

**Urban Redevelopment Authority
of Pittsburgh**

Mortgage Revenue Bond Program

Program Financial Statements

Year Ended December 31, 2011 with
Independent Auditor's Report

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

Pursuing the profession while promoting the public good®
www.md-cpas.com

**URBAN REDEVELOPMENT AUTHORITY
OF PITTSBURGH**

MORTGAGE REVENUE BOND PROGRAM

YEAR ENDED DECEMBER 31, 2011

TABLE OF CONTENTS

Independent Auditor's Report	1
Program Financial Statements:	
Balance Sheet	2
Statement of Revenues, Expenses, and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Program Financial Statements	5

Independent Auditor's Report

Board of Directors
Urban Redevelopment Authority of Pittsburgh

We have audited the accompanying balance sheet of the Urban Redevelopment Authority of Pittsburgh (Authority), Mortgage Revenue Bond Program (Program) as of December 31, 2011, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These program financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these program 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 program financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the program financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall program financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Program are intended to present the financial position, and the results of operations, and cash flows, of only the Authority's Mortgage Revenue Bond Program. They do not purport to, and do not, present fairly the financial position of the Authority, as of December 31, 2011, the results of its operations, or its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the program financial statements referred to above present fairly, in all material respects, the financial position of the Program, as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Maher Duessel

Pittsburgh, Pennsylvania
April 27, 2012

URBAN REDEVELOPMENT AUTHORITY OF PITTSBURGH

MORTGAGE REVENUE BOND PROGRAM

BALANCE SHEET

DECEMBER 31, 2011

<u>Assets</u>	
Cash and cash equivalents	\$ 11,928,308
Investments	3,491,095
Mortgage-backed securities	40,593,929
Interest receivable on investments	300
Mortgages receivable, net of allowance for loan losses	15,259,317
Due from participating lenders	187,705
Bond issuance costs	592,088
	<hr/>
Total Assets	\$ 72,052,742
	<hr/>
<u>Liabilities and Net Assets</u>	
Liabilities:	
<hr/>	
Bonds payable:	
Due within one year	\$ 2,600,000
Due in more than one year	52,635,000
Interest payable	687,478
Deferred revenue	985,375
	<hr/>
Total Liabilities	56,907,853
Restricted Net Assets	15,144,889
	<hr/>
Total Liabilities and Net Assets	\$ 72,052,742
	<hr/>

See accompanying notes to program financial statements.

URBAN REDEVELOPMENT AUTHORITY OF PITTSBURGH

MORTGAGE REVENUE BOND PROGRAM

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2011

Operating Revenues:	
Income on mortgages	\$ 1,060,876
Interest - mortgage-backed securities	2,184,406
	3,245,282
Operating Expenses:	
Originating lender service fees	70,011
Administrative expenses	214,917
Amortization of bond issuance costs	92,464
Other operating expenses	56,325
	433,717
Operating Income	2,811,565
Non-Operating Revenues (Expenses):	
Earnings on investments	184,079
Increase in fair value of mortgage-backed securities and investments	727,692
Interest	(3,546,334)
Other income	84,849
	(2,549,714)
Net Income	261,851
Net Assets:	
Beginning of year	14,883,038
End of year	\$ 15,144,889

See accompanying notes to program financial statements.

URBAN REDEVELOPMENT AUTHORITY OF PITTSBURGH

MORTGAGE REVENUE BOND PROGRAM

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2011

Cash Flows From Operating Activities:	
Receipts from borrowers	\$ 3,039,860
Receipts from mortgage-backed securities	6,971,335
Payments for services	(426,102)
Net cash provided by operating activities	9,585,093
Cash Flows From Investing Activities:	
Earnings on investments	185,041
Purchase of investments	(20,618,660)
Sale of investments	20,304,210
Net cash used in investing activities	(129,409)
Cash Flows From Non-Capital Financing Activities:	
Other income	84,849
Interest paid	(3,822,854)
Principal payments on bonds payable	(19,475,000)
Net cash used in non-capital financing activities	(23,213,005)
Net Decrease in Cash and Cash Equivalents	(13,757,321)
Cash and Cash Equivalents:	
Beginning of year	25,685,629
End of year	\$ 11,928,308
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	\$ 2,811,565
Adjustments to reconcile operating income to net cash provided by operating activities:	
Amortization of bond issuance costs	92,464
Change in operating assets and liabilities:	
Mortgage repayments	1,978,984
Receipts from mortgage-backed securities	4,786,929
Deferred revenue	(84,849)
Net adjustments	6,773,528
Net cash provided by operating activities	\$ 9,585,093

See accompanying notes to program financial statements.

URBAN REDEVELOPMENT AUTHORITY OF PITTSBURGH

MORTGAGE REVENUE BOND PROGRAM

NOTES TO PROGRAM FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

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).

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.

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.

URBAN REDEVELOPMENT AUTHORITY OF PITTSBURGH

MORTGAGE REVENUE BOND PROGRAM

NOTES TO PROGRAM FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

The Authority, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *“Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,”* follows all GASB pronouncements as well as Financial Accounting Standards Board (FASB) Codification, APB Opinions, and ARBs issued on or before November 30, 1989 and has elected not to apply FASB pronouncements issued after November 30, 1989 to the program financial statements.

Cash Equivalents

Cash equivalents are comprised of interest-bearing demand accounts with a maturity date within three months of the date acquired by the Authority.

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 Assets

The Program's net assets are 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.

Issuance Costs

Bond issuance costs are amortized in such a manner that annually the sum of the amortization and the actual interest expense is equal to a constant percentage of the outstanding principal balance (effective interest method).

URBAN REDEVELOPMENT AUTHORITY OF PITTSBURGH

MORTGAGE REVENUE BOND PROGRAM

NOTES TO PROGRAM FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

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.

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, 2011.

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.

URBAN REDEVELOPMENT AUTHORITY OF PITTSBURGH

MORTGAGE REVENUE BOND PROGRAM

NOTES TO PROGRAM FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

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 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, 2011 are as follows:

URBAN REDEVELOPMENT AUTHORITY OF PITTSBURGH

MORTGAGE REVENUE BOND PROGRAM

NOTES TO PROGRAM FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

First Mortgage Loan Fund	\$ 1,011,042
Revenue Fund	47,633,393
Bond Reserve Fund	6,265,114
Mortgage Reserve Fund	671,036
Special Hazard and Loss Reserve Fund	432,747
	<u>\$ 56,013,332</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:

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, 2011, the Program held no deposits.

Included on the balance sheet are the following investments held by the Program at December 31, 2011:

URBAN REDEVELOPMENT AUTHORITY OF PITTSBURGH

MORTGAGE REVENUE BOND PROGRAM

NOTES TO PROGRAM FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

	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	\$ 11,928,308	\$ 11,928,308	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Bond Fund	3,491,095	-	-	3,491,095	-	-	-	-
Freddie Mac	1,235,088	-	-	-	-	-	1,235,088	-
GNMA	12,079,497	-	15,768	1,495,262	-	72,879	7,766,734	2,728,854
FNMA	27,279,344	-	141,123	73,006	8,215,418	12,447,959	6,293,546	108,292
Total	\$ 56,013,332	\$ 11,928,308	\$ 156,891	\$ 5,059,363	\$ 8,215,418	\$ 12,520,838	\$ 15,295,368	\$ 2,837,146

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.

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, 2011, 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. More than 5% of the Authority’s investments in FNMA are with the same issuer. The FNMA investments are 49% of the Program’s total investments.

**URBAN REDEVELOPMENT AUTHORITY
OF PITTSBURGH**

MORTGAGE REVENUE BOND PROGRAM

NOTES TO PROGRAM FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

5. MORTGAGES RECEIVABLE

Mortgages receivable as of December 31, 2011 are summarized as follows:

First Mortgage Loans	\$ 15,656,751
Less allowance for possible loan losses	<u>(397,434)</u>
Net First Mortgage Loans	<u><u>\$ 15,259,317</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, 2011, a majority of the First Mortgage Loans are secured through a variety of insurers.

URBAN REDEVELOPMENT AUTHORITY OF PITTSBURGH

MORTGAGE REVENUE BOND PROGRAM

NOTES TO PROGRAM FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

<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%

**URBAN REDEVELOPMENT AUTHORITY
OF PITTSBURGH**

MORTGAGE REVENUE BOND PROGRAM

NOTES TO PROGRAM FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

6. BONDS PAYABLE

Bonds outstanding at December 31, 2011 are summarized as follows:

	Original Principal Amount			Bonds Payable
	Serial Bonds	Term Bonds	Total	
1997 Series A	\$ 2,675,000	\$ 10,195,000	\$ 12,870,000	\$ 365,000
1997 Series D	-	1,685,000	1,685,000	765,000
1998 Series A	2,555,000	9,660,000	12,215,000	6,440,000
1998 Series B	2,260,000	1,675,000	3,935,000	2,300,000
1999 Series B	1,750,000	1,690,000	3,440,000	135,000
1999 Series C	1,740,000	12,435,000	14,175,000	5,290,000
1999 Series D	1,825,000	-	1,825,000	540,000
2001 Series A	1,875,000	-	1,875,000	1,265,000
2001 Series B	1,410,000	8,715,000	10,125,000	6,860,000
2002 Series A	2,885,000	-	2,885,000	1,085,000
2002 Series B	-	9,115,000	9,115,000	6,415,000
2006 Series A	2,835,000	6,165,000	9,000,000	7,490,000
2006 Series B	5,335,000	-	5,335,000	995,000
2006 Series C	10,070,000	5,500,000	15,570,000	15,290,000
				<u>\$ 55,235,000</u>

URBAN REDEVELOPMENT AUTHORITY OF PITTSBURGH

MORTGAGE REVENUE BOND PROGRAM

NOTES TO PROGRAM FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

The stated interest rates/yields and principal maturity dates for the respective bonds payable at December 31, 2011 are as follows:

<u>Bond Issue</u>	<u>Interest Rates Range</u>	<u>Maturity Date Range</u>
1997 Series A	6.150 to 6.250%	2012 to 2028
1997 Series D	5.600%	2012 to 2014
1998 Series A	5.200 to 5.250%	2017 to 2029
1998 Series B	4.900 to 5.150%	2012 to 2017
1999 Series B	5.450%	2012 to 2017
1999 Series C	5.600 to 5.700%	2012 to 2030
1999 Series D	5.200 to 5.250%	2012 to 2013
2001 Series A	4.550 to 4.950%	2012 to 2015
2001 Series B	5.350 to 5.450%	2016 to 2032
2002 Series A	3.950 to 4.350%	2012 to 2015
2002 Series B	5.100 to 5.200%	2015 to 2033
2006 Series A	4.250 to 4.850%	2012 to 2036
2006 Series B	4.650%	2012 to 2017
2006 Series C	3.900 to 4.600%	2012 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 aggregate principal and interest maturities for the bonds payable at December 31, 2011 are as follows:

URBAN REDEVELOPMENT AUTHORITY OF PITTSBURGH

MORTGAGE REVENUE BOND PROGRAM

NOTES TO PROGRAM FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 2,600,000	\$ 2,718,973	\$ 5,318,973
2013	2,390,000	2,610,665	5,000,665
2014	2,560,000	2,509,063	5,069,063
2015	1,940,000	2,390,950	4,330,950
2016	1,365,000	2,311,563	3,676,563
2017-2021	13,985,000	9,920,067	23,905,067
2022-2026	6,935,000	6,755,755	13,690,755
2027-2031	11,850,000	4,426,827	16,276,827
2032-2036	11,610,000	1,546,150	13,156,150
Total	<u>\$ 55,235,000</u>	<u>\$ 35,190,013</u>	<u>\$ 90,425,013</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 2011, \$100,000 was paid by the Program to the Authority for this administrative fee.