

Urban Redevelopment Authority of Pittsburgh

Mortgage Revenue Bond Program

Program Financial Statements

Year Ended December 31, 2015 with
Independent Auditor's Report

MaherDuessel
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**URBAN REDEVELOPMENT AUTHORITY
OF PITTSBURGH**

MORTGAGE REVENUE BOND PROGRAM

YEAR ENDED DECEMBER 31, 2015

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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, 2015, 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, 2015, 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, 2015, 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, 2016

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STATEMENT OF NET POSITION

DECEMBER 31, 2015

Assets	
Cash and cash equivalents	\$ 11,662,349
Investments	2,977,880
Mortgage-backed securities	3,411,831
Mortgages receivable, net of allowance for loan losses	8,439,687
Interest receivable	79,874
Due from participating lenders	100,531
Total Assets	\$ 26,672,152
Liabilities and Net Position	
Liabilities:	
Bonds payable:	
Due within one year	\$ 1,135,000
Due in more than one year	11,215,000
Interest payable	145,146
Total Liabilities	12,495,146
Net Position	14,177,006
Total Liabilities and Net Position	\$ 26,672,152

See accompanying notes to program financial statements.

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**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION**

YEAR ENDED DECEMBER 31, 2015

<u>Operating Revenues:</u>	
Income on mortgages	\$ 605,324
Interest - mortgage-backed securities	251,586
Other income	<u>161,552</u>
Total operating revenues	<u>1,018,462</u>
<u>Operating Expenses:</u>	
Originating lender service fees	45,124
Administrative expenses	313,128
Other operating expenses	<u>17,278</u>
Total operating expenses	<u>375,530</u>
Operating Income	<u>642,932</u>
<u>Non-Operating Revenues (Expenses):</u>	
Earnings on investments	179,541
Decrease in fair value of mortgage-backed securities and investments	(241,146)
Interest	<u>(652,465)</u>
Net non-operating revenues (expenses)	<u>(714,070)</u>
Change in Net Position	<u>(71,138)</u>
<u>Net Position:</u>	
Beginning of year	<u>14,248,144</u>
End of year	<u><u>\$ 14,177,006</u></u>

See accompanying notes to program financial statements.

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STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2015

Cash Flows From Operating Activities:	
Receipts from borrowers	\$ 1,987,841
Receipts from mortgage-backed securities	854,036
Payments for services	(375,530)
	2,466,347
Cash Flows From Investing Activities:	
Earnings on investments	179,541
Purchase of investments	(2,548,887)
Sale of investments	2,680,417
	311,071
Cash Flows From Non-Capital Financing Activities:	
Interest paid	(639,501)
Principal payments on bonds payable	(1,690,000)
	(2,329,501)
Net Increase (Decrease) in Cash and Cash Equivalents	447,917
Cash and Cash Equivalents:	
Beginning of year	11,214,432
End of year	\$ 11,662,349
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:	
Operating income	\$ 642,932
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:	
Allowance for loan losses	(78,890)
Change in operating assets and liabilities:	
Mortgage repayments	1,311,331
Mortgage-backed securities	682,324
Interest receivable	(79,874)
Due from participating lenders	(11,476)
	1,823,415
Net cash provided by (used in) operating activities	\$ 2,466,347

See accompanying notes to program financial statements.

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MORTGAGE REVENUE BOND PROGRAM

NOTES TO PROGRAM FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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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NOTES TO PROGRAM FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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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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, 2015.

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.

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

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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, 2015 are as follows:

Revenue Fund	\$ 10,512,808
Bond Reserve Fund	6,382,585
Mortgage Reserve Fund	683,114
Special Hazard and Loss Reserve Fund	473,553
	<u>\$ 18,052,060</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, and foreign currency risk. The following is a description of the Program’s deposit and investment risks:

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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, 2015, the Program held no deposits.

Included on the statement of net position are the following investments held by the Program at December 31, 2015:

	Carrying value	Maturity in years					21-25 years
		Less than 1 year	1-5 years	6-10 years	11-15 years	16-20 years	
U.S. Government Money Market Fund	\$ 11,662,349	\$ 11,662,349	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Bond Fund	2,977,880	-	1,364,430	1,613,450	-	-	-
Freddie Mac	551,584	-	-	-	-	34,670	516,914
GNMA	2,446,416	-	38,512	-	-	1,471,167	936,737
FNMA	413,831	-	-	130,591	-	168,100	115,140
Total	\$ 18,052,060	\$ 11,662,349	\$ 1,402,942	\$ 1,744,041	\$ -	\$ 1,673,937	\$ 1,568,791

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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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, 2015, the Program’s investments in U.S. Government Money Market Funds were rated AAA by Standard & Poor’s. The Program’s remaining investments were not rated as of December 31, 2015.

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, 2015 are summarized as follows:

First Mortgage Loans	\$ 8,598,824
Less allowance for possible loan losses	<u>(159,137)</u>
Net First Mortgage Loans	<u><u>\$ 8,439,687</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, 2015, a majority of the First Mortgage Loans are secured by the Federal Housing Administration.

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<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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6. BONDS PAYABLE

Bonds outstanding at December 31, 2015 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	\$ 2,000,000
2006 Series B	5,335,000	-	5,335,000	290,000
2006 Series C	10,070,000	5,500,000	15,570,000	10,060,000
				\$ 12,350,000

Bond Issue	Interest Rates Range	Maturity Date Range
2006 Series A	4.550 to 4.850%	2016 to 2036
2006 Series B	4.650%	2016 to 2017
2006 Series C	4.200 to 4.600%	2016 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, 2015 are as follows:

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Year Ending December 31,	Principal	Interest	Total
2016	\$ 1,135,000	\$ 563,526	\$ 1,698,526
2017	550,000	521,451	1,071,451
2018	1,110,000	490,264	1,600,264
2019	990,000	442,179	1,432,179
2020	950,000	398,001	1,348,001
2021-2025	5,080,000	1,209,935	6,289,935
2026-2030	1,910,000	331,583	2,241,583
2031-2035	625,000	77,750	702,750
	\$ 12,350,000	\$ 4,034,689	\$ 16,384,689

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 2015, \$275,000 was paid by the Program to the Authority for this administrative fee.

8. SUBSEQUENT EVENT

On March 31, 2016, a primary loan servicer for the Program repurchased 29 loans in various stages of delinquency from the indenture's whole loan portfolio. The repurchase created over \$1.3 million in prepayment that will be utilized to pay down long term debt in 2016. In addition, no service fees were paid to the servicer for the transaction, saving the parity indenture over \$284,000 in service fees. The remaining loans from the servicer were transferred to a local servicer of Federal Housing Administration loans.