

ALLEGHENY COUNTY  
HIGHER EDUCATION BUILDING AUTHORITY  
ADMINISTRATIVE FUND

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

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the binkleykanavy group  
CERTIFIED PUBLIC ACCOUNTANTS

ALLEGHENY COUNTY  
HIGHER EDUCATION BUILDING AUTHORITY

ADMINISTRATIVE FUND  
YEARS ENDED DECEMBER 31, 2010 AND 2009

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INDEPENDENT AUDITORS' REPORT

April 28, 2011

Board of Directors  
Allegheny County Higher Education Building Authority  
Pittsburgh, PA

We have audited the statement of net assets of the Allegheny County Higher Education Building Authority - Administrative Fund (Authority), as of and for the year ended December 31, 2010, and the related statement of revenues, expenses, and changes in net assets and statement of cash flows for the year then ended. These financial statements are the responsibility of the management of the Allegheny County Higher Education Building Authority. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Authority as of December 31, 2009, were audited by other auditors whose report dated March 8, 2010 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

The management's discussion and analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*The Binkley Kanavy Group, LLC*

Certified Public Accountants

**ALLEGHENY COUNTY HIGHER EDUCATION BUILDING AUTHORITY  
ADMINISTRATIVE FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010**

The Higher Education Building Authority of Allegheny County's (the "Authority") Management's Discussion and Analysis is designed to provide an overview of the Authority's financial activities for the year ended December 31, 2010, and should be read in conjunction with the Authority's financial statements, which begin on page 5.

The Authority issues revenue bonds and notes on behalf of educational facilities. Each issue is secured separately and is payable from receipts from the entity on whose behalf the bonds or notes were issued.

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

The Statement of Net Assets, (the difference between assets and liabilities), found on page 5, is for the administrative fund, a proprietary fund. The statements of net assets include all of the Authority's assets and liabilities, provide information about the Authority's financial position, and indicate which assets, if any, are restricted as to use. A proprietary fund is considered a separate accounting entity with a separate set of self-balancing accounts the uses the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when incurred.

The Statement Revenues, Expenses, and Changes in Net Assets, found on page 6, provides information on how the Authority's direct expenses of a given activity are offset by program revenues.

The Statement of Cash Flows, on page 7, indicates how much cash was provided and used by operating activities as well as other cash sources and uses, such as investments and financing activities and also includes a reconciliation of operating income to net cash provided by operating activities if any differences exist.

The Notes to the Financial Statements (Notes), starting on page 8, provide information essential to understanding the basic financial statements.

**Financial Analysis**

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

<u>Net Assets</u>			
<u>Administrative Fund</u>	<u>2010</u>	<u>2009</u>	<u>Change</u>
Total Assets	\$ 298,015	\$ 529,607	\$ (231,592)
Total Liabilities	-	-	-
Total Net Assets	<u>\$ 298,015</u>	<u>\$ 529,607</u>	<u>\$ (231,592)</u>

Total Net Assets decreased by \$231,592 consisting of a \$231,592 decrease in total assets. The decrease in total assets was due mainly to the decrease in cash and cash equivalents.

**ALLEGHENY COUNTY HIGHER EDUCATION BUILDING AUTHORITY**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2010**

<u>Operating Revenues:</u>	<u>2010</u>	<u>2009</u>
Administrative fees:		
Annual	\$ 133,282	\$ 129,743
Closing	15,400	-
Other	<u>6,500</u>	<u>-</u>
 Total operating revenues	 <u>\$ 155,182</u>	 <u>\$ 129,743</u>
 <u>Operating Expenses:</u>		
Administrative fees	\$ 100,000	\$ 100,000
Professional fees	29,431	26,353
Contribution to Allegheny County	251,332	168,064
Other	<u>6,328</u>	<u>4,318</u>
 Total operating expenses	 <u>\$ 387,091</u>	 <u>\$ 298,735</u>
 Operating Income (Loss)	 \$ (231,909)	 \$ (168,992)
 <u>Non-Operating Revenues:</u>		
Interest income	<u>\$ 317</u>	<u>\$ 4,541</u>
 Net Income (Loss)	 \$ (231,592)	 \$ (164,451)
 <u>Net Assets:</u>		
Beginning of year	<u>\$ 529,607</u>	<u>\$ 694,058</u>
End of year	<u>\$ 298,015</u>	<u>\$ 529,607</u>

Operating Revenues include:

1. Annual Administrative Fees collected from entities on whose behalf the debt was issued for as long as any portion of the debt remains outstanding. There was a \$3,539 increase in annual administrative fees in 2010 compared to 2009. The principle reason was the increase in the number of bond and note issues outstanding between 2010 and 2009.
2. Closing fee revenues are collected from entities on whose behalf new bonds or notes are issued. Closing fees collected in 2010 increased by \$15,400. The principle reason was the increase in the number of new bond issuances in 2010.

ALLEGHENY COUNTY HIGHER EDUCATION BUILDING AUTHORITY  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010

Operating Expenses include:

1. An Administrative fee is paid to the Allegheny County Department of Economic Development ("ACED") annually to help defray the costs of administering the Authority's activities. The Authority paid ACED \$100,000 in 2010 and 2009.
2. Professional fees are the contracted audit and legal fees paid in 2010 and 2009. These fees increased during 2010 due to the number of new loans agreements entered into by the Authority.
3. Contribution to Allegheny County is a special project to pay annual county dues for the Southwestern Pennsylvania Commission. There was an \$83,268 increase in 2010 due to the increase annual dues charged by the Southwestern Planning Commission.

Non-Operating Revenues include:

1. The decrease in non-operating interest income of \$4,224 was the result of investing less cash and receiving a lower rate of return during 2010.

**Requests for Information**

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

ALLEGHENY COUNTY  
HIGHER EDUCATION BUILDING AUTHORITY

ADMINISTRATIVE FUND  
STATEMENTS OF NET ASSETS  
DECEMBER 31, 2010 AND 2009

<u>Assets</u>	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash and cash equivalents	\$ 298,015	\$ 529,607
<b>Total Assets</b>	<u>\$ 298,015</u>	<u>\$ 529,607</u>
<u>Net Assets</u>		
Net Assets:		
Unrestricted net assets	\$ 298,015	\$ 529,607
<b>Total Net Assets</b>	<u>\$ 298,015</u>	<u>\$ 529,607</u>

See accompanying notes to financial statements.

**ALLEGHENY COUNTY  
HIGHER EDUCATION BUILDING AUTHORITY**

**ADMINISTRATIVE FUND  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b><u>Operating Revenues:</u></b>		
Administrative fees:		
Annual	\$ 133,282	\$ 129,743
Closing	15,400	-
Other	<u>6,500</u>	<u>-</u>
Total operating revenues	<u>\$ 155,182</u>	<u>\$ 129,743</u>
<b><u>Operating Expenses:</u></b>		
Administrative fees	\$ 100,000	\$ 100,000
Professional fees	29,431	26,353
Contribution to Allegheny County	251,332	168,064
Other	<u>6,328</u>	<u>4,318</u>
Total operating expenses	<u>\$ 387,091</u>	<u>\$ 298,735</u>
<b>Operating Income (Loss)</b>	\$ (231,909)	\$ (168,992)
<b><u>Non-Operating Revenues:</u></b>		
Interest income	<u>\$ 317</u>	<u>\$ 4,541</u>
<b>Net Income (Loss)</b>	\$ (231,592)	\$ (164,451)
<b><u>Net Assets:</u></b>		
Beginning of year	<u>\$ 529,607</u>	<u>\$ 694,058</u>
End of year	<u>\$ 298,015</u>	<u>\$ 529,607</u>

See accompanying notes to financial statements.

ALLEGHENY COUNTY  
HIGHER EDUCATION BUILDING AUTHORITY

ADMINISTRATIVE FUND  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<b><u>Cash Flows From Operating Activities:</u></b>		
Receipts from customers	\$ 155,182	\$ 129,743
Payments for goods and services	(135,759)	(130,671)
Payment of contribution to Allegheny County	<u>(251,332)</u>	<u>(168,064)</u>
Net cash used in operating activities	<u>\$ (231,909)</u>	<u>\$ (168,992)</u>
<b><u>Cash Flows From Investing Activities:</u></b>		
Sale of investments	\$ -	\$ 249,798
Interest received	<u>317</u>	<u>4,541</u>
Net cash provided by financing activities	<u>\$ 317</u>	<u>\$ 254,339</u>
<b>Net Increase (decrease) in Cash and Cash Equivalents</b>	<b>\$ (231,592)</b>	<b>\$ 85,347</b>
<b><u>Cash and Cash Equivalents:</u></b>		
Beginning of year	<u>\$ 529,607</u>	<u>\$ 444,260</u>
End of year	<u><u>\$ 298,015</u></u>	<u><u>\$ 529,607</u></u>

See accompanying notes to financial statements.

**ALLEGHENY COUNTY HIGHER EDUCATION BUILDING AUTHORITY**  
**ADMINISTRATIVE FUND**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

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

Allegheny County Higher Education Building Authority (the "Authority") was created by a resolution of the Board of Commissioners of Allegheny County under the Municipality Authorities Act of the General Assembly of the Commonwealth of Pennsylvania, approved May 2, 1945, P.L. 382, as amended and supplemented. The purpose of the Authority is to acquire, hold, construct, improve, maintain, own, operate, and lease educational facilities, and other related projects. The Authority, incorporated in 1981, has a legal life through 2045.

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

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

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

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

A. Basis of Accounting

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (CONTINUED)

B. Annual and Closing Fees

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

C. Cash and Cash Equivalents

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

D. Classification of Net Assets

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

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

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

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

ALLEGHENY COUNTY HIGHER EDUCATION BUILDING AUTHORITY  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

E. Adoption of Governmental Accounting Standards Board Statements

In 2010, the Authority adopted GASB Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets*". The adoption of this statement had no effects on the previously stated amounts.

In 2010, the Authority adopted GASB Statement No. 53, "*Accounting and Financial Reporting for Derivative Instruments*". The adoption of this statement had no effects on the previously stated amounts.

In 2010, the Authority adopted GASB Statement No. 58, "*Accounting and Financial Reporting for Chapter 9 Bankruptcies*". The adoption of this statement had no effects on the previously stated amounts.

F. Pending Changes in Accounting Principles

In March 2009, the GASB issued Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*". The Authority is required to adopt Statement No. 54 for its calendar year 2011 financial statements.

In December 2009, the GASB issued Statement No. 57, "*OPEB Measurements by Agent Employers and Agent Multiple-Employers Plans*". The Authority is required to adopt Statement No. 57 for its 2012 calendar year financial statements.

In June 2010, the GASB issued Statement No. 59, "*Financial Instruments Omnibus*". The Authority is required to adopt Statement No. 59 for its 2011 calendar year financial statements.

In November 2010, the GASB issued Statement No. 60, "*Accounting and Financial Reporting for Service Concession Arrangements*". The Authority is required to adopt Statement No. 60 for its 2012 calendar year financial statements.

In November 2010, the GASB issued Statement No. 61, "*The Financial Reporting Entity: Omnibus*". The Authority is required to adopt Statement No. 61 for its 2013 calendar year financial statements.

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

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

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**NOTE 2: ADMINISTRATIVE SERVICES**

The Authority contracts annually with the Allegheny County Department of Economic Development ("ACED") for various administrative support services, including space and personnel. The fee for these services in 2010 and 2009 was \$100,000, which was paid by the Administrative Fund.

**NOTE 3: DEPOSITS AND INVESTMENTS**

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

Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a formal deposit policy for custodial credit risk. As of December 31, 2010 and 2009, respectively, the carrying values of the Authority's deposits were \$8,742 and \$834, and the bank balances of the Authority's deposits were \$33,742 and \$834. Of the bank balances as of December 31, 2010 and 2009, the full carrying values and bank values of the Authority's deposits were covered by federal depository insurance.

Investments

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

As of December 31, 2010, the Authority's investments were held in the Pennsylvania Local Government Investment Trust (PLGIT). The Authority's investments in PLGIT entail pools managed by others, which are not evidenced by specific securities. All investments in the external investment pool, which are not SEC-registered, are subject to oversight by the Commonwealth of Pennsylvania. At December 31, 2010 and 2009, the Authority had cash and cash equivalents balances of \$289,273 and \$529,607, of which \$289,273 and \$528,773, respectively, were held in PLGIT. The fair value of these cash equivalents was \$289,273, at December 31, 2010, which is the same as the value of the pool shares. The fair value of these cash equivalents and investments were \$528,773, at December 31, 2009, which is the same as the value of the pool shares.

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**NOTE 3: DEPOSITS AND INVESTMENTS- (continued)**

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

Credit Risk – The Authority does not have a formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations. As of December 31, 2010 and 2009, the Authority's investments in PLGIT were rated AAA by Standard's & Poor's.

**NOTE 4: CONDUIT DEBT**

The Authority administers the Higher Education Building Bond Program (Program). Under this Program, the Authority issued limited obligation Loan Revenue Bonds through various financial entities (outstanding balance at December 31, 2010 and 2009 of \$458 million and \$402 million, respectively, to provide below-market interest rate financing for educational institutions. The Revenue Bonds are repayable solely from each educational institution's respective resources. Neither the general credit of the Authority nor the general credit and taxing power of Allegheny County has been pledged for the payment of debt service. The Authority has administrative and fiduciary responsibilities; however, it has no obligation for repayment of this debt from other resources.

**NOTE 5: CONTRIBUTIONS TO ALLEGHENY COUNTY**

The Contributions to Allegheny County during 2010 and 2009 are annual dues that the Authority paid the Southwestern Pennsylvania Commission on behalf of Allegheny County.