

**ALLEGHENY COUNTY
HIGHER EDUCATION BUILDING AUTHORITY'S
ADMINISTRATIVE FUND**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

**ALLEGHENY COUNTY
HIGHER EDUCATION BUILDING AUTHORITY'S
ADMINISTRATIVE FUND**

YEAR ENDED DECEMBER 31, 2016

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 – 2
Management's Discussion and Analysis	3 – 5
Financial Statements:	
Statement of Net Position	6
Statement of Revenues, Expenses, and Changes in Net Position	7
Statement of Cash Flows	8
Notes to the Financial Statements.....	9 – 11



CASE | SABATINI May 1, 2017

PROFESSIONAL ACCOUNTING,
CONSULTING & BUSINESS
ADVISORY SERVICES

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

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Allegheny County Higher Education Building Authority – Administrative Fund (the “Fund”) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements as listed in the table of contents.

P.O. BOX 10885
WHITEHALL TOWERS
470 STREETS RUN ROAD
PITTSBURGH, PA 15236-2023

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.

TELEPHONE: (412) 881-4411
FAX: (412) 881-4421
WEB: WWW.CASESABATINI.COM

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Fund as of December 31, 2016, the respective changes in financial position, and the cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Financial Statements

The financial statements as of and for the year ended December 31, 2015 were audited by other auditors. In their report dated March 15, 2016, these auditors expressed an unmodified opinion on the financial statements as of December 31, 2015 and the results of their operations and their cash flows for the year then ended. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note A, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the Authority as of December 31, 2016 and 2015, and the changes in its financial position, or where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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.



Certified Public Accountants
Pittsburgh, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Administrative Fund (the "Fund") of the Allegheny County Higher Education Building Authority's (the "Authority") Management's Discussion and Analysis is designed to provide an overview of the Fund's financial activities for the years ended December 31, 2016 and 2015, and should be read in conjunction with the Fund's financial statements, which begin on page 6.

Financial Highlights

- The Fund's net position increased by \$30,647 during the current and decreased by \$69,121 during prior year.
- The Authority continues to provide access to capital markets through its conduit debt program. The Fund receives annual and closing fees associated with this program. During the current and prior years, the Authority facilitated the issuance of approximately \$33.2 million and \$-0- in conduit debt, respectively.

Overview of the Financial Statements.

This discussion and analysis is intended to serve as an introduction to the Fund's basic financial statements. The Fund's basic financial statements consists of two parts: 1) fund financial statements and 2) notes to the basic financial statements.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Fund is reported as a fund in the Authority's basic financial statements.

The *Statement of Net Position*, found on page 6, provides information about the Fund's financial position using the accrual basis of accounting. It includes all of the Fund's assets and liabilities and indicates which assets, if any are restricted as to use.

The *Statement of Revenues, Expenses, and Changes in Net Position*, found on page 7, provides information on how the Fund's direct expenses of a given activity are offset by program revenues. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when incurred.

The *Statement 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.

Proprietary funds. The Fund is classified as an enterprise fund, which is a type of proprietary fund. *Enterprise funds* are used to report activities that are intended to recover all or a significant portion of their costs through user fees and charges.

Notes to the Financial Statements. The notes, starting on page 9, provide additional information that is essential to a full understanding of the data provided in the fund financial statements.

Analysis of Net Position

Net position is a useful indicator of a government's financial position. For the Fund, total assets were greater than liabilities by \$515,401 for the year ended December 31, 2016, by \$484,754 for the year ended December 31, 2015, and by \$553,875 for the year ended December 31, 2014.

Condensed Statement of Net Position

The following is a summary of the Fund's Statement of Net Position as of December 31, 2016, 2015, and 2014.

	<u>2016</u>	<u>2015</u>	Change	<u>2014</u>	Change
<u>Assets:</u>					
Cash	\$ 505,602	\$ 474,955	\$ 30,647	\$ 553,875	\$ (78,920)
Accounts Receivable	<u>9,799</u>	<u>9,799</u>	<u>-</u>	<u>-</u>	<u>9,799</u>
Total Assets	<u>\$ 515,401</u>	<u>\$ 484,754</u>	<u>\$ 30,647</u>	<u>\$ 553,875</u>	<u>\$ (69,121)</u>
<u>Net Position</u>					
Unrestricted	<u>\$ 515,401</u>	<u>\$ 484,754</u>	<u>\$ 30,647</u>	<u>\$ 553,875</u>	<u>\$ (69,121)</u>
Total Net Position	<u>\$ 515,401</u>	<u>\$ 484,754</u>	<u>\$ 30,647</u>	<u>\$ 553,875</u>	<u>\$ (69,121)</u>

Changes in Net Position

The Funds' net position increased by \$30,647 for the year ended December 31, 2016, decreased by \$69,121 for the year ended December 31, 2015, and increased by \$66,727 for the year ended December 31, 2014.

Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>2016</u>	<u>2015</u>	Change	<u>2014</u>	Change
<u>Operating Revenues:</u>					
Annual Admin Fees	\$ 185,785	\$ 162,975	\$ 22,810	\$ 173,815	\$ (10,840)
Closing Fees	62,896	-	62,896	40,878	(40,878)
Legal Fee Income	15,000	-	15,000	-	-
Miscellaneous	<u>2,000</u>	<u>-</u>	<u>2,000</u>	<u>11,000</u>	<u>(11,000)</u>
Total Operating Revenues	<u>265,681</u>	<u>162,975</u>	<u>102,706</u>	<u>225,693</u>	<u>(62,718)</u>
<u>Operating Expenses</u>					
Administrative Fees	200,000	200,000	-	125,000	75,000
Trustee and Professional Fees	28,750	28,756	(6)	28,750	6
Other	<u>7,634</u>	<u>3,435</u>	<u>4,199</u>	<u>5,216</u>	<u>(1,781)</u>
Total Operating Expense	<u>236,384</u>	<u>232,191</u>	<u>4,193</u>	<u>158,966</u>	<u>73,225</u>
Operating Income (Loss)	29,297	(69,216)	98,513	66,727	(135,943)
<u>Non-Operating Revenues</u>					
Interest Income	<u>1,350</u>	<u>95</u>	<u>1,255</u>	<u>88</u>	<u>7</u>
Net Income (Loss)	30,647	(69,121)	99,768	66,815	(135,936)
<u>Net Position</u>					
Beginning of Year	<u>484,754</u>	<u>553,875</u>	<u>(69,121)</u>	<u>487,060</u>	<u>66,815</u>
End of Year	<u>\$ 515,401</u>	<u>\$ 484,754</u>	<u>\$ 30,647</u>	<u>\$ 553,875</u>	<u>\$ (69,121)</u>

Net Position:

The Fund's net position is classified as unrestricted and is available to fund the Authority's activities. For sake of comparison, the Fund's net position represents 218.0%, 208.8% and 348.4% of the Fund's expenses for the years ended December 31, 2016, 2015, and 2014, respectively.

Operating Revenues include:

- Annual Administrative Fees are collected from entities on whose behalf the debt was issued for as long as the debt remains outstanding. These fees increased by \$22,810 during the current year and decreased by \$10,840 for the prior year. These fees increase and decrease based on the issuance of and retirement of debt issues from year to year.
- Closing fees, including legal fee income, are collected from entities during the year debt is issued on their behalf. The Authority did not issue conduit debt during 2015.

Operating Expenses include:

- 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 Fund paid ACED \$200,000 per year for 2016 and 2015 and \$125,000 for 2014.

Requests for Information

This financial report is designed to provide an overview of the Fund'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
STATEMENT OF NET POSITION
DECEMBER 31,**

ASSETS

	2016	2015
Current Assets:		
Cash and cash equivalents	\$ 505,602	\$ 474,955
Accounts receivable	9,799	9,799
Total Assets	\$ 515,401	\$ 484,754

LIABILITIES AND NET POSITION

Current Liabilities:		
Accounts payable	\$ -	\$ -
Total Liabilities	-	-
Net Position:		
Unrestricted	515,401	484,754
Total Net Position	515,401	484,754
Total Liabilities and Net Position	\$ 515,401	\$ 484,754

The accompanying notes are an integral part of these financial statements.

**ALLEGHENY COUNTY
HIGHER EDUCATION BUILDING AUTHORITY**

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

	2016	2015
Operating Revenues:		
Administrative fees:		
Annual	\$ 185,785	\$ 162,975
Closing	62,896	-
Legal	15,000	-
Other	2,000	-
Total Operating Revenues	265,681	162,975
Operating Expenses:		
Administrative fees	200,000	200,000
Professional fees	28,750	28,756
Other	7,634	3,435
Total Operating Expenses	236,384	232,191
Operating Income (Loss)	29,297	(69,216)
Non-Operating Revenues:		
Interest income	1,350	95
Net Income (Loss)	30,647	(69,121)
Net Position:		
Beginning of year	484,754	553,875
End of year	\$ 515,401	\$ 484,754

The accompanying notes are an integral part of these financial statements.

**ALLEGHENY COUNTY
HIGHER EDUCATION BUILDING AUTHORITY**

**ADMINISTRATIVE FUND
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,**

	2016	2015
Cash Flows from Operating Activities:		
Receipts from customers	\$ 265,681	\$ 153,176
Payments to Allegheny County for admin services	(200,000)	(200,000)
Payments for goods and services	(36,384)	(32,191)
Net cash provided by (used in) operating activities	29,297	(79,015)
Cash Flows from Investing Activities:		
Interest received	1,350	95
Net cash provided by investing activities	1,350	95
Net Increase (Decrease) in Cash and Cash Equivalents	30,647	(78,920)
Cash and Cash Equivalents:		
Beginning of year	474,955	553,875
End of year	\$ 505,602	\$ 474,955
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:		
Operating Income (Loss)	\$ 29,297	\$ (69,216)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
(Increase) in accounts receivable	-	(9,799)
Decrease in accounts payable	-	-
Net cash flows provided by (used in) operating activities	\$ 29,297	\$ (79,015)

The accompanying notes are an integral part of these financial statements.

**ALLEGHENY COUNTY HIGHER EDUCATION BUILDING AUTHORITY
ADMINISTRATIVE FUND**

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2016

NOTE A – 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:

1. **Basis of Accounting**

The Administrative Fund is reported as an Enterprise Fund. The Administrative Fund accounts for its activities 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.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Administrative Fund. Operating revenues consist primarily of annual and closing fees on conduit debt (see below). Non-operating revenues and expenses consist of those revenues and expenses that are related to financial and investing types of activities and result from non-exchanged transactions, such as capital contributions, grants, or ancillary activities.

When an expense is incurred, for purposes in which there is both restricted and unrestricted net position available, it is the Administrative Fund's policy to apply those expenses first to restricted net position, to the extent such are available, and then to unrestricted net position.

ALLEGHENY COUNTY HIGHER EDUCATION BUILDING AUTHORITY
ADMINISTRATIVE FUND

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2016

NOTE A – NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES – (Continued)

2. 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.

3. Cash and Cash Equivalents

For the 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.

4. Accounts Receivable

Accounts receivable represent annual fees billed and unpaid at the end of the year.

5. 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 B – 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 2016 and \$200,000 in 2015.

**ALLEGHENY COUNTY HIGHER EDUCATION BUILDING AUTHORITY
ADMINISTRATIVE FUND**

**NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2016**

NOTE C – DEPOSITS AND 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 or 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.

GASB Statement No. 40, “*Deposits 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. The Authority does not have a formal deposit policy for custodial credit risk. As of December 31, 2016, and 2015, respectively, the Administrative Fund’s deposits were covered by federal depository insurance.

The Administrative Fund also had deposits managed by the Pennsylvania Local Government Investment Trust (“PLGIT”). These funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical form. The Administrative Fund had approximately \$480,000 and \$457,000 deposited with PLGIT as of December 31, 2016 and 2015, respectively.

NOTE D – 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, 2016, and 2015 is approximately \$575 million and \$611 million, respectively.