1	$ 46,914	$ 12,306	$ 225,750	$ 8,078	$ 293,048
Net unrealized (losses) gains	(1,648)	23	(3,304)	(291)	(5,220)
Net realized gains (losses)	202	(1,411)	19,185	412	18,388
Purchases	35,418	4,501	-	2,971	42,890
Sales	(33,848)	(127)	-	(2,972)	(36,947)
Transfers out of trusts	-	-	(10,485)	-	(10,485)
Balance at December 31	$ 47,038	$ 15,292	$ 231,146	$ 8,198	$ 301,674

The changes in fair value for assets measured using significant unobservable inputs (Level 3) for the year ended December 31, 2013 was as follows:

	Corporate and other debt securities	Equity securities	Endowments	Real estate investment trusts	Total
Balance at January 1	$ 44,388	$ 7,147	$ -	$ 7,128	$ 58,663
WPAHS affiliation	-	165	213,250	-	213,415
Net unrealized (losses) gains	(430)	-	19,318	860	19,748
Net realized gains (losses)	594	(6)	-	(463)	125
Purchases	40,625	5,000	-	3,130	48,755
Sales	(38,263)	-	-	(2,577)	(40,840)
Transfers out of trusts	-	-	(6,818)	-	(6,818)
Balance at December 31	$ 46,914	$ 12,306	$ 225,750	$ 8,078	$ 293,048

(in thousands of dollars)

8. Property and Equipment, Net

Property and equipment at December 31, 2014 and 2013 was comprised of the following:

	2014	2013
Land, buildings and leasehold improvements	$ 1,285,644	$ 1,117,418
Office furniture and equipment	922,146	817,869
Capitalized software	584,566	523,466
Construction in progress	66,668	93,381
	2,859,024	2,552,134
Less accumulated depreciation and amortization	(1,230,179)	(1,005,598)
Property and equipment, net	$ 1,628,845	$ 1,546,536

Depreciation and amortization expense related to property and equipment amounted to $278,901 and $220,549 for 2014 and 2013, respectively.

9. Goodwill and Other Intangible Assets, Net

Goodwill consisted of the following at December 31, 2014 and 2013:

	HVHC	Allegheny Health	Other	Total
Goodwill, at January 1, 2013	$ 635,605	$ 31,998	$ 57,954	$ 725,557
WPAHS affiliation at May 1, 2013	-	365,736	-	365,736
Impairment	-	(310,997)	-	(310,997)
Goodwill, at December 31, 2013	$ 635,605	$ 86,737	$ 57,954	$ 780,296
Goodwill, at December 31, 2014	$ 635,605	$ 86,737	$ 57,954	$ 780,296

At December 31, 2014, management tested goodwill for impairment and concluded that no impairment existed. In 2013, management tested goodwill for impairment and a goodwill impairment charge of $310,997 was recorded to the extent the reporting unit carrying value exceeded the implied fair value based on the discounted debt-free cash flows of the reporting unit.

(in thousands of dollars)

The gross carrying amount of intangible assets and accumulated amortization in 2014 and 2013 was as follows:

	2014			2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$ 42,712	$ 11,982	$ 30,730	$ 42,712	$ 10,005	$ 32,707
Trademarks	16,675	9,152	7,523	16,675	8,570	8,105
Patient records	8,719	2,982	5,737	8,253	1,951	6,302
Other	23,767	14,929	8,838	23,710	11,603	12,107
Total	$ 91,873	$ 39,045	$ 52,828	$ 91,350	$ 32,129	$ 59,221

Amortization expense related to intangible assets was $6,916 and $9,199 in 2014 and 2013, respectively.

At December 31, 2014, estimated future amortization expense for the intangible assets, excluding insurance licenses with indefinite lives of $2,850, was as follows:

Years ending December 31,	
2015	$ 6,692
2016	6,110
2017	3,061
2018	2,771
2019	2,687
Thereafter	28,657
Total	$ 49,978

(in thousands of dollars)

10. Claims Outstanding

Activity in the liability for claims outstanding for the years ended December 31, 2014 and 2013 was as follows:

	2014	2013
Claims outstanding at January 1	$ 2,371,710	$ 2,401,854
Reinsurance recoverables	(104,317)	(105,948)
Net balance at January 1	2,267,393	2,295,906
Incurred related to		
Current year	10,766,879	10,906,007
Prior year	(125,259)	(212,551)
Total incurred claims	10,641,620	10,693,456
Paid related to		
Current year	(9,658,173)	(9,517,214)
Prior year	(1,142,415)	(1,194,035)
Total paid claims	(10,800,588)	(10,711,249)
Change in advances to providers	1,544	(3,870)
Change in non-risk claim liabilities	(41,595)	(6,850)
Net balance at December 31	2,068,374	2,267,393
Reinsurance recoverables	323,119	104,317
Claims outstanding at December 31	$ 2,391,493	$ 2,371,710

Negative amounts reported for prior year incurred claims of $125,259 and $212,551 in 2014 and 2013, respectively, resulted from claims being settled for amounts less than originally estimated due to lower than expected utilization.

Management has established estimates for claims outstanding to satisfy its ultimate claim liability. However, these estimates are inherently subject to a number of highly variable circumstances. Consequently, actual results could differ materially from the amounts recorded in the consolidated financial statements.

11. Employee Benefit Plans

Defined Benefit Plans

The Corporation covers certain employees meeting age and service requirements through multiple non-contributory defined benefit pension plans (the “pension plans”), including the Highmark Retirement Plan (“Highmark pension plan”), the Highmark West Virginia Inc. Retirement Program (the “Highmark WV pension plan”), the West Penn Retirement Plan for Represented Employees and the West Penn Retirement Plan for Nonrepresented Employees (collectively the “WPAHS pension plans”), the Jefferson Retirement Plan (the “JRMC pension plan”), and the Saint Vincent Health System Pension Plan (the “SVHS pension plan”). The Highmark, Highmark WV and WPAHS pension plans provide participants with a frozen legacy benefit as well as a cash-balance account consisting of pay credits, based on age and years of service, interest credits and limited transition credits. Effective January 1, 2014, the Highmark Delaware Retirement Plan (the “Highmark DE

(in thousands of dollars)

pension plan") merged into the Highmark pension plan and Highmark DE pension plan assets of $89,204 and participants were transferred into the Highmark pension plan. During 2013, the Highmark DE plan was amended to provide participants with a benefit design similar to the Highmark and Highmark WV pension plans. Lump sum payments in the Highmark DE pension plan in 2013 resulted in recognition of a settlement gain of $1,534. The JRMC and SVHS pension plans were frozen on December 31, 2010 and June 30, 2013, respectively. The frozen JRMC and SVHS pension plans provide eligible participants with their frozen benefit as of that date, which was based on age, average compensation and years of service.

The Corporation funds its pension plans according to minimum funding requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended. During 2015, the Corporation expects to contribute $63,233 to the pension plans.

Highmark Inc. sponsors a defined benefit other postretirement plan (the "other postretirement plan"). Highmark Inc. uses voluntary employees' beneficiary association ("VEBA") trusts and, in the case of Highmark WV, a participant in the Highmark Inc. other postretirement plan, a 401(h) account to fund their respective retiree other postretirement benefits. The Corporation expects to contribute $4,000 to the VEBA trusts and 401(h) account in 2015. In 2013, an amendment to revise the method of calculating the contributions for retirees who are under age 65 originally set to expire on December 31, 2013 was extended through December 31, 2014. Effective January 1, 2014, the Highmark DE other postretirement plans merged into the other postretirement plan and Highmark DE benefit obligations of $47,958 and participants were transferred into the other postretirement plan. In August 2014, the other postretirement plan was amended to provide an account-based benefit design to retiree participants previously under a percentage of cost benefit design. The other postretirement plan provides various postretirement health and life insurance benefits to retirees of participating subsidiaries and affiliates. The other postretirement plan is closed to new employees.

(in thousands of dollars)

The amounts recognized in the consolidated balance sheets were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2014	**2013**	**2014**	**2013**
Change in benefit obligations				
Benefit obligations at beginning of year	$ 2,913,912	$ 1,905,122	$ 455,329	$ 471,879
JRMC affiliation	-	236,786	-	-
WPAHS affiliation	-	814,746	-	-
SVHS affiliation	-	166,560	-	-
Service cost	79,076	76,959	22,666	25,847
Interest cost	135,269	108,776	18,903	16,136
Plan amendments	-	(506)	(18,376)	2,065
Participant contributions	-	-	3,701	3,732
Benefit payments	(105,235)	(97,476)	(21,476)	(20,414)
Settlement gain	(31,800)	(14,443)	-	-
Actuarial loss (gain)	511,963	(282,612)	32,286	(43,916)
Benefit obligations at end of year	$ 3,503,185	$ 2,913,912	$ 493,033	$ 455,329
Change in plan assets				
Net plan assets at beginning of year	$ 2,609,722	$ 1,777,224	$ 303,154	$ 266,402
JRMC affiliation	-	144,103	-	-
WPAHS affiliation	-	516,620	-	-
SVHS affiliation	-	102,306	-	-
Actual return on plan assets	322,385	89,948	6,920	31,988
Participant contributions	-	-	3,701	3,393
Employer contributions	99,165	91,440	2,566	17,717
Benefit payments	(105,235)	(97,476)	(24,225)	(16,346)
Settlement payments	(31,800)	(14,443)	-	-
Net plan assets at end of year	$ 2,894,237	$ 2,609,722	$ 292,116	$ 303,154
Amounts recognized in the consolidated balance sheets				
Benefit plan assets	$ 1,750	$ 55,172	$ -	$ -
Benefit plan liabilities	$ (610,698)	$ (359,362)	$ (200,917)	$ (152,175)
Amounts included in unrestricted net assets				
Prior service credit	$ 214,143	$ 241,719	$ 26,989	$ 12,283
Actuarial loss	(680,958)	(325,330)	(124,564)	(91,134)
Net amounts recognized	$ (466,815)	$ (83,611)	$ (97,575)	$ (78,851)

The actuarial loss of $511,963 and $32,286 included in the benefit obligation at year-end for the pension benefits and other postretirement benefits plans, respectively, is primarily due to a decrease in the discount rate and change in the mortality assumption. The estimated prior service credit and actuarial loss for the pension plans that will be amortized from net assets in 2015 are $27,334 and $39,345, respectively. The estimated prior service credit and actuarial loss for the other postretirement plans that will be amortized from net assets in 2015 are $5,100 and $9,300, respectively.

(in thousands of dollars)

The following table provides the components of net periodic benefit cost for the years ended December 31, 2014 and 2013:

	Pension Benefits		Other Postretirement Benefits	
	2014	**2013**	**2014**	**2013**
Service cost	$ 79,076	$ 76,959	$ 22,666	$ 25,847
Interest cost	135,269	108,776	18,903	16,136
Expected return on plan assets	(184,817)	(154,123)	(13,938)	(12,871)
Amortization of:				
Prior service credit	(27,576)	(27,586)	(3,632)	(4,150)
Actuarial loss	18,766	39,787	5,508	12,719
Settlement gain	-	(1,534)	-	-
Net periodic benefit costs	$ 20,718	$ 42,279	$ 29,507	$ 37,681

The Corporation's weighted-average assumptions related to the calculation of the pension benefit obligations and net periodic benefit cost for the pension plans for the year ended December 31, 2014 are presented in the table below:

	Highmark Inc.	Highmark WV	WPAHS	JRMC	SVHS
Discount rate:					
Benefit obligations	4.00%	3.90%	3.60%	3.90%	3.90%
Net periodic costs	4.90%	4.90%	4.40%	4.80%	4.80%
Expected asset return	7.25%	7.25%	7.43%	7.00%	7.25%
Compensation increase	3.40 - 7.50%	3.50 - 8.00%	2.88 - 7.15%	-	-

The Corporation's weighted-average assumptions related to the calculation of the pension benefit obligations and net periodic benefit cost for the pension plans for the year ended December 31, 2013 are presented in the table below:

	Highmark Inc.	Highmark WV	Highmark DE	WPAHS	JRMC	SVHS
Discount rate:						
Benefit obligations	4.90%	4.90%	4.40%	4.40%	4.80%	4.60%
Net periodic costs	4.10%	4.00%	3.40%; 4.30%	4.30%	4.70%	4.60%
Expected asset return	7.25%	7.25%	7.25%	7.43%	7.00%	7.25%
Compensation increase	3.40 - 7.50%	3.50 - 8.00%	3.40 - 7.50%	2.88 - 7.15%	-	-

(in thousands of dollars)

The Corporation's weighted-average assumptions related to the calculation of the other postretirement plan benefit obligations and net periodic benefit costs for the other postretirement benefit plans are presented in the table below:

	Other Postretirement Benefits			
	2014		2013	
	Highmark Inc.	Highmark DE	Highmark Inc.	Highmark DE
Discount rate:				
Benefit obligations	3.60%	3.60%	4.30%	4.60%
Net periodic costs	4.40%	4.40%	3.50%	3.90% ; 4.50%
Expected asset return	5.00%	n/a	5.00%	n/a
Compensation increase	n/a	3.40% - 7.50%	n/a	3.40% - 7.50%

For measurement purposes, at December 31, 2014, a 7.04% annual rate of increase in the per capita costs of covered health care benefits was assumed for 2015 for the Highmark other postretirement plan. The rate assumed was assumed to gradually decrease to 4.50% by the year 2028 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the other postretirement plans. At December 31, 2014, a one-percentage-point change in assumed health care cost trend rates would have had the following effects:

	One-Percentage-Point	
	Increase	Decrease
Effect on total of service and interest cost components	$ 1,100	$ (1,300)
Effect on other postretirement benefit plan obligations	$ 18,000	$ (17,000)

The expected return on pension plan assets is developed using inflation expectations, risk factors and input from actuaries to arrive at a long-term nominal expected return for each asset class. The nominal expected return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return on plan assets. The expected return on other postretirement plan assets is developed based on historical returns and the future expectations for returns for each asset class as well as the asset allocation of the other postretirement plan assets.

Estimated benefit payments are expected as follows:

	Pension Benefits	Other Postretirement Benefits
2015	$ 149,000	$ 26,000
2016	159,000	29,000
2017	167,000	31,000
2018	175,000	34,000
2019	184,000	35,000
2020-2024	1,019,000	216,000

(in thousands of dollars)

The pension plans' and other postretirement plans' overall investment strategies are determined by the plans' investment committees, investment advisors and plan administrators. Overall, the goals of the Corporation are to achieve sufficient diversification of asset types, fund strategies and fund managers in order to minimize volatility and maximize returns over the long term, while still having sufficient funds to pay those benefits due in the near term.

For the Highmark pension plan, the Corporation's overall investment strategy is to achieve a mix of 96% of investments for long-term growth and 4% for near-term benefit payments with a diversification of asset types, fund strategies and fund managers. The target allocations for plan assets are 56% fixed income securities, 30% equity securities, 10% alternative investments and 4% cash equivalents. Equity securities primarily include stock investments in U.S., developed and emerging market corporations. Fixed income securities primarily include bonds of domestic and foreign companies from diversified industries, domestic mortgage-backed securities and bonds of U.S. and foreign governments and agencies. Alternative investments include investments in real estate and private equity funds that follow several different strategies.

The other pension plans have similar investments strategies as those mentioned above for the Highmark pension plan with target allocations for plan assets for the Highmark WV pension plan of 50% equity securities, 40% fixed income securities and 10% alternative investments. The WPAHS pension plans target allocations for plan assets are 35%-45% for domestic equity securities and funds, 35%-45% for debt securities and funds, 8%-18% for international equity securities and funds, 4%-10% for alternative investments and 0%-10% for cash and cash equivalents. The JRMC pension plan target allocations for plan assets are 35%-55% for equity securities, 35%-55% for fixed income securities, and 8%-12% for alternative investments. The SVHS pension plan target allocations for plan assets are 50%-70% for equity securities, 20%-40% for fixed income, 0-15% for real estate and 0-10% for cash and cash equivalents.

For the other postretirement plan, the Corporation's overall investment strategy is to achieve a mix of 95% of investments for long-term growth and 5% for near-term benefit payments with a diversification of asset types, fund strategies and fund managers. The target allocations for plan assets are 62% equity securities, 33% fixed income securities and 5% cash equivalents. Equity securities primarily include stock investments in U.S., developed and emerging market corporations. Fixed income securities primarily include bonds of domestic and foreign companies from diversified industries and bonds of U.S. and foreign governments and agencies.

Overall, the goals of the Corporation are to achieve sufficient diversification of asset types, fund strategies and fund managers in order to minimize volatility and maximize returns over the long term, while still having sufficient funds to pay those benefits due in the near term.

(in thousands of dollars)

The following table summarizes the fair value measurements by level at December 31, 2014:

	Fair Value	Level 1	Level 2	Level 3
Pension plan assets				
Cash and cash equivalents	$ 743	$ 743	$ -	$ -
Debt securities:				
U.S. Treasury and agency obligations	544,050	539,905	4,145	-
Agency mortgage-backed securities	13,638	-	13,638	-
State and political obligations	4,199	-	4,199	-
Corporate and other debt securities	669,153	-	669,150	3
Total debt securities	1,231,040	539,905	691,132	3
Equity securities:				
Domestic	491,859	490,174	1,685	-
Foreign	188,789	188,784	-	5
Total equity securities	680,648	678,958	1,685	5
Registered investment company shares	488,318	488,318	-	-
Common collective trust interests	320,155	-	320,155	-
Private limited partnerships	63,655	-	-	63,655
Interest in a master trust	68,355	-	68,355	-
Total	$ 2,852,914	$ 1,707,924	$ 1,081,327	$ 63,663
Other postretirement plan assets				
Corporate and other debt securities	$ 8,411	$ -	$ 8,411	$ -
Domestic equity securities	39,617	39,617	-	-
Registered investment company shares	232,065	232,065	-	-
Interest in a master trust	11,831	-	11,831	-
Total	$ 291,924	$ 271,682	$ 20,242	$ -

At December 31, 2014, the fair value of pension plan assets excluded guaranteed insurance contract assets of $26,440, carried at contract value as well as accrued interest and other receivables of $14,883.

At December 31, 2014, the fair value of other postretirement plan assets excluded accrued interest and other receivables of $192.

(in thousands of dollars)

The following table summarizes the fair value measurements by level at December 31, 2013:

	Fair Value	Level 1	Level 2	Level 3
Pension plan assets				
Cash and cash equivalents	$ 26,725	$ 5,017	$ 21,708	$ -
Debt securities:				
U.S. Treasury and agency obligations	365,814	316,442	49,372	-
Agency mortgage-backed securities	10,354	354	10,000	-
State and political obligations	67,300	4,654	62,646	-
Corporate and other debt securities	569,134	58,597	510,534	3
Total debt securities	1,012,602	380,047	632,552	3
Equity securities:				
Domestic	446,450	446,450	-	-
Foreign	186,131	182,575	3,556	-
Total equity securities	632,581	629,025	3,556	-
Registered investment company shares	503,896	503,896	-	-
Common collective trust interests	325,240	-	325,240	-
Private limited partnerships	41,667	-	-	41,667
Interest in a master trust	65,231	-	65,231	-
Total	$ 2,607,942	$ 1,517,985	$ 1,048,287	$ 41,670
Other postretirement plan assets				
Corporate and other debt securities	$ 8,264	$ -	$ 8,264	$ -
Domestic equity securities	36,502	36,502	-	-
Registered investment company shares	246,858	246,858	-	-
Interest in a master trust	11,289	-	11,289	-
Total	$ 302,913	$ 283,360	$ 19,553	$ -

At December 31, 2013, the fair value of pension plan assets excluded guaranteed insurance contract assets of $4,361, carried at contract value, offset by accrued expenses and other payables of $2,581.

At December 31, 2013, the fair value of other postretirement plan assets excluded accrued interest and other receivables of $241.

(in thousands of dollars)

The changes in fair value for pension plan and other postretirement assets measured using significant unobservable inputs (Level 3) for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Balance at January 1	$ 41,670	$ 27,257
Realized net gains on investments	2,528	1,646
Net unrealized holding gains arising during the period	5,258	1,516
Purchases	21,718	19,072
Sales	(7,511)	(7,821)
Balance at December 31	$ 63,663	$ 41,670

Defined Contribution Plans

The Corporation sponsors several defined contribution savings plans (the “savings plans”), covering substantially all of the Corporation’s employees and employees of certain participating affiliates. The savings plans allow participating employees to contribute a percentage of their annual salaries, subject to current Internal Revenue Service (“IRS”) limitations. Employee contributions are matched by the Corporation at various percentages. The Corporation recognized expense associated with its contributions to the savings plans of $32,779 and $41,725 for the years ended December 31, 2014 and 2013, respectively.

The Corporation also sponsors deferred compensation plans for certain eligible employees. Participating employees may contribute a certain amount of their annual compensation to these plans. Certain deferred compensation plans provide for matching contributions based on employee deferrals. The deferred compensation plan pays interest on the deferrals at various rates. The Corporation made matching contributions to the deferred compensation plans of $1,096 and $1,459 in 2014 and 2013, respectively. Deferred compensation plan liabilities of $47,825 and $51,447 were recorded in other payables and accrued expenses in the consolidated balance sheets at December 31, 2014 and 2013, respectively. Changes in the liability are reported in other operating expenses in the consolidated statements of operations.

The Corporation also sponsors unfunded nonqualified supplemental retirement plans (the “nonqualified retirement plans”) covering certain eligible employees. The weighted-average assumptions used in the measurement of the nonqualified plan liabilities were consistent with the assumptions used in the measurement of pension plan and adjusted, when needed, for nonqualified plan specific characteristics. The nonqualified retirement plan liabilities recorded in other payables and accrued expenses in the consolidated balance sheets at December 31, 2014 and 2013 were $77,940 and $66,034, respectively.

(in thousands of dollars)

12. Debt

The Corporation's total debt at December 31, 2014 and 2013 consisted of the following:

	2014	2013
Unsecured Senior Notes due May 15, 2021	$ 349,101	$ 348,960
Unsecured Senior Notes due May 15, 2041	239,547	239,495
Allegheny County Hospital Development Authority Bonds:		
Series 2010A due through March 1, 2040	16,515	16,855
Series 2008A due through March 1, 2038	13,160	13,455
Series 2007A due through May 1, 2025	9,595	10,249
Series 2007A due through November 15, 2040	-	37,246
Series 2006A due May 1, 2026	22,000	22,000
Series 2006B due through May 1, 2018	6,936	8,863
Series 2004A due June 1, 2030	-	750
Series 2000A due June 1, 2030	11,000	11,500
Series 1998A due May 1, 2023 through May 1, 2029	22,022	21,990
Erie County Hospital Authority Bonds:		
Series 2009 due July 1, 2020	9,623	10,973
Series 2011A due August 18, 2026	6,585	7,216
Series 2010A due July 1, 2027	19,797	19,797
Series 2010B due July 1, 2039	55,585	55,685
Term Loan due May 22, 2019	700,000	-
Term Loan due April 22, 2016	-	543,010
Revolving credit facility with maximum available for draw of $75,000 expires June 2015	75,000	75,000
Revolving credit facility with maximum available for for draw of $400,000 expires March 2018	75,000	100,000
Floating Rate Restructuring Certificates, payable based on attainment of defined income and cash levels	19,601	37,084
Series 2006A Health Facilities Revenue Notes due through December 2016	537	787
Series 2006B Health Facilities Revenue Notes due through October 2015	11,497	16,451
Mortgage loan, due March 15, 2032, interest at 6.00%	24,323	24,336
Capital leases due through 2016 at varying interest rates ranging from 5.19% to 14.00%	9,314	6,077
Mortgage and other loans due through 2016 at varying intest rates	6,998	10,337
Total debt	$ 1,703,736	$ 1,638,116

(in thousands of dollars)

A summary of scheduled principal repayments on debt is as follows:

Years ending December 31,	
2015	$ 103,320
2016	10,436
2017	7,644
2018	81,709
2019	707,837
Thereafter	792,790
Total	$ 1,703,736

Unsecured Notes
At December 31, 2014 and 2013, Highmark Inc. held unsecured Senior Notes of $349,101 and $348,960, respectively, due May 15, 2021 with interest payable semi-annually at 4.75%. The unamortized discount was $899 and $1,040 at December 31, 2014 and 2013, respectively.

At December 31, 2014 and 2013, Highmark Inc. also held unsecured Senior Notes of $239,547 and $239,495, respectively, due May 15, 2041 with interest payable semi-annually at 6.125%. The unamortized discount was $1,328 and $1,380 at December 31, 2014 and 2013, respectively.

On August 15, 2013, Highmark Inc. repaid in full the 6.80% unsecured senior notes issued August 2003 and due August 2013, which included principal of $292,878 and accrued interest of $9,958.

In March 2011, Highmark Inc. entered into two U.S. Treasury interest rate lock agreements (“Rate Locks”) in order to reduce the variability of cash flows for the forecasted issuance of the debt associated with interest rate risk. In June 2011, the Rate Locks were settled subsequent to Highmark Inc.’s issuance of the unsecured Senior Notes due 2021 and 2041. At settlement, a deferred holding loss of $12,547 was recorded in unrestricted net assets and is being amortized on a level-yield basis over the life of the unsecured Senior Notes. Amortization of $680 and $970 was recorded in interest expense in the consolidated statements of operations in 2014 and 2013, respectively.

Allegheny County Hospital Development Authority (the “Authority”)
JRMC issued Authority Bonds in September 2010, July 2008, February 2007, May 2006, May 2004, May 2000 and March 1998, collective the JRMC Authority Bonds. At December 31, 2014 and 2013, the Corporation had outstanding $101,228 and $105,662, respectively, of JRMC Authority Bonds. The JRMC Authority Bonds are scheduled to mature at various dates thorough March 1, 2040. Interest rates ranged from 0.04% to 5.125% and 0.06% to 5.125% at December 31, 2014 and 2013, respectively. Proceeds from the JRMC Authority Bonds were used primarily for various capital projects. The JRMC Authority Bonds are collateralized by the general credit of the Jefferson Medical Center and several irrevocable lines of credit totaling $64,328 which expire at various dates through July 15, 2016. The unamortized discount was $438 and premium was $162 at December 31, 2014. The unamortized discount was $470 and premium was $202 at December 31, 2013.

(in thousands of dollars)

JRMC is party to related interest rate swap agreements designated as fair value hedges with a highly rated, major U.S financial institution. The interest rate swap agreements expire at various dates through 2038. In 2014 and 2013, JRMC paid $1,383 and $1,153, respectively, to the counterparty for settlement under the interest rate swap agreements. These amounts were included in interest expense in the consolidated statements of operations. The Corporation recorded a liability of $6,689 and $4,406 at December 31, 2014 and 2013, respectively, in other liabilities in the consolidated balance sheets related to the swap agreements. At December 31, 2014, the notional value of these derivative instruments was $35,160.

WPAHS issued Authority Bonds in June 2007. At December 31, 2013, the Corporation had outstanding $37,246 of WPAHS Authority Bonds, to non-related parties. Interest was payable semi-annually at interest rates ranging from 5.0% to 5.375%. The unamortized fair-value adjustment was $5,069 at December 31, 2013. With proceeds from the syndicated term loan credit facility ("Term Loan Credit Facility") issuance, WPAHS defeased the 2007A Bonds by transferring funds into an escrow account, which represented the total outstanding principal and future interest payments of these bonds, thereby, removing all WPAHS bond obligations from the consolidated balance sheet. The Corporation recognized a realized loss of $9,011 on the WPAHS bond defeasance.

Erie County Hospital Authority ("Erie Authority")
SVHS issued the Series 2009 and Series 2010A in December 2009 with the Series 2010B issued in January 2010. At December 31, 2014 and 2013, the Corporation had a total of $85,005 and $86,455, respectively, outstanding in Series 2009 and 2010 Erie Authority Bonds. The Erie Authority Bonds are scheduled to mature at various dates between July 1, 2020 and July 1, 2039. Interest rates ranged from 0.05% to 7.00% and 0.07% to 7.00% at December 31, 2014 and 2013, respectively. Proceeds from the Erie Authority Bonds were used primarily for various capital projects and to advance the refund of previously issued bonds. The Series 2010B Erie Authority Bonds are collateralized by an irrevocable line of credit that expires September 30, 2016. The Erie Authority Bonds are partially collateralized by funds held by a trustee.

The Series 2010B Erie Authority bonds are demand bonds and while subject to long-term amortization periods, may be put to SVHS at the option of the bondholders in connection with certain remarketing dates. To the extent that bondholders may, under the terms of the debt, put their bonds within 12 months after the reporting date, the Board of Trustees of SVHS restricted cash and investments of $61,219 and $63,483 at December 31, 2014 and 2013, respectively, as a source of self-liquidity in the event the put option is enacted.

SVHS issued the Series 2011A Erie Authority Bonds in August 2011. At December 31, 2014 and 2013, the Corporation had outstanding $6,585 and $7,216, respectively, of Series 2011A Erie Authority Bonds. The Series 2011A Erie Authority Bonds are scheduled to mature August 18, 2026. Principal and interest are payable monthly and calculated based on LIBOR plus 2.75%. Interest rates were 2.03% and 2.05% at December 31, 2014 and 2013, respectively. Proceeds from the Series 2011A Erie Authority Bonds were used primarily to refinance the construction loan for the new parking facility.

(in thousands of dollars)

SVHS is party to multiple interest rate swap agreements with highly rated, major U.S. financial institutions (the “counterparties”). One of the interest rate swaps is designated as a cash flow hedge. The cash flow hedge synthetically converted $21,330 of the variable rate Erie Authority Bonds to a fixed rate. The other two interest rate swaps meet the criteria of fair value hedges pursuant to which $17,000 and $7,112, respectively, of fixed-rate Series 2010B and Series 2011A Erie Authority bonds are converted to variable rate bonds through maturity. At December 31, 2014, the notional value of these derivative instruments was $45,442.

For the years ended December 31, 2014 and 2013, SVHS paid $1,334 and $662, respectively, to the counterparties for settlements under the interest rate swap agreements which were included in interest expense in the consolidated statements of operations. The Corporation recorded a liability of $3,511 and $2,858 at December 31, 2014 and 2013, respectively, in other liabilities in the consolidated balance sheets under the swap agreements. The interest rate swaps do not qualify for hedge accounting and changes in fair value are accounted for as other nonoperating expenses in the consolidated statements of operations.

Term Loans

In May 2014, WPAHS entered into a $700,000 Term Loan Credit Facility. Part of the proceeds were used to purchase and redeem all of the WPAHS Authority Bonds from Highmark Inc. for an aggregate principal amount of $663,905 at a purchase price of 87.5% of par, plus accrued interest as of the purchase date. The Term Loan Credit Facility is fully guaranteed by Highmark Inc. and secured by a pledge of cash and securities. The fair value of the pledged assets was $1,084,423 at December 31, 2014. Highmark Inc. used the proceeds from the WPAHS Authority Bond redemption to repay its outstanding term loan of $543,010, plus accrued interest.

WPAHS is party to a related interest rate swap agreement designated as a cash flow hedge with a highly rated, major U.S. financial institution. In 2014, WPAHS paid $5,957 to the counterparty for settlements under the interest rate swap agreement. This amount was included in interest expense in the consolidated statement of operations. The Corporation recorded a liability of $2,579 at December 31, 2014 in other liabilities related to the swap agreement. The interest rate swap qualifies for hedge accounting and changes in fair value are accounted for as unrestricted net assets in the consolidated statement of changes in net assets. At December 31, 2014, the notional value of the derivative instrument was $700,000.

Revolving Credit Facilities

The Corporation is party to multiple revolving credit arrangements with financial institutions that provide for borrowings totaling $572,500, including the arrangements set forth in the table above, $490,000 and $490,000 in revolving credit facilities with a $150,000 and $175,000 balance outstanding at December 31, 2014 and 2013, respectively, and an accordion feature that provides an additional $75,000. The revolving credit facilities expire at varying dates between 2015 and 2018.

Highmark Inc. has outstanding borrowings of $75,000 on a revolving credit agreement with a financial institution providing for a $75,000 revolving credit facility expiring June 2015. Interest is payable at a varying rate of interest. The interest rates at December 31, 2014 and 2013 were 1.08% and 1.16%, respectively, and were based on the one-month LIBOR rate plus a credit spread.

(in thousands of dollars)

HVHC has outstanding borrowings of $75,000 on a revolving credit agreement with a syndicate of lenders led by a financial institution that provides for a $400,000 revolving credit facility expiring March 2018. Interest is payable at a varying rate of interest. The interest rates at December 31, 2014 and 2013 were 1.76% and 1.75%, respectively, and were based on LIBOR plus 1.00%. The revolving credit loan is collateralized by substantially all assets of HVHC.

HVHC is party to a related interest rate swap agreement designated as cash flow hedge with a highly rated, major U.S. financial institution. In 2014 and 2013, HVHC paid $1,539 and $1,889, respectively, to the counterparty for settlements under the interest rate swap agreement. This amount was included in interest expense in the consolidated statements of operations. The Corporation recorded a liability of $1,250 and $2,422 at December 31, 2014 and 2013, respectively, in other liabilities related to the swap agreements. Deferred net holding losses of $812 and $1,575 under the interest rate swap agreements were included in unrestricted net assets, net of deferred income taxes of $437 and $848, at December 31, 2014 and 2013, respectively. At December 31, 2014, the notional value of the derivative instrument was $75,000.

Other Debt
WPAHS has outstanding Floating Rate Restructuring Certificates (“FRRCs”) of $19,601, at December 31, 2014. The FRCCs bear interest at the three-month LIBOR plus 0.25%. Payment of interest is contingent upon WPAHS achieving certain profitability thresholds and maintaining specified liquidity levels. WPAHS has never been required to make an interest payment. The Corporation has not recorded interest to date as the probability of future interest payment requirements is considered remote. WPAHS must make an annual payment of 25% of the WPAHS Obligated Group’s adjusted net operating income, as defined in the FRRC indenture, calculated as of June 30 based on the criteria in the FRCC agreements. No annual payments have been earned or due as payment triggers have not been met. In 2014, a realized gain of $15,483 was recognized related to the settlement and subsequent extinguishment of $18,123 of FRRCs debt.

WPAHS has outstanding Series 2006 A and B of $12,034 and $17,238 at December 31, 2014 and 2013, respectively, to purchase four new helicopters and hospital beds. Principal and interest payments are required monthly. The Series A notes bear interest at 5.25% and the Series B notes bear interest at rates ranging from 4.55% to 4.61%. The Series A note is scheduled to be repaid in December 2016 and the Series B note is scheduled to be repaid in October 2015.

SVHS had an outstanding mortgage loan of $24,323 and $24,336 at December 31, 2014 and 2013, respectively, related to a medical office building. The mortgage note matures on March 15, 2032 and requires monthly principal and interest payments. The note is secured by the related medical office building. A subsidiary of SVHS owns a 25% interest in Erie Medical Complex, LLC. This equity interest, combined with SVHS’s master lease obligation in the medical office building creates a substantial beneficial interest and risk of Erie Medical Complex, LLC and results in the consolidation of the Erie Medical Complex, LLC in the consolidated financial statements.

As a result of the interest rate swap agreements noted above, the Corporation is subject to interest rate risk and default risk. Only cash flows related to the differential in the fixed interest rates and the variable interest rates as applied to the notional amounts of the interest rate swaps are subject to interest rate risk over the terms of the interest rate swap agreements. The notional amounts do not represent the amounts at risk; rather, they are used only as the basis for calculating the amounts due under the interest rate swap agreements.

(in thousands of dollars)

Several of the debt agreements referred to above contain covenants, including covenants relating to such matters as indebtedness, minimum net worth and financial ratings. At December 31, 2014 and 2013, the Corporation was in compliance with all debt covenants that could affect the financial position or results from operations of the Corporation.

The carrying amount of debt reported in the consolidated balance sheets at December 31, 2014 and 2013 was $1,703,736 and $1,638,116, respectively. Using a discounted cash flow technique that considered credit ratings, with adjustments for duration and risk profile, the Corporation determined that the fair value of its debt at December 31, 2014 and 2013 was $1,808,652 and $1,691,190, respectively.

13. Income Taxes

The components of the income tax provision for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Federal		
Current	$ 72,213	$ 108,235
Deferred	10,419	24,950
	82,632	133,185
Foreign		
Current	864	664
Deferred	-	-
	864	664
State		
Current	10,347	9,538
Deferred	(1,142)	2,187
	9,205	11,725
Tax provision related to continuing operations	92,701	145,574
Tax provision related to discontinued operations	-	2,464
Total income tax provision	$ 92,701	$ 148,038

(in thousands of dollars)

The components of deferred income taxes at December 31, 2014 and 2013 were as follows:

	2014	2013
Deferred tax assets		
Benefit plan liabilities	$ 164,502	$ 64,080
Net operating loss carryforwards	93,117	64,477
Tax credit carryforwards	79,803	79,965
Other payables and accrued expenses	54,119	72,882
Contribution carryforwards	30,286	25,042
Allowance for doubtful accounts	18,380	14,409
Goodwill and other intangible assets	12,629	6,225
Unearned premiums reserve	8,648	9,537
Inventory	6,443	6,920
Impairment reserves on investments	5,390	5,735
Discounting on unpaid losses	4,220	9,939
Premium deficiency reserves	916	6,558
Other	6,613	15,697
Total deferred tax assets	485,066	381,466
Less valuation allowance	(216,453)	(170,498)
Total deferred tax assets, net of valuation allowance	268,613	210,968
Deferred tax liabilities		
Net unrealized gains on available-for-sale securities	101,635	97,231
Property and equipment	40,061	57,461
Investment in partnerships/affiliates	16,516	20,851
Other	2,322	7,089
Total deferred tax liabilities	160,534	182,632
Deferred income taxes, net	$ 108,079	$ 28,336

In addition to the income tax provision, the deferred tax asset increased by $93,724 in 2014 and decreased by $47,020 in 2013, as a result of the tax effect of changes in unrealized gains and losses on available-for-sale securities, benefit plan asset and liability changes, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets) and certain tax benefits.

The realization of net deferred tax assets is dependent on the Corporation's ability to generate sufficient taxable income in future periods. The amount of deferred tax assets considered realizable, however, could change if estimates of future taxable income change.

At December 31, 2014, the Corporation had non-expiring alternative minimum tax credit carryforwards related to Highmark WV and Highmark DE of $41,586 and $38,217, respectively, available to offset future taxes. Utilization of the alternative minimum tax credit carryforwards will not take place until such time as Highmark WV and Highmark DE cease to be in an alternative minimum tax position or a change in the tax laws occurs. The Corporation recognized a valuation allowance due to the uncertainty of realizing a tax benefit for alternative minimum tax credits and because the lower alternative minimum tax rate is expected to apply when net deductible temporary differences reverse.

(in thousands of dollars)

At December 31, 2014, various subsidiaries and affiliates of the Corporation had state net operating loss carryforwards totaling $327,459 that expire between 2015 and 2034 and are available to offset future state taxable income of the subsidiary that generated the loss carryforward. The utilization of the state net operating loss carryforwards is subject to certain limitations; therefore, the Corporation recognized a valuation allowance given uncertainty surrounding the realizability of the carryforwards.

At December 31, 2014, the Corporation had federal net operating loss carryforwards, related to Highmark DE and Allegheny Health subsidiaries of $12,298 and $189,916, respectively, which expire in various amounts through 2034. The utilization of the federal net operating loss carryforwards is subject to certain limitations; therefore, the Corporation recognized a valuation allowance for that portion of the federal net operating loss carryforward not expected to be utilized.

A reconciliation of income tax expense recorded in the consolidated statements of operations and amounts computed at the statutory federal rate for the years ended December 31, 2014 and 2013 was as follows:

	2014	**2013**
Income taxes at statutory rate	$ 3,384	$ 3,986
State taxes, net of federal tax benefit	5,265	7,646
IRC section 833(b) deduction	(5,930)	(519)
Health insurance providers fee	49,215	-
Hospital grants	(13,118)	-
Net assets acquired through affiliations	-	(21,639)
Change in valuation allowance	32,027	16,090
Net (income) losses from tax exempt entities	(563)	122,657
Nondeductible compensation	11,701	11,094
Other	10,720	6,259
Income tax provision on continuing operations	$ 92,701	$ 145,574

Prior to January 1, 1987, the Corporation was exempt from federal income taxes. With the enactment of the Tax Reform Act of 1986 (the “Act”), the Corporation, and all other Blue Cross and Blue Shield plans, became subject to federal income tax. Among other provisions of the Internal Revenue Code, these plans were granted a deduction under Code Section 833(b) (the “special deduction”) for regular tax calculation purposes. The special deduction is calculated as the excess of 25% of incurred claims and claim adjustment expenses for the tax year over adjusted surplus, as defined, limited to taxable income. The amount of taxable income before the special deduction has the effect of increasing the adjusted surplus balance used in calculating the special deduction. Once the cumulative adjusted surplus balance exceeds 25% of incurred claims and claim adjustment expenses for the current taxable year, the deduction is eliminated. The special deduction calculation is complicated and little technical guidance has been issued by the taxing authorities. Therefore, some uncertainty exists in the calculation of the special deduction. After evaluating the uncertainties and in recognition of the impending statute expiration associated with certain tax years, during 2011, the Corporation made the decision to file refund claims for the 2004 through 2010 tax years. Through its refund claim filings and the 2010 original tax return filed in 2011, special deduction tax benefits totaling approximately $275,000 were requested. Through 2014, the Corporation recorded current income tax benefits totaling $126,000 related to this item, which is management’s estimate of the amount to be realized. An increase to income tax expense for interest of $2,386 was recognized

(in thousands of dollars)

in 2014 and an increase to income tax expense for interest of $329 was recognized in 2013. Future adjustments may be made to the Corporation's estimated tax benefit as additional information becomes available.

The changes in the carrying amount of gross unrecognized tax benefits from uncertain tax positions in 2014 and 2013 were as follows:

	2014	**2013**
Balance at January 1	$ 169,055	$ 167,095
Additions for tax positions related to		
Current year	8,307	6,633
Prior years	1,249	1,891
Reductions to balance relating to		
Changes in tax positions of prior years	(9,635)	(1,705)
Statute of limitation expiration	(2,606)	(4,859)
Balance at December 31	$ 166,370	$ 169,055

At December 31, 2014 and 2013, gross unrecognized tax benefits (excluding the federal benefit received from state positions) were $150,575 and $147,685, respectively, and, if recognized, would have impacted the effective tax rate.

The Corporation recorded potential interest and penalties payable of $115 and $647 at December 31, 2014 and 2013, respectively, in net income tax recoverable in the consolidated balance sheets.

Highmark's consolidated federal income tax return has been examined by the IRS through 2012.

The Corporation does not anticipate that any significant increase or decrease to unrecognized tax benefits will be recorded in 2015.

14. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at December 31, 2014 and 2013, respectively:

	2014	**2013**
Clinical programs	$ 12,612	$ 11,542
Capital expansion and renovation	2,151	8,660
Health education and other support	4,024	4,461
Total temporarily restricted net assets	$ 18,787	$ 24,663

(in thousands of dollars)

Temporarily restricted net assets for capital expansion and renovation represent donations, gifts and pledges made for specific hospitals and other facilities. Similarly, temporarily restricted net assets for clinical programs, health education and other support represents donations, gifts and pledges made to support specific programs or departments at hospitals and other facilities. In 2014 and 2013, temporarily restricted net assets were released from donor restrictions by incurring expenditures satisfying the specified restricted purposes in the amount of $14,666 and $10,474, respectively.

Permanently restricted net assets at December 31, 2014 and 2013 were $264,254 and $258,862, respectively. These net assets are restricted in perpetuity. Income distributions generated from permanently restricted net assets are either classified as unrestricted or are classified as temporarily restricted based on donor imposed restrictions. At December 31, 2014 and 2013, permanently restricted net assets consisted of endowments managed by donor selected trustees as well as endowments managed by the hospitals of the Corporation.

15. Leases

Several noncancellable operating leases, primarily for EDP equipment and office space, were in effect at December 31, 2014. Rental expense is recognized on a straight-line basis over the lease term. Aggregate future rental commitments for all operating leases having initial or remaining noncancellable lease terms in excess of one year with commitments in one or more of the next five years and thereafter are shown in the following table:

Years ending December 31,	**Operating Lease Commitments**
2015	$ 159,894
2016	137,344
2017	110,836
2018	91,641
2019	76,228
Thereafter	277,733
Total	$ 853,676

Rent expense of $193,173 and $191,722 in 2014 and 2013, respectively, was recorded in other operating expenses in the accompanying consolidated statements of operations.

(in thousands of dollars)

16. Contingencies

Herman Wooden and Thomas Logan, former corporate members of Highmark Inc., filed a lawsuit against Highmark Inc. in the Common Pleas Court of Philadelphia County alleging that Highmark Inc. is violating the Pennsylvania nonprofit corporation law by accumulating more than "incidental profits." Plaintiffs are seeking the creation of a common fund for the disposition of any funds determined to constitute more than "incidental profits" as well as an award of attorneys' fees and costs. Highmark Inc. filed its own Motion for Summary Judgment on April 15, 2013 as to which plaintiffs filed an opposition on May 17, 2013. On August 8, 2013, the Court of Common Pleas granted Highmark Inc.'s Motion for Summary Judgment and denied plaintiffs' Partial Motion for Summary Judgment. Plaintiffs appealed from the trial court's decision to the Commonwealth Court on August 9, 2013. The Commonwealth Court affirmed the trial court's decision on December 30, 2014. The plaintiffs filed a Petition for Allowance of Appeal with the Pennsylvania Supreme Court on January 29, 2015. Highmark Inc. believes, based on consultation with legal counsel, that it has meritorious defenses to the claims in this matter, but it is unable to predict the outcome of the matter or to reasonably estimate a range of possible loss.

In December 2010, Royal Mile Company, Royal Asset Management and Pamela Lang, on behalf of individuals and companies which have obtained health insurance coverage from Highmark Inc., filed a class action lawsuit in the United States District Court for the Western District of Pennsylvania alleging that Highmark Inc. and UPMC Health System violated antitrust laws by entering into an illegal agreement to restrain trade and by conspiring to create monopolies in the Western Pennsylvania health insurance market. On September 27, 2013, the Court granted the Highmark Inc.'s Motion to Dismiss and gave the Plaintiffs thirty days to file a further amended complaint. On October 28, 2013, the Plaintiffs filed a Motion for Leave to file a Third Amended Complaint which Highmark Inc. opposed. On August 21, 2014, the Court granted in part and denied in part the Plaintiffs' Motion for Leave to file a Third Amended Complaint and allowed the Plaintiffs to file a Third Amended Complaint on or before October 1, 2014 subject to the restrictions contained in the Court's opinion which limit the class members on whose behalf the Plaintiffs may bring their complaint as well as the time period applicable thereto. The Plaintiffs filed a Third Amended Complaint on October 1, 2014 and Highmark Inc. filed a motion to dismiss all claims or, in the alternative, to strike the class allegations in such complaint on October 31, 2014. Highmark Inc. believes, based on consultation with legal counsel, that it has meritorious defenses to the claims in this matter, but it is unable to predict the outcome of the matter or to reasonably estimate a range of possible loss.

A number of class action lawsuits filed throughout the United States against the BCBSA, Highmark and/or other Blue Cross and/or Blue Shield plans (the "BCBS Plans") have been consolidated in a multi-district litigation in the U.S. District Court for the Northern District of Alabama under the caption In re: Blue Cross Blue Shield Antitrust Litigation. The lawsuits state that they were filed on behalf of (i) healthcare providers in the United States who have provided services to any patient insured by or who was a member or beneficiary of Highmark or any other BCBS Plan and/or (ii) members and subscribers of Highmark and/or any other BCBS Plans. The lawsuits primarily deal with alleged conspiracy and price fixing by and among the BCBS Plans and BCBSA, the competitive impact of exclusive service areas granted by the Association, and alleged contract provisions of the BCBS Plans. Plaintiffs generally seek a judgment that the defendants have violated Section 1 of the Sherman Act, an injunction prohibiting defendants from entering into agreements that restrict the territories in which any BCBS Plan may compete, and an award of treble damages. In addition, certain of the complaints filed by plaintiffs and a separate complaint filed by LifeWatch contain additional claims specifically against the Corporation. The defendants filed Motion to Dismiss the

(in thousands of dollars)

lawsuits which were denied by the court in June 18, 2014. The subscribers filed an amended complaint on August 14, 2014 and the providers filed an amended complaint on September 30, 2014. Highmark believes, based on consultation with legal counsel, that it has meritorious defenses to the claims in this matter, but it is unable to predict the outcome of the matter or to reasonably estimate a range of possible loss.

On August 22, 2014, a complaint was filed against Highmark Inc. and certain of its subsidiaries by Intellectual Ventures I and Intellectual Ventures II alleging that such entities were infringing upon three information technology-related patents owned by the Plaintiffs. Highmark Inc. filed a Motion to Dismiss such Complaint on November 5, 2014 and the plaintiffs filed an opposition to such Motion on November 26, 2014. The Defendants also filed a Motion to Dismiss for Lack of Subject Matter Jurisdiction as to one of the alleged patents on February 27, 2015. Highmark Inc. believes, based on consultation with legal counsel, that it has meritorious defenses to the claims in this matter, but it is unable to predict the outcome of the matter or to reasonably estimate a range of possible loss.

On June 13, 2014, UPMC filed a Demand for Arbitration with the American Health Lawyers Association ("AHLA") on behalf of UPMC Altoona, UPMC Hamot, UPMC Mercy and Children's Hospital of Pittsburgh of UPMC. On August 8, 2014, UPMC amended its Demand to include all UPMC hospitals. The demand submits the dispute to binding arbitration. The claims set forth in the demand relate to: 1) the oncology fee schedule adjustment, 2) reimbursements for non-oncology services (i.e. robotics), 3) reimbursements for evaluating and managing new and established patients ("E&M"). UPMC contends that these fee changes breach the parties' hospital contracts and constitute a breach of the anti-retaliation provision in the 2012 Amendment to the Commercial Agreements. The Corporation contends that not all of the UPMC hospital agreements at issue require AHLA arbitration. UPMC and the Corporation have each selected one arbitrator to serve on the three person arbitration panel and the two selected arbitrators chose the third arbitrator. On October 8, 2014, the Corporation filed a Verified Petition in the Allegheny County Court of Common Pleas seeking to stay the AHLA arbitration. The Court granted the Petition on November 7, 2014 and stayed the arbitration filed by UPMC. The Corporation and UPMC subsequently have agreed to stay all arbitrations related to fee changes other than a single arbitration to be filed with the American Arbitration Association as to the oncology drug and evaluation & management fee changes under the UPMC Presbyterian Shadyside commercial hospital agreement. The Corporation believes, based on consultation with legal counsel, that it has meritorious defenses to the claims in this matter, but it is unable to predict the outcome of the matter or to reasonably estimate a range of possible loss.

On September 23, 2014, twelve (12) participating hospitals filed a complaint against Highmark alleging that Highmark breached its Medicare Advantage contracts with such hospitals by applying a two percent sequestration reduction to all claims submitted by such hospitals beginning January 1, 2014. Highmark filed an Answer and New Matter to such complaint on November 12, 2014. The Plaintiffs filed a Motion for Summary Judgment on December 22, 2014. In the opinion of management, based on consultation with legal counsel, adequate provision has been made in the financial statements for any potential liability related to these matters, and the amount of ultimate liability is not expected to materially affect the financial position or results from operations of the Corporation.

(in thousands of dollars)

Cyndie Nordi, a Highmark Inc. direct pay subscriber, brought a class action lawsuit in Allegheny County Orphan's Court on September 26, 2014. The complaint seeks relief from Highmark Inc.'s alleged unlawful conduct on behalf of policyholders. The case challenges Highmark Inc.'s operations and accumulation of surplus funds following a February 2005 Determination by the Pennsylvania Insurance Department that set parameters for an appropriate, sufficient operating surplus. Such Determination proclaimed that no Pennsylvania Blue Plan can include a risk and contingency factor in its filed premium rates. The plaintiff alleges that, despite acceptance of the Determination, Highmark unlawfully continues to generate huge underwriting gains. Ms. Nordi seeks relief in the form of monetary damages up to disgorging Highmark of all profits unjustly received and retained. Highmark Inc. intends to contest this matter vigorously. Highmark Inc. filed a Motion to Transfer the lawsuit to the Civil Division of the Allegheny County Court of Common Pleas on October 17, 2014 which was granted by the Orphan's Court on October 21, 2014. Highmark Inc. subsequently filed Preliminary Objections to the Complaint on November 10, 2014. The Plaintiff filed Preliminary Objections to Highmark Inc.'s Preliminary Objections on February 9, 2015. Highmark believes, based on consultation with legal counsel, that it has meritorious defenses to the claims in this matter, but it is unable to predict the outcome of the matter or to reasonably estimate a range of possible loss.

Participation in government sponsored health care programs subjects Highmark to a variety of federal laws and regulations and risks associated with audits conducted under these programs. These audits may occur in years subsequent to Highmark providing the relevant services under audit. These risks may include reimbursement claims as well as potential fines and penalties. CMS annually selects Medicare Advantage organizations for RADV audits. Contract-specific Medicare Advantage organization RADV audits measure individual Medicare Advantage organization-level payment error-rates related to risk adjustment data for payment recovery. RADV audits confirm the presence of risk adjustment conditions based on supporting medical record documentation. In the opinion of management, based on consultation with legal counsel, adequate provision has been made in the financial statements for any potential liability related to these matters, and the amount of ultimate liability is not expected to materially affect the financial position or results from operations of Highmark.

In April 2009, a putative collective action was filed in the United States District Court for the Western District of Pennsylvania alleging claims under ERISA, RICO and the Fair Labor Standards Act ("FLSA") against WPAHS, certain of its related entities and certain WPAHS executives. The suit alleges that current and former employees did not receive compensation for all hours worked. A companion class action suit alleging various state court claims was filed in the Court of Common Pleas of Allegheny County. In late December 2011, the District Court for the Western District of Pennsylvania denied the certification of the class action suit and the Third Circuit affirmed in 2013. In the state suit, the judge dismissed the meal break claims but preserved potential non-meal break wage claims. That case was stayed pending the outcome of the federal appeal, and has remained inactive despite the decision by the Third Circuit. In response to the Third Circuit decision, the law firm that filed the 2009 case filed a new action in October 2013 that makes many of the same allegations against WPAHS, certain related entities and certain executives and individuals, and asserts a single cause of action under the FLSA. WPAHS has filed a motion to dismiss the suit and the collective action claims were dismissed, as well as many of the tangential defendants. The case is proceeding but only for the single named plaintiff and corresponding claims of a FLSA violation. The Corporation believes, based on consultation with legal counsel, that it has meritorious defenses to the claims in this matter, but it is unable to predict the outcome of the matter or to reasonably estimate a range of possible loss.

(in thousands of dollars)

WPAHS has conducted an investigation of its leasing activity with independent physicians. Certain of these arrangements potentially implicate the federal anti-kickback statute (42 U.S.C. § 1320a-7b(b)), the civil monetary penalty authorities (42 U.S.C. § 1320a-7a) and the physician self-referral law (42 U.S.C. § 1395nn) (the Stark law). WPAHS submitted a preliminary self-disclosure report of certain of these arrangements to the Health and Human Services Office of Inspector General ("OIG") pursuant to the OIG's self-disclosure protocol on December 20, 2012. WPAHS received a letter from the OIG dated February 27, 2013 accepting the submission into the OIG's self-disclosure protocol. WPAHS submitted a supplemental disclosure report to the OIG on March 22, 2013, identifying certain additional lease arrangements that it requests to be included in the self-disclosure protocol. WPAHS has since reached a settlement with the United States, releasing WPAHS from certain potential civil liabilities and resolving the OIG self-disclosure matter, in consideration of a settlement payment in the amount of $1,529. The settlement is not an admission of liability by WPAHS. On May 31, 2013, WPAHS disclosed certain other lease arrangements involving potential noncompliance with the Stark law to CMS. The disclosure reports are not an admission of liability with respect to the disclosed matters, but are intended to facilitate a resolution by settlement of potential violations of the aforementioned laws. WPAHS may be subject to fines and penalties with respect to the lease arrangements that are the subject of the disclosures.

The Corporation is regulated by various federal, state and local governmental agencies. Consequently, the Corporation may be subject to examination or investigation by such governmental agencies. In 2014, the Corporation received information that it may have been overpaid on a contract. With respect to this matter, the Corporation has determined that a refund is both probable and reasonably estimable. Accordingly, the Corporation has recorded a liability representing the best estimate of the exposure. While the ultimate disposition of each exam or investigation is not yet determinable, the Corporation does not believe that this matter will have a material adverse effect on the financial condition, results of operations or cash flows of the Corporation.

The Corporation is subject to various other contingencies, including legal and compliance actions and proceedings that arise in the ordinary course of its business. Due to the complex nature of these actions and proceedings, the timing of the ultimate resolution of these matters is uncertain. In the opinion of management, based on consultation with legal counsel, adequate provision has been made in the financial statements for any potential liability related to these matters, and the amount of ultimate liability is not expected to materially affect the financial position or results from operations of the Corporation.

17. Subsequent Events

Effective January 1, 2015, Highmark DE, under a newly formed non-profit company, Highmark BCBSD Health Options Inc. ("DHOP"), began providing services to the Delaware Department of Health and Social Services under a Medicaid Managed Care contract. DHOP serves Delaware Medicaid and Delaware Healthy Children Program members and Long-Term Care members.

In June 2015, HVHC Inc. fully repaid its outstanding borrowings totaling $75 million on a $400 million revolving credit facility that expires March 2018.

In June 2015, the Department approved Highmark's merger with BCNEPA. In connection with the merger, contribution income of $229.3 million was recognized based on the preliminary valuation of net assets acquired. The contribution income recognized is subject to change pending the finalization of the valuation of the net assets acquired.

(in thousands of dollars)

In July 2015, Highmark Inc. replaced its current $75 million revolving credit facility with a financial institution with a $275 million revolving credit facility with four financial institutions that expires on July 17, 2018. Amounts borrowed under this facility bear interest at variable interest rates.

In connection with the preparation of the consolidated financial statements, the Corporation evaluated events subsequent to the balance sheet date of December 31, 2014 through the financial statement issuance date and determined that all material transactions have been recorded and disclosed properly.

Independent Auditor's Report
on Accompanying Consolidating Information

To the Board of Directors of Highmark Health:

We have audited the consolidated financial statements of Highmark Health as of December 31, 2014 and for the year then ended and our report thereon appears on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies.

PricewaterhouseCoopers LLP

March 30, 2015

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Highmark Health
Consolidating Balance Sheet
December 31, 2014

(in thousands of dollars)

	Highmark Health and Other	Highmark Inc.	West Penn Allegheny Health System	Jefferson Regional Medical Center	Saint Vincent Health System	Eliminations	Consolidated
Assets							
Cash and cash equivalents	$ 100,704	$ 915,871	$ 66,775	$ 9,395	$ 15,873	$ -	$ 1,108,618
Accounts receivable							
Insurance, less allowance for doubtful accounts of $43,200	-	2,232,097	-	-	-	-	2,232,097
Patient service, less allowance for doubtful accounts of $92,592	239	-	177,875	30,108	29,588	(85,160)	152,650
Other	64,544	145,261	57,993	4,442	6,279	(125,673)	152,846
Investments							
Debt securities, available-for-sale at fair value	-	3,224,940	-	-	-	-	3,224,940
Equity securities, available-for-sale at fair value	-	945,685	-	-	-	-	945,685
Board designated, restricted and other investments at fair value	-	-	558,921	104,646	81,079	-	744,646
Investment in subsidiaries and affiliates	5,425,019	218,153	8,268	19,188	32,246	(5,427,293)	275,581
Other	-	156,230	-	-	-	-	156,230
Reinsurance recoverables	-	323,119	-	-	-	-	323,119
Securities lending invested collateral	-	258,899	-	-	-	-	258,899
Inventory, net	8,352	78,705	27,491	4,317	5,235	-	124,100
Income tax recoverable, net	(4,539)	40,463	-	-	-	-	35,924
Deferred income taxes, net	2,693	113,185	(5,941)	(1,858)	-	-	108,079
Property and equipment, net	189,701	575,679	592,823	153,043	117,599	-	1,628,845
Goodwill and other intangible assets, net	413	730,829	101,882	-	-	-	833,124
Prepaid pension plan assets	-	1,750	-	-	-	-	1,750
Other assets	(19,599)	942,304	123,221	28,415	22,775	(550,902)	546,214
Total assets	$ 5,767,527	$ 10,903,170	$ 1,709,308	$ 351,696	$ 310,674	$ (6,189,028)	$ 12,853,347
Liabilities and Net Assets							
Claims outstanding	$ -	$ 2,442,044	$ -	$ -	$ -	$ (50,551)	$ 2,391,493
Unearned premium revenue	-	300,490	-	-	-	-	300,490
Amounts held for others	-	488,643	-	-	-	-	488,643
Accrued salaries and benefits	54,203	173,515	66,543	13,560	14,245	-	322,066
Other payables and accrued expenses	77,016	792,652	155,990	23,269	42,673	(130,423)	961,177
Securities lending payable	-	258,929	-	-	-	-	258,929
Benefit plan liabilities	-	387,473	249,303	95,297	79,542	-	811,615
Debt	180,643	738,648	1,113,892	105,264	116,191	(550,902)	1,703,736
Other liabilities	1,195	10,521	163,382	25,592	33,401	(29,859)	204,232
Total liabilities	313,057	5,592,915	1,749,110	262,982	286,052	(761,735)	7,442,381
Net Assets							
Unrestricted	5,171,429	5,310,255	(314,121)	87,922	16,692	(5,144,252)	5,127,925
Temporarily restricted	18,787	-	14,287	476	4,024	(18,787)	18,787
Permanently restricted	264,254	-	260,032	316	3,906	(264,254)	264,254
Total net assets	5,454,470	5,310,255	(39,802)	88,714	24,622	(5,427,293)	5,410,966
Total liabilities and net assets	$ 5,767,527	$ 10,903,170	$ 1,709,308	$ 351,696	$ 310,674	$ (6,189,028)	$ 12,853,347

Highmark Health
Consolidating Statement of Operations
Year Ended December 31, 2014

(in thousands of dollars)

	Highmark Health and Other	Highmark Inc.	West Penn Allegheny Health System	Jefferson Regional Medical Center	Saint Vincent Health System	Eliminations	Consolidated
Unrestricted revenue and other support							
Premium revenue	$ -	$ 12,815,272	$ -	$ -	$ -	$ (2,316)	$ 12,812,956
Net patient service revenue	2,131	-	1,662,312	259,130	315,691	(593,272)	1,645,992
Vision revenue	-	1,246,978	-	-	-	-	1,246,978
Management services revenue	-	856,639	-	-	-	(5,231)	851,408
Other operating revenue	364,604	49,952	125,088	14,543	18,583	(390,266)	182,504
Net assets released from restriction	-	-	9,560	606	1,310	-	11,476
Total unrestricted revenue and other support	366,735	14,968,841	1,796,960	274,279	335,584	(991,085)	16,751,314
Expenses							
Claims incurred	-	11,168,449	-	-	-	(526,829)	10,641,620
Salaries, wages and fringe benefits	336,138	1,621,741	982,361	136,734	160,039	(10,765)	3,226,248
Patient care supplies	2,385	-	332,977	53,815	56,149	-	445,326
Depreciation and amortization	3,650	179,732	71,403	20,512	13,489	-	288,786
Other operating expenses	49,541	2,121,306	423,260	87,261	99,499	(453,491)	2,327,376
Total operating expenses	391,714	15,091,228	1,810,001	298,322	329,176	(991,085)	16,929,356
Operating (loss) gain	(24,979)	(122,387)	(13,041)	(24,043)	6,408	-	(178,042)
Net investment income	325	231,463	23,602	14,065	1,973	(17,649)	253,779
Interest expense	(3,005)	(37,375)	(29,383)	(4,247)	(6,394)	17,649	(62,755)
Net assets acquired through affiliations	-	-	-	-	-	-	-
Equity losses of subsidiaries	(59,462)	-	-	-	-	59,462	-
Nonoperating (expenses) income	(19)	(1,200)	790	(2,466)	(418)	-	(3,313)
(Deficit) excess of revenue over expenses before income taxes	(87,140)	70,501	(18,032)	(16,691)	1,569	59,462	9,669
Income tax provision (benefit)	1,847	92,751	(1,894)	5	(8)	-	92,701
(Deficit) excess of revenue over expenses	$ (88,987)	$ (22,250)	$ (16,138)	$ (16,696)	$ 1,577	$ 59,462	$ (83,032)

Highmark Health
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2014

CFDA No.	Description	Subagency/Pass-Through Entity	Award # / Pass-Thru Entity ID		Federal Expenditures
Research and Development Program Cluster:					
U.S. Department of Defense Direct Awards					
12.420	Military Medical Research and Development	Department of the Army	W81XWH-09-1-0275		70,421
	Total U.S. Department of Denfense Direct Awards			$	70,421
U.S. Department of Defense Pass-Through Awards					
12.420	Military Medical Research and Development	JOHNS HOPKINS UNIVERSITY	W81XWH-10-2-0090		(12,931)
12.420	Military Medical Research and Development	JOHNS HOPKINS UNIVERSITY	W81XWH-09-2-0108		183,940
12.420	Military Medical Research and Development	JOHNS HOPKINS UNIVERSITY	W81XWH-12-1-0588		290
12.420	Military Medical Research and Development	Neuro Kinetics	W81XWH-12-C-0205		64,206
	Total U.S. Department of Denfense Pass-Through Awards			$	235,505
U.S. Department of Health and Human Services Direct Awards					
93.173	Research Related to Deafness and Communication Disorders	NIDCD	R01DC008841A		133,311
93.173	Research Related to Deafness and Communication Disorders	NIDCD	2R01DC002148-17		(13,184)
93.242	Mental Health Research Grants	NIH	R01MH095208		209,701
93.855	Allergy, Immunology and Transplantation Research	NIAID	7 R01 AI077591B-03		28,633
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	NIAMS	7 R01 AR046588C-09		223
93.398	Cancer Research Manpower	NIH	5K01CA151752-03		107,967
93.121	Oral Diseases and Disorders Research	National Inst Dental	5R03DE020118-02		8,623
93.121	Oral Diseases and Disorders Research	National Inst Dental	1R01DE022973-01		420,229
93.837	Cardiovascular Diseases Research	NIH	1R21HL106114-01A4		161,712
93.837	Cardiovascular Diseases Research	NIH	HHSN268201400008C		215,759
	Total U.S. Department of Health and Human Services Direct Awards			$	1,272,975
U.S. Department of Health and Human Services Pass-Through Awards					
93.173	Research Related to Deafness and Communication Disorders	Carnegie Mellon Univ	R00-DC-011322		91,217
93.242	Mental Health Research Grants	LOS ANGELES BIOMEDIC	1 R01 MH093898-01		12,181
93.242	Mental Health Research Grants	University of Texas	1 R34MH095210-01		19,235
93.242	Mental Health Research Grants	Medical University o	1 R34 MH096907-01A1		8,483
93.387	Cardiovascular Diseases Research	Univ of Pittsburgh	5UHL510098177-05		16,095
93.394	Cancer Detection and Diagnosis Research	NSABP Foundation	U24 CA114732		2
93.394	Cancer Detection and Diagnosis Research	NSABP Foundation	U24 CA114732		3,978
93.395	Cancer Treatment Research	NSABP Foundation	U10CA12027-41 EXT II		31,798
93.395	Cancer Treatment Research	CTSU/NSABP	FEDERAL		1,350
93.395	Cancer Treatment Research	NSABP Foundation	U10CA12027 NSABP 04		800
93.395	Cancer Treatment Research	NSABP Foundation	B-42 TFED		100
93.395	Cancer Treatment Research	NSABP Foundation	HER2		650
93.395	Cancer Treatment Research	NSABP Foundation	B-47 FED		3,090
93.395	Cancer Treatment Research	NSABP Foundation	FED NSABP B49		350
93.395	Cancer Treatment Research	Radiation Therapy On	RTOG 0525		100
93.395	Cancer Treatment Research	University of Chicag	140202		400
93.395	Cancer Treatment Research	University of Chicag	140503		4,400
93.395	Cancer Treatment Research	CALGB FOUNDATION	CALGB 80803		6,100

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards

Highmark Health
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2014

CFDA No.	Description	Subagency/Pass-Through Entity	Award # / Pass-Thru Entity ID	Federal Expenditures
93.395	Cancer Treatment Research	University of Chicag	U10 CA31946	9,599
93.395	Cancer Treatment Research	The Clevland Clinic	CA 27469	4,126
93.395	Cancer Treatment Research	The Clevland Clinic	CA 27469	2,689
93.395	Cancer Treatment Research	The Clevland Clinic	GOG - 0258	(1,406)
93.395	Cancer Treatment Research	AMER COLL OF RAD	U10CA21661	550
93.395	Cancer Treatment Research	AM COL SURG ONC GRP	IRB 09-021	2,000
93.395	Cancer Treatment Research	University of Chicag	CALGB 140503	1,250
93.399	Cancer Control	NSABP Foundation	5 U10 CA37377-28	50,162
93.399	Cancer Control	NSABP Foundation	TFED37-395	2,400
93.701	Trans-NIH Recovery Act Research Support	THE EMMES CORPORATIO	1U01NS062835-01A1	24,609
93.837	Cardiovascular Diseases Research	Univ of Pittsburgh	1R34HL107613-01A1	15,558
93.837	Cardiovascular Diseases Research	Univ of Pittsburgh	5U10HL098177-05	26,708
93.837	Cardiovascular Diseases Research	Univ of Pittsburgh	5U10HL098177-06	22,130
93.837	Cardiovascular Diseases Research	Univ of Pittsburgh	UHL501077871-09	661
93.837	Cardiovascular Diseases Research	Univ of Pittsburgh	5U01HL077871-09	4,940
93.837	Cardiovascular Diseases Research	Univ of Pittsburgh	5U01HL077871-10	1,207
93.837	Cardiovascular Diseases Research	BLENDERHOUSE LLC	1R41-HL-120428-01	12,788
93.837	Cardiovascular Diseases Research	Univ of Pittsburgh	5U10HL098115-03	6,346
93.837	Cardiovascular Diseases Research	Univ of Pittsburgh	5U10HL098177-06	7,694
93.837	Cardiovascular Diseases Research	Univ of Pittsburgh	5U10HL098177-06	303
93.837	Cardiovascular Diseases Research	BRINGHAM AND WOMEN'S	5R01HL091069	3,290
93.839	Blood Diseases and Resources Research	Duke University	U01 HL087229 SITE 144	835
93.839	Blood Diseases and Resources Research	WASHINGTON UNIVERSIT	5U01HL088476-03	1,934
93.839	Blood Diseases and Resources Research	National Morrow Dono	U10-HL-069294	487
93.839	Blood Diseases and Resources Research	WASHINGTON UNIVERSIT	5U01HL088476-02	4,686
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	Univ of Pittsburgh	1R01AR057338-01	35,257
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	Univ of Pittsburgh	5R01AR057028-02	164
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	QUEENS UNIVERSITY	5-U1-DK-82316-2	168,835
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	University of Texas, Southwestern Medical Center	5R01DK097340-02	53,734
93.853	Extramural Research Programs in the Neurosciences and Neurological	Optima Neuroscience,	1R21NS080031-01A1	20,786
93.853	Extramural Research Programs in the Neurosciences and Neurological	Yale University	5 U01 NS044876-03	39,310
93.853	Extramural Research Programs in the Neurosciences and Neurological	JOHNS HOPKINS UNIVER	1U01NS062851-01A1	13,946
93.853	Extramural Research Programs in the Neurosciences and Neurological	TEMPLE UNIVERSITY	1U01NS069498	118
93.853	Extramural Research Programs in the Neurosciences and Neurological	RUTGERS	99-705	1,855
93.853	Extramural Research Programs in the Neurosciences and Neurological	RUTGERS	5R44 NS064647-03	73,745
93.855	Allergy, Immunology and Transplantation Research	DUQUESNE UNIVERSITY	1R21AI113000-01	10,500
93.855	Allergy, Immunology and Transplantation Research	BRINGHAM AND WOMEN'S	U01AI063623	13,834
93.859	Biomedical Research and Research Training	Univ of Pittsburgh	5P50GM076659-05	28
93.859	Biomedical Research and Research Training	Univ of Pittsburgh	1R01GM097471-01A1	6,642
93.865	Child Health and Human Development Extramural Research	University of Michig	R01-HD-066139	10,551
93.865	Child Health and Human Development Extramural Research	JOHNS HOPKINS UNIVER	1 R01 HD070720-01	2,584
	Total U.S. Department of Health and Human Services Pass-Through Awards			$ 857,763
Total Research and Development Program Cluster				$ 2,436,663

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards

Highmark Health
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2014

CFDA No.	Description	Subagency/Pass-Through Entity	Award # / Pass-Thru Entity ID	Federal Expenditures
Student Financial Aid Cluster:				
U.S. Department of Education Awards				
84.007	Federal Supplemental Educational Opportunity Grants			7,861
84.063	Federal Pell Grant Program			499,392
84.268	Federal Direct Loans			1,890,158
	Total U.S. Department of Education Awards			$ 2,397,411
U.S. Department of Health and Human Services Awards				
93.364	Nursing Student Loans			71,650
	Total U.S. Department of Health and Human Services Awards			$ 71,650
Total Student Financial Aid Cluster				$ 2,469,061
Other Awards				
U.S. Department of Health and Human Services Awards				
93.185	Immunization Research			3,945
93.243	Substance Abuse and Mental Health Services_Projects of Regional and			1,320,700
93.767	Pass-Through Program from the Commonwealth of Pennsylvania - Children's Health Insurance Program ("CHIP")			49,103,637
93.889	National Bioterrorism Hospital Preparedness Program			141,058
93.917	HIV Care Formula Grants			39,074
93.918	Grants to Provide Outpatient Early Intervention Services with Respect			530,054
	Total U.S. Department of Health and Human Services Awards			$ 51,138,468
Total Other Awards				$ 51,138,468
Total Federal Expenditures				**$ 56,044,192**

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards

1. General

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) presents the activity of all federal financial assistance programs of Highmark Health for the year ended December 31, 2014, which includes activity of Highmark Inc. and West Penn Allegheny Health System (“WPAHS”). Federal awards received directly from federal agencies as well as federal awards passed through other prime recipients are included in the accompanying schedule.

2. Basis of Presentation

The Schedule is prepared on the accrual basis of accounting. Negative expenditures detailed in the Schedule result from current year adjustments to prior year award amounts. The information in this Schedule is presented in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Because the Schedule presents only a selected portion of the activities of Highmark Health, it is not intended to, and does not, present either the financial position, results of operations or cash flows of Highmark Health.

3. Children’s Health Insurance Program (“CHIP”)

The CHIP program provides access to health insurance for all children in Pennsylvania, regardless of household income. Highmark Inc. administers CHIP to approximately 35,000 children in 49 counties of western and central Pennsylvania providing eligibility, enrollment, education and outreach functions. Additionally, Highmark Inc., on its own and through certain of its subsidiaries, provides all related insurance coverage and retains all insurance obligations.

Funding for CHIP is appropriated through the Commonwealth of Pennsylvania general fund, cigarette taxes and Pennsylvania’s share of funds allocated from the Federal Balanced Budget Act of 1997, through which CHIP began receiving federal monies from the United States Department of Health and Human Services to expand the provision of health care insurance coverage to children of low income families and to expand related outreach efforts.

4. Student Loan Programs

Loan disbursements under Federal Direct Loans (CFDA 84.268) for the year ended December 31, 2014 amounted to $1,890,158. WPAHS also administers the Federal Nursing Student Loan Program (CFDA 93.364). Loan disbursements under this Program for the year ended December 31, 2014 amounted to $71,650. The loans outstanding at December 31, 2014 under this program amounted to $518,586.

5. Sub-recipients

For the year ended December 31, 2014, WPAHS passed through to sub-recipients $451,471 of federal funding in the following programs:

CFDA		Passed through to subrecipient
93.121		8,594
93.173		44,748
93.242		39,887
93.243		358,242
	$	451,471

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of Highmark Health:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the consolidated financial statements of Highmark Health and its subsidiaries and affiliates (the "Corporation"), which comprise the consolidated balance sheet as of December 31, 2014, and the related statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 30, 2015. The financial statements of HVHC Inc. were not audited in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

March 30, 2015

pwc

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Directors of Highmark Health:

Report on Compliance for Each Major Federal Program

We have audited Highmark Health and its subsidiaries and affiliates (the "Corporation")'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended December 31, 2014. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-001 through 2014-004. Our opinion on each major federal program is not modified with respect to these matters.

The Corporation's response to the noncompliance findings identified in our audit is described in the accompanying management's corrective action plan. The Corporation's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, except as noted in the following paragraph, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers LLP

September 30, 2015

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ____ Yes __X__ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ____ Yes __X__ None reported

Noncompliance material to financial statements noted? ____ Yes __X__ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ____ Yes __X__ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ____ Yes __X__ None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? __X__ Yes ____ No

Identification of major programs:

CFDA Number(s) or Grantor ID No.	*Name of Federal Program or Cluster*
Various	Research and Development Cluster
Various	Student Financial Aid Cluster
93.243	Substance Abuse and Mental Health Services
93.767	Children's Health Insurance Program ("CHIP")

Dollar threshold used to distinguish between Type A and Type B programs: $ 1,681,326

Auditee qualified as low-risk auditee? ____ Yes __X__ No

Section II – Financial Statement Findings

There were no financial statement findings in the current year.

Section III – Federal Award Findings and Questioned Costs

2014 – 001 Direct Loan Reconciliation

Student Financial Aid Cluster
CFDA 84.268 Federal Direct Loan Program

Criteria:

In accordance with 34 CFR 685.102, schools must reconcile the direct loan school account statement generated from the Common Origination and Disbursement (COD) website to institutional records at least monthly to meet regulatory requirements. Reconciliation is conducted to identify and resolve differences between net draws (cash minus refunds of cash) and Net Accepted and Posted Disbursements (NAPD) (disbursements minus disbursement adjustments) reported to COD for a specific award year.

Condition:

During the testing of the direct loan reconciliation process it was noted that management was not performing the reconciliations at least monthly. Instead, management relied on the academic year close out process which is done after the end of an academic year. This close out process encompasses various activities, including reconciling direct loans received and disbursed.

Questioned Costs:

None

Cause:

Management's conversion to a monthly reconciliation process was not completed for certain time periods.

Effect:

Reconciling items may exist for a longer period of time than they would have had monthly reconciliations been performed.

Recommendation:

We recommend that WPAHS implement formal procedures over the Direct Loan Reconciliation process to ensure that direct loan reconciliations are being performed on a monthly basis.

Management's Response:

See Management Views and Corrective Action Plan

2014 – 002 Effort Reporting

Research and Development Cluster
CFDA 93.918 Department of Health and Human Services
CFDA 93.243 Department of Health and Human Services

Criteria:

In accordance with Code of Federal Regulations, Title 45, Part 74, appendix E, section IX.B.7.c-d, for members of the professional staff, current and reasonable estimates of the percentage distribution of their total effort may be used. In order to qualify as current and reasonable, estimates must be made no later than one month (though not necessarily a calendar month) after the month in which the services were performed. Estimates of effort spent by a member of the professional staff on each research agreement should be prepared by the individual who performed the services or by a responsible individual such as a department head or supervisor having first-hand knowledge of the services performed on each research agreement.

Condition:

During the testing of the direct payroll costs, 13 of the 57 selections Effort Reports detailing the employee's monthly percent of effort allocated to each grant could either not be found, or had no evidence of review and approval. Review below for further details regarding the findings noted.

Cluster/Program per the SEFA	CFDA #	Grant Number per the Agreement	Award Year	Number of Findings	Finding
Substance Abuse and Mental Health Services Projects	93.243	1U79TI025406-01	9/1/2013 - 8/31/2014	1	No evidence of review
Substance Abuse and Mental Health Services Projects	93.243	1U79SM061257-03	9/30/2014 - 9/29/2015	1	No evidence of review
Substance Abuse and Mental Health Services Projects	93.243	1U79SM061257-02	9/30/2013 - 9/29/2014	1	No report found
Research and Development	93.121	5R01DE022973-03	7/1/2013 – 6/30/2014 & 7/1/2014 – 6/30/2015	8	No evidence of review
Research and Development	93.173	5R01DC008841-05	5/1/2012-4/30/2015	2	No evidence of review

Questioned Costs:

None

Cause:

We note management did not perform adequate enforcement of their policies to ensure all reports are properly reviewed, returned timely and retained.

Effect:

Direct salary expenditures allocated to the grant may be inaccurate.

Recommendation:

We recommend that WPAHS ensure proper enforcement of their policy in order to be in compliance with OASC-3 Health and Human Services Cost Circular and ensure appropriate charges to grants.

Management's Response:

See Management Views and Corrective Action Plan

2014 – 003 Return of Title IV Funds

Student Financial Aid Cluster
CFDA 84.268 Federal Pell Grant Program
CFDA 84.063 Federal Direct Student Loans

Criteria:

In accordance with 34 CFR Section 668.173(b) Returns of Title IV funds are required to be deposited or transferred into the SFA account or electronic fund transfers initiated to ED or the appropriate FFEL lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew. Returns by check are late if the check is issued more than 45 days after the institution determined the student withdrew or the date on the canceled check shows the check was endorsed more than 60 days after the date the institution determined that the student withdrew.

Condition:

During testing of the return of Title IV Funds, it was noted that for 1 of the 9 selections, the funds were not returned to ED within 45 days after the institution determined the student withdrew.

Questioned Costs:

None

Cause:

Inadequate procedures to ensure processing of the Title IV refunds in accordance with the established criteria.

Effect:

Funds are not returned to the ED within the required timeframe.

Recommendation:

We recommend that WPAHS implement a formal procedure over the calculation and return of Title IV funds subsequent to student withdrawals.

Management's Response:

See Management Views and Corrective Action Plan

2014 – 004 Reporting Requirements

Research and Development Cluster
93.242 – Mental Health Research Grants
93.837 – Cardiovascular Diseases Research
93.847 – Diabetes, Digestive, and Kidney Diseases Extramural Research
93.855 – Allergy, Immunology and Transplantation Research

Criteria:

In accordance with various award agreements, WPAHS has certain reporting requirements. The requirements vary by award.

Condition:

During testing of reporting requirements, it was noted that for 5 of 9 selections, WPAHS did not follow certain reporting requirements as stipulated by the subaward agreement. Review below for further details regarding findings noted.

CFDA Number	Award Number	Award Year	Sponsor Name	Finding
93.837	5U10HL098177-05	7/1/2013 - 6/30/2014	University of Pittsburgh	Final Technical Report not issued, Final Patent Report not issued
93.855	1R21AI113000-01	9/1/2013 - 8/21/2014	Optima Neuroscience	Final Invoice submitted later than 45 days after the close of the budget period
93.837	1R41-HL-120428-01	8/15/2013 - 7/31/2014	Blenderhouse LLC	Final Technical Report not issued, Final Patent Report not issued
93.847	5-U1-DK-82316-2	7/1/2013 - 10/31/2014	Queens University	Quarterly expenditure reports due within 30 days of the quarter end date - report not issued, final technical report not issued, final patent report not issued.

93.242	1 R34 MH096907-01A1	4/1/2013 - 7/31/2014	Medical University of South Carolina	Annual Progress Report is due to the Prime Recipient 60 days prior to the end of the grant budget period – report not issued

Questioned Costs:

None

Cause:

Inadequate procedures to ensure that subaward reporting requirements were met as specified by the subaward agreement and that related documentation was retained. Management has asserted because of the routine and periodic communication between the Principal Investigator and the prime recipient, the prime recipient has told them that formal written reports are not needed.

Effect:

Reporting requirements are not fulfilled in accordance with the executed agreements.

Recommendation:

We recommend that WPAHS implement policies and procedures to ensure sufficient evidence is maintained to document the fulfilment of the reporting requirements as stipulated in subagreements and if certain reporting requirements are no longer required, obtain supporting documentation.

Management's Response:

See Management Views and Corrective Action Plan

Section IV – Status of Prior Year's Findings

2013-001 A-133 Report Submission

Condition:

The A-133 report related to the eight months ended December 31, 2013 was issued after September 30, 2014.

Status:

Management ensured that the 2014 A-133 audit report was filed timely.

2013-002 Sub-recipient Monitoring

Condition:

During the testing of sub-recipient monitoring, our auditor selected a sample of 9 sub-recipients and noted significant deficiencies in 2 of the sub-recipient A-133 audit reports during 2013 related to award # 1R01 MH095208-01 for the award year 12/1/2012 – 11/30/2013. When discussed with management it was noted that management did not issue a decision on the audit finding, nor did they ensure that the sub-recipients took corrective action on all audit findings.

Status:

During 2014, Management successfully implemented improvements to its sub-recipient monitoring process such that for the 2014 audit period, no further findings were noted.

2013-003 Direct Loan Reconciliation

Condition:

During our auditor's testing of the direct loan reconciliation process it was noted that management was not performing the reconciliations. Instead, management relied on the academic year close out process which is done after the end of an academic year. This close out process encompasses various activities, including reconciling direct loans received and disbursed.

Status:

During 2014, Management continued to work on improvements in its direct loan reconciliation process, but this was also a finding in 2014. Refer to current year finding 2014-001.

2013-004 Effort Reporting

Condition:

During our auditor's testing of the direct payroll costs, 26 of the 145 selections of Effort Reports detailing the employee's monthly percent of effort allocated to each grant could either not be found, or had no evidence of review and approval.

Status:

During 2014, Management continued to work on improvements in its effort reporting process, but this was also a finding in 2014. Refer to current year finding 2014-002.

2013-005 Return of Title IV Funds

Condition:

During our auditor's testing of the return of Title IV Funds, it was noted that for 2 of the 4 selections, the funds were not returned to ED within 45 days after the institution determined the student withdrew and for 1 of the 4 selections the amount returned was $495 more than the Title IV Return of Funds Calculation prepared and reviewed by the Student Financial Aid Officer.

Status:

Due to the delay in timing of issuance of the 2013 A-133 report, this return of Title IV funds issue was only recently uncovered. It applies to both 2013 and 2014. Therefore, Management did not have the opportunity to remediate this issue for 2014. Refer to current year finding 2014-003.

2013-006 Reporting Requirements

Condition:

During our auditor's testing of reporting requirements, it was noted that for 1 of 2 selections, WPAHS did not follow certain reporting requirements as stipulated by the subaward agreement.

Status:

Due to the delay in timing of issuance of the 2013 A-133 report, this reporting requirements issue was only recently uncovered. It applies to both 2013 and 2014. Therefore, Management did not have the opportunity to remediate this issue for 2014. Refer to current year finding 2014-004.

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Management Views and Corrective Action Plan
Year Ended December 31, 2014

Federal Award Findings and Questioned Costs

2014 – 001 Direct Loan Reconciliation

Student Financial Aid Cluster
CFDA 84.268 Federal Direct Loan Program

Management's Response:

In response to prior year feedback, WPAHS planned to implement a monthly reconciliation process for the direct loan school account statement to the institutional records. However, because of new restrictions effective September 2014; there were no drawdowns for WPAHS to reconcile on a monthly basis as WPAHS was now required to submit information to support receipt of the funds upfront prior to receiving the funds. As such, moving from a drawdown approach to a reimbursement approach negated the need for monthly drawdown reconciliations.

Responsible person: Matt Peterson, Vice President and Corporate Controller, West Penn Allegheny Health System

Expected Implementation Date: September 2014

2014 – 002 Effort Reporting

Research and Development Cluster
CFDA 93.918 Department of Health and Human Services
CFDA 93.243 Department of Health and Human Services

Management's Response:

WPAHS recognizes the importance of timely certification of personnel allocating time and effort against federal awards. WPAHS plans to evaluate their current effort reporting policy, procedures, and systems to ensure timely certifications of time and effort charged to federal awards. The WPAHS Manager of Research Accounting and Director of Research Administration will be responsible for implementing necessary controls to be performed on a monthly basis, which will include tracking and collecting of reports. Additionally, Management will work with the Compliance department personnel to emphasize and communicate the importance of submitting accurate and timely effort reports, either via an updated internal policy or mandatory training.

Responsible person: Matt Peterson, Vice President and Corporate Controller, West Penn Allegheny Health System

Expected Implementation Date: This effort reporting process will be implemented by November 30, 2015.

2014 – 003 Return of Title IV Funds

Student Financial Aid Cluster
84.268 - Federal Pell Grant Program
84.063 - Federal Direct Student Loans

Management's Response:

WPAHS will ensure that both Schools of Nursing implement new procedures to ensure appropriate processing of the Title IV funds. As part of the procedures, WPAHS will perform a monthly review of a listing of students who have withdrawn. For all Title IV financial aid students, WPAHS will perform a post withdrawal calculation to determine if any aid is owed back to the School of Nursing/ U.S. Department of Education. For those instances where it is determined aid is owed, WPAHS will ensure appropriate follow up procedures for aid to be returned within the required timeframe.

Expected Implementation Date: This process will be implemented by November 30, 2015.

2014 – 004 Reporting Requirements

Research and Development Cluster
93.242 – Mental Health Research Grants
93.837 – Cardiovascular Diseases Research
93.847 – Diabetes, Digestive, and Kidney Diseases Extramural Research
93.855 – Allergy, Immunology and Transplantation Research

Management's Response:

WPAHS properly completed the reporting requirements for direct federal awards, however, specific reporting was not properly documented for situations where WPAHS received a sub-award. WPAHS Principal Investigator's participated in ongoing communications with the prime awardee's Principal Investigator, including but not limited to participation in conference calls, email dialogue, data exchange, and inputting information into electronic data capturing websites, throughout the duration of the award. This ongoing communication satisfied the necessary performance requirements of the statement of work and the submission of invoices paid by the prime awardee documented the labor and other efforts associated in carrying out the statement of work. Management will implement procedures within the Office of Grant and Contracts (OGC) whereby reporting requirements will be tracked per the sub-award terms and conditions and properly documented to provide evidence proper reporting occurred. OGC be will responsible for the collection, archiving, and filing of such documentation.

Expected Implementation Date: This process will be implemented by November 30, 2015.

Matthew L. Peterson, Vice President/Controller
412-330-6090