

**ALLEGHENY COUNTY  
HIGHER EDUCATION BUILDING AUTHORITY  
FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2015 AND 2014**

**ALLEGHENY COUNTY  
HIGHER EDUCATION BUILDING AUTHORITY  
YEARS ENDED DECEMBER 31, 2015 AND 2014**

CONTENTS

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

March 15, 2016

Independent Auditor's Report

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Allegheny County Higher Education Building Authority – Administrative Fund (the “Authority”) as of and for the year ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements as listed in the table of contents.

**Management’s Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on these financial statements based on our 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2015 and 2014, the respective changes in financial position, and the cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*The Binkley Kanavy Group, LLC*

Certified Public Accountants

**ALLEGHENY COUNTY HIGHER EDUCATION BUILDING AUTHORITY  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

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, 2015, and should be read in conjunction with the Authority’s financial statements, which begin on page 6.

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 position, statements of revenues, expenses, and changes in net position, statements of cash flows, and the notes to the financial statements.

The Statements of Net Position, (the difference between assets and liabilities), found on page 6, is for the administrative fund, a proprietary fund. The statements of net position 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 Position, found on page 7, 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 8, indicate how much cash was provided and used by operating activities as well as other cash sources and uses, such as investing and financing activities 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 9, provide information essential to understanding the basic financial statements.

**Financial Analysis**

The following schedule reflects the changes in net position compared to the prior year.

<b><u>Net Position</u></b>				
<b><u>Administrative Fund</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>Change</u></b>	
Total Assets	\$ 484,754	\$ 553,875	\$	(69,121)
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Net Position	<u>\$ 484,754</u>	<u>\$ 553,875</u>	<u>\$</u>	<u>(69,121)</u>

Total Net Position decreased by \$69,121 consisting of a \$69,121 decrease in total assets. The decrease in total assets was due to a decrease in cash and cash equivalents.

**ALLEGHENY COUNTY HIGHER EDUCATION BUILDING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

	<u>2015</u>	<u>2014</u>
<b><u>Operating Revenues:</u></b>		
Administrative Fees:		
Annual	\$ 162,975	\$ 173,815
Closing	-	40,878
Other	-	11,000
Total operating revenues	162,975	225,693
<b><u>Operating Expenses:</u></b>		
Administrative fees	200,000	125,000
Professional fees	28,756	28,750
Other	3,435	5,216
Total Operating Expenses	232,191	158,966
Operating Income (Loss)	(69,216)	66,727
Non-Operating Revenues:		
Interest Income	95	88
Net Income (Loss)	(69,121)	66,815
<b><u>Net Positions:</u></b>		
Beginning of year	553,875	487,060
End of year	\$ 484,754	\$ 553,875

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 \$10,840 decrease in annual administrative fees in 2015 compared to 2014. The principle reason was that there were less bond and note issuances outstanding from 2014 to 2015.
2. Closing fee revenues are collected from entities on whose behalf new bonds or notes are issued. Closing fees collected in 2015 decreased by \$40,878. The principle reason was that there were no new bond issuances in 2015.

**ALLEGHENY COUNTY HIGHER EDUCATION BUILDING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

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 Administrative fee increased by \$75,000 in 2015.
2. Professional fees are the contracted audit and legal fees paid in 2015 and 2014. These fees remained consistent from 2014.

Non-Operating Revenues include:

1. Non-operating interest income has remained consistent from 2014.

**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; One Chatham Center, Suite 900; 112 Washington Place; Pittsburgh, PA 15219.

**ALLEGHENY COUNTY  
HIGHER EDUCATION BUILDING AUTHORITY**

**ADMINISTRATIVE FUND  
STATEMENTS OF NET POSITION  
DECEMBER 31,**

	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 474,955	\$ 553,875
Accounts receivable	9,799	-
	<b>Total Assets</b>	<b>\$ 553,875</b>
	<b>\$ 484,754</b>	<b>\$ 553,875</b>
	<b>\$ 484,754</b>	<b>\$ 553,875</b>
<b>Liabilities and Net Position</b>		
Current Liabilities:		
Accounts payable	\$ -	\$ -
	<b>Total Liabilities</b>	<b>-</b>
	<b>-</b>	<b>-</b>
Net Position:		
Unrestricted net position	484,754	553,875
	<b>Total Net Position</b>	<b>553,875</b>
	<b>484,754</b>	<b>553,875</b>
	<b>\$ 484,754</b>	<b>\$ 553,875</b>

See accompanying notes to financial statements.

**ALLEGHENY COUNTY  
HIGHER EDUCATION BUILDING AUTHORITY**

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

	<b>2015</b>	<b>2014</b>
<b><u>Operating Revenues:</u></b>		
Administrative fees:		
Annual	\$ 162,975	\$ 173,815
Closing	-	40,878
Other	-	11,000
	162,975	225,693
<b><u>Operating Expenses:</u></b>		
Administrative fees	200,000	125,000
Professional fees	28,756	28,750
Other	3,435	5,216
	232,191	158,966
<b>Operating Income (Loss)</b>	(69,216)	66,727
<b><u>Non-Operating Revenues:</u></b>		
Interest income	95	88
	95	88
<b>Net Income (Loss)</b>	(69,121)	66,815
<b><u>Net Position:</u></b>		
Beginning of year	553,875	487,060
	553,875	487,060
End of year	\$ 484,754	\$ 553,875
	484,754	553,875

See accompanying notes to financial statements.

**ALLEGHENY COUNTY  
HIGHER EDUCATION BUILDING AUTHORITY**

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

	<b>2015</b>	<b>2014</b>
<b>Cash Flows From Operating Activities:</b>		
Receipts from customers	\$ 153,176	\$ 234,325
Payments for goods and services	(232,191)	(158,966)
Net cash provided by (used in) operating activities	(79,015)	75,359
<b>Cash Flows From Investing Activities:</b>		
Interest received	95	88
Net cash provided by investing activities	95	88
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(78,920)	75,447
<b>Cash and Cash Equivalents:</b>		
Beginning of year	553,875	478,428
End of year	\$ 474,955	\$ 553,875
 <b>Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:</b>		
Operating Income (Loss)	\$ (69,216)	\$ 66,727
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
(Increase) in accounts receivable	(9,799)	8,632
Decrease in accounts payable	-	-
Net cash flows provided by (used in) operating activities	\$ (79,015)	\$ 75,359

See accompanying notes to financial statements.

**ALLEGHENY COUNTY HIGHER EDUCATION BUILDING AUTHORITY**  
**ADMINISTRATIVE FUND**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

**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 in accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statements. Accordingly, revenues are recorded when earned and expenses are recorded when incurred.

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.

**ALLEGHENY COUNTY HIGHER EDUCATION BUILDING AUTHORITY**  
**ADMINISTRATIVE FUND**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

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

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 Position

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

*Net Investment in Capital Assets* – This component of net position consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of these assets. There were no net investments in capital assets at year-end.

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

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

**NOTE 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, which were paid by the Administrative fund, were \$200,000 in 2015, which was an increase of \$75,000 over 2014.

**ALLEGHENY COUNTY HIGHER EDUCATION BUILDING AUTHORITY**  
**ADMINISTRATIVE FUND**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

**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, 2015 and 2014, respectively, the carrying values of the Authority’s deposits were \$17,460 and \$1,824 and the bank balances of the Authority’s deposits were \$17,460 and \$4,012. Of the bank balances as of December 31, 2015 and 2014, 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, 2015 AND 2014**

**NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)**

Investments (continued)

As of December 31, 2015 and 2014, 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, 2015 and 2014, the Authority had cash and cash equivalents balances of \$474,955 and \$553,875, of which \$457,495 and \$552,051 respectively, were held in PLGIT. The fair value of these cash equivalents was \$457,495 at December 31, 2015, which is the same as the value of the pool shares. The fair value of these cash equivalents and investments was \$552,051 at December 31, 2014, 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, 2015 and 2014, the Authority's investments in PLGIT were rated AAA by Standard & Poor's.

**NOTE 4: CONDUIT DEBT**

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

The outstanding balance of the debt issued as of December 31, 2015 and 2014 is approximately \$611 million and \$649 million, respectively.