West Penn Allegheny Health System

ANNUAL REPORT

For the Fiscal Year Ended June 30, 2009

West Penn Allegheny Health System

Allegheny General Hospital ◈ Alle-Kiski Medical Center ◈ Canonsburg General Hospital ◈ The Western Pennsylvania Hospital
Allegheny Medical Practice Network ◈ Allegheny Specialty Practice Network ◈ Allegheny Singer Research Institute ◈ West Penn Corporate Medical Services
The Western Pennsylvania Hospital Foundation ◈ Forbes Health Foundation

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DISCLAIMER

This Management Discussion and Analysis of West Penn Allegheny Health System, Inc. and its operating entities for the fiscal year ended June 30, 2009 contains "forward-looking statements" within the meaning of the United States *Private Securities Litigation Reform Act of 1995*, Section 21E of the United States *Securities Exchange Act of 1934*, as amended (the *"Exchange Act"*), and Section 27A of the United States *Securities Act of 1933,* as amended (the *"Securities Act"*). The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The West Penn Allegheny Health System, Inc. and the members of the Obligated Group, expressly disclaim any obligation or undertaking to issue any updates or revisions to those forward-looking statements if or when their expectations change, or events, conditions or circumstances on which such statements are based occur.

Introduction

Organization of West Penn Allegheny Health System and the Obligated Group

The Annual Report is produced to comply with the $752,370,000 Allegheny County Hospital Development Authority Health System Revenue Bonds (West Penn Allegheny Health System), Series 2007A, Continuing Disclosure Agreement. The following CUSIP numbers are covered by this Annual Report:

01728AG67	01728AF92
01728AG75	01728AG83
01728AG34	01728AG42
01728AG26	01728AG59

West Penn Allegheny Health System

West Penn Allegheny Health System, Inc. (“Parent”) is a Pennsylvania nonprofit corporation that, together with other entities under its direct or indirect control, forms a regional health system operating six hospital campuses and other health care facilities and delivering the services of health care professionals, including almost 600 employed physicians, to residents of Western Pennsylvania. In the fiscal year ended June 30, 2009, the hospital affiliates of the Parent recorded over 190,000 emergency visits, discharged over 78,000 inpatients and delivered nearly 5,000 newborns. From these patient care activities, the Parent recorded on a consolidated basis total net patient service revenue of approximately $1.6 billion. At June 30, 2009, the Parent’s consolidated total assets were approximately $1.25 billion; its total liabilities were approximately $1.34 billion.

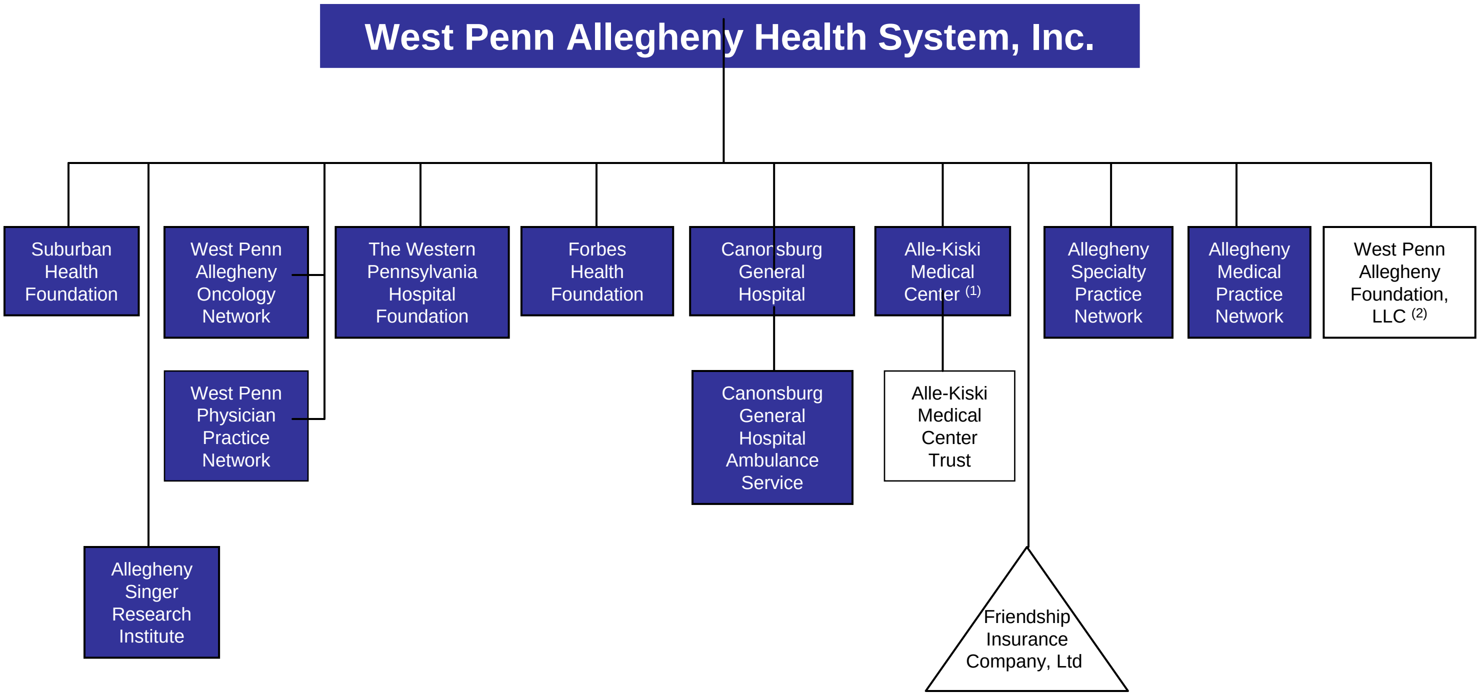
The Obligated Group currently includes West Penn Allegheny Health System, Inc. (WPAHS)* and the following hospitals, physician practice networks, and foundations and research organizations:

Hospitals
- Allegheny General Hospital (AGH), A division of West Penn Allegheny Health System
- The Western Pennsylvania Hospital (WPH)* which includes West Penn Campus (WPC) and Forbes Regional Campus (FRC), both of which are divisions of West Penn Allegheny Health System
- Alle-Kiski Medical Center (AKMC)
- Canonsburg General Hospital and Subsidiary (CGH)

Physician Practice Networks
- Allegheny Specialty Practice Network (ASPN)
- Allegheny Medical Practice Network (AMPN)
- West Penn Physician Practice Network (WPPPN)
- West Penn Allegheny Oncology Network (WPAON)

Foundations and Research Organizations
- The Western Pennsylvania Hospital Foundation (WPHF)
- Forbes Health Foundation (FHF)
- Suburban Health Foundation (SHF)
- Allegheny-Singer Research Institute (ASRI)

* These corporations merged on December 31, 2007



■ denotes not-for profit entity and member of the Obligated Group

□ denotes not-for-profit entity and not a member of the Obligated Group

△ denotes for-profit entity and not a member of the Obligated Group

Notes:

(1) Includes Citizens Ambulatory Care Center

(2) Limited liability company; exempt status tied to Parent

10/28/09

I. PRESIDENT'S LETTER AND EXECUTIVE LEADERSHIP

WEST PENN ALLEGHENY HEALTH SYSTEM

October 30, 2009

To Our Investors:

Our core purpose at West Penn Allegheny Health System (WPAHS) is *to improve the health of people in the Western Pennsylvania region*. We achieve that purpose by fulfilling our mission: *We practice medicine, educate, and conduct research as an integrated team of physicians, nurses, and support professionals who are committed to improving the health of our patients.* I want to thank you for your support of this important purpose and mission.

At WPAHS, we believe that in order to deliver the best possible patient care, you must involve the people who actually deliver care at the bedside in decision-making. Therefore, we are proud to be the Pittsburgh market's only physician-led healthcare system. We have made many strides in developing our leadership team and recruiting top physicians to our organization. At the same time, we have focused on increasing our financial strength through improving and integrating our operations.

As a result, we are making transformational changes in how we fulfill our mission. We have made changes in virtually every aspect of our business, and I would like to briefly highlight a few key areas for you.

Leadership Development

I'm pleased that we have filled a number of key roles in our organization with outstanding physician leaders. Specifically, we have recruited:

- *Michael A. DeVita, M.D., Executive Vice President, Medical Affairs*, who joined us from UPMC where he held the role of Associate Medical Director for Quality and Medical Management. He is a widely acclaimed medical ethicist and one of the foremost experts on simulation research. At WPAHS, Dr. DeVita leads our System-wide efforts in quality, research and education.

- *Sanford R. Kurtz, M.D., Executive Vice President, Chief Medical Officer and President, WPAHS Physician Organization*, who recently joined us from the physician-led Lahey Clinic where he served as Chief Operating Officer and Vice Chair of the Clinic's Board of Governors. Dr. Kurtz, a nationally recognized physician executive, will oversee our newly established Physician Organization, which will effectively integrate our System's more than 700 employed physicians.

- *Donald W. Moorman, MD, System Chair, Department of Surgery*. Dr. Moorman will assume his new post with WPAHS on or before January 1, 2010. He is currently vice chair of clinical affairs and associate surgeon-in-chief at the Beth Israel Medical Center in Boston. He is also director of the Beth Israel's Trauma Center and an associate professor of surgery at Harvard Medical School.

In addition, we have created the new role of Chief Medical Officer at each of our hospitals. This practicing physician executive is a member of the hospital leadership team, and has become vital in the decision-making process at each facility.

We also continue to recruit quality physicians in all clinical areas. While physician attrition is a normal part of any healthcare system, last year, WPAHS was able to recruit more than twice the number of physicians that left our System. These new physicians help our business grow stronger each day.

Finally, we have also made significant changes on leadership team by recruiting key administrators with a large breadth and depth of experience. In the past year, we have appointed more than a dozen new seasoned professionals.

Integration

Integrating into a true System based on the services we provide to patients, rather than "bricks and mortar," will enable higher quality care and financial strength. For example, sharing best practices will enable higher quality care, while removing duplication and internal competition will improve our financial position. We continue to make progress on integrating our teams and operations.

This effort began at the top of our organization. We consolidated and streamlined our Board of Directors, creating subcommittees to focus on key areas such as quality, medical education, research, audit and compliance, and finance.

Recently, the WPAHS Board of Directors resolved that our System will move forward with the integration of our two city-based hospitals, Allegheny General Hospital and the Western Pennsylvania Hospital. Specifically, we will consolidate our services in the city of Pittsburgh, with Allegheny General Hospital serving as the System's principal tertiary hospital. We plan to make capital investments to reconfigure Allegheny General to increase its ability to deliver highly specialized, tertiary services. However, West Penn Hospital will remain open for inpatient and outpatient care to serve our market with the appropriate level of needed care. In addition, we also will commit additional resources to increase the scope and level of services at our suburban community hospitals.

Consolidations are already taking place to free space for more critical care beds at Allegheny General. For example, we are transitioning our city-based inpatient obstetrical services to West Penn Hospital. Allegheny General's labor and delivery, post-partum, newborn nursery and NICU services will be relocated to the Bloomfield campus by the end of January 2010.

We also are moving the inpatient psychiatry program from Allegheny General to West Penn - Forbes Regional Campus. The Forbes campus will begin construction on its expanded Behavioral Health unit in December, with an anticipated completion date of March 2010. All psychiatric inpatient services will be performed at Forbes and the Alle-Kiski Medical Center.

Integration committees made up of doctors, nurses and administrators made the decisions on how to best integrate these services. These teams focused on improving patient care through combining each hospital's best practices as they determined how the new departments will be structured.

We are in the process of establishing a clear strategic direction for five key service lines. A steering committee is working to determine the optimal System-wide positioning for cardiac services, neurosciences, oncology, orthopedics (bone and joint), and trauma/critical care services. The appropriate locations for each service will be determined during the remainder of 2009. Plans will be implemented beginning in 2010.

In addition, we are recruiting a new CEO for Allegheny General and West Penn Hospitals in the near future. This single position is a step forward in integrating our city hospitals and will be important as we look to bring more advanced or unique services to our key tertiary hospital.

Outsourcing Agreements

WPAHS has entered into two important relationships to better serve our employees and patients, while driving cost savings and better efficiencies across the System. First, we have signed a five-year agreement with Greater New York Hospital Association (GNYHA). We have become an institutional member of GNYHA with access to the trade association's nationally renowned health economics experts, the knowledge and resources of its federal advocacy program, and enhanced group purchasing contracts via its regional GPO GNYHA Services and national GPO partner Premier.

In addition, Nexera, a supply chain management and consulting company that is wholly-owned by GNYHA, will be responsible for the day-to-day management of the WPAHS supply chain. Therefore, our supply chain employees have now become employees of Nexera. WPAHS also gains access to the Nexera/GNYHA supply chain experts in areas such as laboratory, clinical resources, contracting, imaging, food service, and Value Analysis. We expect this agreement will bring us significant cost savings in supply chain expenses.

Second, we have also recently entered a relationship with CB Richard Ellis (CBRE). This group will provide real estate management services for our entire portfolio, including transaction management, lease administration, project management, facility management, strategic sourcing, energy management, strategic planning, and health, safety, security and environment (HSSE) support. As a result of our agreement, some of our facilities management employees will become employees of CBRE.

This partnership with CBRE will allow WPAHS to provide more consistent and better quality services to our employees and patients by leveraging CBRE's unparalleled tools, technologies and healthcare expertise.

We expect these new relationships to help us better fulfill our purpose and mission, while at the same time, driving substantial cost savings throughout the organization.

Labor Agreements

I'm also pleased to say that we were able to achieve financially responsible agreements with the

Service Employees International Union (SEIU), which represents some of our employees at both Canonsburg General Hospital and Allegheny General Hospital. These agreements will save our System millions of dollars, while continuing to recognize the value that our employees bring to the workplace. Patient care remained a priority during contract negotiations, and I'm pleased to say our equitable goals were met.

Clinical Excellence

Our integrated team of physicians, nurses and support professionals continue to raise the bar in quality by providing outstanding clinical care. Over the past year, WPAHS hospitals and physicians have been received both local and national recognition for their commitment to excellence. A few key awards include:

- Allegheny General and West Penn Hospitals – Premium Cardiac Specialty Centers – UnitedHealth
- Allegheny General and West Penn Hospitals – Blue Distinction Centers for Cardiac Care – Highmark
- Allegheny General Hospital – Ranked in the top 10 percent nationally for cardiac care and cardiac surgery; also in the top 10 percent nationally for stroke care – HealthGrades
- Allegheny General Hospital – Gold Performance Achievement Award (second consecutive year) – American Stroke Association
- Alle-Kiski Medical Center – Top 5% of Hospitals for Clinical Performance – HealthGrades
- West Penn- Forbes Regional Campus – first Pittsburgh area Accredited Chest Pain Center – Society of Chest Pain Centers
- West Penn Hospital – Nation's Top 100 Hospitals in 2008 – only major teaching hospital named as such in the state by Thomson Reuters
- West Penn Hospital – Number one hospital in Pennsylvania for bariatric surgery for third consecutive year - HealthGrades

Research

We continue to make advancements in the areas of research and education, which are an important part of our mission. In regards to research, we opened the Gerald McGinnis Cardiovascular Institute's Center for Research and Innovation earlier this year. Our System now boasts one of the nation's leading centers for genomics, gene therapy and cardiovascular disease.

The Allegheny-Singer Research Institute (ASRI) sponsors collaborative interdisciplinary programs in health, education and research in order to promote the understanding, treatment and prevention of human diseases. ASRI was recently awarded approximately $2 million in NIH Recovery Act grants for research in ischemic stroke, infectious disease and gene therapy for lysosomal storage diseases.

In addition, the National Surgical Breast and Bowel Project (NSABP), which is based on the Allegheny campus and supported by the National Cancer Institute, coordinates the efforts of more than 6,000 medical professionals in the study of breast and bowel cancer, and offers patients access to innovative cancer treatment.

In total, our System has been awarded more than $52 million in current research funding and has more than 300 ongoing clinical trials.

Education

Currently, WPAHS is affiliated with two medical schools. Allegheny General Hospital serves as the two-year Western Pennsylvania clinical campus for the Drexel University with 54 medical students. In addition, West Penn Hospital serves as the two-year Western Pennsylvania clinical campus for the Temple University School of Medicine in Philadelphia with 33 students. We also host 366 residents and 87 fellows.

We have recently combined our graduate medical education into one program, the Allegheny General Hospital/Western Pennsylvania Hospital Medical Education Consortium. This effort is physician led by Jack Wilberger, M.D. We plan to consolidate undergraduate education into one four-year program, under the direction of Elliot Goldberg, M.D. A decision on this consolidation should be made early in 2010.

In addition, WPAHS continues to advance our educational initiatives utilizing the latest in simulation technologies. Our Simulation, Teaching and Academic Research Center (STAR) places trainees in life-like situations and provides immediate feedback about decisions and actions. This type of simulation education reduces patient risk and helps improve patient outcomes.

* * * * *

Our goal is to become a financially stable, investment grade health system. We are striving to become a System that is physician led and recognized widely as a national quality leader committed to improving the health of the people of the western Pennsylvania region. I see evidence of our progress toward this goal every day.

We also fully understand that there are many challenges ahead of us. Yet, we will not be deterred from fulfilling our vital purpose and mission. We are resolved to improve our financial strength so that we can continue to provide the highest quality care to the Pittsburgh market. We are committed to our plan to win for the future, as we know that a unique physician-led, patient-focused healthcare system is vital to this region's wellbeing. We are working to build a stronger healthcare system that our team of doctors, nurses and support staff can all be proud to represent. I thank you for helping us get there.

Best regards,

Christopher T. Olivia, M.D.
President & CEO

II. MANAGEMENT'S DISCUSSION OF AUDITED RESULTS FOR THE FISCAL YEAR ENDED JUNE 30, 2009

WEST PENN ALLEGHENY HEALTH SYSTEM

CONSOLIDATED STATEMENT OF OPERATIONS
(Dollars in thousands)

	For the Fiscal Year Ended June 30,			
	QUARTER ENDED		FISCAL YEAR ENDED	
	2009	2008	2009	2008
Patient service revenue	$ 377,603	$ 346,685	$1,551,714	$ 1,451,813
Other revenue	13,916	18,394	56,683	56,617
Net assets released from restriction	1,377	1,380	5,123	5,170
Total revenues, gains and other support	392,896	366,459	1,613,520	1,513,600
Salaries, wages, and benefits	207,630	223,313	892,625	871,326
Patient care supplies	75,737	77,414	298,619	292,674
Professional fees and purchased services	37,104	33,404	149,251	116,504
General and administrative	29,014	40,292	142,391	145,825
Provision for bad debts	17,058	35,341	54,575	68,898
Depreciation and amortization	20,138	19,771	74,273	67,319
Interest	10,026	10,215	40,257	39,901
Total expenses	396,707	439,750	1,651,991	1,602,447
Operating loss	**$ (3,811)**	**$ (73,291)**	**$ (38,471)**	**$ (88,847)**
Investment income	5,463	3,368	12,107	30,103
Gifts and donations	483	129	1,173	964
Excess of revenues over expenses (expenses over revenue)	**$ 2,135**	**$ (69,794)**	**$ (25,191)**	**$ (57,780)**

Operating Results

The System produced an excess of revenue over expenses of $2,135 the quarter ended June 30, 2009. This is tangible evidence that the restructuring initiatives launched by the System fifteen months earlier have begun to yield benefits. The net profit of $2,135 is also a reflection of the rebound in investment performance in the quarter ended June 30, 2009.

The System produced an excess of expenses over revenues of $25,191 for the fiscal year ended June 30, 2009. Included in fiscal year 2009's expenses are approximately $27,000 of one-time expenses for consulting services to make recommendations and assist in reengineering operations and administrative services to improve the quality of patient care and increase the profitability of the System.

Inpatient volume as measured by acute discharges decreased 1.8% from fiscal year 2008. This is reflective of national trends and appears to be related to the general decline in the economy, with patients deferring some inpatient procedures due to economic fears. In specific specialties, declines were noted, in particular, in general surgery, cardiology, and internal medicine. The decrease in cardiology is a national trend caused by behavioral and clinical trends decreasing the frequency of cardiology interventions. Increases were noted in the specific subspecialties of obstetrics/gynecology and neurosurgery. The increase in obstetrics/gynecology was aided by the recruitment of a physician group from a competing health system.

A comparison of expense categories as a percentage of total revenue for fiscal years 2009 and 2008 are as follows:

	Fiscal Year Ended	
	2009	2008
Salaries, wages, and benefits	55.3%	57.6%
Patient care supplies	18.5	19.4
Professional fees and purchased services	9.3	7.7
General and administrative	8.8	9.6
Provision for bad debts	3.4	4.6
Depreciation and amortization	4.6	4.4
Interest	2.5	2.6
Total	102.5%	105.9%

With the exception of professional fees and purchased services, all expense categories reflect a decrease from fiscal year 2008 as a percentage of total revenue. Much of the improvement in all categories is a result of the restructuring initiatives previously described. Professional fees and purchased services include approximately $27,000 of consulting fees that will not be incurred in future years.

Investment income decreased $18,000 in 2009 from 2008, due to the decline in the investment market for the first three quarters of fiscal year 2009. It should be noted that the System adopted FAS No. 159 in fiscal year 2009, which caused unrealized gains and losses on investments to be included in investment income.

Liquidity and Capital Position

As of June 30, 2009, day’s cash on hand as defined in the Master Indenture of Trust (MIT) was 62.7 days. Of the amounts included in this calculation, approximately 25% are subject to daily market value fluctuations, with approximately 10% invested in equities and 15% invested in fixed income securities and funds. Fiscal 2009 capital expenditures were $46,550. This included a new cardiac catherization lab, a 64 slice CT scanner, stereotactic radiosurgery and orthopaedic expansion at AGH; obstetrics expansion and renovations and school of nursing expansion at WPC; a new angiography room and additional cardiac expansion at FRC; and a new imaging facility and endoscopy services at AKMC.

Fiscal 2009 pension contributions were $4,009. Fiscal Year 2010 contributions are anticipated to be $10,794.

Debt repayments in fiscal 2009 were $3,944 due to the repayment structure of the Series 2007 bond issue, which deferred principal repayments until fiscal 2010. Fiscal year 2010 debt repayments are anticipated to be $13,484.

The average number of days in net accounts receivable was 41.2 at June 30, 2009. Accounts payable balances have been maintained at acceptable levels with all trade vendors.

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III. AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2009

WEST PENN ALLEGHENY HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Financial Statements

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

WEST PENN ALLEGHENY HEALTH SYSTEM AND SUBSIDIARIES

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KPMG LLP
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Pittsburgh, PA 15219-2598

Independent Auditors' Report

The Board of Directors
West Penn Allegheny Health System:

We have audited the accompanying consolidated balance sheet of West Penn Allegheny Health System and Subsidiaries (WPAHS) as of June 30, 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended. These consolidated financial statements are the responsibility of WPAHS' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The accompanying consolidated financial statements of WPAHS as of June 30, 2008 were audited by other auditors whose report thereon dated May 15, 2009 expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of WPAHS' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2009 consolidated financial statements referred to above present fairly, in all material respects, the financial position of West Penn Allegheny Health System and Subsidiaries as of June 30, 2009, and the results of their operations, their changes in net assets, and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in notes 3 and 15 to the consolidated financial statements, on June 30, 2009, WPAHS adopted the measurement provision of Financial Accounting Standards Board (FASB) Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R).* Additionally, as discussed in notes 6 and 7, on July 1, 2008, WPAHS adopted FASB Statement No. 157, *Fair Value Measurements*, and FASB Statement No. 159, *the Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115,* and FASB Staff Position (FSP) FAS 117-1, *Endowments for Not-for-Profit Organizations: Net Assets Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds.*

KPMG LLP

October 30, 2009

WEST PENN ALLEGHENY HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2009 and 2008

(Amounts in thousands)

Assets	2009	2008
Current assets:		
Cash and cash equivalents	$ 121,510	$ 79,360
Short-term investments	6,339	1,400
Assets limited or restricted as to use	7,008	2,508
Receivables:		
Patient accounts – net of allowance for uncollectible accounts of $29,992 and $34,793 in 2009 and 2008, respectively	169,903	171,122
Other	8,925	12,433
Estimated third-party payor settlements	3,521	—
Inventories	27,050	26,560
Prepaid expenses	13,642	13,843
Total current assets	357,898	307,226
Assets limited or restricted as to use	429,060	486,994
Property and equipment – net	406,696	426,629
Other assets – net	59,103	71,414
Total assets	$ 1,252,757	$ 1,292,263

(Continued)

WEST PENN ALLEGHENY HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2009 and 2008

(Amounts in thousands)

Liabilities and Net Assets	**2009**	**2008**
Current liabilities:		
Current portion of long-term debt	$ 13,484	$ 3,753
Accounts payable	79,415	86,435
Accrued expenses	12,576	19,166
Accrued interest	5,114	5,111
Accrued salaries and vacation	61,699	57,824
Estimated third-party payor settlements	—	2,473
Current portion of deferred revenue	14,759	12,348
Current portion of self-insurance liabilities	2,515	2,009
Total current liabilities	189,562	189,119
Deferred revenue	37,586	42,295
Self-insurance liabilities	50,928	52,852
Long-term debt	813,187	825,766
Accrued pension obligation	222,458	124,625
Other noncurrent liabilities	27,121	12,759
Total liabilities	1,340,842	1,247,416
Net assets (deficit):		
Unrestricted	(312,416)	(229,793)
Temporarily restricted	27,936	32,510
Permanently restricted	196,395	242,130
Total net assets (deficit)	(88,085)	44,847
Total liabilities and net assets	$ 1,252,757	$ 1,292,263

See accompanying notes to consolidated financial statements.

WEST PENN ALLEGHENY HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended June 30, 2009 and 2008

(Amounts in thousands)

	2009	2008
Unrestricted revenues and other support:		
Net patient service revenue	$ 1,551,714	$ 1,451,813
Other revenue	56,683	56,617
Net assets released from restrictions	5,123	5,170
Total unrestricted revenues and other support	1,613,520	1,513,600
Expenses:		
Salaries, wages, and fringe benefits	892,625	871,326
Patient care supplies	298,619	292,674
Professional fees and purchased services	149,251	116,504
General and administrative	142,391	145,825
Provision for bad debts	54,575	68,898
Depreciation and amortization	74,273	67,319
Interest	40,257	39,901
Total expenses	1,651,991	1,602,447
Operating loss	(38,471)	(88,847)
Investment income	12,107	30,103
Gifts and donations	1,173	964
Deficiency of revenues over expenses	(25,191)	(57,780)
Net assets released for property acquisitions and donated capital	5,959	4,900
Change in net unrealized (losses) gains on other than trading securities	(3,181)	(6,279)
Cumulative effect of adoption of fair value option	3,181	—
Pension liability adjustments	(53,727)	(17,206)
Effect of adoption of measurement date provision of FASB Statement No. 158	(9,618)	—
Other transfers	(46)	(180)
Decrease in unrestricted net assets	$ (82,623)	$ (76,545)

See accompanying notes to consolidated financial statements.

WEST PENN ALLEGHENY HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2009 and 2008

(Amounts in thousands)

	2009	2008
Unrestricted net assets:		
Deficiency of revenues over expenses	$ (25,191)	$ (57,780)
Net assets released for property acquisitions and donated capital	5,959	4,900
Change in net unrealized (losses) gains on other than trading securities	(3,181)	(6,279)
Cumulative effect of adoption of fair value option	3,181	—
Pension liability adjustments	(53,727)	(17,206)
Effect of adoption of measurement date provision of FASB Statement No. 158	(9,618)	—
Other transfers	(46)	(180)
Decrease in unrestricted net assets	(82,623)	(76,545)
Temporarily restricted net assets:		
Contributions	6,400	6,894
Investment income	1,871	2,088
Net assets released from restrictions used for:		
Operations	(5,123)	(5,170)
Acquisition of equipment	(5,848)	(4,827)
Change in net unrealized gains (losses) on other than trading securities	(1,709)	(1,648)
Other transfers	(165)	(1,345)
Decrease in temporarily restricted net assets	(4,574)	(4,008)
Permanently restricted net assets:		
Contributions	277	203
Investment income (loss)	(7,540)	19,321
Change in net unrealized gains (losses) on other than trading securities	(29,532)	(31,369)
Transfers out of endowments/participating trust to investment income and operations	(9,110)	(9,469)
Other transfers	170	688
Decrease in permanently restricted net assets	(45,735)	(20,626)
Decrease in net assets	(132,932)	(101,179)
Net assets – beginning of year	44,847	146,026
Net assets – end of year	$ (88,085)	$ 44,847

See accompanying notes to consolidated financial statements.

WEST PENN ALLEGHENY HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2009 and 2008

(Amounts in thousands)

	2009	2008
Cash flows from operating activities:		
Decrease in net assets	$ (132,932)	$ (101,179)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization	74,273	67,319
Other-than-temporary impairment	—	3,378
Unrealized losses on unrestricted investments	5,532	—
Noncash (premium) discount amortization	(387)	(387)
Change in pension liability	53,727	17,206
Impact of adoption of measurement date provision of FASB Statement No. 158	9,618	—
Noncash pension expense	38,496	32,373
Provision for bad debts	54,575	68,898
Unrealized (losses) gains on other than trading investments	34,422	39,296
Restricted contributions and investment income	(1,008)	(28,506)
Increase (decrease) in cash from changes in:		
Receivables	(49,848)	(42,650)
Other current assets and prepaid expenses	201	(1,685)
Inventories	(490)	(1,731)
Accounts payable and accrued expenses	(9,732)	25,402
Estimated third-party payor settlements	(5,994)	1,107
Deferred revenue	(2,298)	(6,052)
Self-insurance liabilities	(1,418)	196
Pension contributions	(4,009)	(53,969)
Other assets	2,436	(1,248)
Other liabilities	8,910	797
Net cash provided by operating activities	74,074	18,565
Cash flows from investing activities:		
Acquisition of property and equipment	(46,551)	(94,017)
Distribution from equity investment	7,539	—
Purchase of assets limited or restricted as to use and short-term investments	(241,461)	(405,765)
Sales of assets limited or restricted as to use and short-term investments	250,002	451,409
Net cash used in investing activities	(30,471)	(48,373)
Cash flows from financing activities		
Repayments of long-term debt	(3,944)	(3,382)
Proceeds from issuance of long-term debt (net of debt issuance costs)	1,483	—
Proceeds from restricted contributions and investment income	1,008	28,506
Net cash provided by (used in) financing activities	(1,453)	25,124
Net increase (decrease) in cash and cash equivalents	42,150	(4,684)
Cash and cash equivalents – beginning of year	79,360	84,044
Cash and cash equivalents – end of year	$ 121,510	$ 79,360
Supplemental disclosures:		
Cash paid for interest – net of amounts capitalized of $849 and $1,164 for 2009 and 2008, respectively	$ 40,738	$ 36,109
Property additions in accounts payable and other liabilities	$ 5,452	$ 2,538

See accompanying notes to consolidated financial statements.

(1) Organization

West Penn Allegheny Health System and Subsidiaries (WPAHS or the System) is a Pennsylvania nonprofit charitable corporation that provides routine and tertiary healthcare services.

The System consists of the following entities and divisions, with WPAHS as the sole member of these entities:

Allegheny General Hospital and Subsidiaries (AGH)
The Western Pennsylvania Hospital and Subsidiaries (WPH)
Alle-Kiski Medical Center (AKMC)
The Western Pennsylvania Hospital - Forbes Regional Campus (FRC)
Canonsburg General Hospital and Subsidiary (CGH)
West Penn Allegheny Foundation, LLC (WPAF)
The Western Pennsylvania Hospital Foundation (WPHF)
Forbes Health Foundation (FHF)
Allegheny Medical Practice Network (AMPN)
Allegheny Specialty Practice Network (ASPN)
West Penn Corporate Medical Services, Inc. (WPCMSI)
Allegheny Singer Research Institute (ASRI)
Friendship Insurance Company, Ltd. (FIC)
Alle-Kiski Medical Center Trust (AKMC Trust)

Effective December 31, 2007, WPAHS, AGH, and WPH adopted resolutions approving the merger of these entities. WPH was the surviving entity and has changed its name to WPAHS, Inc. AGH, WPH, and FRC operate as divisions of WPAHS, Inc.

WPAHS is the sole member of each of these entities. Each member of the Obligated Group (the Obligated Group) is jointly and severally liable for the satisfaction of the outstanding bond debt of WPAHS (see note 10). All members of the System with the exception of FIC, AKMC Trust, and WPAF are members of the Obligated Group.

(2) Operating Matters

WPAHS' consolidated operating results for fiscal year 2008 yielded a deficiency of revenues over expenses of $57,780. Management responded to this loss in fiscal year 2009 by commencing a number of initiatives, including the engagement of consulting firms to identify and assist in implementing operational improvement strategies, identifying clinical integration opportunities between WPAHS' two tertiary hospitals, and beginning a restructuring of the existing physician networks as well as their operating philosophies. Operational improvement strategies include payor contract negotiations, revenue cycle improvements, workforce and agency personnel utilization reductions, supply cost initiatives, and productivity improvements. WPAHS' operating results for fiscal year 2009 yielded a deficiency of revenues over expenses of $25,191, which include the cost of implementing these initiatives. Management believes that WPAHS will generate sufficient cash flows over the next year to meet its obligations as well as its debt compliance requirements.

(3) Summary of Significant Accounting Policies

The significant accounting policies applied in preparing the accompanying consolidated financial statements are summarized below:

(a) Basis of Accounting

WPAHS maintains its accounts on the accrual basis of accounting.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the entities and divisions identified in note 1. Joint venture investments, investments in limited partnerships, and investments with an ownership interest greater than 20% where control is not demonstrated are accounted for using the equity method.

All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investment securities and pension obligations are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities and interest rates, it is at least reasonably possible that these changes in risks in the near term could materially affect the amounts reported in the accompanying consolidated balance sheets, statements of operations, and statements of changes in net assets.

(d) Net Patient Service Revenue

WPAHS has agreements with third-party payors that provide for payments to WPAHS at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services as they are rendered and includes estimated retroactive revenue adjustments due to future retrospective 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. 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. WPAHS is reimbursed for services rendered at a tentative rate with a final settlement determined after submission of annual cost reports by WPAHS and audits thereof by the Medicare fiscal intermediary. WPAHS' entities' Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended June 30, 2006 for all hospitals.

(Amounts in thousands)

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

Blue Cross – Inpatient and outpatient services rendered to Blue Cross subscribers are reimbursed at prospectively determined rates.

WPAHS has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to WPAHS under these agreements includes prospectively determined rates and discounts from established charges.

During the years ended June 30, 2009 and 2008, net patient service revenue increased $4,133 and $2,735, respectively, due to prior year retroactive adjustments in excess of amounts previously estimated.

Revenue from the Medicare and Medical Assistance programs accounted for approximately 41% and 8%, respectively, of WPAHS' net patient service revenue for the year ended June 30, 2009, and 40% and 9%, respectively, for the year ended June 30, 2008. Laws and regulations governing the Medicare and Medical Assistance programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

WPAHS grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at June 30, 2009 and 2008 is as follows:

	2009	**2008**
Medicare	31%	33%
Medical assistance	12	12
Blue cross	19	18
Managed care	13	13
Other third-party payors	22	21
Patients	3	3
	100%	100%

(e) Deficiency of Revenues over Expenses

The consolidated statements of operations and changes in net assets include a deficiency of revenues over expenses. Changes in unrestricted net assets, which are excluded from deficiency of revenues over expenses, consistent with industry practice, include unrealized gains (losses) on other than trading securities, changes in permanent transfers of assets to and from affiliates for other than goods and services, pension liability adjustments not reflected in pension expense, the impact of accounting changes, and 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).

(f) Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments purchased with original maturities of three months or less. Cash equivalents are stated at fair value, which approximates cost.

(g) Inventories

Inventories, consisting of drugs and medical supplies, are stated at the lower of cost (first-in, first-out) or market value.

(h) Investments and Assets Limited or Restricted as to Use

Investments classified as assets limited or restricted as to use in the accompanying consolidated balance sheets primarily include assets held by trustees under indenture agreements, temporarily and permanently restricted assets, and designated assets set aside by the board of trustees for future capital improvements, over which the board retains control and may use for other purposes at its discretion. Amounts required to meet current liabilities have been included in current assets in the accompanying consolidated balance sheets at June 30, 2009 and 2008. Short-term investments include certificates of deposit with original maturities of greater than three months that will come due in one year or less.

Unrestricted investment income or loss (including realized gains and losses on investments, interest and dividends, and unrealized gains and losses on investments) is included in the deficiency of revenues over expenses unless this income or loss is restricted by donor or law. Prior to the adoption of Financial Accounting Standards Board (FASB) Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115*, effective July 1, 2008, discussed in note 6, unrestricted unrealized gains and losses on investments were excluded from the deficiency of revenues over expenses, unless they were considered other than temporarily impaired. Investment income (including realized gains and losses on investments) and unrealized gains and losses on temporarily and permanently restricted gifts are recorded based on donor restriction as part of the corresponding net asset class within the consolidated statement of changes in net assets.

Debt and equity securities are recorded at fair value. Beneficial interests in perpetual trusts are recorded at the present value of the estimated future cash receipts from the trusts, which approximates the fair value of the underlying assets in the trust.

Prior to the adoption of FASB Statement No. 159, for each of the investment categories above, WPAHS continually monitored investment performance and the potential need for the recording of impaired investments. The WPAHS impairment policy required securities that were significantly below cost, for which cost is considered unrecoverable, be deemed other-than-temporarily impaired.

(Continued)

(Amounts in thousands)

Additionally, individual securities were evaluated when indicators of impairment (e.g., bankruptcy) existed regardless of the amount and duration of the unrealized loss.

(i) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use has been limited by donors for a specific purpose or time period. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity, except as provided by the provisions of Section 8113 of the Pennsylvania Probate, Estate, and Fiduciary Code (see note 5). Temporarily restricted net assets released from restriction, as their specific purpose or time period has been met during the reporting period, are reflected in the accompanying consolidated statements of operations.

(j) Property and Equipment

Property and equipment acquisitions are recorded at cost, less an allowance for depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the related asset, which are as follows:

	Life
Description of assets:	
Buildings and building improvements	10 – 40 years
Equipment	3 – 30 years
Leasehold improvements	5 – 25 years
Land improvements	10 – 20 years

(k) Other Assets

Deferred financing costs are being amortized over the respective terms of the related bond issues utilizing the effective-interest method. Other assets include noncompete arrangements and signing bonuses, which are amortized over the life of the respective arrangement.

(l) Long-Lived Assets

WPAHS reviews long-lived assets and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Charges of $801 were taken in 2008, to reduce long-lived assets to their net realizable values. The System took no such charges in 2009.

(m) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to WPAHS are reported at fair market value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair market 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

(Continued)

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 as received, are reported as unrestricted contributions in the accompanying consolidated statements of operations.

(n) Income Taxes

WPAHS and all other member entities, with the exception of WPCMSI and WPAF, are not-for-profit corporations that have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code (IRC). WPCMSI is a taxable corporation. WPAF is a single member limited liability corporation. FIC is registered under the laws of the Cayman Islands.

WPAHS adopted FASB Interpretation No. (FIN) 48 (FIN 48), *Accounting for Uncertainty of Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. FIN 48 prescribes a more-likely than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. Under FIN 48, tax positions will be evaluated for recognition, derecognition, and measurement using consistent criteria and will provide more information about the uncertainty in income tax assets and liabilities. Based on an analysis prepared by WPAHS, it was determined that the application of FIN 48 had no material effect on the recorded tax assets and liabilities of WPAHS.

(o) Other Revenue

Other revenue is derived from services other than providing healthcare services to patients. Included in other revenue are grants, rent, parking, cafeteria, tuition, contract revenue, and sale leaseback gain amortization.

(p) Asset Retirement Obligations (ARO)

WPAHS accounts for asset retirement obligations in accordance with FASB issued FIN 47, *Accounting for Conditional Asset Retirement Obligations – an Interpretation of FASB Statement No. 143*. FIN 47 clarifies an entity is required to recognize a liability and capitalized costs for the fair value of a conditional ARO when incurred if the fair value of the liability can be reasonably estimated or when the entity has sufficient information to reasonably estimate the fair value of the ARO. FIN 47 requires an ARO liability be recognized at its net present value, with a corresponding increase to the carrying amount of the long-lived asset to which the ARO relates. The ARO liability is accreted through periodic charges to accretion expense. The initially capitalized ARO long-lived asset cost is depreciated over the useful life of the related long-lived asset.

In the normal course of operations, WPAHS performs repairs and maintenance on its buildings. Additionally, WPAHS is involved in ongoing construction and renovation projects. WPAHS has identified costs that may be incurred for asbestos abatement, which would be legally required, if exposed as a result of such construction and renovation projects.

The significant assumptions and estimates used in the calculation of the AROs are based on the facts and circumstances known at that time of estimation. They include the estimated settlement date of the obligation, the estimated retirement obligation cost, the assumed inflation rate, and the discount rate.

WPAHS has an ARO liability to recognize the costs associated with future asbestos removal. This represents the present value of the expected future cash flows based on various potential settlement possibilities, including normal repairs and maintenance and currently known renovation plans between 2010 and 2049, which represents management's estimated time period for removal. The liability was $3,978 and $2,768 at June 30, 2009 and 2008, respectively. WPAHS has incurred costs of $257 in 2009 and 2008 relating to asbestos removal. Accretion expense and estimate revisions were $1,270 in 2009 and $208 in 2008. The ARO liability has been discounted using a rate of 9.0% as of the date of adoption.

(q) Adoption of New Accounting Pronouncement

In September 2006, the FASB issued FASB Statement No. 158, *Employer's Accounting for Defined Benefit Pension and other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. FASB Statement No. 158 requires a company who sponsors a postretirement benefit plan to fully recognize, as an asset or liability, the overfunded or underfunded status of the benefit plan, and to recognize changes in that funded status in the year they occur, through changes in unrestricted net assets. Additionally, it requires a company to measure the funded status of the plan as of the date of its year-end. The recognition and disclosure provisions were adopted by the System for the year ended June 30, 2007, and the measurement date provision of this statement was adopted by the System for the year ended June 30, 2009. See note 15 regarding impact of adopting FASB Statement No. 158.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*. FASB Statement No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This pronouncement applies to other existing accounting pronouncements that require or permit fair value measurements. The pronouncement does not require any new fair value measurements. FASB Statement No. 157 is effective for financial statements issued for the fiscal year beginning July 1, 2008. There was no impact to adopting FASB Statement No. 157 on the consolidated balance sheet and results of operations. Disclosures required by FASB Statement No. 157 are included in note 6.

In February 2007, the FASB issued FASB Statement No. 159. FASB Statement No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. FASB Statement No. 159 is effective for WPAHS consolidated financial statements issued for the fiscal year beginning July 1, 2008. WPAHS elected the fair value option for its unrestricted investment portfolio. As a result, all unrealized gains and losses on unrestricted investments are included in the deficiency of revenues over expenses beginning in the year ended June 30, 2009.

In August 2008, the FASB issued FASB Staff Position (FSP) FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Assets Classification of Funds Subject to an Enacted Version of* *the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and Enhanced Disclosures for all Endowment Funds*. FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA. This FSP is also expected to improve disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA. FSP FAS 117-1 is effective for fiscal years ending after December 15, 2008. The Commonwealth of Pennsylvania has not yet enacted UPMIFA, and, as a result the System has determined there is no impact on net asset classification of endowments for fiscal year 2009. Management will evaluate the impact this will have on future financial statements if enacted in the Commonwealth of Pennsylvania.

In May 2009, the FASB issued FASB Statement No. 165, *Subsequent Events*. FASB Statement No. 165 establishes standards for the accounting for and disclosure of events occurring after the consolidated balance sheet date, but before the consolidated financial statements are issued or available for issue.

(r) Recently Issued Accounting Pronouncements

In December 2008, the FASB issued FSP FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*. FSP FAS 132(R)-1 provides guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. FASP FAS 132(R)-1 also includes a technical amendment to FASB Statement No. 132(R), effective immediately, which requires nonpublic entities to disclose net periodic benefit cost for each annual period for which a statement of income is presented. WPAHS has disclosed net periodic benefit cost in note 15. The disclosures about plan assets required by FSP FAS 132(R)-1 must be provided for fiscal years ending after December 15, 2009. WPAHS is currently evaluating the impact of the FSP on its disclosures about plan assets.

(4) Uncompensated Care and Community Service Benefits

To improve the health of the people of the Western Pennsylvania region and consistent with its tax-exempt status, WPAHS provides needed health care services to individuals regardless of their ability to pay for all or part of the services rendered. These services include both inpatient and outpatient services as well as maintaining six emergency rooms that are available 24 hours a day, including a level I regional resource trauma center, air and ground emergency transportation, and many primary care and specialty care practices that provide services to the community without regard to the ability to pay for services rendered.

WPAHS maintains a written charity care policy that defines the levels of household income that would qualify for various levels of charity care. Patients can qualify for charity care with household incomes of up to four times the federal poverty guidelines. WPAHS does not pursue collection of amounts that qualify as charity care in accordance with the policy and, as a result, these amounts are not reported as revenue. Charges foregone for services and supplies provided for those individuals who applied for and qualified under the hospital charity care policy amount to $13,724 and $13,853 for the years ended June 30, 2009 and 2008, respectively. Patients are required to apply for the charity care discount, but often do not complete the necessary paperwork to determine if they qualify. As a result, there is an unquantifiable amount of uncompensated services that would potentially be considered charity care under the policy, but rather are ultimately reflected in bad debt expense.

(Amounts in thousands)

In addition to uncompensated care, WPAHS provides free and below cost services and programs for the benefit of the community. The cost of these programs is included in salaries, wages, and fringe benefits; patient care supplies; professional fees and purchased services; and other expense lines in the accompanying consolidated statements of operations.

Services are also provided to beneficiaries of government-sponsored programs, including state Medical Assistance and indigent care programs. Reimbursement from these programs is often less than the cost of providing these services.

(5) Cash, Short-Term Investments, and Assets Limited or Restricted as to Use

Cash, short-term investments, and assets limited or restricted as to use as of June 30, 2009 and 2008 consist of the following components:

	2009	2008
Cash and cash equivalents	$ 121,510	$ 79,360
Short-term investments	6,339	1,400
Assets limited or restricted as to use:		
Unrestricted:		
Designated by board of trustees for:		
Capital improvements	37,057	40,595
Foundation	29,691	34,657
Capital project funds	76,922	78,328
Debt service	55,385	51,197
Self-insurance	3,159	3,356
Other	9,523	6,729
Total unrestricted	211,737	214,862
Temporarily restricted	27,936	32,510
Permanently restricted	196,395	242,130
Total assets limited or restricted as to use and beneficial interest in perpetual trust	436,068	489,502
Less current portion	7,008	2,508
Assets limited or restricted as to use, including beneficial interests in perpetual trusts – net of current portion	429,060	486,994
Total cash, short-term investments and assets limited or restricted as to use	$ 563,917	$ 570,262

(Amounts in thousands)

Cash, short term investments, and assets limited or restricted as to use by investment type as of June 30, 2009 and 2008 consisted of the following:

	2009 Fair value	2008 Fair value
Cash and short-term investments	$ 155,309	$ 108,616
Guaranteed investment contract	76,922	76,922
Government and corporate obligations	128,593	123,454
Marketable equity securities	24,826	36,114
Endowments managed by donor selected trustees	171,340	216,522
Collective funds and other	4,667	5,476
Pledges receivable	2,260	3,158
	$ 563,917	$ 570,262

WPAHS had approximately $76,922 as of June 30, 2009 and 2008 invested in a guaranteed investment contract (GIC) with Hypo Investment Bank of Germany (Hypo). Per the terms of the contract, WPAHS, through its trustee, BNY Mellon, purchased a pool of investments from Hypo with a guaranteed repurchase at 105% – 106% margin. The GIC is collateralized by U.S. Treasury Securities, and, as such, realization is deemed not to be impaired by any potential adverse impact experienced by Hypo.

Investment income for the years ended June 30, 2009 and 2008 consisted of the following:

	2009		
	Unrestricted	Temporarily restricted	Permanently restricted
Dividends and interest – net of trustee fees	$ 17,930	$ 1,722	$ 5,295
Net realized gains (losses) on investments	(291)	149	(12,835)
Net unrealized losses	(5,532)	—	—
	$ 12,107	$ 1,871	$ (7,540)

	2008		
	Unrestricted	Temporarily restricted	Permanently restricted
Dividends and interest – net of trustee fees	$ 23,310	$ 1,785	$ 6,355
Net realized gains on investments	10,171	303	12,966
Other than temporary impairments on investments	(3,378)	—	—
	$ 30,103	$ 2,088	$ 19,321

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. These investments consist primarily of marketable equity securities, federal agency mortgages, corporate bonds, and U.S. Treasury obligations.

Effective July 1, 2008, WPAHS elected the fair value option for its unrestricted investments and all noncash gains and losses are recognized as part of investment income within the consolidated statements of operations. Prior to July 1, 2008, unrealized gains on unrestricted investments were recorded within the consolidated statements of changes in net assets. Unrealized losses recognized as other-than-temporarily impaired were recorded as part of investment income.

For the year ended June 30, 2009, the stock and bond markets experienced significant declines in value. This had a negative effect on the fair value of WPAHS' investments. WPAHS' management continues to monitor its investment performance and periodically considers changes to its investment policy as appropriate.

During May 2000, the Orphan's Court of Pennsylvania permitted the election of a fixed investment income distribution under the provisions of Section 8113 (the Election) of the Pennsylvania Probate, Estate and Fiduciary Code for certain trust accounts which name applicable WPAHS entities as the sole beneficiary. The Pennsylvania legislature enacted legislation with respect to charitable Trusts which permits a Trustee of a charitable Trust to adopt a total return investment policy and, by doing so, to redefine income as a percentage of a rolling average market value of the charitable Trust as averaged over a period of at least three years; provided, however, that such election is not in contravention of the terms of the charitable Trust agreement and is consistent with the long term preservation of the principal value of the charitable Trust.

The provisions of the law governing these changes are found at 20 PA.C.S.A. 8113 and took effect December 21, 1998. If an election is made under this law, the percentage of the market value of the charitable Trust to be treated as income and the rolling time period upon which the percentage is based is to be redetermined annually by the Trustee; such election is to be in writing. Further, the percentage that may be elected is limited to a range between 2% – 7%. Lastly, the statute contains language that cautions against electing the highest ranges of 6% and 7% on a regular basis. Distributions from these charitable Trusts are included in investment income in the accompanying consolidated statements of operations and totaled $7,065 and $7,213 for the years ended June 30, 2009 and 2008, respectively. Under the provisions of the Election, there is no settlement with the trustee should the trustee be permitted to revoke the Election.

(6) Fair Value Measurements and the Fair Value Option

The following methods and assumptions were used in estimating the fair value of WPAHS' financial instruments:

(a) Fair Value of Financial Instruments

Cash and Cash Equivalents – The carrying value reported in the consolidated balance sheets for cash and cash equivalents approximates their fair value.

Marketable Securities, Short-Term Investments, and Assets Limited or Restricted as to Use - Fair values of the securities are reported in the consolidated balance sheets and are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

Accounts Payable and Other Accrued Liabilities – The carrying value reported in the consolidated balance sheets for these obligations approximates their fair value. The carrying and fair values of the self-insurance liabilities are actuarially determined.

Long-Term Debt - Fair value of WPAHS' revenue bonds and notes are based on current traded value. The fair value and carrying amounts of the Series 2007A bonds were $468,776 and $757,937, respectively, at June 30, 2009, and $684,911 and $758,323, respectively, at June 30, 2008. WPAHS has determined that it is not practical to estimate the fair value of the Floating Rate Restructuring Certificates and the Series 2006A and B notes without incurring excessive costs as a quoted market price is not available. The fair value of the mortgage loan approximates its carrying value as it is a resettable rate debt.

Endowments managed by donor-selected trustees – Permanently restricted net assets consist of amounts held in perpetuity as designated by donors, including the System's portion of beneficial interests in several endowments managed by donor-selected trustees. The interest in these trusts is measured at the fair market value of the underlying investments, which approximates the present value of the expected future cash flows, for which the System is an income beneficiary.

(b) Fair Value Hierarchy

Effective July 1, 2009, WPAHS adopted the recognition and disclosure provisions of FASB Statement No. 157 for financial assets and liabilities. FASB Statement No. 157 establishes a framework in generally accepted accounting principles for measuring fair value and expands disclosures about fair value measurements. Although it does not require any new fair value measurements, FASB Statement No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and should be determined based on the assumptions that market participants would use in pricing the asset or liability.

FSP FAS 157-2 defers the recognition and disclosure provisions of nonfinancial assets and liabilities, except those recognized or disclosed at fair value on a recurring basis, until fiscal years beginning after November 15, 2008. Nonfinancial assets include pension plan assets, goodwill and other intangibles. Nonfinancial liabilities include asset retirement obligations. The FASB also amended FASB Statement No. 157 to exclude FASB Statement No. 13, *Accounting for Leases*, and its related interpretive accounting pronouncements that address leasing transactions.

FASB Statement No. 157 establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. The hierarchy gives the highest priory to unadjusted quoted prices in active markets (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices in Level 1. Inputs such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar liabilities that are not active, or other inputs that are observable or can be corroborated by observable market data.

(Amounts in thousands)

Level 3 – Unobservable inputs that are significant to the valuation of assets or liabilities and are supported by little or no market data.

Quoted market prices are used when available to determine the fair value of investment securities and these are categorized as Level 1. The inputs used to fair value Level 1 instruments are unadjusted quoted prices derived from stock exchanges as provided by the trustee. Level 1 instruments primarily consist of cash and cash equivalents, domestic equities, foreign equities, exchange traded funds, regulated investment companies, and exchange traded American deposit receipts and certain government securities.

Investments in Level 2 primarily comprise corporate bonds, international bonds, asset-back securities and agency bonds, as well as the guaranteed investment contract. Level 2 inputs primarily consist of contract prices, quotes from independent pricing vendors based on recent trading activity and other relevant information including matrix pricing, market corroborated pricing, yield curves and other indices, which are used as provided by the trustee when Level 1 inputs are not available.

Investments classified as Level 3 in the fair value hierarchy include collective funds and other securities. These assets are valued using inputs such as the funds' net asset value as of year-end as a practical expedient for the fair value of the investment.

The following table presents assets that are measured at fair value on a recurring basis at June 30, 2009:

	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
Cash and cash equivalents	$ 153,625	$ 1,684	$ —	$ 155,309
Guaranteed investment contract	—	76,922	—	76,922
Government and corporate obligations	6,257	122,336	—	128,593
Marketable equity securities	24,709	—	117	24,826
Collective funds and other	697	—	3,970	4,667
Total assets measured at fair value	$ 185,288	$ 200,942	$ 4,087	$ 390,317

WPAHS holds assets valued using unobservable inputs (Level 3) of $4,087 and $4,785 at June 30, 2009 and 2008, respectively. These assets decreased by $698 during the year ended June 30, 2009 as a result of unrealized losses.

(c) Fair Value Option

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115*.

(Amounts in thousands)

FASB Statement No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. FASB Statement No. 159 is effective for financial statements issued for the WPAHS' fiscal year beginning July 1, 2008. WPAHS elected the fair value option for its unrestricted investments effective July 1, 2008. As a result, all unrealized gains and losses on unrestricted investments are included in the deficiency of revenues over expenses beginning in the year ended June 30, 2009. The System has recorded $5,532 of net unrealized losses (included in investment income) in 2009. There was no impact to the consolidated balance sheet or net assets of WPAHS as a result of the election of the fair value option.

(7) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30, 2009 and 2008 are available for the following purposes:

	2009	2008
Capital expansion and renovation	$ 14,347	$ 17,444
Clinical programs	13,589	15,066
	$ 27,936	$ 32,510

Temporarily restricted net assets for capital expansion and renovation represent donations, gifts, and pledges made for specific capital projects at WPAHS hospitals. Temporarily restricted net assets for clinical programs represent donations, gifts, and pledges made to support specific clinical programs or departments at WPAHS hospitals.

Permanently restricted net assets totaling $196,395 and $242,130 at June 30, 2009 and 2008, respectively, are restricted to be invested in perpetuity. Income distributions generated from these net assets are either classified as unrestricted and may be used for any purpose or are classified as temporarily restricted based on donor restrictions. At June 30, 2009, permanently restricted net assets consist of endowments managed by donor-selected trustees of $171,340 and endowments managed by the System of $25,055. Collectively, all these funds are included within permanently restricted assets limited or restricted as to use. The System has determined that all such funds are donor restricted.

(Amounts in thousands)

Changes in System-managed Endowment Net Assets

Balance at July 1, 2008	$	25,847
Investment return:		
Interest and dividend income		82
Realized losses		(17)
Unrealized losses		(1,307)
Total investment loss		(1,242)
Contributions		450
Balance at June 30, 2009	$	25,055

(8) Property and Equipment

Property and equipment at June 30, 2009 and 2008 consist of the following:

		2009		2008
Buildings and building improvements	$	803,628	$	783,806
Equipment		688,126		652,519
Leasehold improvements		39,630		32,671
Total depreciable assets		1,531,384		1,468,996
Less accumulated depreciation and amortization		(1,168,496)		(1,097,024)
Net depreciable assets		362,888		371,972
Land and land improvements		28,837		28,785
Construction in progress		14,971		25,872
Property and equipment – net	$	406,696	$	426,629

WPAHS capitalizes interest on certain assets that require a period of time to prepare for their intended use. The amount capitalized is based on the weighted average outstanding borrowing rate of WPAHS' indebtedness. During the years ended June 30, 2009 and 2008, WPAHS capitalized $849 and $1,164, respectively, of related interest costs. Depreciation expense was $71,936 and $64,217 for the years ended June 30, 2009 and 2008, respectively.

(Amounts in thousands)

(9) Other Assets

Other assets at June 30, 2009 and 2008 consist of the following:

		2009		2008
Prefunded insurance deductible	$	21,655	$	23,792
Deferred bond financing costs – net of accumulated amortization of $1,741 and $903, respectively		15,504		16,342
Intangibles – net of accumulated amortization of $10,298 and $10,802, respectively		7,440		8,435
Investment in CHA RRG		6,388		13,894
Other		8,116		8,951
Total	$	59,103	$	71,414

A distribution of $7,539 was received from Community Health Alliance Risk Retention Group (CHA RRG) in 2009 and recorded as a reduction to the investment. No such distribution was received in 2008.

(Amounts in thousands)

(10) Long-Term Debt

Long-term debt as of June 30, 2009 and 2008 consists of the following:

	2009	2008
Allegheny County Hospital Development Authority (ACHDA) – Series 2007 A with maturity dates through November 15, 2040, and interest rates ranging from 5.000% to 5.375%, including a net unamortized premium of $5,566 and $5,953 at June 30, 2009 and 2008, respectively	$ 757,937	$ 758,323
Floating Rate Restructuring Certificates (FRRC) – payable based on attainment of defined income and cash levels, with a variable interest rate of the three-month London InterBank Offered Rate (LIBOR), plus 0.25% (0.87% and 3.03% at June 30, 2009 and 2008, respectively), thereafter until maturity on June 30, 2030	37,084	37,084
Series 2006 B Health Facilities Revenue Notes – payable in monthly principal and interest payments through October 2015, with interest rates ranging from 4.55% to 4.61%	21,967	23,005
Series 2006 A Health Facilities Revenue Notes – payable in monthly principal and interest payments through December 2016, at a fixed interest rate of 5.25% for all payments	3,681	4,181
McKeesport Industrial Development Authority	1,303	3,447
Mortgage loan	3,455	3,479
Equipment loan	1,244	—
Total	826,671	829,519
Less current portion	13,484	3,753
Total long-term debt	$ 813,187	$ 825,766

Series 2007 A

In June 2007, the System issued $752,400 of Allegheny County Hospital Development Authority Health System Revenue Bonds (West Penn Allegheny Health System Series 2007 A, the Series 2007 A bonds). Proceeds of the Series 2007 A bonds were used to advance refund the outstanding Allegheny County Hospital Development Authority Series 2000 A and B bond issues and to current refund the Dauphin County General Authority Series 1992 A and B Hospital Revenue Bonds, the Pennsylvania Higher Education Facility Authority Series 1991 A Revenue Bonds, the Monroeville Hospital Authority Series 1992 and 1995 Revenue Bonds, and partially refund an outstanding loan from Highmark.

The Series 2007 A bonds are a liability of the Obligated Group. Each member of the Obligated Group is jointly and severally liable for payment of this obligation.

The Series 2007 A bonds are subject to mandatory redemption on November 15, 2017, November 15, 2028, and November 15, 2040, based on the mandatory sinking fund dates as disclosed in the official statement. They are subject to redemption prior to their respective stated maturity dates, in part, or by lot, on variable dates as disclosed in the official statement at the discretion of WPAHS and the ACHDA. Under the Master Trust Indenture (MIT), interest is payable to the bondholders semiannually on each May 15 and November 15.

The Series 2007 A bonds are secured by (i) first mortgage liens on certain real property, (ii) security interests in certain equipment and other tangible and intangible personal property of the Obligated Group, and (iii) gross revenues of the Obligated Group. Debt service reserve accounts in the amount of $55,385 at June 30, 2009 exist for the Series 2007 A bonds, which must be maintained at required reserve levels.

Under the MTI, the Obligated Group has covenants including, but not limited to, a long-term debt service coverage ratio of 1.0 and days cash on hand of 20 (both measured annually at June 30). As of June 30, 2009 (most recent measurement date), WPAHS was in compliance with these covenants.

FRRCs

In 2000, certain creditors of AGH and its affiliates restructured approximately $114,000 of indebtedness by exchanging such indebtedness for approximately $76,900 in cash and approximately $37,100 in principal amount of FRRCs. Initially, no interest accrued on the FRRCs. Beginning July 1, 2003, the FRRCs bear interest at the three-month LIBOR plus 0.25%. Payment of interest is contingent upon achieving certain profitability thresholds and maintaining specified liquidity levels. Management believes the probability of future interest payments to be remote and has, therefore, not recorded interest to date.

Subject to the FRRC Cap, if applicable, the owners of the FRRCs are entitled to receive an annual single payment of 25% (30% if unenhanced indebtedness of any other member of the Obligated Group is rated "A" or better) of the adjusted net operating income of the Obligated Group as defined in the FRRC indenture, calculated as of each June 30 commencing June 30, 2004. Payments are also contingent upon achieving and maintaining specified liquidity levels. No payments have ever been due under the FRRCs.

Series 2006 B & A

In December 2006, WPAF entered into two note agreements with the issuance of Series 2006 B notes in the amount of $24,000 and Series 2006 A note in the amount of $4,950 to purchase four new helicopters and hospital beds, respectively (see note 12). The notes are collateralized by the acquired helicopters and beds, respectively.

The Series 2006 B Health Facilities Revenue Notes (Series 2006 B Notes), and the Series 2006 A Health Facilities Revenue Note (Series 2006 A Note), the McKeesport Industrial Development Authority obligation and the Mortgage loan are solely the obligation of WPAF.

(Amounts in thousands)

Other Long-Term Debt

The System has entered into other notes and mortgages to finance various capital purchases. The interest and principal on these instruments are payable through 2026 at interest rates ranging from 5.12% to 7.53%.

Scheduled principal repayments and sinking fund requirements on all long-term debt for the next five years and thereafter as of June 30, 2009 are as follows:

	Total obligated group	WPAF	Total consolidated group
Years ending June 30:			
2010	$ 10,356	$ 3,128	$ 13,484
2011	10,896	1,868	12,764
2012	11,192	1,963	13,155
2013	11,485	2,061	13,546
2014	12,075	1,928	14,003
Thereafter	734,695	19,458	754,153
	$ 790,699	$ 30,406	$ 821,105

(11) Deferred Revenue

Deferred revenue at June 30, 2009 and 2008 consist of the following:

	2009	2008
Prepaid patient service revenue	$ 26,667	$ 30,000
Deferred grant revenue	17,393	16,142
Unamortized gains	6,088	7,239
Other	2,197	1,262
Total	$ 52,345	$ 54,643

In December 2006, WPAHS entered into a long-term contract with a commercial payor whereby System facilities and providers will provide healthcare services to the payor’s members at discounted amounts for a period of 10 years. The System received $35,000 in connection with these agreements which has been reflected as deferred revenue in the accompanying consolidated financial statements and is being amortized on a straight-line basis over the life of the related contracts, consistent with the earnings process. At June 30, 2009 and 2008, $26,667 and $30,000, respectively, received from the agreements is included in deferred revenue within the accompanying consolidated balance sheets.

The System records deferred revenue as nongovernmental grant monies are received. Revenue is subsequently recognized as grant proceeds are expended. During the years ended June 30, 2009 and 2008, grant proceeds expended of $19,971 and $17,000, respectively, were recognized as other revenue. The

(Amounts in thousands)

System also records as deferred revenue, governmental grant monies received for the acquisition of property and equipment. The amount deferred is amortized over the estimated useful life of the assets acquired. At June 30, 2009 and 2008, $17,393 and $16,142, respectively, of grant funds are included in deferred revenue within the accompanying consolidated balance sheets.

During the years ended June 30, 1997 and 1996, AGH sold certain nonclinical assets, which are being leased back by AGH over 20 years. These transactions resulted in gains, which have been deferred and will be amortized into income over the lease terms. The annual amortization is included in other revenue in the accompanying consolidated statements of operations. Unamortized gains of $6,088 and $7,239 are included in deferred revenue at June 30, 2009 and 2008, respectively.

(12) Commitments

Rental expense consists of amounts paid to lease property for physician offices, a network of ambulatory locations, parking garages, and administrative offices. In addition, WPAHS leases clinical and administrative equipment, and one helicopter. Equipment leases involve both noncancelable operating leases as well as ordinary month-to-month rentals for items that are used as the need arises based on the volume or mix of procedures and, therefore, are not practical to purchase. The components of rental expense, which are recorded within general and administrative on the consolidated statements of operations for the years ended June 30, 2009 and 2008 are as follows:

	2009	2008
Property rentals	$ 25,816	$ 24,572
Equipment rentals and other	18,803	18,322
Total	$ 44,619	$ 42,894

The future minimum lease payments under noncancelable operating leases entered into as of June 30, 2009 are as follows:

Year ended June 30:	
2010	$ 36,503
2011	27,453
2012	20,939
2013	15,821
2014	13,788
Thereafter	42,113
Total minimum payments	$ 156,617

WPAHS has committed approximately $35,000 to replace the clinical information system at most of the WPAHS hospitals, of which approximately $23,000 has been expended at June 30, 2009. The implementation of this system was completed in 2007 at AGH and is expected to be completed at the remaining hospitals by 2011.

Approximately, 14% of employees are covered by collective bargaining agreements. There are five bargaining units, which have expiration dates ranging from April 2010 through January 2012.

WPAHS has employment agreements with physicians, specialists, and others. These agreements are for periods up to 10 years and require services to be performed.

WPAHS has one helicopter lease expiring in 2012. Under this lease, AGH bears a contractual residual risk amount at the end of the lease. AGH estimates that the fair value of the helicopter at the end of the lease will have a contractual residual risk amount of $350. As such, a liability has been recorded at June 30, 2009.

(13) Income Taxes

No provision for income taxes has been recognized in the accompanying consolidated financial statements as WPCMSI has incurred net operating losses in most years prior to fiscal 2009, which are available to offset current and future taxes payable. A valuation allowance of approximately $20,000 has been established to fully reserve the deferred tax asset associated with the cumulative net operating losses of approximately $48,000, which expires between 2010 and 2028, as future earnings are not estimated to be sufficient to realize the asset before the net operating loss carryforward expires.

(14) Insurance

(a) Worker's Compensation

Prior to various dates during 1999, WPAHS was self-insured for workers' compensation claims. From 1999 through October 14, 2004, WPAHS purchased occurrence-based commercial insurance for workers' compensation claims. The coverage was for $250 per claim at AKMC, CGH, and FRC, and $350 per claim at AGH and WPH. From October 15, 2004, WPAHS is self-insured for workers' compensation claims and has purchased excess insurance coverage of $350 per claim for all of its hospitals. During the 12 months ended June 30, 2009 and 2008, WPAHS' workers' compensation expense was $3,011 and $2,326, respectively, and is recorded within the consolidated statements of operations. A liability for WPAHS' self-insured workers' compensation of $6,641 and $5,849 as of June 30 2009 and 2008, respectively, is included within the consolidated balance sheets.

(b) General and Professional Liability

Historically, the entities that are now part of WPAHS established self-insurance programs for professional and general liability through offshore captive insurance companies. From 1999 through 2002, these entities insured their general and professional liability through a variety of purchased claims-based commercial insurance policies and the establishment of FIC, an offshore captive. WPAHS continues to record a tail liability for its retained risk under these programs.

Beginning in 2003, WPAHS has been insured through the CHA RRG, a Vermont domiciled risk retention group. The primary professional liability and Mcare (Medical Care Availability and Reduction of Error) coverage were set at state mandated limits ($500 per claim). The primary layer is subject to a $250 per claim deductible, which is pre-funded to the CHA RRG. A pre-funded insurance deductible asset and an offsetting self-insurance liability have been recorded in the accompanying consolidated balance sheet for $21,655 as of June 30, 2009, to reflect the amount of deductible payments that have been made to CHA RRG, but have not yet been paid out to settle claims. Any portion of this pre-funded deductible that is not ultimately used to settle claims will be returned to WPAHS. There was a $5,200 aggregate retention for all entities between the Mcare and first excess layers. CHA RRG provided two excess layers: first excess $5,200/$10,400 and second excess $5,000/$5,000. WPAHS also purchased commercial insurance over the CHA RRG excess layers. All parties participating in CHA RRG made a minimum three-year participation commitment. Subsequent year changes to the above are as follows:

(Amounts in thousands)

- 2004 – The retention dropped to $5,000 aggregate; the CHA RRG excess layers changed to: first excess $1,000/$3,000 and second excess $9,000/$9,000.
- 2005 – The CHA RRG second excess changed to $9,000/$18,000.
- 2006 – A third layer of CHA RRG excess of $10,000/$10,000 was added. This layer is reinsured through a commercial carrier.
- 2007 – The primary layer general liability aggregate was increased from $1,000 to $3,000 for this policy year.
- 2008 – The professional liability coverage was increased by adding $5,000 to the 5th layer of insurance. The 5th layer previously provided general liability coverage only.
- 2009 – The professional liability coverage was increased by adding $5,000 to the 5th layer of insurance, for a total of $10,000 coverage in the 5th layer.

WPAHS has a 17% voting interest in CHA RRG. The interest is accounted for using the equity method.

The unaudited financial statement information as of June 30, 2009 and 2008 of CHA RRG, which has a calendar year-end, is as follows:

	2009	2008
Total assets	$ 104,875	$ 121,417
Total liabilities	92,853	96,448
Total equity	12,022	24,969
Total revenue	14,755	18,997
Total expense	4,278	12,719
Net income (including federal income tax benefit)	10,631	6,331

WPAHS provides for the costs associated with general and professional liability claims based on actuarially determined projected settlements, which include estimates for claims incurred but not reported. There exists, however, inherent risks in the areas of general and professional liability insurance that stem from, among other things, coverage availability and the financial viability of the underlying insurance carrier.

During the 12 months ended June 30, 2009 and 2008, WPAHS' general and professional liability expense was $15,920 and $21,478, respectively. WPAHS' self-insured general and professional liability was $46,712 and $48,919, as of June 30, 2009 and 2008, respectively.

(15) Pension Plans

(a) Defined Benefit Plans

WPAHS maintains the Retirement Plan for the Employees of West Penn Allegheny Health System, a defined benefit cash balance pension plan. Under this cash balance plan, pension accruals are determined using a defined percentage of an employee's current compensation based upon the employee's age and years of service. Each employee's individual retirement benefit is defined within the plan's obligation as notational cash balance retirement accounts and is credited with interest based upon a defined interest rate.

WPAHS' investment policy is to provide for the benefit obligations earned by employees during their career at WPAHS. Plan assets are invested to generate earnings over an extended time period to help fund the cost of benefits under the plan while controlling investment fees.

WPAHS' funding policy is to contribute such amounts, as necessary, on an actuarial basis to provide the plan with assets sufficient to meet benefits to be paid to retirees or their beneficiaries, and to satisfy minimum funding requirements of Employee Retirement Income Security Act of 1974, and the IRC. Plan assets are invested primarily in corporate common stocks, fixed income obligations of the United States government and corporation, and interests in mutual funds.

(Amounts in thousands)

The funded status at measurement dates of June 30, 2009 and April 1, 2008 and amounts recognized in the consolidated financial statements at June 30, 2009 and 2008, relating to employee retirement benefits are as follows:

	2009	2008
Accumulated benefit obligation, including vested benefits of $515,991 and $491,081 in 2009 and 2008, respectively	$ 521,938	$ 523,261
Change in projected benefit obligation:		
Projected benefit obligation – beginning	$ 621,344	$ 606,990
Service cost	38,105	28,229
Interest cost	45,008	35,174
Amendments	(52,986)	8,102
Actuarial gain	(26,039)	(18,587)
Benefits paid	(48,893)	(38,564)
Projected benefit obligation – ending	576,539	621,344
Change in plan assets:		
Fair value plan assets – beginning	490,719	458,613
Actual (loss) return on plan assets	(97,754)	3,349
Employer contributions	10,009	67,321
Benefits paid	(48,893)	(38,564)
Fair value of plan assets – ending	354,081	490,719
Projected benefit obligation in excess of fair value of plan assets	222,458	130,625
Items recognized in the consolidated balance sheets:		
Fourth quarter employer contribution	—	(6,000)
Accrued pension obligation	$ 222,458	$ 124,625
Weighted-average assumption used to determine benefit obligations:		
Discount rate	6.75%	6.10%
Rate of compensation increase	2.9% – 6.1% Graded	3.0% – 8.0% Graded

(Amounts in thousands)

Components of net periodic pension costs:				
Service cost	$	30,484	$	28,229
Interest cost		36,006		35,174
Expected return on plan assets		(38,787)		(38,297)
Recognized actuarial loss		—		8,760
Unrecognized net gain		11,672		—
Amortization of prior service cost		(879)		(1,503)
Net periodic pension cost	$	38,496	$	32,363
Weighted-average assumptions used to determine net cost:				
Discount rate		6.10%		6.00%
Expected long-term return on plan assets		8.25%		8.50%
Rate of compensation increase		3.0% – 8.0% Graded		3.75% —

The System is required to abide by the minimum funding requirements of Section 412 of the IRC. Based on most recent actuarial estimates, the System is required to fund $10,794 during the year ending June 30, 2010.

The discount rate used to value plan liabilities is a weighted average spot rate generated by bond yield curves, rounded down to the next five basis points.

The long-term expected rate of return on pension investments is developed by independent estimates of forward looking rates of return by investment category, multiplied by the target investment allocation mix.

WPAHS' pension plan weighted average asset allocation at June 30, 2009 and March 31, 2008 by asset category are as follows:

	Actual 2009	**Actual 2008**	**Target ranges**
Plan assets:			
Domestic equity securities and funds	27%	30%	20% – 50%
Debt securities and funds	23	25	15% – 35%
International equity securities and funds	18	18	10% – 25%
Tactical asset allocation fund	16	16	10% – 30%
Alternative investment fund of funds	10	9	0% – 15%
Cash, cash equivalents, and others	6	2	0%
Total	100%	100%	

(Amounts in thousands)

WPAHS maintains no significant concentrations of a single investment within the plan assets.

For year ending June 30, 2009, the stock and bond markets experienced significant declines in value. Their conditions have had a negative effect on the fair value of WPAHS' pension plan investments. WPAHS' management continues to monitor its pension investment portfolio and consider changes to its portfolio as appropriate.

The following benefit payments, which reflect future service, as appropriate, are expected to be paid by WPAHS:

		Total pension benefits
Years ending June 30:		
2010	$	40,238
2011		42,807
2012		44,215
2013		45,556
2014		46,180
2014 – 2019		241,674

On October 31, 2008, the Board of Directors approved an amendment to the Plan that will reduce future benefits earned for nonbargaining employees. The amendment is effective January 1, 2009 and results in the following changes:

Plan Spin-off

Effective January 1, 2009, the Retirement Plan for Employees of WPAHS was separated into two distinct plans. All of the assets and liabilities associated with the eligible collectively bargained employee population were spun-off to a newly established pension plan named the Retirement Plan for Eligible Represented Employees of WPAHS (Represented Plan). The original Plan was renamed the Retirement Plan for Eligible Nonrepresented Employees of WPAHS (Nonrepresented Plan).

The total market value of assets of $352,622 as of January 1, 2009 was allocated between the resulting two plans in accordance with the PBGC Priority Categories defined by the ERISA Section 4044 regulations. The asset allocation for the plan spin-off as of January 1, 2009 is as follows:

- $312,473 of the total plan assets were allocated to Nonrepresented Plan.
- $40,149 of the total plan assets were allocated to the Represented Plan.

In the aggregate, total assets and liabilities of the retirement benefits provided are unchanged.

(Continued)

Plan Changes

Three changes in plan provisions were made to the Nonrepresented Plan effective January 1, 2009:

- Reduction in the annual compensation credits under the cash account formula.
- Elimination of the minimum future interest crediting rate on the cash account balances of 5.00% per year. Future interest credits are considered to be part of the accrued benefit, and as a result, the minimum rate of 5.00% will continue to apply to all account balances accrued through December 31, 2008. Account balances accrued subsequent to December 31, 2008 will earn interest based on the 30-year U.S. Treasury rate.
- Change in the normal retirement age from accrual of five years of vesting service to attainment of age 62.

As a result, the projected benefit obligation (PBO) for the plan was reduced by $53.0 million and the service cost was reduced by $10.3 million.

There were no changes in plan provisions for the participants in the Represented Plan.

This amendment is accounted for on the actuarial measurement date, June 30, 2009, as an actuarial gain of approximately $11,672.

(b) Adoption of FASB Statement No. 158

In September 2006, the FASB issued FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132 (R)*. FASB Statement No. 158 requires a company who sponsors a postretirement benefit plan to fully recognize, as an asset or liability, the overfunded or underfunded status of the benefit plan, and to recognize changes in that funded status in the year they occur, through changes in unrestricted net assets. Additionally, it requires an employer to measure the funded status of the plan as of the date of its year-end. The recognition provisions of FASB Statement No. 158 were required to be adopted by the System for the year ended June 30, 2007. Based on the funded status of WPAHS' defined benefit plan at the April 1, 2007 measurement date, WPAHS was required to increase its net liabilities for pension by $63,345, which was recorded as a decrease in the System's unrestricted net assets.

In accordance with the requirements of FASB Statement No. 158, the measurement period used to value plan assets and liabilities was changed from the period April 1 through March 31 to the System's fiscal year of July 1 through June 30. To account for the three-month period of April 1, 2009 through June 30, 2009, an additional net periodic benefit cost was recognized as a change in net assets.

The net actuarial loss and prior service cost (credit) not yet recognized into net periodic pension cost was $11,672 and $879, respectively, at June 30, 2009. The net actuarial loss and prior service cost (credit) not yet recognized into net periodic pension cost was $163,843 and $(89), respectively, at June 30, 2008. The net losses and prior service costs (credits) that were amortized from unrestricted deficit into net periodic pension cost in 2009 and 2008, respectively, were $10,793 and $7,258. The estimated net loss and prior service cost (credit) that will be amortized from unrestricted deficit into net periodic pension cost in 2010 is $1,269.

(Amounts in thousands)

(c) Defined Contribution Plans

WPAHS sponsors a defined contribution savings plan, which is available to substantially all WPAHS employees in order to provide additional security during retirement by creating an incentive for employees to make regular contributions on their own behalf. Under these plans and as determined on an individual basis, WPAHS contributed an amount equal to 50% of an employee's contribution up to 2.5% of such employee's salary in a given year. WPAHS suspended their contribution to this plan in April 2009. Such expense related to these plans was based on actual contributions made.

WPAHS' expense associated with its contributions to these savings plans was $4,168 and $5,417 for the years ended June 30, 2009 and 2008, respectively.

(16) Functional Expenses

WPAHS provides general healthcare services. Expenses related to such services for the years ended June 30, 2009 and 2008 are as follows:

	2009	2008
Health care services	$ 1,435,074	$ 1,387,051
General	198,167	199,212
Research	16,825	14,019
Fund-raising and other	1,925	2,165
Total	$ 1,651,991	$ 1,602,447

(17) Legal Matter

In August 2008, the United States Securities and Exchange Commission (SEC) notified WPAHS that it had initiated an informal inquiry into the balance sheet adjustments in fiscal 2008 announced on July 28, 2008. In February 2009, the SEC formalized its order of investigation of WPAHS regarding this matter. WPAHS continues on a voluntary basis to fully cooperate with the SEC.

In April 2009, a putative class 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 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 suit alleging various state court claims was filed in the Court of Common Pleas of Allegheny County. WPAHS believes the matter will be resolved without any material adverse impact on WPAHS' financial condition; however, the outcome and effect on WPAHS is unknown at this time.

WPAHS is additionally subject to various legal proceedings and claims consistent with an organization of its size arising in the ordinary course of its business and not yet adjudicated.

In the opinion of management, after consultation with legal counsel, the ultimate outcome of the lawsuits and claims discussed above are unlikely to have a material adverse effect on the consolidated balance sheet, results of operations, or cash flows of WPAHS.

(18) Subsequent Event

WPAHS has evaluated subsequent events through October 30, 2009, the date the financials were issued. No subsequent events were noted.

KPMG LLP
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Independent Auditors' Report on Supplementary Information

The Board of Directors
West Penn Allegheny Health System:

We have audited and reported separately herein on the consolidated financial statements of West Penn Allegheny Health System and Subsidiaries (WPAHS) as of and for the year ended June 30, 2009.

Our audit was made for the purpose of forming an opinion on the consolidated financial statements of WPAHS 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. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

KPMG LLP

October 30, 2009

WEST PENN ALLEGHENY HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2009

(Amounts in thousands)

Assets		Total Obligated		Total Non-Obligated		Eliminations		Total Consolidated
Current assets:								
Cash and cash equivalents	$	120,519	$	991	$	—	$	121,510
Short-term investments		6,339		—		—		6,339
Assets limited or restricted as to use		6,037		971		—		7,008
Receivables:								
Patient accounts, less allowance for uncollectible accounts of $29,992		169,903		—		—		169,903
Other		8,405		326		194		8,925
Estimated third-party payor settlements		3,521						3,521
Inventories		27,050		—		—		27,050
Prepaid expenses		13,637		5		—		13,642
Total current assets		355,411		2,293		194		357,898
Assets limited or restricted as to use		425,988		3,072		—		429,060
Property and equipment – net		373,441		33,255		—		406,696
Other assets – net		59,645		2,079		(2,621)		59,103
Total assets	$	1,214,485	$	40,699	$	(2,427)	$	1,252,757

See accompanying independent auditors' report on supplementary information.

(Continued)

WEST PENN ALLEGHENY HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2009

(Amounts in thousands)

Liabilities and Net Assets	Total Obligated	Total Non-Obligated	Eliminations	Total Consolidated
Current liabilities:				
Current portion of long-term debt	$ 10,356	$ 3,127	$ 1	$ 13,484
Accounts payable	79,042	373	—	79,415
Accrued expenses	12,575	1	—	12,576
Accrued interest	5,009	106	(1)	5,114
Accrued salaries and vacation	61,699	—	—	61,699
Current portion of deferred revenue	14,759	—	—	14,759
Current portion of self-insurance liabilities	2,515	—	—	2,515
Due to affiliate-net	—	(194)	194	—
Total current liabilities	185,955	3,413	194	189,562
Deferred Revenue	37,586	—	—	37,586
Self-insurance liabilities	49,536	1,392	—	50,928
Long-term debt	785,909	27,278	—	813,187
Accrued pension obligation	222,458	—	—	222,458
Other noncurrent liabilities	24,054	3,066	1	27,121
Total liabilities	1,305,498	35,149	195	1,340,842
Net assets (deficit):				
Unrestricted	(314,586)	4,791	(2,621)	(312,416)
Temporarily restricted	27,178	759	(1)	27,936
Permanently restricted	196,395	—	—	196,395
Total net assets (deficit)	(91,013)	5,550	(2,622)	(88,085)
Total liabilities and net assets	$ 1,214,485	$ 40,699	$ (2,427)	$ 1,252,757

See accompanying independent auditors’ report on supplementary information.

WEST PENN ALLEGHENY HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Statement of Operations Information

Year ended June 30, 2009

(Amounts in thousands)

	Total Obligated	Total Non-Obligated	Eliminations	Total Consolidated
Unrestricted revenues and other support:				
Net patient service revenue	$ 1,551,714	$ —	$ —	$ 1,551,714
Other revenue	56,652	5,197	(5,166)	56,683
Net assets released from restrictions	5,096	27	—	5,123
Total unrestricted revenues and other support	1,613,462	5,224	(5,166)	1,613,520
Expenses:				
Salaries, wages, and fringe benefits	892,625	—	—	892,625
Patient care supplies	298,619	—	—	298,619
Professional fees and purchased services	149,227	24	—	149,251
General and administrative	147,529	28	(5,166)	142,391
Provision for bad debts	54,575	—	—	54,575
Depreciation and amortization	70,599	3,674	—	74,273
Interest	38,461	1,796	—	40,257
Total expenses	1,651,635	5,522	(5,166)	1,651,991
Operating loss	(38,173)	(298)	—	(38,471)
Investment income	12,046	61	—	12,107
Gifts and donations	1,173	—	—	1,173
Deficiency of revenues over expenses	$ (24,954)	$ (237)	$ —	$ (25,191)

See accompanying independent auditors' report on supplementary information.

IV. ANNUAL REPORTING REQUIRED BY CONTINUING DISCLOSURE AGREEMENT

WEST PENN ALLEGHENY HEALTH SYSTEM

ACTIVE MEDICAL STAFF

DEPARTMENT/SPECIALTY	AGH	AKMC	CGH	WPH	ACTIVE
Family Medicine	13	7	9	48	77
Medicine	234	64	41	213	552
Surgery	156	46	37	101	340
OB-Gyn	20	5	1	42	68
Pediatrics	31	-	-	36	67
Hospital-Based Specialties:					
Emergency Medicine	27	20	13	20	80
Anesthesiology	26	6	1	24	57
Diagnostic and Interventional Radiology	33	7	7	35	82
Radiation Oncology	13	2	-	6	21
Pathology	11	4	1	11	27
Pain Management	-	3	4	3	10
Nuclear Medicine	3	-	-	2	5
Subtotal Hospital-Based Specialties	113	42	26	101	282
TOTAL	567	164	114	541	1,386
Average Age	48.0	51.0	49.8	52.0	50.1
# Board Certified	541	154	104	525	1,324
% Board Certified	95.4%	93.9%	91.2%	97.0%	95.5%

WEST PENN ALLEGHENY HEALTH SYSTEM
EMPLOYEES
as of June 30, 2009

Full-time employees	10,125
Part-time employees	2,932
Casual employees	1,305
Total Employees	14,362
Full-time equivalents	11,374
Employees represented by collective bargaining units	1,630

WEST PENN ALLGHENY HEALTH SYSTEM
SOURCES OF REVENUES
for Fiscal Years ended June 30,

	2005	2006	2007	2008	2009
Medicare (including managed care)	47%	46%	46%	47%	46%
Highmark	22%	23%	23%	23%	24%
Medicaid (including managed care)	11%	12%	10%	11%	12%
Commercial	2%	2%	2%	2%	2%
HMO / PPO	12%	11%	15%	13%	12%
Self Pay & Other	6%	6%	4%	4%	4%
Total	100%	100%	100%	100%	100%

WEST PENN ALLEGHENY HEALTH SYSTEM

EMPLOYEE RETIREMENT PLANS

As of January 1, 2009 (the date of the most recent actuarial report), the retirement plans for the employees of West Penn Allegheny Health System were in an underfunded position, as follows:

Actuarial Current Liability (6.69%)	$521,938,000
Actuarial Value of Plan Assets	423,146,000
Current Liability > Plan Assets	$ 98,792,000

During 2008, the actuarial value of plan assets decreased approximately $100 million due to declines in the market value of plan investments.

The System is required to abide by the minimum funding standards under ERISA. All plan years 2008 and prior have been funded. The System's plans are governed by the Pension Protection Act of 2006 ("PPA".) The Plans have been qualified for an extension contained in Section 105 of PPA as Pension Benefit Guaranty Corporation settlement plans, which exempts the System from the accelerated funding rules of PPA until 2014. The Plans will be required to follow the previously existing minimum funding standards of ERISA during this period. Plan year 2009 is required to be funded by September 2010 and will require funding of $43.2 million.

West Penn Allegheny Health System
Health System Totals
Statistics and Volumes

	Fiscal Years Ended June 30,				
	2005	2006	2007	2008	2009
Discharges					
Acute	79,895	76,849	77,165	77,833	76,464
Rehab	1,323	1,106	1,050	1,124	1,181
Hospice	337	411	442	449	502
Patient Days (based on census/excludes newborns)					
Acute	406,758	389,320	398,132	397,578	389,166
Rehab	17,741	13,853	13,018	13,071	13,573
Hospice	2,231	2,784	3,195	3,070	3,301
Staffed Beds					
Acute	1,710	1,749	1,658	1,736	1,662
Rehab	101	61	61	61	61
Hospice	12	12	12	12	12
Occupancy Rate					
Acute	65.2%	61.0%	65.8%	62.6%	64.2%
Rehab	48.1%	62.2%	58.5%	58.5%	61.0%
Hospice	50.9%	63.6%	72.9%	69.9%	75.4%
Length-of-Stay (based on discharges)					
Acute	5.09	5.07	5.03	4.97	4.95
Rehab	13.41	12.53	12.45	11.67	11.41
Hospice	6.62	6.77	7.23	6.84	6.58
Births	4,662	4,748	4,537	4,947	4,880
Emergency Visits					
Inpatient	44,287	41,689	43,311	44,485	45,160
Outpatient	137,486	139,167	144,253	150,130	151,695
Operating Room Cases					
Inpatient	25,560	23,878	23,608	23,886	23,541
Outpatient	35,269	35,170	36,131	34,876	33,455
Transplants					
Heart	4	5	17	17	13
Kidney	74	63	104	75	70
Bone Marrow	80	62	86	79	76
Liver	-	-	-	8	8

WPAHS – OBLIGATED GROUP
ANNUAL DEBT SERVICE COVERAGE RATIO
as of June 30, 2009
(dollars in thousands)

Annual Debt Service Coverage Ratio:		
Excess of expenses of revenues	($	24,954)
Plus: depreciation and amortization		70,599
Plus: interest expense		38,461
Plus: non-cash investment gains and losses		5,532
Plus: non cash asset exposure accrual		350
Total	**$**	**89,988**
Debt service requirement	**$**	**39,485**
RATIO		**2.28**

WPAHS – OBLIGATED GROUP
DAYS CASH ON HAND
as of June 30, 2009
(dollars in thousands)

Days Cash on Hand:

Cash & Cash Equivalents	$ 120,519
Short term investments	6,339
Due (to)/from temporarily restricted	1,149
Board designated (funded depreciation)	66,750
Series 2007A Project Fund	76,922
Total	**$ 271,679**
Total operating expenses	$1,651,635
Less: Depreciation and Amortization	(70,599)
Operating expenses less Depr. and Amort.	**$1,581,036**
Days in fiscal period	365
Operating expenses per day	**$ 4,332**
DAYS CASH ON HAND	**62.7**