

ALLEGHENY COUNTY
HOSPITAL DEVELOPMENT AUTHORITY
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

**ALLEGHENY COUNTY
HOSPITAL DEVELOPMENT AUTHORITY
YEARS ENDED DECEMBER 31, 2011 AND 2010**

CONTENTS

	<u>Page</u>
Report of Independent Certified Public Accountants	1-2
Management's Discussion and Analysis	3-5
Financial Statements	
Statements of Net Assets	6
Statements of Revenues, Expenses, and Changes in Net Assets	7
Statements of Cash Flows	8
Notes to the Financial Statements	9-13

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

March 27, 2012

Board of Directors
Allegheny County Hospital Development Authority
Pittsburgh, PA

We have audited the accompanying statements of net assets of the Allegheny County Hospital Development Authority - Administrative Fund (the "Authority"), as of and for the years ended December 31, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets and statements of cash flows for the years then ended. These financial statements are the responsibility of the management of the Allegheny County Hospital Development Authority. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by accounting principles generally accepted in the United States who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

As discussed in Note 6 to the financial statements, the Authority restated certain amounts as of December 31, 2010 to include annual administrative fees that were not recorded in previously issued 2010 financial statements. This restatement of 2010 amounts affected annual administrative fee revenue, accounts receivable, and net assets as of December 31, 2010.

The Buckley Kavanagh Group, LLC

Certified Public Accountants

**ALLEGHENY COUNTY HOSPITAL DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

The Allegheny County Hospital Development Authority's (the "Authority") Management's Discussion and Analysis is designed to provide an overview of the Authority's financial activities for the year ended December 31, 2011, and should be read in conjunction with the Authority's financial statements which begin on page 6.

The Authority issues revenue bonds and notes for eligible projects in Allegheny County on behalf of hospitals and related facilities. Each issue is secured separately from other issues and is payable from receipts from the entity on whose behalf the bonds or notes were issued.

This report consists of two parts: management's discussion and analysis and the basic financial statements, which include the notes to the financial statements. The basic financial statements include the statements of net assets, statements of revenues, expenses, and changes in net assets, statements of cash flows, and the notes to the financial statements.

The Statements of Net Assets, (the difference between assets and liabilities), found on page 6, is for the administrative fund, which is a proprietary fund. The Statements of Net Assets include all of the authority's assets and liabilities, provide information about the authority's financial position, and indicate which assets, if any, are restricted as to use. A proprietary fund is considered a separate accounting entity, with a separate set of self-balancing accounts, using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned, and expenses are recognized when incurred.

The Statements of Revenues, Expenses, and Changes in Net Assets, found on page 7, provide information on how the Authority's direct expenses of a given activity are offset by program revenues.

The Statements of Cash Flows, on page 8, indicates how much cash was provided and used by operating activities as well as other cash sources and uses, such as investments and financing activities.

The Notes to the Financial Statements (Notes), starting on page 9, provide information essential to understanding the basic financial statements.

Government-Wide Financial Analysis

The Authority restated its December 31, 2010 amounts to include annual administrative fees due in 2010 which were not recorded in 2010. These fees amounted to \$95,671.

This restatement of the 2010 amounts increased annual administrative fees for the year ended 2010, and accounts receivable and net assets as of December 31, 2010 in the amount of \$95,671.

**ALLEGHENY COUNTY HOSPITAL DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

The following schedule reflects the changes in net assets compared to prior years.

<u>Net Assets</u>				
<u>Administrative Fund</u>	<u>2011</u>	<u>2010</u>	<u>Change</u>	
Total Assets	\$ 2,709,179	\$ 2,753,264	\$ (44,085)	
Total Liabilities	<u>2,187</u>	<u>-</u>	<u>2,187</u>	
Total Net Assets	<u>\$ 2,706,992</u>	<u>\$ 2,753,264</u>	<u>\$ (46,272)</u>	

Total Net Assets decreased by \$46,272, consisting of a \$44,085 decrease in total assets and a \$2,187 increase in total liabilities. The decrease in total assets was due to the decrease in cash and cash equivalents.

	<u>2011</u>	<u>2010</u>
<u>Operating Revenues:</u>		
Administrative Fees:		
Annual	\$ 696,652	\$ 684,791
Closing	35,000	191,000
Legal fee income	5,000	30,000
Miscellaneous	2,490	500
Total operating revenues	<u>739,142</u>	<u>906,291</u>
<u>Operating Expenses:</u>		
Administrative fees	500,000	500,000
Contributions to Allegheny County	29,720	56,412
Trustee and professional fees	251,332	-
Other	5,599	6,031
Total Operating Expenses	<u>786,651</u>	<u>562,443</u>
Operating Income (Loss)	<u>(47,509)</u>	<u>343,848</u>
<u>Non-Operating Revenues:</u>		
Interest income	<u>1,237</u>	<u>3,132</u>
Net Income (Loss)	<u>(46,272)</u>	<u>346,980</u>
<u>Net Assets:</u>		
Beginning of year	<u>2,753,264</u>	<u>2,406,284</u>
End of year	<u>\$ 2,706,992</u>	<u>\$ 2,753,264</u>

**ALLEGHENY COUNTY HOSPITAL DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

Operating Revenues Include:

1. Annual Administrative Fees are collected from entities on whose behalf the debt was issued for as long as the debt is outstanding. There was an \$11,861 increase in annual administrative fees in 2011 compared to 2010. The principle reason was the addition of new bond and note issuances in 2010 which increased annual fees collected in 2011.
2. Closing fee revenues are collected from entities on whose behalf new bonds or notes are issued. Closing fees collected in 2011 decreased by \$156,000. The primary reason was the decrease in amount of new bonds and notes issued in 2011.
3. Legal Fee income decreased by \$25,000 in 2011. The primary reason was the decrease in the number of new bonds and notes issued in 2011.

Operating Expenses Include:

1. An Administrative fee is paid to the Allegheny County Department of Economic Development ("ACED") annually to help defray the costs of administering the Authority's activities. The Authority paid ACED \$500,000 in 2011 and 2010.
2. Trustee and professional fees are primarily contracted audit and legal expenses. These fees decreased by \$26,692. The primary reason was the decrease in the number of new bonds and notes issued in 2011.
3. During 2011, the Authority paid \$251,332 for dues to the Southwestern Pennsylvania Commission on behalf of Allegheny County. During 2010, the Authority did not pay these dues on behalf of the County.

Non-Operating Revenues Include:

1. The decrease in non-operating interest income was a result of lower interest rates on invested funds.

Requests for Information

- The financial report is designed to provide an overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Fiscal Manager of Operations; 425 Sixth Avenue Suite #800; Pittsburgh, PA 15219.

ALLEGHENY COUNTY HOSPITAL DEVELOPMENT AUTHORITY

ADMINISTRATIVE FUND
 STATEMENTS OF NET ASSETS
 DECEMBER 31,

	2011	2010
Assets		
Current Assets:		
Cash and cash equivalents	\$ 2,512,850	\$ 2,657,593
Accounts Receivable	196,329	95,671
Total Assets	\$ 2,709,179	\$ 2,753,264
Liabilities and Net Assets		
Current Liabilities:		
Accounts Payable	\$ 2,187	\$ -
Total Current Liabilities	2,187	-
Unrestricted net assets	2,706,992	2,753,264
Total Net Assets	2,706,992	2,753,264
Total Liabilities and Net Assets	\$ 2,709,179	\$ 2,753,264

See accompanying notes to financial statements.

ALLEGHENY COUNTY HOSPITAL DEVELOPMENT AUTHORITY
ADMINISTRATIVE FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
DECEMBER 31,

	2011	2010
Operating Revenues:		
Administrative fees:		
Annual	\$ 696,652	\$ 684,791
Closing	35,000	191,000
Legal fee income	5,000	30,000
Miscellaneous	2,490	500
Total operating revenues	739,142	906,291
Operating Expenses:		
Administrative fees	500,000	500,000
Trustee and professional fees	29,720	56,412
Contribution to Allegheny County	251,332	-
Other	5,599	6,031
Total operating expenses	786,651	562,443
Operating Income (Loss)	(47,509)	343,848
Non-Operating Revenues:		
Interest income	1,237	3,132
Net Income (Loss)	(46,272)	346,980
Net Assets:		
Beginning of year	2,753,264	2,406,284
End of year	\$ 2,706,992	\$ 2,753,264

See accompanying notes to financial statements.

ALLEGHENY COUNTY HOSPITAL DEVELOPMENT FUND

**ADMINISTRATIVE FUND
STATEMENTS OF CASH FLOWS
DECEMBER 31,**

	<u>2011</u>	<u>2010</u>
<u>Cash Flows From Operating Activities:</u>		
Receipts from customers	\$ 638,484	\$ 810,620
Payments for goods and services	(533,132)	(562,443)
Payment of contribution to Allegheny County	<u>(251,332)</u>	<u>-</u>
Net cash provided by operating activities	<u>(145,980)</u>	<u>248,177</u>
<u>Cash Flows From Investing Activities:</u>		
Interest received	<u>1,237</u>	<u>3,132</u>
Net cash provided by investing activities	<u>1,237</u>	<u>3,132</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(144,743)	251,309
<u>Cash and Cash Equivalents:</u>		
Beginning of year	2,657,593	2,406,284
End of year	<u>\$ 2,512,850</u>	<u>\$ 2,657,593</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:</u>		
Operating Income (loss)	\$ (47,509)	\$ 343,848
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Increase in accounts receivable	(100,658)	(95,671)
Increase in accounts payable	<u>2,187</u>	<u>-</u>
Net Cash flows provided by (used in) operating activities	<u>\$ (145,980)</u>	<u>\$ 248,177</u>

See accompanying notes to financial statements.

ALLEGHENY COUNTY HOSPITAL DEVELOPMENT AUTHORITY
ADMINISTRATIVE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Allegheny County Hospital Development Authority (the "Authority") was created by a resolution of the Board of Commissioners of Allegheny County (the "County") under the Municipality Authorities Act of the General Assembly of the Commonwealth of Pennsylvania, approved May 2, 1945, P.L. 382, as amended and supplemented. The purpose of the Authority is to acquire, hold, construct, improve, maintain, own, operate, and lease hospitals and related facilities, and other projects acquired, constructed, or improved for related purposes. The Authority, incorporated in 1971, has a legal life through 2045.

The Authority issues revenue bonds and notes for eligible projects in Allegheny County. Each issue is payable from receipts derived by the Authority from the entity on whose behalf the debt was issued and is secured separately and distinctly from the issues for every other entity. All debt instruments are supported by the credit of the respective institution involved in each individual project. The interest rate, terms of the repayment, and dollar amount of the bonds are matters of direct negotiation between the institution and the bond underwriters.

These financial statements include only the Authority's Administrative Fund. The Administrative Fund accounts only for promotional and administrative operations of the Authority and interest earnings from investing Administrative Fund resources. The Administrative Fund does not include any assets or liabilities relating to Authority debt issues.

The governing body of the Authority is a Board of Directors (the "Board"), the Board consists of members appointed by the County Executive of Allegheny County. Allegheny County has not included the Authority in its reporting entity because Allegheny County's accountability for the Authority does not extend beyond make these appointments.

A summary of the Authority's significant accounting policies are as follows:

A. Basis of Accounting

The Administrative Fund is a proprietary fund type, accounted for on the accrual basis of accounting. Accordingly, revenues are recorded when earned and expenses are recorded when incurred.

In applying the provisions of Governmental Accounting Standards Board (GASB) Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds*," the Authority applies all GASB pronouncements and all Financial Accounting Standards Board pronouncements, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements.

**ALLEGHENY COUNTY HOSPITAL DEVELOPMENT AUTHORITY
ADMINISTRATIVE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011 AND 2010**

**NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (CONTINUED)**

B. Closing and Annual Fees

The Administrative Fund charges those entities on whose behalf the debt is issued a closing fee at the inception of each issue and annual fees due on each anniversary of the issue for as long as the issue is outstanding. The closing fee is greater than the recurring annual fee because it incorporates recovery of administrative expenses, including professional advisors, incurred by the Authority on behalf of sponsoring the issue. Annual fees are non-refundable and are recognized as revenue at the time they are due. Management believes this approach best matches revenues with related expenses.

C. Advance

In prior years, the Authority advanced approximately \$1,200,000 to Residential Resources, Inc. to be used to collateralize mortgages of properties purchased to house mental health/mental retardation residents of Allegheny County. The Authority maintains a secondary interest in the properties to secure the advance. The return of the funds to the Authority is dependent upon Residential Resources, Inc. developing the ability to provide its own collateral to supplant the collateral advanced by the Authority. Due to the contingent nature of the ultimate return of these funds, no asset has been recorded in the financial statements of the Authority.

D. Cash and Cash Equivalents

For purposes of presentation, the Authority considers all highly liquid deposits with maturities of three months or less when obtained to be cash and cash equivalents.

E. Accounts Receivable

Accounts receivable represents annual fees billed in December 2011. Management expects that the amounts are fully collectible.

F. Classification of Net Assets

In accordance with the provisions of GASB Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*," net assets are classified into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of these assets. There were no net assets invested in capital assets, net of related debt at year-end.

**ALLEGHENY COUNTY HOSPITAL DEVELOPMENT AUTHORITY
ADMINISTRATIVE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011 AND 2010**

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Classification of Net Assets – (continued)

Restricted – This component of net assets consists of constraints placed on net asset used through external restrictions imposed by donors (such as through the receipt and use of federal dollars).

Unrestricted – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

G. Pending Changes in Accounting Principles

In December 2010, the GASB issued Statement No. 62, “*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*” The Authority is required to adopt Statement No. 62 for its 2012 calendar year financial statements.

The Authority has not completed the various analysis required to estimate the financial statement impact of this new pronouncement.

NOTE 2: ADMINISTRATIVE SERVICES

The Authority contracts annually with the Allegheny County Department of Economic Development (ACED) for various administrative support services, including space and personnel. The fee for these services in 2011 and 2010 was \$500,000 for each year, which was paid by the Administrative Fund.

NOTE 3: DEPOSITS AND INVESTMENTS

GASB Statement No. 40, “*Deposit and Investment Risk Disclosures,*” requires disclosures related to the following deposit and investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk, if any. The following is a description of the Authority’s deposit and investment risks:

Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Authority’s deposits may not be returned to it. The Authority does not have a formal deposit policy for custodial credit risk. As of December 31, 2011 and 2010, the carrying values of the Authority’s deposits were \$4,452 and \$8,916, respectively, and the bank balances of the Authority’s deposits were \$4,452 and \$133,916, respectively. Of the bank balances as of December 31, 2011 and 2010, the full carrying values and bank values of the Authority’s deposits were covered by federal depository insurance.

**ALLEGHENY COUNTY HOSPITAL DEVELOPMENT AUTHORITY
ADMINISTRATIVE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011 AND 2010**

NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

The Authority is authorized to make investments of the following types pursuant to the Municipality Authorities Act of 1945: (1) United States Treasury bills, (2) short-term obligations of the United States government or its agencies or instrumentalities, (3) deposits in savings accounts or time deposits or share accounts of institutions which are insured, (4) obligations of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities or any political subdivision thereof, and (5) shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, provided that the investments of that company meet the criteria in (1) through (4) above.

As of December 31, 2011 and 2010, the Authority's investments were held in the Pennsylvania Local Government Investment Trust (PLGIT). The Authority's investments in PLGIT entail pools managed by others, which are not evidenced by specific securities. All investments in the external investment pool, which are not SEC-registered, are subject to oversight by the Commonwealth of Pennsylvania. At December 31, 2011 and 2010, the Authority had cash and cash equivalents balances of \$2,512,850 and \$2,657,593, of which \$2,508,378 and \$2,648,677, respectively, were held in PLGIT. The fair value of these cash equivalents was \$2,508,378 at December 31, 2011, which is the same as the value of the pool shares. The fair value of these cash equivalents and investments was \$2,648,677 at December 31, 2010, which is the same as the value of the pool shares.

Interest Rate Risk – The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates; however, the investments in PLGIT described above all have maturities of less than one year.

Credit Risk – The Authority does not have a formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations. As of December 31, 2011 and 2010, the Authority's investments in PLGIT were rated AAA by Standard's & Poor's.

NOTE 4: CONDUIT DEBT

The Authority administers the Hospital Development Bond Program (Program). Under this Program, the Authority issued limited obligation Loan Revenue Bonds and Notes to provide below-market interest rate financing for hospitals. The Revenue Bonds and Notes are repayable solely from each hospital's respective resources. Neither the general credit of the Authority nor the general credit and taxing power of Allegheny County has been pledged for the payment of debt service. The Authority has administrative and fiduciary responsibilities; however, it has no obligation for repayment of this debt from other resources.

The outstanding balance of the debt issued as of December 31, 2011 and 2010 is \$2.434 billion and \$2.503 billion, respectively.

**ALLEGHENY COUNTY HOSPITAL DEVELOPMENT AUTHORITY
ADMINISTRATIVE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011 AND 2010**

NOTE 5: CONTRIBUTIONS TO ALLEGHENY COUNTY

The Contributions to Allegheny County during 2011 are annual dues that the Authority paid the Southwestern Pennsylvania Commission on behalf of Allegheny County. There was no contractual agreement in 2010 for the Authority to pay these dues.

NOTE 6: RESTATEMENT OF 2010 AMOUNTS

The Authority restated its December 31, 2010 amounts to include annual administrative fees due in 2010 which were not recorded in 2010. These fees amounted to \$95,671.

This restatement of the 2010 amounts increased annual administrative fees for the year ended 2010, and accounts receivable and net assets as of December 31, 2010 in the amount of \$95,671.