ALLEGHENY COUNTY
HOSPITAL DEVELOPMENT AUTHORITY'S
ADMINISTRATIVE FUND

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

ALLEGHENY COUNTY
HOSPITAL DEVELOPMENT AUTHORITY'S
ADMINISTRATIVE FUND

YEAR ENDED DECEMBER 31, 2018

CONTENTS

	Page
Independent Auditor's Report	1 – 2
Management's Discussion and Analysis	3 – 5
Financial Statements:	
Statement of Net Position	6
Statement of Revenues, Expenses, and Changes in Net Position	7
Statement of Cash Flows	8
Notes to the Financial Statements	9 – 12

CASE | SABATINI

PROFESSIONAL ACCOUNTING,
CONSULTING & BUSINESS
ADVISORY SERVICES

June 21, 2019

Board of Directors
Allegheny County Hospital Development Authority
Pittsburgh, Pennsylvania

P.O. BOX 10885
WHITEHALL TOWERS
470 STREETS RUN ROAD
PITTSBURGH, PA 15236-2023

TELEPHONE: (412) 881-4411
FAX: (412) 881-4421
WEB: WWW.CASESABATINI.COM

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Allegheny County Hospital Development Authority – Administrative Fund (the "Fund") as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 these financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of December 31, 2018 and 2017, the respective changes in financial position, and the cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the Authority as of December 31, 2018 and 2017, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical 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.

Case Sabatini

Certified Public Accountants
Pittsburgh, Pennsylvania

Case | Sabatini ▸ P.O. Box 10885 ▸ Whitehall Towers ▸ 420 Street Run Road ▸ Pittsburgh, PA 15236-2023
Telephone: (412) 881-4411 ▸ Fax: (412) 881-4421 ▸ Web: www.casesabatini.com

PITTSBURGH ▸ WEXFORD ▸ PALM BEACH

Members of the American and Pennsylvania Institute of Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Administrative Fund (the "Fund") of the Allegheny County Hospital Development Authority's (the "Authority") Management's Discussion and Analysis is designed to provide an overview of the Fund's financial activities for the years ended December 31, 2018 and 2017, and should be read in conjunction with the Fund's financial statements, which begin on page 6.

Financial Highlights

- The Fund's net position increased by $249,511 during the current year and increased by $109,257 during the prior year.

- The Authority continues to provide access to capital markets through its conduit debt program. The Fund receives annual and closing fees associated with this program. During the current and prior year, the Authority facilitated the issuance of approximately $-0- trillion and $1.5 trillion in conduit debt, respectively.

Overview of the Financial Statements.

This discussion and analysis is intended to serve as an introduction to the Fund's basic financial statements. The Fund's basic financial statements consists of two parts: 1) fund financial statements and 2) notes to the basic financial statements.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Fund is reported as a fund in the Authority's basic financial statements.

The *Statement of Net Position*, found on page 6, provides information about the Fund's financial position using the accrual basis of accounting. It includes all of the Fund's assets and liabilities and indicates which assets, if any are restricted as to use.

The *Statement of Revenues, Expenses, and Changes in Net Position*, found on page 7, provides information on how the Fund's direct expenses of a given activity are offset by program revenues. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when incurred.

The *Statement of Cash Flows*, on page 8, indicate how much cash was provided and used by operating activities as well as other cash sources and uses, such as investing and financing activities.

Proprietary funds. The Fund is classified as an enterprise fund, which is a type of proprietary fund. *Enterprise funds* are used to report activities that are intended to recover all or a significant portion of their costs through user fees and charges.

Notes to the Financial Statements. The notes, starting on page 9, provide additional information that is essential to a full understanding of the data provided in the fund financial statements.

Analysis of Net Position

Net position is a useful indicator of a government's financial position. For the Fund, total assets were greater than liabilities by $2,065,044 for the year ended December 31, 2018, by $1,815,533 for the year ended December 31, 2017, and by $1,706,276 for the year ended December 31, 2016.

Condensed Statement of Net Position

The following is a summary of the Fund's Statement of Net Position as of December 31, 2018, 2017, and 2016.

	2018	2017	Change	2016	Change
Assets:					
Cash	$ 2,065,044	$ 1,815,533	$ 249,511	$ 1,705,276	$ 110,257
Accounts Receivable	-	-	-	1,000	(1,000)
Total Assets	$ 2,065,044	$ 1,815,533	$ 249,511	$ 1,706,276	$ 109,257
Net Position					
Unrestricted	$ 2,065,044	$ 1,815,533	$ 249,511	$ 1,706,276	$ 109,257
Total Net Position	$ 2,065,044	$ 1,815,533	$ 249,511	$ 1,706,276	$ 109,257

Changes in Net Position

The Funds' net position increased by $249,511 for the year ended December 31, 2018, increased by $109,257 for the year ended December 31, 2017, and decreased by $264,666 for the year ended December 31, 2016.

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2018	2017	Change	2016	Change
Operating Revenues:					
Annual Admin Fees	$ 747,931	$ 830,898	$ (82,967)	$ 473,681	$ 357,217
Closing Fees	10,000	70,000	(60,000)	25,100	44,900
Legal Fee Income	5,000	10,000	(5,000)	5,000	5,000
Miscellaneous	500	1,000	(500)	1,500	(500)
Total Operating Revenues	763,431	911,898	(148,467)	505,281	406,617
Operating Expenses					
Administrative Fees	500,000	500,000	-	500,000	-
Trustee and Professional Fees	37,311	30,250	7,061	28,750	1,500
Contribution to Allegheny County	-	279,501	(279,501)	240,825	38,676
Other	3,259	4,023	(764)	6,570	(2,547)
Total Operating Expense	540,570	813,774	(273,204)	776,145	37,629
Operating Income (Loss)	222,861	98,124	124,737	(270,864)	368,988
Non-Operating Revenues					
Interest Income	26,650	11,133	15,517	6,198	4,935
Net Income (Loss)	249,511	109,257	140,254	(264,666)	373,923
Net Position					
Beginning of Year	1,815,533	1,706,276	109,257	1,970,942	(264,666)
End of Year	$ 2,065,044	$ 1,815,533	$ 249,511	$ 1,706,276	$ 109,257

Net Position:

The Fund's net position is classified as unrestricted and is available to fund the Authority's activities. For sake of comparison, the Fund's net position represents 382.0%, 223.1% and 219.81% of the Fund's expenses for the years ended December 31, 2018, 2017, and 2016, respectively.

Operating Revenues include:

- Annual Administrative Fees are collected from entities on whose behalf the debt was issued for as long as the debt remains outstanding. These fees decreased by $82,967 due to the retirement of debt issues during the current year. These fees increased by $357,217 during the prior year due to the issuance of debt during the prior year.

- Closing fees, including legal fee income, are collected from entities during the year debt is issued on their behalf.

Operating Expenses include:

- 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 Fund paid ACED $500,000 per year for 2018, 2017, and 2016.

- The Fund pays dues to the Southwestern Pennsylvania Commission on behalf of Allegheny County. The Fund paid $-0- for 2018, $279,501 for 2017 and $240,825 per year for 2016.

Requests for Information

This financial report is designed to provide an overview of the Fund'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, One Chatham Center, Suite 900; 112 Washington Place; Pittsburgh, PA 15219.

ALLEGHENY COUNTY HOSPITAL DEVELOPMENT AUTHORITY

ADMINISTRATIVE FUND
STATEMENTS OF NET POSITION
DECEMBER 31

ASSETS

	2018	2017
Current Assets:		
Cash and cash equivalents	$ 2,065,044	$ 1,815,533
Accounts receivable	-	-
Total Assets	$ 2,065,044	$ 1,815,533

LIABILITIES AND NET POSITION

Current Liabilities:		
Accounts payable	$ -	$ -
Total Liabilities	-	-
Net Position:		
Unrestricted net position	2,065,044	1,815,533
Total Net Position	2,065,044	1,815,533
Total Liabilities and Net Position	$ 2,065,044	$ 1,815,533

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

ALLEGHENY COUNTY HOSPITAL DEVELOPMENT AUTHORITY

ADMINISTRATIVE FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31,

	2018	2017
Operating Revenues:		
Administrative fees:		
Annual	$ 747,931	$ 830,898
Closing	10,000	70,000
Legal fee income	5,000	10,000
Miscellaneous	500	1,000
Total Operating Revenues	763,431	911,898
Operating Expenses:		
Administrative fees	500,000	500,000
Trustee and professional fees	37,311	30,250
Contribution to Allegheny County	-	279,501
Other	3,259	4,023
Total Operating Expenses	540,570	813,774
Operating Income (Loss)	222,861	98,124
Non-Operating Revenues:		
Interest income	26,650	11,133
Net Income (Loss)	249,511	109,257
Net Position:		
Beginning of year	1,815,533	1,706,276
End of year	$ 2,065,044	$ 1,815,533

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

ALLEGHENY COUNTY HOSPITAL DEVELOPMENT AUTHORITY

ADMINISTRATIVE FUND
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2018	2017
Cash Flows from Operating Activities:		
Receipts from customers	$ 763,431	$ 911,898
Payments for goods and services	(40,570)	(33,273)
Payment for administrative services to Allegheny County	(500,000)	(500,000)
Payment of contribution to Allegheny County	-	(279,501)
Net cash provided by (used in) operating activities	222,861	99,124
Cash Flows from Investing Activities:		
Interest received	26,650	11,133
Net cash provided by investing activities	26,650	11,133
Net Increase (Decrease) in Cash and Cash Equivalents	249,511	110,257
Cash and Cash Equivalents:		
Beginning of year	1,815,533	1,705,276
End of year	$ 2,065,044	$ 1,815,533
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Operating Income (Loss)	$ 222,861	$ 98,124
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
(Increase) decrease in accounts receivable	-	1,000
Net cash flows provided by (used in) operating activities	$ 222,861	$ 99,124

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

ALLEGHENY COUNTY HOSPITAL DEVELOPMENT AUTHORITY
ADMINISTRATIVE FUND

NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018

NOTE A – 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 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 acquire, 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 making these appointments.

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

1. **Basis of Accounting**

The Administrative Fund is reported as an Enterprise Fund. The Administrative Fund accounts for its activities on the accrual basis of accounting in accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statements. Accordingly, revenues are recorded when earned and expenses are recorded when incurred.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Administrative Fund. Operating revenues consist primarily of annual and closing fees on conduit debt (see below). Non-operating revenues and expenses consist of those revenues and expenses that are related to financial and investing types of activities and result from non-exchange transactions, such as capital contributions, grants, or ancillary activities.

When an expense is incurred, for purposes in which there are both restricted and unrestricted net position available, it is the Administrative Funds' policy to apply those expenses first to restricted net position, to the extent such are available; and then to unrestricted net position.

NOTE A – NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

2. **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.

3. **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.

4. **Cash and Cash Equivalents**

For the 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.

5. **Accounts Receivable**

Accounts receivable represent annual fees billed and unpaid at the end of the year.

6. **Classification of Net Position**

Net positions are classified into three components – net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

Net Investment in Capital Assets – This component of net position 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 investments in capital assets at year-end.

Restricted – This component of net position consists of constraints placed on net position use through external restrictions imposed by creditors, grantors, contributors, or regulation.

Unrestricted – This component of net position consists of assets that do not meet the definition of "restricted" or "net investments in capital assets."

NOTE B – 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 2018 and 2017 was $500,000 for each year, which was paid by the Administrative Fund.

NOTE C – DEPOSITS AND 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.

GASB Statement No. 40, "*Deposits 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. The following is a description of the Authority's deposit and investment risks:

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. The Authority does not have a formal deposit policy for custodial credit risk. As of December 31, 2018 and 2017, the Authority had $61,829 and $89,810, respectively, exposed to custodial credit risk.

The Authority also has deposits managed by the Pennsylvania Local Government Investment Trust ("PLGIT"). These funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exit in physical form. The Authority had approximately $1.75 million and $1.5 million deposited with PLGIT as of December 31, 2018 and 2017, respectively.

NOTE D – CONDUIT DEBT

The Authority administers the Hospital Development Bond Program (Program). Under this Program, the Authority issues 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 no obligation for repayment of this debt from other resources.

The outstanding balance of the debt issued as of December 31, 2018 and 2017 is approximately $2.577 billion and $2.922 billion, respectively.

NOTE E – CONTRIBUTIONS TO ALLEGHENY COUNTY

The Contributions to Allegheny County during 2017 are annual dues that the Authority paid the Southwestern Pennsylvania Commission on behalf of Allegheny County.