

ALLEGHENY COUNTY
HIGHER EDUCATION BUILDING AUTHORITY
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

**ALLEGHENY COUNTY
HIGHER EDUCATION BUILDING AUTHORITY
YEARS ENDED DECEMBER 31, 2011 AND 2010**

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

March 27, 2012

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

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

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

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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by accounting principles generally accepted in the United States who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Blinkley Kanavy Group, LLC

Certified Public Accountants

**ALLEGHENY COUNTY HIGHER EDUCATION BUILDING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

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, 2011, 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, which includes the notes to the financial statements. The basic financial statements include the statements of net assets, statements of revenues, expenses, and changes in net assets, statements of cash flows, and the notes to the financial statements.

The Statements of Net Assets, (the difference between assets and liabilities), found on page 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 that 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 Statements of Revenues, Expenses, and Changes in Net Assets, found on page 6, provide information on how the Authority's direct expenses of a given activity are offset by program revenues.

The Statements of Cash Flows, on page 7, indicate 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 the prior year:

<u>Net Assets</u>			
<u>Administrative Fund</u>	<u>2011</u>	<u>2010</u>	<u>Change</u>
Total Assets	\$ 367,594	\$ 298,015	\$ 69,579
Total Liabilities	2,188	-	2,188
Total Net Assets	<u>\$ 365,406</u>	<u>\$ 298,015</u>	<u>\$ 67,391</u>

Total Net Assets increased by \$67,391, consisting of a \$69,579 increase in total assets, and a \$2,188 increase in liabilities. The increase in total assets was due mainly to an increase in cash and cash equivalents.

**ALLEGHENY COUNTY HIGHER EDUCATION BUILDING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

	<u>2011</u>	<u>2010</u>
<u>Operating Revenues:</u>		
Administrative Fees:		
Annual	\$ 143,706	\$ 133,282
Closing	46,400	15,400
Other	11,000	6,500
Total operating revenues	201,106	155,182
<u>Operating Expenses:</u>		
Administrative fees	100,000	100,000
Professional fees	28,751	29,431
Contribution to Allegheny County	-	251,332
Other	5,082	6,328
Total Operating Expenses	133,833	387,091
Operating Income (Loss)	67,273	(231,909)
Non-Operating Revenues:		
Interest Income	118	317
Net Income (Loss)	67,391	(231,592)
<u>Net Assets:</u>		
Beginning of year	298,015	529,607
End of year	\$ 365,406	\$ 298,015

Operating Revenues include:

1. Annual Administrative Fees are collected from entities on whose behalf the debt was issued for as long as any portion of the debt remains outstanding. There was a \$10,424 increase in annual administrative fees in 2011 compared to 2010. The principle reason was the increase in the number of bond and note issuances outstanding between 2011 and 2010.
2. Closing fee revenues are collected from entities on whose behalf new bonds or notes are issued. Closing fees collected in 2011 increased by \$31,000. The principle reason was the increase in the number of new bond issuances in 2011.

**ALLEGHENY COUNTY HIGHER EDUCATION BUILDING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

Operating Expenses include:

1. An Administrative fee is paid to the Allegheny County Department of Economic Development ("ACED") annually to help defray the costs of administering the Authority's activities. The Authority paid ACED \$100,000 in 2011 and 2010.
2. Professional fees are the contracted audit and legal fees paid in 2011 and 2010. These fees decreased during 2011 due to lower legal advertising fees.
3. The contribution to Allegheny County is a special project to pay annual County dues for the Southwestern Pennsylvania Commission. The Authority paid \$251,332 for the dues in 2010 but was not responsible for paying the dues in 2011.

Non-Operating Revenues include:

1. The decrease in non-operating interest income was the result of receiving a lower rate of return during 2011.

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,**

	<u>2011</u>	<u>2010</u>
Assets		
<hr/>		
Current Assets:		
Cash and cash equivalents	\$ 367,594	\$ 298,015
	<hr/>	<hr/>
Total Assets	\$ 367,594	\$ 298,015
	<hr/> <hr/>	<hr/> <hr/>
Liabilities and Net Assets		
<hr/>		
Current Liabilities:		
Accounts Payable	\$ 2,188	\$ -
	<hr/>	<hr/>
Total Liabilities	2,188	-
	<hr/> <hr/>	<hr/> <hr/>
Net Assets:		
Unrestricted net assets	365,406	298,015
	<hr/>	<hr/>
Total Net Assets	365,406	298,015
	<hr/> <hr/>	<hr/> <hr/>
Total Liabilities and Net Assets	\$ 367,594	\$ 298,015
	<hr/> <hr/>	<hr/> <hr/>

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,**

	2011	2010
Operating Revenues:		
Administrative fees:		
Annual	\$ 143,706	\$ 133,282
Closing	46,400	15,400
Other	11,000	6,500
Total operating revenues	\$ 201,106	\$ 155,182
Operating Expenses:		
Administrative fees	\$ 100,000	\$ 100,000
Professional fees	28,751	29,431
Contribution to Allegheny County	-	251,332
Other	5,082	6,328
Total operating expenses	133,833	387,091
Operating Income (Loss)	67,273	(231,909)
Non-Operating Revenues:		
Interest income	118	317
Net Income (Loss)	\$ 67,391	\$ (231,592)
Net Assets:		
Beginning of year	298,015	529,607
End of year	\$ 365,406	\$ 298,015

See accompanying notes to financial statements.

**ALLEGHENY COUNTY
HIGHER EDUCATION BUILDING AUTHORITY**

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

	2011	2010
<u>Cash Flows From Operating Activities:</u>		
Receipts from customers	\$ 201,106	\$ 155,182
Payments for goods and services	(131,645)	(135,759)
Payment of contribution to Allegheny County	-	(251,332)
	69,461	(231,909)
<u>Cash Flows From Investing Activities:</u>		
Interest received	118	317
	118	317
Net Increase (Decrease) in Cash and Cash Equivalents	69,579	(231,592)
<u>Cash and Cash Equivalents:</u>		
Beginning of year	298,015	529,607
End of year	\$ 367,594	\$ 298,015
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:</u>		
Operating Income (loss)	\$ 67,273	\$ (231,909)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Increase in accounts payable	2,188	-
Net Cash flows provided by (used in) operating activities	\$ 69,461	\$ (231,909)

See accompanying notes to financial statements.

ALLEGHENY COUNTY HIGHER EDUCATION BUILDING AUTHORITY
ADMINISTRATIVE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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

Allegheny County 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 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 GASB pronouncements.

ALLEGHENY COUNTY HIGHER EDUCATION BUILDING AUTHORITY
ADMINISTRATIVE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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

B. Closing and Annual Fees

The Administrative Fund charges those entities on whose behalf the debt is issued a closing fee at the inception of each issue and annual fees due on each anniversary of the issue for as long as the issue is outstanding. The closing fee is greater than the recurring annual fee because it incorporates recovery of administrative expenses, such as 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 used through external restrictions imposed by donors (such as through the receipt and use of federal dollars).

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

E. Pending Changes in Accounting Principles

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

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

ALLEGHENY COUNTY HIGHER EDUCATION BUILDING AUTHORITY
ADMINISTRATIVE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 2: ADMINISTRATIVE SERVICES

The Authority contracts annually with the Allegheny County Department of Economic Development (“ACED”) for various administrative support services, including space and personnel. The fee for these services in 2011 and 2010 was \$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. The Authority does not have a formal deposit policy for custodial credit risk. As of December 31, 2011 and 2010, respectively, the carrying values of the Authority’s deposits were \$2,097 and \$8,742, and the bank balances of the Authority’s deposits were \$2,097 and \$33,742. Of the bank balances as of December 31, 2011 and 2010, the full carrying values and bank values of the Authority’s deposits were covered by federal depository insurance.

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.

ALLEGHENY COUNTY HIGHER EDUCATION BUILDING AUTHORITY
ADMINISTRATIVE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (continued)

As of December 31, 2011, the Authority's investments were held in the Pennsylvania Local Government Investment Trust (PLGIT). The Authority's investments in PLGIT entail pools managed by others, which are not evidenced by specific securities. All investments in the external investment pool, which are not SEC-registered, are subject to oversight by the Commonwealth of Pennsylvania. At December 31, 2011 and 2010, the Authority had cash and cash equivalents balances of \$367,594 and \$298,015, of which \$365,498 and \$289,273, respectively, were held in PLGIT. The fair value of these cash equivalents was \$365,498, at December 31, 2011, which is the same as the value of the pool shares. The fair value of these cash equivalents and investments was \$289,273, at December 31, 2010, which is the same as the value of the pool shares.

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

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

NOTE 4: CONDUIT DEBT

The Authority administers the Higher Education Building Bond Program (Program). Under this Program, the Authority issued limited obligation Loan Revenue Bonds through various financial entities 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.

The outstanding balance of the debt issued as of December 31, 2011 and 2010 is approximately \$569 million and \$458 million, respectively.

NOTE 5: CONTRIBUTIONS TO ALLEGHENY COUNTY

The Contribution to Allegheny County represents dues that the Authority paid the Southwestern Pennsylvania Commission on behalf of Allegheny County. There was no contractual agreement for the Authority to pay these dues in 2011, and in 2010 the Authority paid \$251,332.