

Urban Redevelopment Authority of Pittsburgh

Mortgage Revenue Bond Program

Program Financial Statements

Year Ended December 31, 2014 with
Independent Auditor's Report

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Pittsburgh | Harrisburg | Butler

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**URBAN REDEVELOPMENT AUTHORITY
OF PITTSBURGH**

MORTGAGE REVENUE BOND PROGRAM

YEAR ENDED DECEMBER 31, 2014

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Independent Auditor's Report

Board of Directors
Urban Redevelopment Authority of Pittsburgh

We have audited the accompanying program financial statements (financial statements) of the Urban Redevelopment Authority of Pittsburgh (Authority), Mortgage Revenue Bond Program (Program) as of and for the year ended December 31, 2014, and the related notes to the program financial statements.

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 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 Program, as of December 31, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Program and do not purport to, and do not, present fairly the financial position of the Authority, as of December 31, 2014, the changes in its financial position or its cash flows for the year 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 Matter

The Program has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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 basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Mahe Duessel

Pittsburgh, Pennsylvania
April 28, 2015

URBAN REDEVELOPMENT AUTHORITY OF PITTSBURGH

MORTGAGE REVENUE BOND PROGRAM

STATEMENT OF NET POSITION

DECEMBER 31, 2014

| Assets | |
|--|----------------------|
| Cash and cash equivalents | \$ 11,214,432 |
| Investments | 3,109,410 |
| Mortgage-backed securities | 4,335,301 |
| Mortgages receivable, net of allowance for loan losses | 9,672,128 |
| Due from participating lenders | 89,055 |
| Total Assets | \$ 28,420,326 |
| Liabilities and Net Position | |
| Liabilities: | |
| Bonds payable: | |
| Due within one year | \$ 1,130,000 |
| Due in more than one year | 12,910,000 |
| Interest payable | 132,182 |
| Total Liabilities | 14,172,182 |
| Net Position | 14,248,144 |
| Total Liabilities and Net Position | \$ 28,420,326 |

See accompanying notes to program financial statements.

URBAN REDEVELOPMENT AUTHORITY OF PITTSBURGH

MORTGAGE REVENUE BOND PROGRAM

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED DECEMBER 31, 2014

| | |
|---|------------------|
| Operating Revenues: | |
| Income on mortgages | \$ 635,068 |
| Interest - mortgage-backed securities | 212,153 |
| | 847,221 |
| Operating Expenses: | |
| Originating lender service fees | 47,356 |
| Administrative expenses | 291,469 |
| Bad debt expense | 6,004 |
| Other operating expenses | 328,528 |
| | 673,357 |
| Operating Income | 173,864 |
| Non-Operating Revenues (Expenses): | |
| Earnings on investments | 179,449 |
| Increase in fair value of mortgage-backed securities and investments | 44,326 |
| Interest | (716,174) |
| | (492,399) |
| Excess (Deficiency) of Revenues Over Expenses Before Transfers | (318,535) |
| Transfer out | (500,000) |
| Change in Net Position | (818,535) |
| Net Position: | |
| Beginning of year | 15,066,679 |
| End of year | \$ 14,248,144 |

See accompanying notes to program financial statements.

URBAN REDEVELOPMENT AUTHORITY OF PITTSBURGH

MORTGAGE REVENUE BOND PROGRAM

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2014

| | |
|---|--------------------|
| Cash Flows From Operating Activities: | |
| Receipts from borrowers | \$ 2,429,207 |
| Receipts from mortgage-backed securities | 1,356,565 |
| Payments for services | (673,357) |
| | 3,112,415 |
| Cash Flows From Investing Activities: | |
| Earnings on investments | 179,523 |
| Purchase of investments | (3,336,869) |
| Sale of investments | 3,341,936 |
| | 184,590 |
| Cash Flows From Non-Capital Financing Activities: | |
| Interest paid | (784,287) |
| Principal payments on bonds payable | (3,275,000) |
| Transfer out | (500,000) |
| | (4,559,287) |
| Net Increase (Decrease) in Cash and Cash Equivalents | (1,262,282) |
| Cash and Cash Equivalents: | |
| Beginning of year | 12,476,714 |
| End of year | \$ 11,214,432 |
| Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities: | |
| Operating income | \$ 173,864 |
| Adjustments to reconcile operating income to net cash provided by (used in) operating activities: | |
| Allowance for loan losses | 6,392 |
| Change in operating assets and liabilities: | |
| Mortgage repayments | 1,671,620 |
| Mortgage-backed securities | 1,144,412 |
| Due from participating lenders | 116,127 |
| | 2,938,551 |
| Net adjustments | 2,938,551 |
| Net cash provided by (used in) operating activities | \$ 3,112,415 |

See accompanying notes to program financial statements.

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MORTGAGE REVENUE BOND PROGRAM

NOTES TO PROGRAM FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

1. REPORTING ENTITY

The Authority

The Urban Redevelopment Authority of Pittsburgh (Authority) was established in 1946 pursuant to the Pennsylvania Urban Redevelopment Law. In order to carry out its corporate purposes, the Authority has been granted the power to undertake programs to redevelop and improve blighted areas within the City of Pittsburgh. The Authority operates numerous programs in the conduct of its purpose, including the Mortgage Revenue Bond Program (Program).

Cash Equivalents

Cash equivalents are comprised of money market accounts with a maturity date within three months of the date acquired by the Authority.

The Program

The purpose of the Program is to provide below-market rate mortgages for the purchase and rehabilitation of residential property within the City of Pittsburgh. Funds to finance the mortgages have been provided principally through the issuance of tax-exempt bonds. The mortgages are originated by participating lending institutions, acquired by the Program and serviced by a master servicer. The mortgage servicer issues Federal National Mortgage Association (FNMA) securities that are backed by pools of the home mortgages. The Program purchases the securities with funds that have been provided through the issuance of tax-exempt bonds. The current portfolio includes FNMA, FHLMC (Freddie Mac or Federal Home Loan Mortgage), and Government National Mortgage Association (GNMA) securities.

These program financial statements include only the financial position and results of operations for the Program. These Program financial statements are not intended to present the financial position and results of operations for the Authority.

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MORTGAGE REVENUE BOND PROGRAM

NOTES TO PROGRAM FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Basis of Accounting

The Program financial statements are reported using the accrual basis of accounting. Expenses are recognized in the period incurred. Revenues are recognized in the period in which they are earned.

Investments

Investments are limited to certain obligations as specified in the Program's Indenture of Trust (Indenture) and are stated at fair value. These obligations consist principally of obligations of U.S. government agencies and other qualifying obligations, including bank investment agreements. Earnings on investments include interest income and all gains or losses, realized and unrealized, on the investments. In accordance with the Indenture, all interest income and net realized gains on investments are transferred to the Revenue Fund.

Net Position

The Program's net position is restricted by the terms of the outstanding bond indentures and can be used for making additional loans or bond redemptions during the life of the Program.

Allowance for Possible Loan Losses

It is the Authority's policy to provide for estimated losses on Program mortgage loans based on an evaluation of the current mortgage portfolio, economic conditions, and such other factors, which in the Authority's judgment, require consideration in estimating loan losses for the Program.

Administrative Expenses

Administrative expenses consist of certain Authority expenses allocated to the Program. The Authority may also withdraw other available funds from the Program as specified within the Indenture.

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NOTES TO PROGRAM FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Transfer Out

During 2014, \$500,000 was transferred from the Program to the Authority to fund a loan program.

Federal Income Taxes

The Authority qualifies under the Internal Revenue Code as a tax-exempt organization and, therefore, any income earned by the Authority is exempt from federal income taxes. Accordingly, no federal income taxes have been provided for in the accompanying Program financial statements.

The Authority is subject to federal arbitrage regulations pursuant to the Internal Revenue Code. Management believes there was no significant arbitrage liability as of December 31, 2014.

3. DESCRIPTION OF FUNDS REQUIRED UNDER THE INDENTURE

As required by the Indenture, the cash and investments of the Program are restricted to various funds.

First Mortgage Loan Fund

These funds are used to purchase First Mortgage Loans from participating lending institutions.

Revenue Fund

This fund is used to pay principal and interest on the bonds when due. The sources of funds are loan repayments and earnings on investments, including interest income and gains or losses realized on the sale of investments.

Bond Reserve Fund

This fund is required to be maintained at a minimum of 10% of the outstanding principal balance of bonds, excluding escrowed bonds.

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MORTGAGE REVENUE BOND PROGRAM

NOTES TO PROGRAM FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Mortgage Reserve Fund

This fund is used to provide funds, if any, needed to increase the balance in the Revenue Fund to an amount sufficient to pay debt service on the bonds to the extent that such amount is not first available in the First Mortgage Loan Funds or the Bond Redemption Fund.

Special Hazard and Loss Reserve Fund

This fund is used to provide for the payment of expenses or losses that are incurred as a result of risks not covered by a standard hazard insurance policy and miscellaneous costs related to a defaulted first mortgage loan. It may also be used to increase the balance in the Revenue Fund to meet debt service requirements.

Bond Redemption Fund

This fund is principally used to redeem bonds.

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash, cash equivalents, and investments are restricted to various funds of the Program. The total cash, cash equivalents, and investment balances of each fund as of December 31, 2014 are as follows:

| | |
|--------------------------------------|----------------------|
| Revenue Fund | \$ 11,158,529 |
| Bond Reserve Fund | 6,339,495 |
| Mortgage Reserve Fund | 680,666 |
| Special Hazard and Loss Reserve Fund | <u>480,453</u> |
| | <u>\$ 18,659,143</u> |

Investments are recorded at fair value.

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,

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MORTGAGE REVENUE BOND PROGRAM

NOTES TO PROGRAM FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

and foreign currency risk. The following is a description of the Program's deposit and investment risks:

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Program's deposits may not be returned to it. The Program does not have a formal policy for custodial credit risk. As of December 31, 2014, the Program held no deposits.

Included on the statement of net position are the following investments held by the Program at December 31, 2014:

| | Carrying value | Maturity in years | | | | | | |
|-----------------------------------|----------------------|----------------------|-----------------|---------------------|-------------|-------------|---------------------|-------------------|
| | | Less than 1 year | 1-5 years | 6-10 years | 11-15 years | 16-20 years | 21-25 years | 26-28 years |
| U.S. Government Money Market Fund | \$ 11,214,433 | \$ 11,214,433 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| U.S. Treasury Bond Fund | 3,109,410 | - | - | 3,109,410 | - | - | - | - |
| Freddie Mac | 714,067 | - | - | - | - | - | 608,926 | 105,141 |
| GNMA | 2,931,126 | - | 4,392 | 457,103 | - | - | 2,469,631 | - |
| FNMA | 690,107 | - | - | 152,705 | - | - | 537,402 | - |
| Total | \$ 18,659,143 | \$ 11,214,433 | \$ 4,392 | \$ 3,719,218 | \$ - | \$ - | \$ 3,615,959 | \$ 105,141 |

Interest Rate Risk – The Indenture 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 Program are primarily comprised of assets securitized in the secondary market from loans issued from the loan programs. The maturities noted in the table above reflect the final maturity of the respective security and do not take into consideration non-routine repayments on principal 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.

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NOTES TO PROGRAM FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Credit Risk – The Indenture 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, 2014, the Program’s investments in U.S. Government Money Market Funds were rated AAA by Standard & Poor’s.

Concentration of credit risk - The Indenture places no limit on the amount the Authority may invest in any one issuer. None of the Authority’s investments are more than 5% with the same issuer.

5. MORTGAGES RECEIVABLE

Mortgages receivable as of December 31, 2014 are summarized as follows:

| | |
|---|----------------------------|
| First Mortgage Loans | \$ 9,910,155 |
| Less allowance for possible loan losses | <u>(238,027)</u> |
| Net First Mortgage Loans | <u><u>\$ 9,672,128</u></u> |

The First Mortgage Loans are subject to various insurance provisions if the principal balance of the loan is greater than 75% of the appraised value of the property. At December 31, 2014, a majority of the First Mortgage Loans are secured through a variety of insurers.

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NOTES TO PROGRAM FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

| <u>Mortgages acquired through funds provided from respective bond issue</u> | <u>Bear interest at</u> |
|---|--------------------------|
| 1979 Series A | 8.500% |
| 1980 Series A | 12.000% |
| 1982 Series A | 13.500% |
| 1983 Series A | 10.375% |
| 1983 Series C | 10.875% |
| 1984 Series A | 10.875% |
| 1986 Series A | 8.375% |
| 1987 Series A & B | 8.875% |
| 1988 Series A | 8.875% |
| 1990 Series E & F | 8.400% |
| 1991 Series A & B | 7.650 and 8.500% |
| 1991 Series G & H | 7.650% |
| 1992 Series C1 & D1 | 5.950 and 6.900% |
| 1993 Series A & B | 4.900% |
| 1994 Series A | 5.625 and 7.500% |
| 1994 Series B & C | 7.125 to 8.050% |
| 1995 Series A & B | 7.850 to 8.050% |
| 1996 Series A & B | 6.000 to 7.125% |
| 1996 Series C & D | 6.250 and 6.500% |
| 1997 Series A & B | 6.625 to 7.125% |
| 1997 Series C, D, & E | 4.900 to 7.125% |
| 1998 Series A & B | 4.900 to 5.875% |
| 1999 Series C | 4.980 to 6.980% |
| 2000 Series A & B | 6.500% |
| 2001 Series A, B, & C | 5.500 to 6.900% |
| 2002 Series A & B | 4.990, 5.250, and 5.750% |
| 2006 Series A, B, & C | 5.250 and 6.000% |

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NOTES TO PROGRAM FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

6. BONDS PAYABLE

Bonds outstanding at December 31, 2014 are summarized as follows:

| | Original Principal Amount | | | Bonds Payable |
|---------------|---------------------------|--------------|--------------|------------------|
| | Serial Bonds | Term Bonds | Total | |
| 2006 Series A | \$ 2,835,000 | \$ 6,165,000 | \$ 9,000,000 | \$ 2,560,000 |
| 2006 Series B | 5,335,000 | - | 5,335,000 | 360,000 |
| 2006 Series C | 10,070,000 | 5,500,000 | 15,570,000 | 11,120,000 |
| | | | | \$ 14,040,000 |

The stated interest rates/yields and principal maturity dates for the respective bonds payable at December 31, 2014 are as follows:

| Bond Issue | Interest Rates Range | Maturity Date Range |
|---------------|----------------------|---------------------|
| 2006 Series A | 4.500 to 4.850% | 2015 to 2036 |
| 2006 Series B | 4.650% | 2015 to 2017 |
| 2006 Series C | 4.150 to 4.600% | 2015 to 2028 |

The bond indentures provide for retirements to be accelerated in the event of prepayments of the underlying mortgages or if funds are otherwise available as provided in the respective Indenture. The bond indentures also allow for redemption of the term bonds prior to their respective stated maturity from a mandatory sinking fund account. The following maturity schedules do not contemplate any accelerated retirements.

The principal and interest maturities for bonds payable at December 31, 2014 are as follows:

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NOTES TO PROGRAM FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

| Year Ending December 31, | Principal | Interest | Total |
|-----------------------------|----------------------|---------------------|----------------------|
| 2015 | \$ 1,130,000 | \$ 338,685 | \$ 1,468,685 |
| 2016 | 1,150,000 | 313,409 | 1,463,409 |
| 2017 | 635,000 | 287,268 | 922,268 |
| 2018 | 1,125,000 | 271,014 | 1,396,014 |
| 2019 | 1,005,000 | 244,125 | 1,249,125 |
| 2020-2024 | 5,260,000 | 843,031 | 6,103,031 |
| 2025-2029 | 2,710,000 | 281,622 | 2,991,622 |
| 2030-2034 | 700,000 | 94,875 | 794,875 |
| 2035-2036 | 325,000 | 12,250 | 337,250 |
| | <u>\$ 14,040,000</u> | <u>\$ 2,686,279</u> | <u>\$ 16,726,279</u> |

The bonds are limited obligations of the Authority and are not a debt of the City of Pittsburgh or the Commonwealth of Pennsylvania. The Authority has no taxing power. The bonds are collateralized by a pledge of all Program revenues and monies set aside or to be held pursuant to the Indenture.

7. AUTHORITY FEE

The Authority, subject to certain limitations described in the Indenture, is entitled to a fee that annually shall not exceed one-half of one percent of the cumulative principal amount of the original Mortgage Revenue Bond Program notes purchased under the Program. During 2014, \$275,000 was paid by the Program to the Authority for this administrative fee.