

**ALLEGHENY COUNTY RESIDENTIAL
FINANCE AUTHORITY
FINANCIAL STATEMENTS AND OTHER
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2011**

ALLEGHENY COUNTY RESIDENTIAL FINANCE AUTHORITY
YEAR ENDED DECEMBER 31, 2011

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Zelenkofske Axelrod LLC

Independent Auditors' Report

Board of Directors
Allegheny County Residential Finance Authority

We have audited the accompanying financial statements of each major proprietary fund and the aggregate remaining fund information of the Allegheny County Residential Finance Authority (Authority), as of and for the year ended December 31, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards general 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 included 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material aspects, the respective financial position of each major proprietary fund and the aggregate remaining fund information of the Authority as of December 31, 2011, and the respective changes in financial position and cash flows thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge 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.

<i>Harrisburg</i>	<i>Lehigh Valley</i>	<i>Philadelphia</i>	<i>Pittsburgh</i>
<i>830 Sir Thomas Court, Suite 100 Harrisburg, PA 17109 717.561.9200 Fax 717.561.9202</i>	<i>1101 West Hamilton Street Allentown, PA 18101-1043 610.871.5077 Fax 717.561.9202</i>	<i>2370 York Road, Suite A-5 Jamison, PA 18929 215.918.2277 Fax 215.918.2302</i>	<i>3800 McKnight E. Drive, Suite 3805 Pittsburgh, PA 15237 412.367.7102 Fax 412.367.7103</i>

Zelenkofske Axelrod LLC

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements as a whole. The other supplementary information on pages 31 through 35 is presented for the purpose of additional analysis and is not a required part of the financial statements. The other supplementary information is the responsibility of management and is derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Zelenkofske Axelrod LLC

Pittsburgh, Pennsylvania
March 27, 2012

ALLEGHENY COUNTY
RESIDENTIAL FINANCE AUTHORITY
Management Discussion and Analysis
December 31, 2011

The Residential Finance Authority of Allegheny County (RFA) is one of six (6) Authorities incorporated and operated by the Allegheny County Department of Economic Development. The RFA was established in 1981 under the provisions of Article XXII-A, Section 2201-A et seq. of the Second Class County Code, Act of July 28, 1953, P.L. 723, No. 230, as amended (the RFA Act). Formation of the RFA was approved by the Allegheny County Board of Commissioners and subsequently incorporated by the Commonwealth of Pennsylvania on December 4, 1981.

The mission of the RFA is to provide safe, decent, and affordable housing to low and moderate income residents of Allegheny County. The RFA offers below-market interest rate financing for the acquisition of new or existing single-family and multi-family housing throughout Allegheny County either directly, or by issuing mortgage loans, or acquiring mortgage-backed securities. The RFA funds these programs by issuing revenue bonds and notes.

The Management Discussion and Analysis is designed to provide an overview of the RFA's financial activities for the year ended December 31, 2011. It should be read in conjunction with the RFA's financial statements and the notes to financial statements.

Overview of the Financial Statements

The RFA's financial statements are reported using the fund basis of accounting. The RFA's funds are proprietary funds. A proprietary fund is considered a separate accounting entity with a separate set of self-balancing accounts using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when they are earned and expenditures are recognized when they are incurred. The operations of proprietary funds are financed in a manner similar to private enterprises where user charges are intended to cover the cost of operations.

The RFA's Combined Statement of Net Assets, Combined Statement of Revenues, Expenses, and Changes in Net Assets, and the Combined Statement of Cash Flows merge the RFA's various revenue streams, predominately bond issues, by purpose: 1) the Administrative Fund, 2) the Single Family Mortgage Program Funds, and 3) Other Proprietary Funds.

The Administrative Fund accounts for support activities provided to the other proprietary funds. The Single Family Mortgage Program Funds account for activities associated with the issuance of mortgage revenue bonds for the acquisition of new or existing single-family housing. Residual Single Family Mortgage Programs are reported under the Single Family Mortgage Program Funds instead of in the Administrative Fund. The Multi-Family Mortgage Program Funds account for activities associated with the issuance of mortgage revenue bonds providing financing for specific multi-family housing projects.

Notes to Financial Statements

The Notes to Financial Statements (Notes), found on pages 12 to 29, provided information essential to understanding the basic financial statements.

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RESIDENTIAL FINANCE AUTHORITY
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December 31, 2011**

Additional Information

This annual audit report includes combining financial statements for each revenue bond issue categorized by purpose in the additional information section found on pages 31 through 35 following the notes to financial statements. The combining financial statements provide detailed information on each of the RFA's various revenue bond and note issues by purpose for the year ended December 31, 2011.

Financial Analysis – Combined Statements of Net Assets

The following schedules are abbreviated statements of net assets for each of the proprietary funds.

	<u>Administrative Fund</u>		
	<u>2011</u>	<u>2010</u>	<u>Increase/ (Decrease)</u>
Total Assets	<u>\$ 403,786</u>	<u>\$ 228,287</u>	<u>\$ 175,499</u>
Total Liabilities	<u>\$ 141,529</u>	<u>\$ 89,978</u>	<u>\$ 51,551</u>
Unrestricted Net Assets	<u>262,257</u>	<u>138,309</u>	<u>123,948</u>
Total Liabilities and Net Assets	<u>\$ 403,786</u>	<u>\$ 228,287</u>	<u>\$ 175,499</u>

Total assets consist primarily of:

- Combined checking and savings account balances of \$237,456, which increased by \$52,687 from the prior year (\$184,770 in 2010) due to a transfer from the Bond Defeasance Fund to pay for Administrative Costs.
- PLIGIT cash equivalents balance of \$166,330 increased \$122,813 from \$43,517 at the end of 2010, primarily due to more fee revenue generated by the Authority while expense levels remained the same.

Total liabilities:

- Consist of approximately \$100,000 of deferred revenues, which represent the HMC cash balance.

**ALLEGHENY COUNTY
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Management Discussion and Analysis
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Single Family Mortgage Funds

	<u>2011</u>	<u>2010</u>	<u>Increase/ (Decrease)</u>
Total Assets	<u>\$ 112,183,532</u>	<u>\$ 123,374,947</u>	<u>\$ (11,191,415)</u>
Total Liabilities	<u>\$ 93,420,522</u>	<u>\$ 104,725,838</u>	<u>\$ (11,305,316)</u>
Restricted Net Assets	<u>18,763,010</u>	<u>18,649,109</u>	<u>113,901</u>
Total Liabilities and Net Assets	<u>\$ 112,183,532</u>	<u>\$ 123,374,947</u>	<u>\$ (11,191,415)</u>

Changes in Net Assets

Total assets show a decrease of approximately \$11 million because the Authority did not issue any new bonds in 2011, only released bond proceeds from escrow, which were already recorded as assets. The Authority continued to pay previous debts, which depleted the assets during 2011.

Other changes among accounts are as follows:

- Cash and cash equivalents held by the trustee for the various single family bond series increased from \$20.5 million in 2010 to \$22.4 million in 2011. This increase of approximately \$2 million coincides with the release of bonds proceeds from escrow, which also led to an increase in GNMA and FNMA securities from \$81 million in 2010 to \$86.8 million in 2011, an increase of approximately \$6 million.
- Total liabilities consist primarily of bonds and revenue notes payable. There was a net decrease in total bonds payable of approximately \$11 million in 2011 (\$103.2 million in 2010 compared to \$92.2 million in 2011). This decrease is primarily due to the Authority continuing to pay previous debt, with the only proceeds in the current year resulting from the release of funds from escrow, which did not increase total debt.

**ALLEGHENY COUNTY
RESIDENTIAL FINANCE AUTHORITY
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	<u>Other Proprietary Funds</u>		
	<u>2011</u>	<u>2010</u>	<u>Increase/ (Decrease)</u>
Total Assets	<u>\$ 843,915</u>	<u>\$ 806,532</u>	<u>\$ 37,383</u>
Total Liabilities	<u>\$ 843,915</u>	<u>\$ 806,532</u>	<u>\$ 37,383</u>
Restricted Net Assets	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities and Net Assets	<u>\$ 843,915</u>	<u>\$ 806,532</u>	<u>\$ 37,383</u>

Other Proprietary Funds are comprised of the Housing Development Fund (HDC) and Community Development Fund (CDF). The CDF utilizes CDBG money to provide down payment assistance to eligible residents of Allegheny County. The HDC is used to account for low-interest loans and grant collections on behalf of Allegheny County.

Total liabilities and assets increased \$37,383 (\$806,532 in 2010 compared to \$843,915 in 2011). This increase resulted primarily from payments received on low-interest loans and contributions from the Affordable Housing Trust Fund.

Financial Analysis – Combined Statements of Revenues, Expenses, and Changes in Net Assets

Our analysis below focuses on the changes in revenues, expenses, and net assets for the Single Family Mortgage Program Funds when compared to the prior fiscal year. These are the most significant programs under the RFA. The financial statements have been abbreviated for presentation purposes.

ALLEGHENY COUNTY
RESIDENTIAL FINANCE AUTHORITY
Management Discussion and Analysis
December 31, 2011

Single Family Mortgage Program Funds

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Operating Revenues			
Interest - Mortgage	\$ 42,437	\$ 57,761	\$ (15,324)
Interest - GNMA/FNMA	<u>3,929,170</u>	<u>5,195,125</u>	<u>(1,265,955)</u>
Total Operating Revenues	3,971,607	5,252,886	(1,281,279)
Operating Expenses			
Professional services	278,576	106,370	172,206
Other expense	161,785	351,126	(189,341)
Administration	<u>326,946</u>	<u>109,711</u>	<u>217,235</u>
Total Operating Expenses	<u>767,307</u>	<u>567,207</u>	<u>200,100</u>
Net Operating Income	<u>3,204,300</u>	<u>4,685,679</u>	<u>(1,481,379)</u>
Non-Operating Revenues (Expenses)			
Investment earnings	1,509	2,675	(1,166)
Bond interest expense/amortization	(3,507,677)	(4,019,071)	511,394
Other revenue	615,769	82,427	533,342
Other expense	-	(59,360)	59,360
Operating transfers	<u>(200,000)</u>	<u>-</u>	<u>(200,000)</u>
Non-Operating Revenues/(Expenses)	<u>(3,090,399)</u>	<u>(3,993,329)</u>	<u>902,930</u>
Net Income	<u>113,901</u>	<u>692,350</u>	<u>(578,449)</u>
Net Assets			
Beginning of year	<u>18,649,109</u>	<u>17,956,759</u>	<u>692,350</u>
End of year	<u>\$ 18,763,010</u>	<u>\$ 18,649,109</u>	<u>\$ 113,901</u>

**ALLEGHENY COUNTY
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Management Discussion and Analysis
December 31, 2011**

Net Operating Income

- Net operating income decreased by approximately \$1.5 million. The decrease was primarily attributable to a net decrease of \$1.3 million in interest revenue of GNMA/FNMA securities and higher than expected expenses.

Non-Operating Revenues/(Expenses)

- Non-Operating revenues/expenses decreased in total by approximately \$900,000. The decrease was predominately due to an increase of approximately \$500,000 in other revenue and a reduction in bond interest expense by approximately \$500,000.

Net Income (Loss)

- As a result of the changes stated above, there was net income of \$113,901 in 2011, which is \$578,449 less than the reported net income of \$692,350 experienced in 2010.

Current Conditions Expected to Significantly Affect Net Assets or Results of Operations

- There are no current conditions that are expected to significantly affect net assets or results of operations.

Requests for Information

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

ALLEGHENY COUNTY RESIDENTIAL FINANCE AUTHORITY
 COMBINED STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2011

<u>Assets</u>	Administrative Fund	Single Family Mortgage Program Funds	Other Proprietary Funds	Total
Cash and cash equivalents	\$ 403,786	\$ 22,418,924	\$ 843,915	\$ 23,666,625
Due from other funds	-	40,000	-	40,000
Investments for:				
Debt service	-	317,414	-	317,414
GNMA and FNMA securities	-	86,818,840	-	86,818,840
Mortgage loans	-	768,348	-	768,348
Accrued interest:				
GNMA and FNMA	-	342,919	-	342,919
Swap asset	-	15,098	-	15,098
Other	-	1,461,989	-	1,461,989
Total Assets	<u>\$ 403,786</u>	<u>\$ 112,183,532</u>	<u>\$ 843,915</u>	<u>\$ 113,431,233</u>
Liabilities and Net Assets				
<u>Liabilities:</u>				
Accounts payable	\$ 2,187	\$ -	\$ -	\$ 2,187
Accrued interest	-	589,556	-	589,556
Due to other funds	40,000	-	-	40,000
Unearned revenue, net	99,342	610,868	843,915	1,554,125
Current portion of bonds payable	-	2,150,000	-	2,150,000
Long-term portion of bonds payable	-	90,055,000	-	90,055,000
Deferred inflow of swap asset	-	15,098	-	15,098
Total Liabilities	<u>141,529</u>	<u>93,420,522</u>	<u>843,915</u>	<u>94,405,966</u>
<u>Net Assets:</u>				
Restricted for loan programs	-	18,763,010	-	18,763,010
Unrestricted	262,257	-	-	262,257
Total Net Assets	<u>262,257</u>	<u>18,763,010</u>	<u>-</u>	<u>19,025,267</u>
Total Liabilities and Net Assets	<u>\$ 403,786</u>	<u>\$ 112,183,532</u>	<u>\$ 843,915</u>	<u>\$ 113,431,233</u>

ALLEGHENY COUNTY RESIDENTIAL FINANCE AUTHORITY
 COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
 YEAR ENDED DECEMBER 31, 2011

	Administrative Fund	Single Family Mortgage Program Funds	Other Proprietary Funds	Total
Operating Revenues:				
Interest:				
Mortgage	\$ -	\$ 42,437	\$ -	\$ 42,437
Investment	-	-	1,212	1,212
GNMA/FNMA	-	3,929,170	-	3,929,170
Total interest	-	3,971,607	1,212	3,972,819
Grant income	-	-	479,753	479,753
Program income	-	-	32,286	32,286
Fees and charges	183,627	-	-	183,627
Total operating revenues	183,627	3,971,607	513,251	4,668,485
Operating Expenses:				
Legal expenses	26,260	-	-	26,260
Professional services	18,310	278,576	-	296,886
Other expenses	2,139	161,785	513,251	677,175
Administration	214,103	326,946	-	541,049
Total operating expenses	260,812	767,307	513,251	1,541,370
Net Operating Income (Loss)	(77,185)	3,204,300	-	3,127,115
Nonoperating Revenues (Expenses):				
Investment earnings	187	1,509	-	1,696
Amortization of deferred items	-	41,269	-	41,269
Other revenue	946	615,769	-	616,715
Bond interest	-	(3,548,946)	-	(3,548,946)
Operating transfers	200,000	(200,000)	-	-
Net nonoperating revenues (expenses)	201,133	(3,090,399)	-	(2,889,266)
Net Income	123,948	113,901	-	237,849
Net Assets:				
Beginning of Year	138,309	18,649,109	-	18,787,418
End of Year	\$ 262,257	\$ 18,763,010	\$ -	\$ 19,025,267

ALLEGHENY COUNTY RESIDENTIAL FINANCE AUTHORITY
 COMBINED STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 YEAR ENDED DECEMBER 31, 2011

	Administrative Fund	Single Family Mortgage Program Funds	Other Proprietary Funds	Total
Cash From Operating Activities:				
Cash received from borrowers	\$ 192,990	\$ 461,220	\$ -	\$ 654,210
Cash received from grantors	-	-	460,932	460,932
Cash received for programs	-	-	88,490	88,490
Cash paid for projects	-	-	(497,493)	(497,493)
Cash received on asset-backed securities	-	(1,805,066)	-	(1,805,066)
Cash received from trustee	-	-	1,212	1,212
Cash paid to vendors	(258,625)	(1,047,642)	(15,758)	(1,322,025)
Cash provided by (used in) operating activities	(65,635)	(2,391,488)	37,383	(2,419,740)
Cash From Financing Activities:				
Bond/note principal repayment	-	(11,090,000)	-	(11,090,000)
Proceeds from bond drawdown	-	18,580,000	-	18,580,000
Interest paid	-	(3,518,401)	-	(3,518,401)
Operating transfers	200,000	(200,000)	-	-
Other revenues	40,771	469,129	-	509,900
Cash provided by financing activities	240,771	4,240,728	-	4,481,499
Cash From Investing Activities:				
Interest income received	187	1,509	-	1,696
Net Increase in Cash and Cash Equivalents	175,323	1,850,749	37,383	2,063,455
Cash and Cash Equivalents:				
Beginning of Year	228,463	20,568,175	806,532	21,603,170
End of Year	\$ 403,786	\$ 22,418,924	\$ 843,915	\$ 23,666,625
Reconciliation of Net Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities:				
Net operating income (loss)	\$ (77,185)	\$ 3,204,300	\$ -	\$ 3,127,115
Adjustments to reconcile net operating income (loss) to net cash flows provided by (used in) operating activities:				
Mortgage loan principal repayments received	-	421,825	-	421,825
GNMA/FNMA principal repayments made	-	(5,733,164)	-	(5,733,164)
GNMA/FNMA accrued interest change	-	(1,072)	-	(1,072)
Bond issuance costs	-	(283,377)	-	(283,377)
Increase in accounts payable	2,187	-	-	2,187
Increase in unearned revenue	9,363	-	37,383	46,746
Cash Provided by (used in) operating activities	\$ (65,635)	\$ (2,391,488)	\$ 37,383	\$ (2,419,740)

ALLEGHENY COUNTY RESIDENTIAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1: ORGANIZATION AND PURPOSE

The purpose of the Allegheny County Residential Finance Authority (Authority) is to broaden and stimulate the market for housing, and otherwise improve the quality of life for residents of Pennsylvania. The Authority's principal means of promoting this purpose is through programs that offer below-market interest rate financing for the acquisition of newly constructed or existing housing in the area encompassing the County of Allegheny (County), with the exception of the City of Pittsburgh. The Authority has offered such financing both directly, by issuing mortgage loans, and indirectly, by acquiring Government National Mortgage Association (GNMA) and Federal National Mortgage Association (FNMA) mortgage-backed securities originated specifically through Authority programs.

The Authority issues revenue bonds to enable funding of these programs. Each bond series is payable from receipts derived by the Authority from the corresponding program. In addition, substantially all other Authority assets are secured and are restricted to use for specified programs or debt service until the related debt is retired.

The Authority is a public instrumentality and body corporate and politic of the Commonwealth of Pennsylvania (Commonwealth) established in 1981 pursuant to the Second Class County Code of the Commonwealth.

NOTE 2: REPORTING ENTITY

These financial statements include all activities of the Authority using a fund accounting basis. A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equity, and changes therein, which are segregated for the purpose of carrying on activities in accordance with regulations, contractual restrictions, or other limitations.

The Authority's funds are proprietary funds because user charges are designed to recover the cost of Authority activities. The Single Family Funds are proprietary "enterprise" funds because operations are financed and operated in a manner similar to private enterprises with the intent that interest and other user charges will recover the ongoing costs of activities. The Administrative Fund is a proprietary fund that charges the enterprise funds amounts to recover the cost of ongoing support.

Combined financial statements for government entities generally present proprietary "enterprise" funds combined into a single total. In the interest of conveying additional information, the Authority has chosen to present total of funds categorized by the similarity of objective: Single Family Mortgage Program Fund, Other Proprietary Funds, and the Administrative Fund.

The County Executive appoints a Board of Directors (Board), comprised of up to twelve County residents, which governs the Authority. The County has not included the Authority in its reporting entity because the County's accountability for the Authority does not extend beyond making these appointments.

ALLEGHENY COUNTY RESIDENTIAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 3: DESCRIPTION OF FUNDS

Administrative Fund

The Administrative Fund accounts for centralized administrative support provided by the Authority to its enterprise funds. Administrative expense includes support services provided by the County's Department of Economic Development.

Single Family Mortgage Program Funds

Each Single Family Mortgage Fund was established by the issuance of mortgage revenue bonds for the purpose of enabling the Authority to offer financing for the acquisition of newly constructed or existing single-family housing. The Authority offered financing directly for Single Family Series B, C, and D in the form of mortgage loans. These mortgage loans are recorded in the Bond Defeasance Fund. The Bond Defeasance Fund includes assets and related liabilities for single-family programs where the related indebtedness has been retired. The remaining Series entail indirect financing through the acquisition of GNMA and FNMA mortgage-backed securities originated specifically for Authority programs. In both cases, the financings are characterized by interest rates below the rate prevailing in the market at the time of the program.

Other Funds

Other funds consist of the Community Development Fund and Housing Development Fund. The Community Development Fund accounts for the revenues and expenses of community development block grant programs undertaken for the purpose of providing down-payment assistance to eligible residents of the County.

The Housing Development Fund accounts for collections of loans and grant funds on behalf of the County which were previously collected by the Housing Development Corporation (HDC). HDC was dissolved in 1994, and the assets of HDC were transferred to the County. In 1994, the Authority began collecting the loan and grant funds. The funds are held by the Authority in the Housing Development Fund pending a disbursement request by the County for use as permitted under the terms of the original grant agreements.

ALLEGHENY COUNTY RESIDENTIAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 4: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING

All of the Authority's funds are proprietary fund types accounted for on the accrual basis. 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 that do not conflict with or contradict GASB pronouncements.

B. CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, cash and cash equivalents include all highly liquid instruments with original maturities of three months or less.

C. BOND PROCEEDS IN ESCROW

During December 2009, the Authority issued \$24,330,000 of Single Family Mortgage Revenue Bonds. These bonds were issued as part of a new bond program sponsored by the US Department of Treasury (First Mortgage New Issue Bond Program – NIBP). The proceeds are held in the 2009 Escrowed Proceeds Account, which is pledged solely to secure the 2009 Bonds and will not be used to finance program loans until such time as the Authority releases the funds from escrow.

During 2010 and through 2011, the Authority had up to six opportunities to release escrow funds for the purpose of making residential mortgages consistent with their single family program. The Authority could elect to draw down any portion or all funds at any of the six opportunities. The dates for the draws were set by the Authority.

Any funds not drawn from escrow by the end of 2011 must be returned to the US Treasury and used to repay the 2009 bonds without any penalty to the Authority. As of December 31, 2011 all of the funds were drawn from escrow.

The escrow funds are invested via a global escrow agreement for the NIBP which is comprised largely of short-term investments and earns the same short-term interest rate as the 2009 Bonds.

As of December 31, 2011, the Authority had drawn all \$24,330,000 of the Bonds.

ALLEGHENY COUNTY RESIDENTIAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 4: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. GNMA AND FNMA SECURITIES

The GNMA and FNMA Securities are mortgage-backed securities guaranteed by the GNMA or FNMA, respectively. GNMA is a wholly-owned corporate instrumentality of the United States within the Department of Housing and Urban Development. FNMA is a federally chartered, stockholder-owned corporation.

These securities are not considered to be marketable securities, and therefore are recorded at face value, adjusted for any discount or premium, if applicable.

E. UNEARNED REVENUE AND EXPENSES

The inception of Single Family and Multi-Family Mortgage Programs can entail several types of transactions for which related revenue or expense recognition is deferred. Bond issues can entail costs of issuance and underwriters discounts that are deferred expenses. Mortgage and GNMA inception can entail origination and commitment fees received by the Authority that are deferred revenues.

Deferred amounts are amortized using the straight line method, adjusted for acceleration of payments above original requirements.

The economic substance of the Authority's programs inextricably connects the initial cost of borrowing with the initial receipts for lending. Additionally, amortization of deferred revenue and costs occur at essentially the same rate because substantially all of the Authority's bond issues require bonds to be called to the extent that mortgage, GNMA, and FNMA payments are received by the Authority. Consequently, the Authority presents these deferred items collectively on the statement of net assets as "unearned revenue, net" and on the income statement as expense captioned "amortization of deferred items."

Program revenue, restricted as to its use by grant agreements, is recognized in the proprietary funds to the extent allowable expenses are incurred. Any excess of program income over expenses is recorded as unearned revenues.

ALLEGHENY COUNTY RESIDENTIAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 4: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. NET ASSET COMPONENTS

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 borrowing 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 creditors (such as restrictions on usage by bond issuance). All Single Family Mortgage Program net assets were restricted at year end.
- 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.” All net assets of the Administrative Fund were unrestricted at year end.

G. ADOPTION OF GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS

The Authority adopted the provisions of GASB Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*”. The adoption of this statement had no effect on previously reported amounts.

The Authority adopted the provisions of GASB Statement No. 59, “*Financial Instruments Omnibus*”. The adoption of this statement had no effect on previously reported amounts.

H. PENDING CHANGES IN ACCOUNTING PRINCIPLES

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 calendar year 2012 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 calendar year 2012 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 calendar year 2013 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 calendar year 2012 financial statements.

ALLEGHENY COUNTY RESIDENTIAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 4: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. PENDING CHANGES IN ACCOUNTING PRINCIPLES (CONTINUED)

In June 2011, the GASB issued Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". The Authority is required to adopt Statement No. 63 for its calendar year 2012 financial statements.

In June 2011 the GASB issued Statement No. 64, "*Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*". The Authority is required to adopt Statement No. 64 for its calendar year 2012 financial statements.

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

NOTE 5: DEPOSITS AND INVESTMENTS

Pennsylvania statutes provide for Authority investment of governmental funds into certain authorized investment types, including insured or collateralized time deposits and certificates of deposit. The statutes allow pooling of governmental funds for investment purposes. The Trustee for each bond series is responsible for investing funds pursuant to restrictions designed to mitigate the risk of investing funds, including monitoring entities that have provided guaranteed investment contracts.

The deposit and investment policy of the Authority adheres to state statutes. Deposits of the governmental funds are either maintained in demand deposits or money market accounts. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the Authority.

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. The following is a description of the Authority's deposit and investment risks:

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a formal policy for custodial credit risk. As of December 31, 2011, \$1,071,723 of the Authority's bank balance of \$1,321,723 was exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name. As of December 31, 2011, the carrying amounts of the Authority's deposits were \$1,247,701.

In addition to the deposits noted above, included in the cash and cash equivalents, investments for debt service and programs, and GNMA and FNMA were the following investments. At December 31, 2011, the Authority held the following investment balances:

ALLEGHENY COUNTY RESIDENTIAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 5: DEPOSITS AND INVESTMENTS (CONTINUED)

	Carrying	Less than	1-5	6-10	11-15	16-20	21-25	26-30
	<u>Value</u>	<u>1 year</u>	<u>years</u>	<u>years</u>	<u>years</u>	<u>years</u>	<u>years</u>	<u>years</u>
US Government Money Market Fund	\$ 22,418,924	\$ 22,418,924	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
AEGON GIC	317,414	-	-	-	-	-	-	317,414
GNMA/FNMA	<u>86,818,840</u>	<u>-</u>	<u>19,712</u>	<u>1,614,153</u>	<u>3,057,781</u>	<u>11,545,121</u>	<u>35,318,761</u>	<u>35,263,312</u>
	<u>\$ 109,555,178</u>	<u>\$ 22,418,924</u>	<u>\$ 19,712</u>	<u>\$ 1,614,153</u>	<u>\$ 3,057,781</u>	<u>\$ 11,545,121</u>	<u>\$ 35,318,761</u>	<u>\$ 35,580,726</u>

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 held by the Authority are primarily comprised of assets securitized in the secondary market from loans issued from the various single family and multi-family loan programs. The maturities noted in the table above reflect the final maturity of the respective security and do not take into consideration routine repayments on principal as the underlying assets pay down, as it is not possible to forecast these repayments. It is management's intention to hold these securities until maturity. Interest rates on these investments are fixed, and principal and interest repayments from these investments will be used to repay the related debt service.

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, the Authority's investments in PLGIT, US Government Money Market Fund, Dreyfus Institutional US Treasury Fund, and First American US Treasury Money Market Fund were rated AAA by Standard & Poor's. The Authority also held \$10,516,111 of FNMA investments at December 31, 2011. FNMA Investments were unrated at year end. The Authority's remaining investments of guaranteed investment contracts of \$317,414 are unrated. Although the guaranteed investment contracts are not rated, the guarantor on the guaranteed investment contracts do have credit ratings at year-end. AEGON is rated A+ by Standard & Poor's.

ALLEGHENY COUNTY RESIDENTIAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 6: SINGLE FAMILY PROGRAM MORTGAGE LOANS

The Authority issued Single Family Mortgage Loans for homes in the County, excluding the City of Pittsburgh, pursuant to programs each year from 1982 through 1985. The originating mortgage lender was required to ensure that each loan initiated under these programs, among other conditions, was:

- (1) Secured by a first lien mortgage on an insured title;
- (2) Made substantially in accordance with the current standard overwriting policies of the originating mortgage lender and the program;
- (3) Compliant with IRS Code §103(b) designating borrower eligibility requirements necessary for tax-exemption of the program's bond interest, and;
- (4) For an amount not exceeding 80% of the lesser of fair market value or purchase price, or was insured by a primary mortgage insurance policy that would pay the Authority's principal and accrued interest outstanding as well as certain administrative costs in the event of foreclosure.

These requirements at origination, combined with the efforts of entities contracted to service all outstanding mortgage loans, have allowed the Authority to incur no significant loan losses. The risk of loss is further mitigated by a mortgage pool insurance policy for each program against delinquencies. Based upon payment experience, insurance against losses and the status of loans at year-end, the Authority believes no provision for loan losses is necessary at December 31, 2011.

The total original principal amount was \$139,140,000. As of December 31, 2011, the balance is \$768,348.

The interest rate for Series D is 9.70%. During 1996, the interest rates for Series C (1984) mortgage loans initially bearing interest at 11% and 8% were reduced to 7.75% and 4.75%, respectively. During 1999, the interest rate for Series B (1984) mortgage loans initially bearing interest at 10.25% was reduced to 3.43%.

ALLEGHENY COUNTY RESIDENTIAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 7: GNMA AND FNMA SECURITIES

The Single Family Mortgage Program Fund, Series T&U, AA&BB, CC&DD, EE&FF, HH&II, JJ&KK, LL&MM, NN, OO&PP, QQ, RR&SS, TT, and UU&VV employed GNMA and FNMA mortgage-backed securities during 2009. These securities provide payment of principal and interest and are backed by pools of mortgage loans that have been originated by a number of lending institutions to qualified persons to finance the purchase of single family residential housing within the County, excluding the City of Pittsburgh. These securities are not pledged to any one indenture but are available for repayment of bonds within the single family mortgage program. In 2011, the Authority issued two new single family bond series, Series YY and ZZ, in the amounts of \$7,000,000 and \$11,580,000 respectively, which were released from escrow and securitized.

These GNMA and FNMA securities were acquired at original face value and are carried at face value adjusted for any discount or premium. The remaining principal, net of unamortized premium or discount where applicable and corresponding interest rates are:

Series	Principal	Interest Rate
Single Family Mortgage Fund	\$ 86,818,840	4.5 – 6.5%

NOTE 8: BONDS PAYABLE

The following table shows the changes in long-term debt for the year ended December 31, 2011:

	Outstanding Balance as of January 1, 2011	Additions	Deletions	Outstanding Balance as of December 31, 2011	Due within one year
Proprietary Funds					
Mortgage Revenue Bonds	\$ 84,715,000	\$ 18,580,000	\$ (11,090,000)	\$ 92,205,000	\$ 2,150,000
Bond Escrow	18,580,000	-	(18,580,000)	-	-
Long Term Liabilities	\$ 103,295,000	\$ 18,580,000	\$ (29,670,000)	\$ 92,205,000	\$ 2,150,000

The Authority issues mortgage revenue bonds to finance its programs. These bonds are limited obligations of the Authority, secured solely by the assignment and pledge of substantially all of the corresponding mortgage program fund's assets. Because of this secured interest, the Authority is restricted in the use of virtually all assets of the mortgage program funds and has vested the rights and responsibilities of receiving, managing, and disbursing funds with trustees engaged for each bond issue. This restriction causes net assets to be effectively restricted until the corresponding bond issue is retired. The bonds are not obligations of the County, the Commonwealth, or any political subdivision of the Commonwealth.

Most of the bond issues provide for retirements to be accelerated from the original schedule in the event of prepayments of the underlying mortgages, GNMA or FNMA securities or if funds are otherwise available as provided in the respective trust indentures. The maturity schedules presented on the following pages do not contemplate such accelerated retirements or mandatory sinking fund repayments, as these are difficult to predict due to the Authority's practice of calling bonds early. The outstanding balances of the compound interest bonds represent the accreted values as of December 31, 2011, and do not represent the amounts that would be payable as of their maturity date.

ALLEGHENY COUNTY RESIDENTIAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 8: BONDS PAYABLE (CONTINUED)

Single Family Mortgage Program Bonds

	Principal	Interest	Hedging Derivatives, Net	Total
2012	\$ 2,735,000	\$ 3,537,337	\$ (45,300)	\$ 6,227,037
2013	2,605,000	3,469,105	(36,511)	6,037,594
2014	2,620,000	3,454,377	(28,698)	6,045,679
2015	2,570,000	3,416,346	(21,861)	5,964,485
2016	2,170,000	3,318,626	(16,002)	5,472,624
2017-2021	6,555,000	15,627,729	(24,041)	22,158,688
2022-2016	17,100,000	13,015,259	-	30,115,259
2027-2031	8,240,000	10,094,495	-	18,334,495
2032-2036	15,915,000	7,465,388	-	23,380,388
2037-2041	31,695,000	3,196,688	-	34,891,688
	<u>\$ 92,205,000</u>	<u>\$ 66,595,350</u>	<u>\$ (172,413)</u>	<u>\$ 158,627,937</u>

Single Family – Series CC&DD

During 1998, the Authority issued \$25,065,000 of Single Family Mortgage Revenue Bonds, Series CC-1, CC-2, DD-1, and DD-2 (collectively, the "Series CC&DD Bonds"). A portion of the proceeds of the Series CC&DD Bonds was used to provide funds for the refunding of outstanding Series F, Series G, Series H, and Series I Bonds and a \$2,897,000 refunding note.

Interest is payable semi-annually in May and November for the current interest bonds. Interest on the bonds ranges from 4.85% to 5.40%. As of December 31, 2011 the Series CC-1 Bonds had principal outstanding of \$745,000, with final maturity in the year 2017, the Series DD-1 Bonds had principal outstanding of \$520,000, with final maturity in the year 2019, and the Series DD-2 Bonds had principal outstanding of \$2,655,000, with final maturity in the year 2029.

Single Family – Series HH&II

During 2000, the Authority issued \$25,275,000 of Single Family Mortgage Revenue Bonds, Series HH-1, HH-2, II-1, and II-2 (collectively, the "Series HH&II Bonds"). A portion of the proceeds of the Series HH&II Bonds was used to provide funds for the refunding of outstanding Single Family Series L&M.

Interest is payable semi-annually in May and November for the current interest bonds. Interest on the bonds ranges from 4.40% to 5.90%. As of December 31, 2011 the Series HH&II Bonds were paid in full.

ALLEGHENY COUNTY RESIDENTIAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 8: BONDS PAYABLE (CONTINUED)

Single Family – Series JJ&KK

During 2001, the Authority issued \$25,160,000 of Single Family Mortgage Revenue Bonds, Series JJ-1, JJ-2, KK-1, and KK-2 (collectively, the "Series JJ&KK Bonds"). A Portion of the proceeds of the Series JJ&KK Bonds was used to provide funds for the refinancing of outstanding Single Family Series P&Q.

Interest is payable semi-annually in May and November for the current interest bonds. Interest on the bonds ranges from 4.05% to 5.75%. As of December 31, 2011 the Series JJ-1 Bonds had principal outstanding of \$730,000, with a final maturity in the year 2015, the Series JJ-2 Bonds had principal outstanding of \$2,000,000, with a final maturity in the year 2017, the Series KK-1 Bonds had principal outstanding of \$1,585,000, with a final maturity in the year 2022, and the Series KK-2 Bonds had principal outstanding of \$3,500,000, with a final maturity in the year 2026.

Single Family – Series LL&MM

During 2002, the Authority issued \$14,620,000 of Single Family Mortgage Revenue Bonds. A portion of the proceeds of the Series LL&MM Bonds was used to provide funds for the partial refinancing of outstanding Single Family Series Y, AA, DD, EE&FF, and HH&II.

Interest is payable semi-annually in May and November for the current interest bonds. Interest on the bonds ranges from 3.50% to 5.20%. As of December 31, 2011 The Series LL and MM Bonds had principal outstanding of \$425,000 and \$11,655,000, respectively, with final maturity dates in the years 2014 and 2033, respectively.

Single Family – Series NN, OO, & PP

During 2004, the Authority issued \$14,800,000 of Single Family Mortgage Revenue Bonds. A portion of the proceeds of the Series NN & OO Bonds was used to provide funds for the partial refinancing of outstanding Single Family Series Y, and Z, as well as to repay a portion of the Authority's Single Family Mortgage Revenue Notes, Series 2002.

Series PP Bonds are variable rate term bonds due November 1, 2035. The bonds bear interest at a weekly rate, payable on May 1, and November 1. The weekly rate is determined by a remarketing agent, but the variable rate may not exceed 12%. The weekly rate at December 31, 2010 was .39%.

Interest is payable semi-annually in May and November. Interest on the fixed rate bonds, Series NN and OO, range from 2.55% to 4.90%. As the December 31, 2011 the Series NN, OO and PP Bonds had principal outstanding of \$2,410,000, \$4,485,000, and \$3,900,000 respectively, with final maturity dates in the years 2017, 2029, and 2035, respectively.

ALLEGHENY COUNTY RESIDENTIAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 8: BONDS PAYABLE (CONTINUED)

Single Family – Series QQ, RR, & SS

During 2005, the Authority issued \$15,000,000 of Single Family Mortgage Revenue Bonds. The bonds were used for the origination of single family mortgage loans.

Series SS Bonds are variable rate term bonds due May 1, 2036, but have mandatory sinking fund requirements starting on November 1, 2028 and continuing every six months thereafter until the bonds' maturity. The bonds bear interest at a weekly rate, payable on May 1, and November 1. The weekly rate is determined by a remarketing agent, but the variable rate may not exceed 12%. The weekly rate at December 31, 2011 was .14%.

Interest is payable semi-annually in May and November, commencing on May 1, 2006. Interest on the fixed rate bonds, Series QQ & RR, range from 3.20% to 4.85%.

The Series RR Bonds that mature on November 1, 2020, November 1, 2025, November 1, 2028 and November 1, 2031 are subject to mandatory sinking fund requirements.

The Series QQ and RR Bonds are subject to optional redemption. Bonds maturing after May 1, 2015 are redeemable at the option of the Authority on and after May 1, 2015, in whole or in part, on any date, from any maturities selected by the Authority, at the redemption price of 100% of principal plus accrued interest.

The Series SS Bonds are also subject to optional redemption at the option of the Authority at any effective rate date at the redemption price of 100% of principal plus accrued interest.

As of December 31, 2011 the Series QQ, RR, and SS Bonds had principal outstanding of \$1,530,000, \$4,775,000, and \$3,015,000, respectively, with final maturity dates in the years 2016, 2031, and 2037, respectively.

Single Family – Series TT

During 2006, the Authority issued \$12,830,000 of Single Family Mortgage Revenue Bonds. The bonds will be used for the origination of single family mortgage loans.

Certain Series TT term bonds have mandatory sinking fund requirements starting on November 1, 2016 and continuing every six months thereafter until the bonds' maturity. The remaining Series TT Bonds are serial bonds.

Interest is payable semi-annually in May and November. Interest on the fixed rate bonds range from 3.90% to 5.75%.

The Series TT Bonds are subject to optional redemption. Bonds maturing after May 1, 2016 are redeemable at the option of the Authority on and after May 1, 2016, in whole or in part, on any date, from any maturities selected by the Authority, at the redemption price of 100% of principal plus accrued interest.

ALLEGHENY COUNTY RESIDENTIAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 8: BONDS PAYABLE (CONTINUED)

Single Family – Series TT (Continued)

As of December 31, 2011 the Series TT Bonds had principal outstanding of \$10,330,000, with a final maturity in the year 2037.

Single Family – Series UU&VV

During 2007, the Authority issued \$16,045,000 of Single Family Mortgage Revenue Bonds. The bonds were used for the origination of single family mortgage loans and to defease the Authority's outstanding Single Family Series W&X bonds.

Certain Series VV Bonds are term bonds and have mandatory sinking fund requirements starting on May 1, 2018 and continuing every six months thereafter until the bonds' maturity.

Interest is payable semi-annually in May and November, commencing on November 1, 2006. Interest on the fixed rate bonds range from 4.00% to 4.95%.

The Series VV Bonds are subject to optional redemption. Bonds maturing after May 1, 2017 are redeemable at the option of the Authority on and after May 1, 2017, in whole or in part, on any date, from any maturities selected by the Authority, at the redemption price of 100% of principal plus accrued interest.

As of December 31, 2011 the Series UU and VV Bonds had principal outstanding of \$1,345,000 and \$12,310,000, respectively, with final maturities in the years 2016 and 2037, respectively.

Single Family – Series WW

During December of 2009, the Authority issued \$24,330,000 of Single Family Mortgage Revenue Bonds as part of the US Treasury's NIBP. All of the proceeds of the 2009 Bonds were deposited in the 2009 Escrowed Proceeds Account, which is pledged solely to secure the 2009 Bonds and will not be used to finance Program Loans until released from escrow.

The Series WW Bonds earn a short term interest rate that is calculated consistent with the interest earnings on the escrow funds. As such, there is no net interest cost to the Authority while the funds are in escrow.

The proceeds of the Series WW Bonds will be held in escrow until the short-term interest rate on the Series WW Bonds is converted into a long term fixed rate with the proceeds being used to buy mortgages. Upon release from escrow and conversion to a long term fixed rate, the Series WW Bonds will be designated a new series.

Any funds not drawn from escrow by the end of 2011 must be returned to the U.S. Treasury and used to repay the Series WW Bonds without any penalty to the Authority. As of December 31, 2011 all of the proceeds held in escrow were drawn down and designated a new series.

ALLEGHENY COUNTY RESIDENTIAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 8: BONDS PAYABLE (CONTINUED)

Single Family – Series XX

During November of 2010, the Authority released \$5,750,000 of proceeds from the 2009 Escrowed Proceeds Account and redesignated such proceeds as the Series XX Bonds. The bonds were used for the origination of single family mortgage loans.

The Series XX Bonds are term bonds and have mandatory sinking fund requirements starting on May 1, 2012 and continuing every six months thereafter until the bonds' maturity, November 1, 2041.

Interest is payable on February 23, 2011 and thereafter semi-annually in May and November, commencing on May 1, 2012. Interest on the bonds is 0.73% from November 23, 2011 to February 23, 2011 and 3.01% thereafter.

There Series XX Bonds are subject to optional redemption on the first business day of each month from the date of issuance at a redemption price equal to 100% of the principal amount plus accrued interest. As of December 31, 2011, the Series XX Bonds had principal outstanding of \$5,710,000, with a final maturity in the year 2041.

Single Family – Series YY

During August of 2011, the Authority released \$7,000,000 of proceeds from the 2009 Escrowed Proceeds Account and redesignated such proceeds as the Series YY Bonds. The bonds were used for the origination of single family mortgage loans.

The Series YY Bonds are term bonds and have mandatory sinking fund requirements starting on May 1, 2012 and continuing every six months thereafter until the bonds' maturity, November 1, 2041.

Interest is payable on November 1, 2011 and thereafter semi-annually in May and November, commencing on November 1, 2011. Interest on the bonds is 3.48%.

There Series YY Bonds are subject to optional redemption on the first business day of each month from the date of issuance at a redemption price equal to 100% of the principal amount plus accrued interest. As of December 31, 2011, the Series YY Bonds had principal outstanding of \$7,000,000, with a final maturity in the year 2041.

ALLEGHENY COUNTY RESIDENTIAL FINANCE AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2011

NOTE 8: BONDS PAYABLE (CONTINUED)

Single Family – Series ZZ

During November of 2011, the Authority released \$11,580,000 of proceeds from the 2009 Escrowed Proceeds Account and redesignated such proceeds as the Series ZZ Bonds. The bonds were used for the origination of single family mortgage loans.

The Series ZZ Bonds are term bonds and have mandatory sinking fund requirements starting on May 1, 2012 and continuing every six months thereafter until the bonds' maturity, November 1, 2041.

Interest is payable on May 1, 2012 and thereafter semi-annually in May and November, commencing on May 1, 2012. Interest on the bonds is 2.32%.

These Series ZZ Bonds are subject to optional redemption on the first business day of each month from the date of issuance at a redemption price equal to 100% of the principal amount plus accrued interest. As of December 31, 2011, the Series ZZ Bonds had principal outstanding of \$11,580,000, with a final maturity in the year 2041.

NOTE 9: INTEREST RATE SWAP

The following table shows the fair value balances and notional amounts of derivative instruments outstanding at December 31, 2011, classified by type, and the changes in fair values of such instruments for the year then ended as reported in the financial statements.

	Changes in Fair Value		Fair Value at December 31, 2011		Notional
	Classification	Amount	Classification	Amount	
Business-type activities					
Fair value hedges:					
Receive-fixed interest					
rate swap	Deferred inflow	\$ (3,337)	Swap Asset	\$ 15,098	\$ 3,015,000

During fiscal year 2005, the Authority entered into a pay-fixed, receive-variable interest rate swap contract. The interest rate swap has been effective since May 12, 2005 and terminates on May 1, 2021. The objective of the swap is to hedge the changes in cash flows on the Series 2005 SS mortgage revenue bonds.

The intention of the swap is to effectively change the Authority's variable interest rate on the 2005 Variable Rate Demand Single Family Mortgage Revenue Bonds, Series SS (Series SS Bonds) to a synthetic fixed rate of 3.4725%.

The Series SS Bonds accrue interest at a weekly rate that is determined by a remarketing agent on each effective rate date. Per the interest rate swap agreement, the Authority receives 64% of 1 month LIBOR plus 0.29% while paying a fixed rate of 3.4725%.

ALLEGHENY COUNTY RESIDENTIAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 9: INTEREST RATE SWAP (CONTINUED)

The interest payments on the interest rate swap are calculated based on a notional amount of \$5,850,000 which began to amortize on November 1, 2006. The Series SS Bonds mature on May 1, 2036 and are subject to mandatory sinking fund payments beginning on November 1, 2028. As the notional amount on the swap declines, the notional amount used to calculate the swap payments could be less than the outstanding principal balance on the Series SS Bonds. The notional amount as of December 31, 2011 is \$3,015,000.

The swap will expire on May 1, 2021.

The Authority makes net swap payments as required by the terms of the contract, that is, receiving a variable rate as noted above for the term of the swap from the counterparty and making a fixed rate payment to the counterparty. During 2011, the Authority made net interest expense payments of approximately \$9,319.

The fair value of the swap was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. As of December 31, 2011, the swap had a fair value of \$15,098. The mark to market value is an estimated net present value of the expected cash flows calculated using relevant mid-market data inputs and based on the assumption of no unusual market conditions or forced liquidation.

The Authority has the ability to early terminate the swap and to cash settle the transaction on any business day by providing at least five business days' written notice to the counterparty. Evidence that the Authority has sufficient funds available to pay any amount payable to the counterparty must be provided at the time notice is given. At early termination, the Authority will be required to pay or receive a settlement amount that is comprised of the market value of the terminated transaction based on market quotations and any amount accrued under the contract.

Through the use of derivative instruments such as this interest rate swap, the Authority is exposed to a variety of risks, including credit risk, interest rate risk, termination risk, basis risk, amortization risk, and rollover risk.

- Credit risk is the risk that a counterparty will not fulfill its obligations. On December 31, 2011, the interest rate swap counterparty was rated A2 by Moody's Investors Services, Inc., a nationally recognized statistical rating organization. If the counterparty failed to perform according to the terms of the swap agreement, there is some risk of loss to the Authority, up to the fair market value of the swap. Performance of the counterparty as it relates to this transaction is unsecured.

ALLEGHENY COUNTY RESIDENTIAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 9: INTEREST RATE SWAP (CONTINUED)

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the interest rate swap. As the swap used LIBOR as the basis to calculate the variable rate arm of the swap, the Authority is exposed to interest rate risk. The fair value of the swaps will generally decline with a decrease in interest rates and increase when interest rates increase. These changes in valuation do not affect the Authority's cash flow.
- Termination risk is the risk that a derivative's unscheduled end will result in unintended, unhedged variable rate debt outstanding and/or a termination payment will either be owing or due. The counterparty to the transaction does not have the ability to voluntarily terminate the swap; however, the Authority is exposed to termination risk in the event that the counterparty defaults.
- Basis risk is the risk that the Authority's variable interest payments on its bonds will not equal the variable interest receipts from its swaps. This basis risk exists because the Authority pays the actual variable rate on its bonds, but under the terms of its swaps receives a variable rate based upon the one-month, taxable LIBOR rate. Basis risk will vary over time due to inter-market conditions. In order to reduce the cumulative effects of basis risk, the variable rate determination structure for interest receipts within the swap is based upon a regression analysis of the long-term relationship between variable tax exempt rates and the one-month, taxable LIBOR rate.
- Amortization risk is the risk of a mismatch between the notional amount on the swap and the outstanding amount of the underlying variable rate bonds. A mismatch can result in unintended under-hedged or over-hedged variable rate debt and can also result in further mismatched variable rate swap receipts when compared to variable rate bond payments.
- Rollover risk is the risk that a derivative associated with the Authority's debt does not extend to the maturity of that debt. When the derivative terminates, the associated debt will no longer have the benefit of the derivative. The Authority is exposed to rollover risk as the swap agreement terminates on May 1, 2021 and the Series SS Bonds do not mature until May 1, 2036.

NOTE 10: CONDUIT DEBT

During 1994 and again in 1997, the Authority served as issuer for a \$3,077,000 and a \$4,800,000 bank note, respectively, with interest thereon exempt from federal income taxes. The note proceeds were applied to refinance certain residential facilities owned by a non-profit corporation, Residential Resources, Inc. The note is to be repaid solely and exclusively by Residential Resources, Inc. from the income, revenue, and/or sale of the mortgaged facilities. The Authority has no-commitment for this debt and does not anticipate acting in any related ongoing administrative capacity. Accordingly, this no-commitment debt is not present on the face of the Authority's financial statements.

During 1995, the Authority served as issuer of \$8,275,000 of Multi-Family Series G mortgage revenue bonds. The bond proceeds were provided to a local entity to construct a skilled nursing facility within the County. The principal and interest on the bonds is to be repaid solely and exclusively by (1)

ALLEGHENY COUNTY RESIDENTIAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 10: CONDUIT DEBT (CONTINUED)

payments made by the entity under a project agreement and mortgage note; (2) Federal Housing Agency mortgage insurance benefits in event of default under the mortgage note; and (3) certain other funds established pursuant to an Indenture of Trust. The Authority has no-commitment for this debt. Accordingly, this no-commitment debt is not presented on the face of the Authority's financial statements.

During 2006, the Authority served as an issuer of \$8,500,000 of Multi-Family housing revenue bonds for Cambridge Square Apartments. The bond proceeds were provided for the acquisition, rehabilitation, and/or equipping of a multi-family rental housing facility. The principal and interest on the bonds is to be repaid solely and exclusively by the borrower. The Authority has no-commitment for this debt and does not anticipate acting in any related ongoing administrative capacity. Accordingly, this no-commitment debt is not presented on the face of the Authority's financial statements.

During 2008, the Authority served as an issuer of \$4,940,800 of Multi-Family housing revenue bonds, Series A, B, and C for the Broadview Manor Apartments, Allegheny Independence House Apartments, and Versailles-Archer Apartments projects, respectively. The bond proceeds were provided for the acquisition and rehabilitation of the projects. The principal and interest on the bonds is to be repaid solely and exclusively by the borrower. The Authority has no-commitment for this debt and does not anticipate acting in any related ongoing administrative capacity. Accordingly, this no-commitment debt is not presented on the face of the Authority's financial statements.

During 2009, the Authority served as an issuer of \$3,485,000 of Multi-Family housing revenue bonds, Series 2009 for the Metowers Apartments Project. The bond proceeds were provided for the acquisition and rehabilitation of the apartment. The principal and interest on the bonds is to be repaid solely and exclusively by the borrower. The Authority has no-commitment for this debt and does not anticipate acting in any related ongoing administrative capacity. Accordingly, this no-commitment debt is not presented on the face of the Authority's financial statements.

NOTE 11: RELATED PARTIES

The County provides administrative services to the Authority. Administrative costs for 2011 were approximately \$200,000, which are included in the Administrative Fund in the Statement of Revenues, Expenses, and Changes in Net Assets.

OTHER SUPPLEMENTARY INFORMATION

ALLEGHENY COUNTY RESIDENTIAL FINANCE AUTHORITY
SINGLE FAMILY MORTGAGE PROGRAM FUNDS
COMBINING STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Series T&U	Bond Defeasance Fund	Indenture Related Single Family Funds	Total
Assets				
Cash and cash equivalents	\$ 1,121,852	\$ 7,130,290	\$ 14,166,782	\$ 22,418,924
Due from other funds	-	40,000	-	40,000
Investments for:				
Debt service	-	-	317,414	317,414
GNMA and FNMA securities	229,632	-	86,589,208	86,818,840
Mortgage loans	-	768,348	-	768,348
Accrued interest:				
GNMA and FNMA	1,320	-	341,599	342,919
Swap asset	-	-	15,098	15,098
Other	-	-	1,461,989	1,461,989
Total Assets	\$ 1,352,804	\$ 7,938,638	\$ 102,892,090	\$ 112,183,532
Liabilities and Net Assets				
Liabilities:				
Accrued interest	\$ -	\$ -	\$ 589,556	\$ 589,556
Unearned revenue, net	-	-	610,868	610,868
Current portion of bonds payable	-	-	2,150,000	2,150,000
Long-term portion of bonds payable	-	-	90,055,000	90,055,000
Deferred inflow of swap asset	-	-	15,098	15,098
Total Liabilities	-	-	93,420,522	93,420,522
Net Assets - Restricted for loan programs	1,352,804	7,938,638	9,471,568	18,763,010
Total Liabilities and Net Assets	\$ 1,352,804	\$ 7,938,638	\$ 102,892,090	\$ 112,183,532

ALLEGHENY COUNTY RESIDENTIAL FINANCE AUTHORITY
 SINGLE FAMILY MORTGAGE PROGRAM FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 YEAR ENDED DECEMBER 31, 2011

	Series T&U	Bond Defeasance Fund	Indenture Related Single Family Funds	Total
Operating Revenues:				
Interest:				
Mortgage	\$ -	\$ 42,437	\$ -	\$ 42,437
GNMA/FNMA	19,341	-	3,909,829	3,929,170
Total operating revenues	<u>19,341</u>	<u>42,437</u>	<u>3,909,829</u>	<u>3,971,607</u>
Operating Expenses:				
Professional services	-	278,576	-	278,576
Other expenses	-	3,907	157,878	161,785
Administration	-	2,324	324,622	326,946
Total operating expenses	<u>-</u>	<u>284,807</u>	<u>482,500</u>	<u>767,307</u>
Net Operating Income (Loss)	<u>19,341</u>	<u>(242,370)</u>	<u>3,427,329</u>	<u>3,204,300</u>
Nonoperating Revenues (Expenses):				
Interest on investments	69	315	1,125	1,509
Amortization of deferred items	-	-	41,269	41,269
Other revenue	-	86,001	529,768	615,769
Bond interest	-	-	(3,548,946)	(3,548,946)
Operating transfers	-	(200,000)	-	(200,000)
Total nonoperating revenues (expenses)	<u>69</u>	<u>(113,684)</u>	<u>(2,976,784)</u>	<u>(3,090,399)</u>
Net Income (Loss)	<u>19,410</u>	<u>(356,054)</u>	<u>450,545</u>	<u>113,901</u>
Net Assets:				
Beginning of Year	1,333,394	8,294,692	9,021,023	18,649,109
End of Year	<u>\$ 1,352,804</u>	<u>\$ 7,938,638</u>	<u>\$ 9,471,568</u>	<u>\$ 18,763,010</u>

ALLEGHENY COUNTY RESIDENTIAL FINANCE AUTHORITY
 OTHER PROPRIETARY FUNDS
 COMBINING STATEMENT OF NET ASSETS
 DECEMBER 31, 2011

	Community Development Fund	Housing Development Fund	Total
Assets			
Cash and cash equivalents	\$ 77,255	\$ 766,660	\$ 843,915
Liabilities and Net Assets			
Liabilities:			
Unearned revenue, net	\$ 77,255	\$ 766,660	\$ 843,915
Net Assets	-	-	-
Total Liabilities and Net Assets	\$ 77,255	\$ 766,660	\$ 843,915

ALLEGHENY COUNTY RESIDENTIAL FINANCE AUTHORITY
 OTHER PROPRIETARY FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 YEAR ENDED DECEMBER 31, 2011

	Community Development Fund	Housing Development Fund	Total
Operating Revenues:			
Investment income	\$ 174	\$ 1,038	\$ 1,212
Grant income	479,753	-	479,753
Program income	17,566	14,720	32,286
Total operating revenues	497,493	15,758	513,251
Operating Expenses:			
Project expenses	497,493	-	497,493
Other expense	-	15,758	15,758
Total operating expenses	497,493	15,758	513,251
Net Operating Income (Loss)	-	-	-
Net Assets:			
Beginning of Year	-	-	-
End of Year	\$ -	\$ -	\$ -

ALLEGHENY COUNTY RESIDENTIAL FINANCE AUTHORITY
OTHER PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011

	Community Development Fund	Housing Development Fund	Total
Cash From Operating Activities:			
Cash received from grantors	\$ 460,932	\$ -	\$ 460,932
Cash received for programs	-	88,490	88,490
Cash paid for projects	(497,493)	-	(497,493)
Cash received from trustee	174	1,038	1,212
Cash paid to vendors	-	(15,758)	(15,758)
	<u>(36,387)</u>	<u>73,770</u>	<u>37,383</u>
Cash provided by (used in) operating activities			
	<u>(36,387)</u>	<u>73,770</u>	<u>37,383</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(36,387)	73,770	37,383
Cash and Cash Equivalents:			
Beginning of Year	<u>113,642</u>	<u>692,890</u>	<u>806,532</u>
End of Year	<u>\$ 77,255</u>	<u>\$ 766,660</u>	<u>\$ 843,915</u>
Reconciliation of Net Operating Income to Net Cash Provided By Operating Activities:			
Net operating income	\$ -	\$ -	\$ -
Increase (decrease) in unearned revenue	<u>(36,387)</u>	<u>73,770</u>	<u>37,383</u>
Cash Provided by operating activities	<u>\$ (36,387)</u>	<u>\$ 73,770</u>	<u>\$ 37,383</u>