



Housing Authority of the City of Pittsburgh

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January 9, 2013

Financial Auditing Services

RFP150-14-12

ADDENDUM NO.1

This addendum issued January 9, 2013 becomes in its entirety a part of the Request for Proposals RFQ#600-51-12 as is fully set forth herein:

Item 1: Q: Would it be possible to see the Housing Authority of the City of Pittsburgh's prior year financial statements and the financial statements for the pension fund?

A: Yes, Financial Statements (**Attachment A**) Pension Fund (**Attachment B**)

Item 2: Q: What were the audit fees for the prior year audit?

A: This information will not be provided. That is what the Housing Authority is requesting from proposers.

Item 3: Q: It is our understanding that the prior audit contract was for five years and two options years, please advise why the option years were not utilized.

A: The housing authority had the option to extend the contract for two additional 1 year terms and the audit committee decided not to extend the option.

Item 4: Q: May we obtain a copy of the prior year financial statements and final REAC submission?

A: Refer to Item 1 REAC is included in the statement.

Item 5: Q: Can you please provide us with a copy of the prior year financial statements?

A: Refer to Item 1

Item 6: Q: Are there any component units included in the audit of HACP, either blended or discrete?

A: 1. Allies Ross Management Development Corporation. 2. Allies Ross Management Development Corporation Guarantee Corporation. 3. Clean Slate E3.

Item 7: Q: What is the audit fee for the prior year?

A: Refer to Item 2.


Item 8: Q: Can you please provide us with the questions and answers of other interested parties?

A: All questions submitted are included in this addendum.

Item 9: PreBid Sign In Sheets (**Attachment C**)

Item 2: The proposal due date is revised to January 16, 2013 time and location remain unchanged at 11:00AM at the HACP Procurement Dept., 100 Ross St. 2nd Floor, Suite 200, Pittsburgh, PA 15219

END OF ADDENDUM NO. 1



Mr. Kim Detrick

Procurement Director/Contracting Officer



Date

Attachment A
Financial Statement December 31, 2012

**Housing Authority of the
City of Pittsburgh**

Single Audit

December 31, 2011

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

SINGLE AUDIT

DECEMBER 31, 2011

DIRECTORY

Financial Statements and Required Supplementary and Supplementary Information:

Table of Contents

Independent Auditor's Report

Management's Discussion and Analysis i

Financial Statements 1

Supplementary Information 26

Independent Auditor's Reports in Accordance with OMB A-133:

Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards* 51

Independent Auditor's Report on Compliance with
Requirements that Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133 53

Schedule of Findings and Questioned Costs 55

Summary Schedule of Prior Audit Findings 57

**Housing Authority of the
City of Pittsburgh**

Financial Statements and
Required Supplementary and
Supplementary Information

For the Years Ended
December 31, 2011 and 2010

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

TABLE OF CONTENTS

Independent Auditor's Report

Management's Discussion and Analysis	i
---------------------------------------------	----------

Financial Statements:

Statements of Net Assets	1
Statements of Revenues, Expenses, and Changes in Net Assets	3
Statements of Cash Flows	5
Notes to Financial Statements	7

Supplementary Information:

Financial Data Schedule – Entity-wide	26
Financial Data Schedule – Low-Income Public Housing	31
Schedule of Expenditures of Federal Awards	49
Note to Schedule of Expenditures of Federal Awards	50

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Independent Auditor's Report

Board of Commissioners
Housing Authority of the City of Pittsburgh

We have audited the accompanying basic financial statements of the business-type activity of the Housing Authority of the City of Pittsburgh (Authority) as of and for the years ended December 31, 2011 and 2010, which comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity of the Authority as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2012 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through xvii 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 the 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.

Board of Commissioners
Housing Authority of the City of Pittsburgh
Independent Auditor's Report
Page 2

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The financial data schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The financial data schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Maier Duessel

Pittsburgh, Pennsylvania
July 24, 2012

Housing Authority of the City of Pittsburgh, Pennsylvania Management's Discussion and Analysis Fiscal Year Ended December 31, 2011

Management's Discussion and Analysis

The management of the Housing Authority of the City of Pittsburgh (Authority), Pennsylvania offers the readers of the Authority's financial statements this narrative overview and analysis of the Authority's financial performance during the year ended December 31, 2011.

We have designed this Management's Discussion and Analysis to:

- ◆ Assist the reader in concentrating on particular or significant financial issues.
- ◆ Provide an overview of the Authority's financial activity.
- ◆ Highlight changes in the Authority's financial position and its ability to address the next and subsequent year challenges.
- ◆ Identify particular issues or concerns.

Readers should consider the information presented here in conjunction with the Authority's Financial Data Schedule (FDS), the accompanying Audited Financial Statements, and related footnotes to obtain a complete understanding of the Authority's financial position.

The Management's Discussion and Analysis is presented in accordance with the requirements of the Governmental Accounting Standards Board Statement No. 34 (GASB Statement No. 34).

Any questions concerning the information provided in this discussion or requests for additional information should be addressed to the Authority's Chief Financial Officer.

Overview of the Financial Reports

This annual report consists of three parts – Management's Discussion and Analysis (this section), the Basic Financial Statements, and Supplementary Information that further explains and supports the information in the financial statements.

The financial statements in this report are those of a special purpose governmental entity engaged in a business-type activity and include the following:

- ◆ ***Statements of Net Assets (Balance Sheet)*** - includes all of the Authority's assets and liabilities and provides information about the amounts and investments in assets and the obligations to Authority creditors. It also provides a basis of assessing the liquidity and financial flexibility of the Authority. Over time, increases or decreases in net assets will serve as a useful indicator of whether its financial health is improving or deteriorating.
- ◆ ***Statements of Revenues, Expenses, and Changes in Net Assets*** - reports the Authority's revenues by source and its expenses by category to substantiate the change in net assets for the year. These statements measure the success of the Authority's operations over the past year.

- ◆ **Statements of Cash Flows** - reports the Authority's cash receipts and cash payments during the year and provides information about the Authority's operating, investing, and financing activities.
- ◆ **Notes to Financial Statements** - explain some of the information in the Authority's financial statements and provide more detailed data.

Authority Program Overview

Conventional Low-Income Public Housing - Under the Conventional Low-Income Public Housing Program (LIPH), the Authority rents apartments that it owns to low-income households. The Conventional Low-Income Public Housing Program is operated under an Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD), and HUD provides Operating Subsidy funding to enable the Authority to provide this housing at a rent that is based upon 30% of household income.

Housing Choice Voucher Program - Under the Housing Choice Voucher Program, the Authority administers contracts with independent landlords that own rental property. The Authority subsidizes the family's rent through a Housing Assistance Payment made to the landlord. The program is administered under an Annual Contributions Contract (ACC) with HUD. HUD provides Annual Contributions Funding to enable the Authority to structure a lease that sets the participating residents' rent at 30% of household income.

DHAP - Represents the Disaster Housing Assistance Program, which uses HUD funds to provide temporary rental assistance to families displaced as a result of Hurricanes Katrina or Rita.

Section 8 New Construction - Represents Section 8 Housing Assistance Payments that are administered by the Authority under the New Construction Program.

Section 8 Moderate Rehabilitation Program - Represents Housing Assistance Payments administered by the Authority under the Section 8 Moderate Rehabilitation Programs.

MTW Programs - Represents a demonstration program that provides the opportunity to design and test innovative, locally-designed strategies that use federal dollars more efficiently, help residents find employment and become self-sufficient, and increase housing choices for low-income families. This program allows the flexibility to combine funds from the LIPH Program, Capital Fund Program, and Section 8 Housing Choice Voucher program into a "block grant" to help better meet the purposes of the demonstration and the needs of the communities.

Capital Program - This program includes the Capital Fund Program and Replacement Housing Factor Program. The Authority receives grant funds, annually, under a formula-based award for the development, financing, and modernization of public housing developments and for management improvements. The Capital Program is the primary funding source for physical and management improvements to the Authority's properties.

Capital Program - ARRA - Under the Capital Program - ARRA, the Authority receives additional funding to be used for purposes similar to the regular Capital Fund Program as described above. This program is required to be reported separately from the regular Capital Fund Program on the Financial Data Schedule.

Major Reconstruction of Obsolete Public Housing Projects (MROP) – This grant program is funded by HUD to finance the capital cost of rehabilitation of old public housing to maintain or expand the supply of decent, safe, and sanitary housing for low-income families.

Business Activities - The Authority utilizes various methods to construct new public housing communities. One method used by the Authority, referred to as “Mixed Finance Development,” employs funds from traditional public housing sources such as the Capital Fund Program and uses capital generated from the sale of low-income housing tax credits. For purposes of this Management’s Discussion and Analysis, the non-profit Allies & Ross Management Development Corporation (ARMDC) blended component unit is included as a business activity in Table III on page vii. This is done for ease of view. ARMDC is listed in its own column within the supplementary information beginning on page 26.

Other Federal Programs - Other federal programs operated by the Authority include:

- ◆ Resident Opportunity and Supportive Services (ROSS)
- ◆ Community Development Block Grant (CDBG)

Other State and Local Programs - The Other State and Local Programs operated by the Authority include, but are not limited to, violence prevention, training and job skills, the Street Team Youth Development Project, the Clean Slate Program, and the Department of Community and Economic Development (DCED) grant program. For purposes of this Management’s Discussion and Analysis, the non-profit Clean Slate E3 blended component unit is shown within the other programs column in Table III on page vii. This is done for ease of view. Clean Slate E3 is listed in its own column within the supplementary information beginning on page 26.

Financial Analysis of the Authority

The Authority's Statements of Net Assets for the years ending December 31, 2011 and 2010 are presented in the following Table 1.

**Housing Authority of the City of Pittsburgh
Statements of Net Assets
As of December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>	<u>Total Change</u>	<u>% Change</u>
Current Assets	\$138,308,452	\$139,806,920	(\$1,498,468)	-1.1%
Capital Assets, Net of Accumulated Depreciation	101,510,951	100,595,543	915,408	0.9%
Investment in Mixed Finance Development Activities*	95,138,251	86,434,558	8,703,693	10.1%
Total Assets	<u>\$334,957,654</u>	<u>\$326,837,021</u>	<u>\$8,120,633</u>	2.5%
Current Liabilities*	\$8,410,977	\$12,334,812	(\$3,923,835)	-31.8%
Noncurrent Liabilities	28,494,877	31,258,637	(2,763,760)	-8.8%
Total Liabilities	<u>36,905,854</u>	<u>43,593,449</u>	<u>(6,687,595)</u>	-15.3%
Invested in Capital Assets, Net of Related Debt	79,397,768	77,074,618	2,323,150	3.0%
Restricted Net Assets*	160,758,548	127,568,877	33,189,671	26.0%
Unrestricted Net Assets*	57,895,484	78,600,077	(20,704,593)	-26.3%
Total Net Assets	<u>298,051,800</u>	<u>283,243,572</u>	<u>14,808,228</u>	5.2%
Total Liabilities & Net Assets	<u>\$334,957,654</u>	<u>\$326,837,021</u>	<u>\$8,120,633</u>	2.5 %

* The large variances found in these line items are explained on the next page.

Financial Analysis of the Authority (continued)

The Statements of Net Assets illustrates that Total Assets of the Authority increased by \$8,120,633 and Total Liabilities decreased by \$6,687,595. The result of operations in fiscal year 2011 created an overall increase in Net Assets of \$14,808,228, or 5.2%.

Investment in Mixed Finance Development Activities was increased in 2011 by 10.1% to \$95,138,251 from \$86,434,558 in 2010. New activity included primarily a \$4.3 million permanent loan to Garfield Phase III and \$3.4 million to Oak Hill.

Current Liabilities decreased from \$12,334,812 in 2010 to \$8,410,977 in 2011. This decrease was mainly attributable to the completion of various development projects during 2011 (specifically ARRA funded projects) that were completed prior to the end of the year.

The Authority's Restricted Net Assets increased by \$33,189,671, or 26.0%, and Unrestricted Net Assets were decreased by \$20,704,593, or 26.3%. The general swing between these classes was the result of positive operations and transfers of \$27,564,367 and \$5,000,000 to Allies and Ross Development Corporation and the Guarantee Corporation respectively. Current Assets decreased in 2011 by \$1,498,468 as Current Liabilities were also decreased by \$3,923,835 and Noncurrent Liabilities decreased by \$2,763,760.

Financial Analysis of the Authority (continued)

The Statements of Net Assets reflect the financial position of the Authority, while the Statements of Revenues, Expenses, and Change in Net Assets illustrate the Authority's revenues and expenses for the fiscal year ending December 31, 2011. Table II below provides this statement along with a comparison to the fiscal year 2010 results of operation.

***Housing Authority of the City of Pittsburgh
Statements of Revenues, Expenses and Change in Net Assets
For the Years Ended December 31, 2011 and 2010***

	<u>2011</u>	<u>2010</u>	<u>Total Change</u>	<u>% Change</u>
Grant Funding (Including Capital Grant)	\$ 103,085,760	\$ 116,090,623	\$ (13,004,863)	-11.20%
Tenant Revenue	6,959,654	7,149,927	(190,273)	-2.66%
Other Income	9,083,165	7,912,992	1,170,173	14.79%
Investment Income	586,297	662,429	(76,132)	-11.49%
Fraud Recovery	81,341	54,374	26,967	49.60%
Gain (Loss) on Sale of Fixed Assets	(902,839)	(743,661)	(159,178)	-21.40%
Total Revenue	118,893,378	131,126,684	(12,233,306)	-9.33%
Grant Expense	3,078,384	3,276,075	(197,691)	-6.03%
Housing Assistance Payments	32,717,146	31,042,217	1,674,929	5.40%
Administrative	17,671,442	17,987,457	(316,015)	-1.76%
Demolition Expense	6,250	1,727,004	(1,720,754)	-99.64%
Depreciation/Amortization	12,131,887	7,269,687	4,862,200	66.88%
Maintenance	9,882,876	10,327,435	(444,559)	-4.30%
Utilities	6,242,802	7,770,136	(1,527,334)	-19.66%
Tenant Services	2,806,442	2,063,881	742,561	35.98%
Protective Services	2,385,011	1,829,014	555,997	30.40%
General Expense	14,916,874	12,733,013	2,183,861	17.15%
Insurance Expense	2,054,876	2,370,472	(315,596)	-13.31%
Extraordinary Maintenance	191,160	90,387	100,773	111.49%
Total Expenses	104,085,150	98,486,778	5,598,372	5.68%
Change in Net Assets	14,808,228	32,639,906	(17,831,678)	-54.63%
Beginning Net Assets	283,243,572	250,603,666	32,639,906	13.02%
Ending Net Assets	\$ 298,051,800	\$ 283,243,572	\$ 14,808,228	5.23%

Provided below in Table III is further detail by program of Revenues, Expenses, and Change in Net Assets during fiscal year 2011.

Table III
Housing Authority of the City of Pittsburgh
Revenues, Expenses, and Changes in Net Assets - By Program
For the Year Ended December 31, 2011

	Low-Income Public Housing	Capital Fund Grant	Housing Choices Vouchers	Section 8 New Constr.	SSMR & HCVFSS & DHAP	Ross Grant	Other Programs *	Business Activities *	Elimination Entries	Total
Grant Funding	\$ 43,215,924	\$ 11,966,968	\$ 43,578,228	\$ 205,413	\$ -	\$ 27,657	\$ 4,091,570	\$ -	\$ -	\$ 103,085,760
Tenant Revenue	6,959,654	-	-	-	-	-	-	-	-	6,959,654
Other Income	2,443,900	-	-	24,521	46,009	-	82,262	6,486,473	-	9,083,165
Investment Income	294,113	-	193,049	2,101	298	-	-	96,736	-	586,297
Fraud Recovery	7,362	-	73,979	-	-	-	-	-	-	81,341
Fee and Front-line Revenue	16,826,617	-	-	-	-	-	-	-	(16,826,617)	-
Gain (Loss) on sale of Fixed Assets	(902,839)	-	-	-	-	-	-	-	-	(902,839)
Total Revenues	68,844,731	11,966,968	43,845,256	232,035	46,307	27,657	4,173,832	6,583,209	(16,826,617)	118,893,378
Housing Assistance Payments	-	-	32,476,652	206,894	33,600	-	-	-	-	32,717,146
Administrative	24,389,676	-	4,254,823	33,498	4,751	-	920,125	105,045	(12,036,476)	17,671,442
Asset Mgmt. Fee	550,670	-	-	-	-	-	-	-	(550,670)	-
Depreciation	10,377,968	-	7,673	-	-	-	-	-	-	10,385,641
Maintenance	14,048,660	-	-	-	-	-	-	-	(4,165,784)	9,882,876
Utilities	6,242,802	-	-	-	-	-	-	-	-	6,242,802
Tenant Services	2,394,969	-	393,389	-	-	27,657	64,114	-	(73,687)	2,806,442
Protective Services	2,385,011	-	-	-	-	-	-	-	-	2,385,011
General Expense**	8,146,675	-	253,797	2,275	323	-	-	8,238,753	-	16,641,823
Insurance Expense	2,044,040	-	10,836	-	-	-	-	-	-	2,054,876
Causality Losses	27,547	-	-	-	-	-	-	-	-	27,547
Extraordinary Maintenance***	2,852,075	-	-	-	-	-	-	417,469	-	3,269,544
Total Expenses	73,460,093	-	37,397,170	242,667	38,674	27,657	984,239	8,761,267	(16,826,617)	104,085,150
Operating Transfers In	106,837,065	-	41,643,345	-	-	-	-	34,592,636	-	183,073,046
Operating Transfers Out	(112,574,406)	(11,966,968)	(58,531,672)	-	-	-	-	-	-	(183,073,046)
Total Other Financing Sources	(5,737,341)	(11,966,968)	(16,888,327)	-	-	-	-	34,592,636	-	-
Change in Net Assets	(10,352,703)	-	(10,440,241)	(10,632)	7,633	-	3,189,593	32,414,578	-	14,808,228
Beginning Net Assets	128,375,150	-	35,388,593	230,826	433,303	-	707,135	118,108,565	-	283,243,572
Transfer of Equity	3,148,815	-	-	-	-	-	(3,148,815)	-	-	-
Ending Net Assets	\$ 121,171,262	\$ -	\$ 24,948,352	\$ 220,194	\$ 440,936	\$ -	\$ 747,913	\$ 150,523,143	\$ -	\$ 298,051,800

* See discussion of this presentation on page iii

** Includes amortization, which is presented separately in Table II

*** Portion of extraordinary maintenance is presented as grant expense in Table II

Financial Analysis of the Authority (continued)

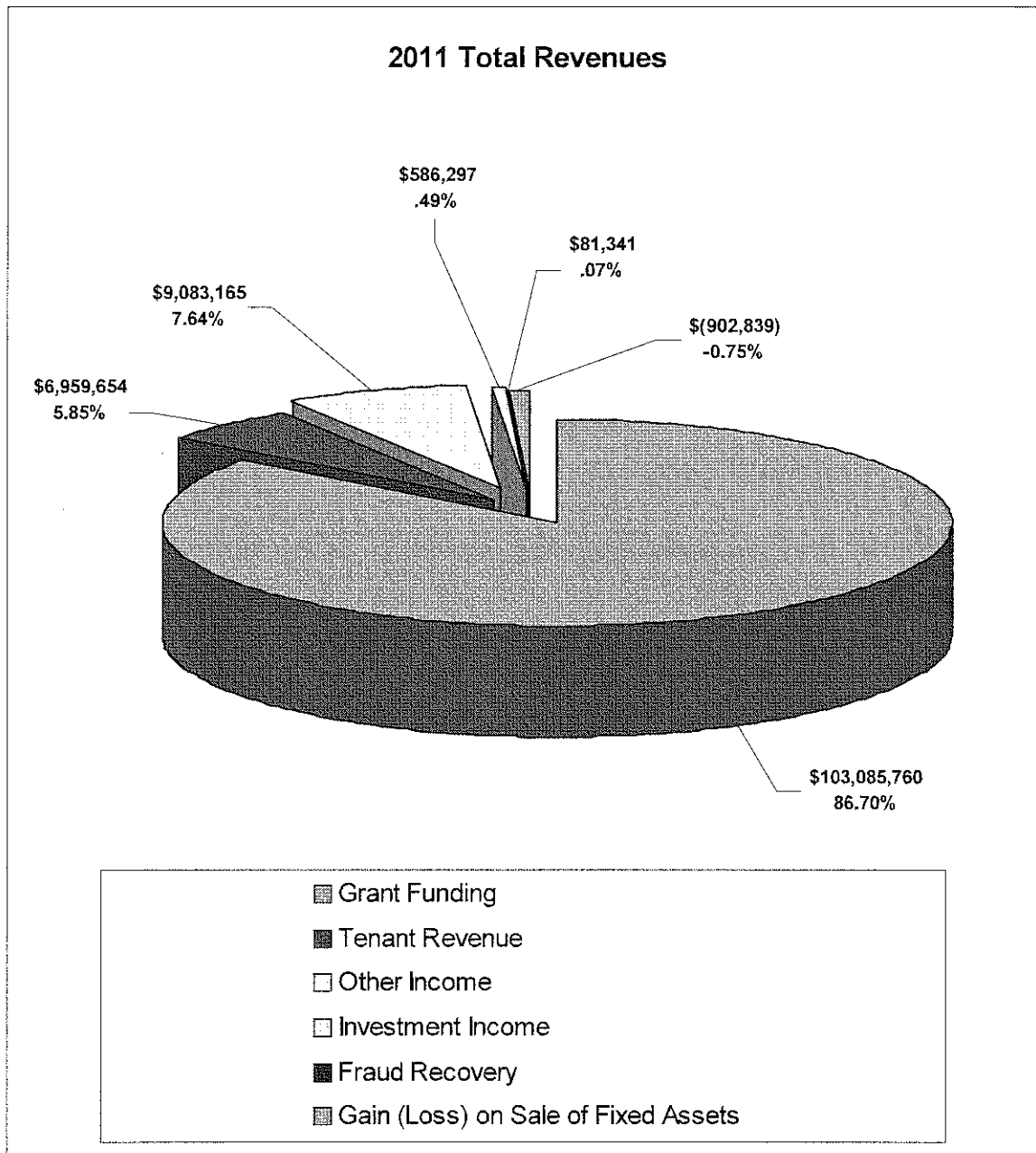
The following commentary is designed to discuss significant operating trends or events occurring in fiscal year 2011 relating to Revenues and Expenses that have been illustrated by the Statement of Revenues, Expenses, and Changes in Net Assets.

Revenues

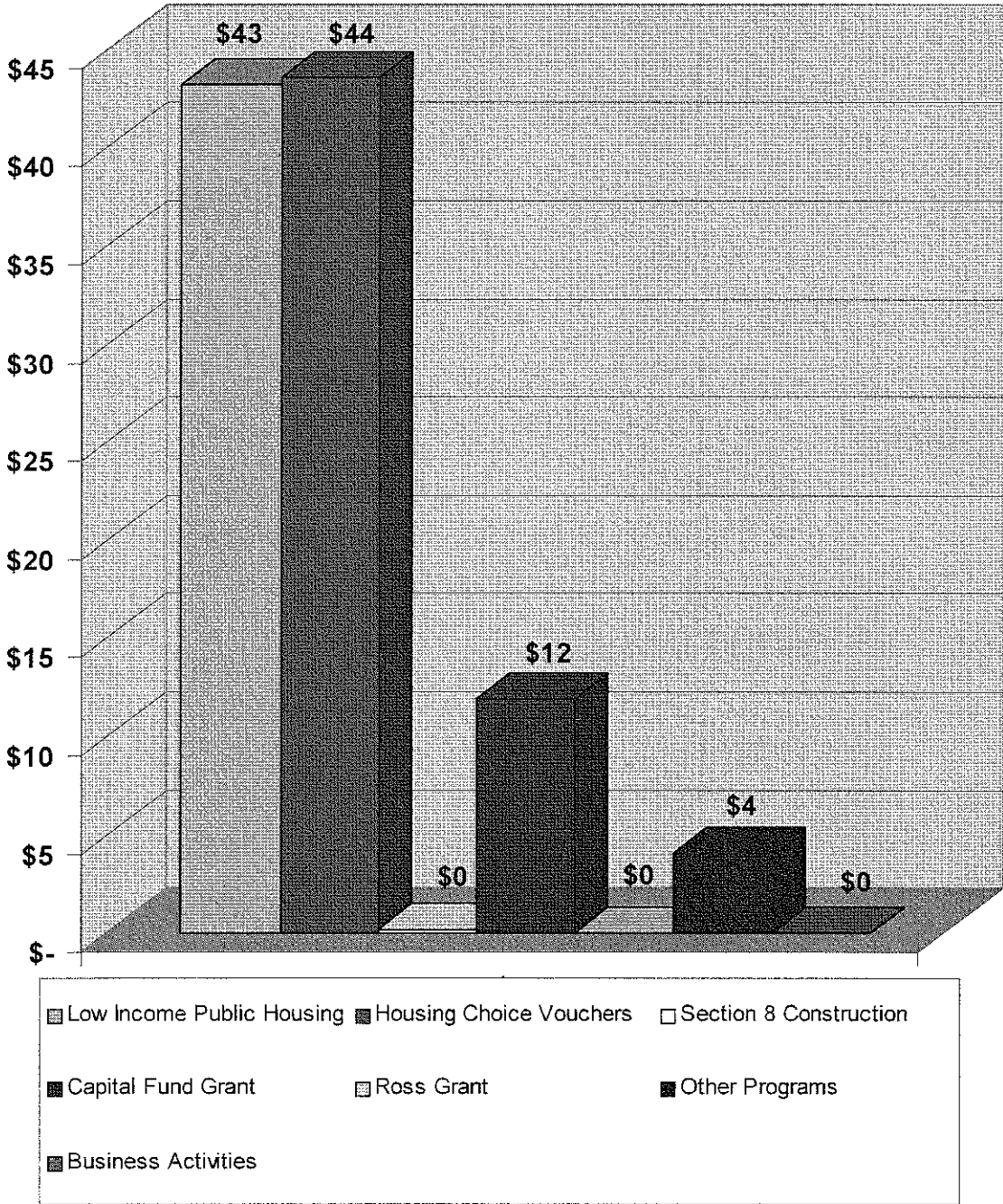
Grants and subsidy payments from HUD are the Authority's main source of funds. The Authority has a very high reliance on HUD and therefore, the federal appropriations process. This creates a certain level of both volatility, in the amount of funds we receive, and security, that once funds are committed that they will be received since they are provided by the federal government.

- ◆ \$103,085,760 (86.70%) of the Authority's revenues are grants or subsidies received from governmental agencies, principally, the U.S. Department of Housing and Urban Development.
- ◆ \$6,959,654 (5.85%) of the Authority's revenues are from tenants for dwelling rental charges, excess utilities, and miscellaneous charges. This amount was decreased by 2.66% from the 2010 amount.
- ◆ In 2011, the Authority experienced a \$902,839 loss on the disposal of fixed assets. Small gains included \$35,568 on the sale of one dwelling unit through the Homeownership Program and \$13,818 on the disposal of scrap equipment. These gains were offset primarily by a large accounting write down of dwelling units approved by HUD for demolition and related to the Addison redevelopment. The Addison Development accounting loss was \$906,821. Other miscellaneous gains included a \$10,000 purchase option entered into with the Urban Redevelopment Authority on the storm damaged Broadhead property.
- ◆ Fraud Recovery revenue was improved by \$26,967, or 49.60%, primarily in the Housing Choice Voucher Program.

Financial Analysis of the Authority (continued)



2011 Grant Funding Rounded to Nearest Million



Financial Analysis of the Authority (continued)

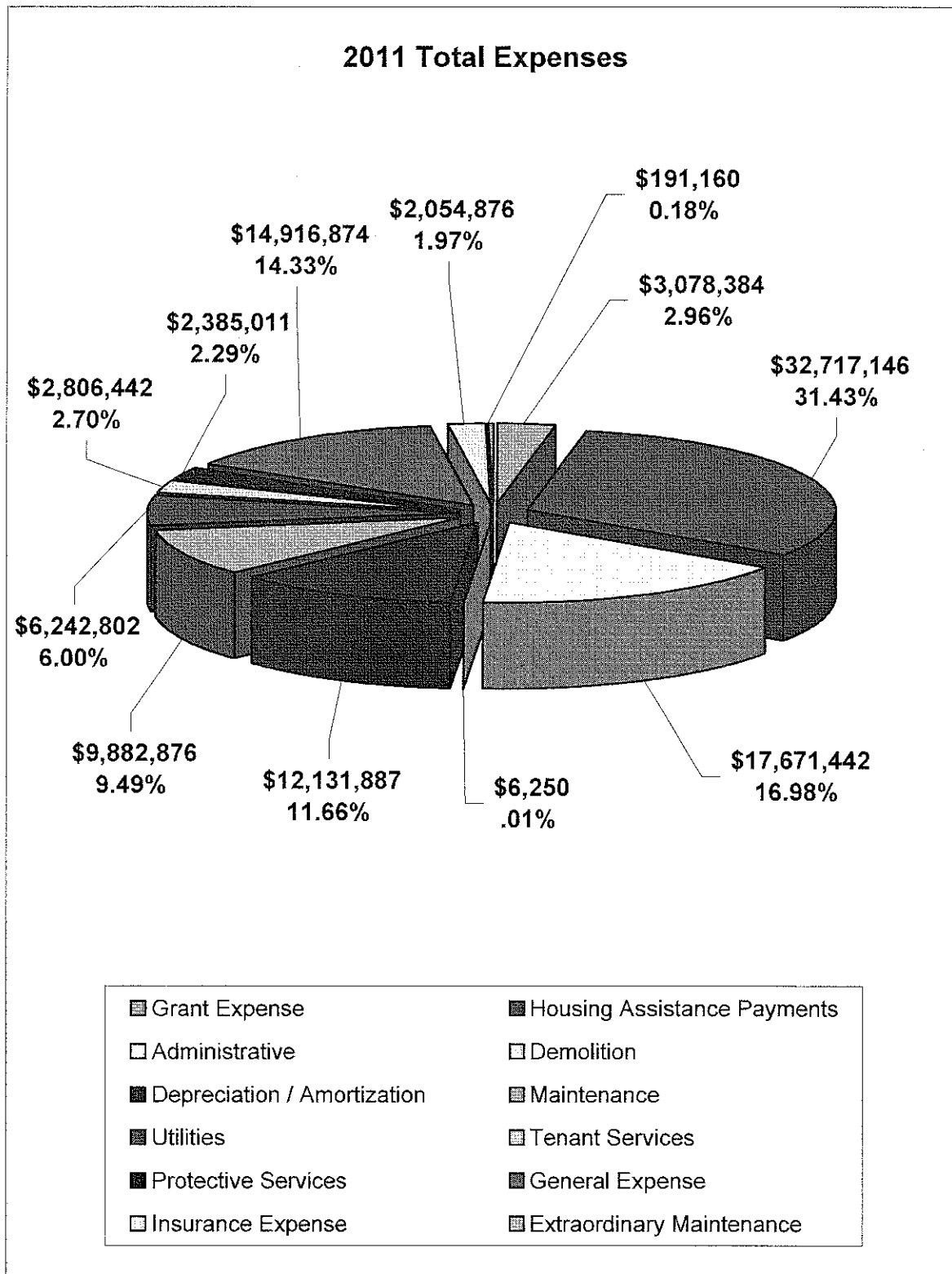
Expenses

Total Expenses for the Authority increased by \$5,598,372 or 5.68%, to \$104,085,150 for the year ended December 31, 2011 compared to Total Expenses of \$98,486,778 for the year ended December 31, 2010.

- ◆ Housing Assistance Payments consist of rental payments to owners of private property for which the Authority has a Housing Assistance Payment agreement with the tenant and the owner for the difference between the tenants's rent and the applicable payment standard. Housing Assistance Payments expense increased by \$1,674,929 or 5.40%, to \$32,717,146 for the year ended December 31, 2011 compared to Housing Assistance Payments of \$31,042,217 for the year ended December 31, 2010. By year-end, the Authority had increased Section Eight occupancy by 516 voucher units, bringing the number of families served to 5,703. Thus, the 5.40% increase in expense stems from a 9.94% increase in occupancy.
- ◆ Grant Expense decreased slightly in 2011 from \$3,276,075 to \$3,078,384, a reduction of 6.03%. Significant expenditures would include \$2,166,150 and \$495,720 for Phases III and IV of Garfield, respectively.

Other notable expenditure variances include a \$1.72 million decrease in demolition. The Authority did no demolition related to development in 2011 but paid \$6,250 to raze one property in the Bedford community. Depreciation expense, which is non-cash, increased by 66.88% over 2010 as the Authority began to expense \$42 million in new assets from two onetime sources, the ARRA Stimulus Grant and Honeywell ESCO contract. Utility expense fell \$1.5 million, or 19.66%, due to the benefits of the ESCO conservation upgrades. Tenant Services Expense increased by \$742,561, or 35.98%, driven partly by the cost of relocation of residents for the Addison redevelopment. Protective Services expense rose overall by \$555,997, or 30.40%, as the Authority incurred \$758,740 in new expense for security patrol contracts. Extraordinary Maintenance expense increased by \$100,773, or 111.49%, over 2010, \$93,982 of which was used to clean air ducts in the Authority Senior High-Rises. Another \$9,967 was used for software upgrades.

Financial Analysis of the Authority (continued)



Financial Analysis of the Authority (continued)

Capital Assets

Capital Assets, Net of Accumulated Depreciation, increased by \$915,408, or 0.91%, to \$101,510,951 as of December 31, 2011 compared to Capital Assets, Net of Accumulated Depreciation of \$100,595,543 for December 31, 2010. Construction in Progress of \$9,995,049 at year-end consists primarily of two large components, \$4,182,630 from the closing of the 2009 Capital Grant and \$3,505,581 for new security cameras throughout the Authority. Other miscellaneous amounts include \$513,707 for assets contained in the MROP Program. Combined, these amounts were 79.04% less than the 2010 amount of \$47,682,451 that included \$17 million from the ARRA Stimulus Grant and \$25 million in ESCO utility upgrades. The following table illustrates the Capital Asset values as of December 31, 2011 and 2010.

Table IV
Housing Authority of the City of Pittsburgh
Capital Assets
As of December 31, 2011 and 2010

	<i>2011</i>	<i>2010</i>	<i>Total Change</i>	<i>% Change</i>
Land	\$ 21,191,991	\$ 20,830,611	\$ 361,380	1.73%
Construction in Progress	9,995,049	47,682,451	(37,687,402)	-79.04%
Buildings	272,792,345	247,627,936	25,164,409	10.16%
Furniture, Equipment, and Machinery - Dwellings	500,540	500,540	-	0.00%
Furniture, Equipment, and Machinery - Administration	2,854,574	3,307,970	(453,396)	-13.71%
Gross Capital Assets	307,334,499	319,949,508	(12,615,009)	-3.94%
Accumulated Depreciation	(205,823,548)	(219,353,965)	13,530,417	-6.17%
<i>Total Capital Assets</i>	<i>\$ 101,510,951</i>	<i>\$ 100,595,543</i>	<i>\$ 915,408</i>	<i>0.91%</i>

Financial Analysis of the Authority (continued)

Mixed Finance Development Activities

The Authority provides grants, short-term financing, and long-term investments from its HOPE VI, Capital Fund, and MROP Programs to leverage low-income housing tax credits and other private sector sources of funds to finance the development of communities. Significant activity in mixed finance includes \$3.4 million to Oak Hill and \$4.3 million to Garfield Phases III. Table V illustrates the Authority's investment in these types of community development opportunities.

Table V
Housing Authority of the City of Pittsburgh
Mixed Finance Development Activities
(Net of Amortization)
As of December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Short-Term Financing Provided To Mixed Finance Development Activities	\$ 694,025	\$ 430,172
Long-Term Investment (Net of Amortization In Mixed Finance Development Activities	<u>94,270,673</u>	<u>85,729,668</u>
	<u>\$ 94,964,698</u>	<u>\$ 86,159,840</u>

Financial Analysis of the Authority (continued)

Long-Term Debt

During the year ended December 31, 2011, the Authority had modest increases in Reserved Escrow Funding and Long Term Liabilities. The Authority also continued to make principal payments on the Energy Performance Contract Capital Lease. The lease payments began in November of 2009 and will continue into October of 2021. The long-term liability activity for the year ended December 31, 2011 is reflected in Table VI.

Table VI
Housing Authority of the City of Pittsburgh
Debt Activity
As of December 31, 2011 and 2010

	<i>Balance at</i> <i>12/31/2010</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at</i> <i>12/31/2011</i>
Capital Lease	\$ 23,520,926	\$ -	\$ (1,407,743)	\$ 22,113,183
Self-Insurance Accruals	2,605,743	-	(966,157)	1,639,586
Reserved Escrow Funding	4,728,795	59,943	-	4,788,738
Compensated Absences	1,778,950	56,254	-	1,835,204
Other Long-Term Liabilities	1,317,303	4,825	-	1,322,128
<i>Totals</i>	<u>\$ 33,951,717</u>	<u>\$ 121,252</u>	<u>\$ (2,373,900)</u>	<u>\$ 31,698,839</u>

Financial Analysis of the Authority (continued)

Economic Factors and Events Affecting Operations

There are many economic factors that affect the financial position of the Authority in the subsequent fiscal years. Some of these factors are listed below along with a brief discussion of their potential impact:

- ◆ The Authority participates in the U.S. Department of Housing and Urban Development demonstration program entitled “Moving-To-Work” (MTW). In 2009, the Authority sought and received a ten-year extension of the MTW contract. The program, under contract through 2018, gives the agency the opportunity to design and test innovative, locally-designed housing and self-sufficiency strategies for low-income families by allowing exemptions from existing public housing and tenant-based Housing Choice Voucher rules.
- ◆ The Authority receives federal funding from the U.S. Department of Housing and Urban Development as authorized by the U.S. Congress. During recent years, public housing authorities nationwide have experienced reduced funding. Whether that reduction takes the form of redesigning the program to limit its scope or a pro-ration of funding, the result is the same, less funding for authorities. The fiscal year 2011 public housing funding pro-ration was 100%, a departure from four of the past six years when actual proration was less than 89%. For the 2012 fiscal year, proration was budgeted at 80% and proration of 85% is anticipated for fiscal year 2013.
- ◆ In fiscal year 2008, the U.S. Department of Housing and Urban Development required Authorities to move to a site-based management method of accounting, funding and operations. With the successful submission of our audited financials to HUD for fiscal year 2008, the Authority has completed the transition to the site-based management method. The management and staff of the Authority have worked diligently to implement all required procedural and structural changes and have achieved full compliance with all of the site-based changes required by HUD. Although the transition to the site-based method has been challenging, the benefits of these changes are a more detailed view of how the Authority operates at the project level. We continue to refine our site-based structures and methodology.
- ◆ As part of the 2009 American Recovery and Investment Act, the Authority received an additional Grant of \$27,099,188 on March 17, 2009. The Authority was required to obligate all funds related to the grant by March 17, 2010, to expend 60% of the grant by March 17, 2011, and expend the remainder by March 17, 2012. The Authority obligated all funds by the March 17, 2010 date and the full \$27,099,188 was expended by December 31, 2011.

Conclusions

The Authority has gone through many challenges over the past year and continues to work to successfully meet those challenges. The biggest challenges facing the Authority relate to its funding and the demands on that funding. The Authority continues to work to build new and vibrant communities, while at the same time maintaining its current stock of housing. There are substantial maintenance items and modifications that are required and funding for those items remain difficult. We however, continue our mission and look to spend with caution and optimistically look at any and all sources of revenue to move the Authority forward. We look forward to the upcoming fiscal year and the many challenges that present themselves. The management is committed to staying abreast of regulations and appropriations as well as maintaining an ongoing analysis of all budgets and expenses to ensure that the Authority continues to operate at the highest standards established by the Real Estate Assessment Center and the U.S. Department of Housing and Urban Development.

This financial report is designed to provide a general overview of the Authority's finances. If you have any questions concerning any of the information provided in this Management's Discussion and Analysis you may contact:

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Housing Authority of the City of Pittsburgh
Finance Office
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Pittsburgh, PA 15219
(412) 456-5022

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

STATEMENTS OF NET ASSETS

DECEMBER 31, 2011 AND 2010

Assets	2011	2010
Current assets:		
Cash and cash equivalents:		
Cash:		
Cash - unrestricted	\$ 34,711,300	\$ 40,030,068
Cash - other restricted	51,949,052	32,986,063
Cash - restricted - tenant security deposits	234,322	241,760
Total cash	86,894,674	73,257,891
Investments (cash equivalents):		
Investments - unrestricted	26,845,436	36,323,542
Investments - restricted	17,027,149	19,982,446
Total investments (cash equivalents)	43,872,585	56,305,988
Total cash and cash equivalents	130,767,259	129,563,879
Accounts receivable, net of allowances for doubtful accounts:		
Accounts receivable - PHA projects	28,828	-
Accounts receivable - HUD other projects	5,755,473	8,050,448
Accounts receivable - miscellaneous	62,091	95,191
Accounts receivable - tenants - dwelling rents	564,676	560,403
Allowance for doubtful accounts - dwelling rents	(236,794)	(294,764)
Mixed finance notes receivable - current	694,025	430,172
Fraud recovery	72,267	329,095
Accrued interest receivable	83,755	133,111
Total accounts receivable, net of allowances for doubtful accounts	7,024,321	9,303,656
Prepaid expenses and other assets - current	23,787	487,294
Inventories, net of allowance	75,771	-
Assets held for sale	417,314	452,091
Total current assets	138,308,452	139,806,920
Noncurrent assets:		
Capital assets:		
Land	21,191,991	20,830,611
Buildings	272,792,345	247,627,936
Furniture, equipment, and machinery - dwellings	500,540	500,540
Furniture, equipment, and machinery - administration	2,854,574	3,307,970
Accumulated depreciation	(205,823,548)	(219,353,965)
Construction in progress	9,995,049	47,682,451
Total capital assets, net of accumulated depreciation	101,510,951	100,595,543
Prepaid expenses and other assets - noncurrent	575,000	400,000
Other notes receivable - noncurrent	292,578	304,890
Investment in mixed finance development activities, net of accumulated amortization	94,270,673	85,729,668
Total noncurrent assets	196,649,202	187,030,101
Total Assets	\$ 334,957,654	\$ 326,837,021

(Continued)

See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

STATEMENTS OF NET ASSETS

DECEMBER 31, 2011 AND 2010

(Continued)

Liabilities and Net Assets	2011	2010
Liabilities:		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 2,173,846	\$ 5,765,694
Accrued wage/payroll taxes payable	891,330	926,599
Accrued compensated absences - current	142,102	149,262
Accrued contingency liability	1,720,784	1,136,075
Accounts payable - HUD PHA programs	1,276	5,918
Accounts payable - other government	33,248	-
Tenant security deposits	234,322	241,760
Deferred revenue	339,622	435,797
Current portion of capital lease liability	1,541,076	1,407,743
Other current liabilities	1,333,371	2,265,964
Total current liabilities	8,410,977	12,334,812
Noncurrent liabilities:		
Capital lease liability - noncurrent	20,572,107	22,113,183
Accrued compensated absences - noncurrent	1,693,102	1,629,688
Other noncurrent liabilities	6,229,668	7,515,766
Total noncurrent liabilities	28,494,877	31,258,637
Total Liabilities	36,905,854	43,593,449
Net Assets:		
Invested in capital assets, net of related debt	79,397,768	77,074,618
Restricted for:		
Business activities loans	145,523,143	118,108,565
Guarantee corporation	5,000,000	-
Loan collateral	4,225,000	4,225,000
Oak Hill mixed financing project	3,786,342	3,786,342
Housing Choice Voucher Program	2,224,063	1,448,970
Unrestricted net assets	57,895,484	78,600,077
Total Net Assets	298,051,800	283,243,572
Total Liabilities and Net Assets	\$ 334,957,654	\$ 326,837,021

(Concluded)

See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Operating Revenues:		
Tenant revenue:		
Net tenant rental revenue	\$ 6,909,847	\$ 7,068,869
Tenant revenue - other	49,807	81,058
Total tenant revenue	6,959,654	7,149,927
HUD PHA operating grants	96,096,323	104,480,725
Other revenue	9,083,165	7,912,992
Investment income - unrestricted	480,916	592,731
Investment income - restricted	105,381	69,698
Fraud recovery	81,341	54,374
Total operating revenues	112,806,780	120,260,447
Operating Expenses:		
Housing assistance payments	32,717,146	31,042,217
Grant expense	3,078,384	3,276,075
Administrative:		
Administrative salaries	7,031,688	6,794,427
Employee benefit contributions - administrative	2,200,674	2,141,737
Other operating - administrative	8,439,080	9,051,293
Tenant services:		
Tenant services - salaries	1,096,185	1,006,244
Relocation costs	380,494	129,474
Employee benefit contributions - tenant services	412,535	372,502
Tenant services - other	917,228	555,661
Utilities:		
Water	1,064,557	1,600,873
Electricity	2,097,931	2,278,065
Gas	2,123,547	2,400,874
Sewer	956,767	1,490,324
Ordinary maintenance and operations:		
Ordinary maintenance and operations - labor	5,348,546	5,447,734
Ordinary maintenance and operations - materials and other	1,342,944	1,617,257
Ordinary maintenance and operations - contract costs	889,054	1,065,234
Employee benefit contributions - ordinary maintenance	2,302,332	2,197,210
Protective services:		
Protective services - other contract costs	2,385,011	1,829,014
Insurance expense:		
Property insurance	247,096	291,395
Liability insurance	316,411	406,065
Workmen's compensation	1,312,813	1,457,229
All other insurance	178,556	215,783
General expense:		
Other general expenses	141,103	259,695
Demolition expense	6,250	1,727,004
Other payroll related expenses	2,678,751	2,657,629
Bad debt expense	6,659,553	4,673,461
Outside management fees	4,221,720	3,792,949
Mixed financing investment amortization	1,746,246	1,360,188
Total operating expenses	92,292,602	91,137,613
Operating Income	20,514,178	29,122,834

(Continued)

See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010 (Continued)

	2011	2010
Non-Operating Revenues (Expenses):		
Extraordinary maintenance	(191,160)	(90,387)
Casualty gains/losses - non-capitalized	(27,547)	(102,994)
Interest expense	(1,188,200)	(1,246,285)
Gain (loss) on disposition of fixed assets	(902,839)	(743,661)
Depreciation expense	(10,385,641)	(5,909,499)
Total non-operating revenues (expenses)	(12,695,387)	(8,092,826)
Capital Contributions:		
HUD capital grants	6,989,437	11,609,898
Change in Net Assets	14,808,228	32,639,906
Total net assets - beginning	283,243,572	250,603,666
Total net assets - ending	<u>\$ 298,051,800</u>	<u>\$ 283,243,572</u>

(Concluded)

See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Cash Flows From Operating Activities:		
Operating grants received	\$ 96,096,323	\$ 104,480,725
Receipts from tenants	7,228,142	7,008,529
Other receipts	2,167,052	1,537,116
Housing assistance payments	(32,745,974)	(30,515,942)
Payments for goods and services	(32,005,050)	(29,382,345)
Grant expense	(3,078,384)	(3,276,075)
Payments to employees	(21,049,726)	(21,269,730)
Net cash provided by (used in) operating activities	16,612,383	28,582,278
Cash Flows From Non-Capital Financing Activities:		
Cash received from outstanding loans receivable	430,172	7,000,000
Cash paid out for loans receivable	(694,025)	(484,402)
Net cash provided by (used in) non-capital financing activities	(263,853)	6,515,598
Cash Flows From Capital and Related Financing Activities:		
Capital grants received for capital assets	9,284,412	8,919,680
Cash paid out for long term loan investments	(10,412,494)	(10,680,621)
Cash received from long term loan investments	365,816	817,591
Proceeds from debt	533,978	6,409,844
Payments on debt	(1,941,720)	(7,692,110)
Interest payments	(1,188,200)	(1,246,285)
Acquisition and construction of capital assets	(12,422,595)	(13,442,177)
Net cash provided by (used in) capital and related financing activities	(15,780,803)	(16,914,078)
Cash Flows From Investing Activities:		
Interest and dividends on investments	635,653	532,260
Net Increase (Decrease) in Cash and Cash Equivalents	1,203,380	18,716,058
Cash and Cash Equivalents:		
Beginning of year	129,563,879	110,847,821
End of year	\$ 130,767,259	\$ 129,563,879

(Continued)

See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Continued)

	2011	2010
Reconciliation of Operating Income to Net Cash		
Provided by (Used in) Operating Activities:		
Operating income	\$ 20,514,178	\$ 29,122,834
Adjustments to reconcile operating income to net cash and cash equivalents provided by (used in) operating activities:		
Investment (income) loss	(586,297)	(662,429)
Changes in mixed financing items	1,505,672	(1,118,485)
Change in assets and liabilities:		
Accounts receivable	261,701	1,024,896
Allowance for doubtful accounts	(57,970)	(265,301)
Prepaid expenses and other current assets	212,736	115,191
Assets held for sale	34,777	34,775
Accounts payable and accrued liabilities	(5,176,239)	18,406
Deferred revenue	(96,175)	312,391
Total adjustments	(3,901,795)	(540,556)
Net cash and cash equivalents provided by (used in) operating activities	<u>\$ 16,612,383</u>	<u>\$ 28,582,278</u>

(Concluded)

Cash and cash equivalents at end of year:		
Cash - unrestricted	\$ 34,711,300	\$ 40,030,068
Cash - restricted	52,183,374	33,227,823
Investments - unrestricted	26,845,436	36,323,542
Investments - restricted	17,027,149	19,982,446
	<u>\$ 130,767,259</u>	<u>\$ 129,563,879</u>

See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The governing body of the Housing Authority of the City of Pittsburgh (Authority) is its Board of Commissioners (Board), which is composed of seven members appointed by the Mayor of the City of Pittsburgh (City). The Board appoints an executive director to administer the affairs of the Authority. The City does not have the ability to significantly influence Authority operations, does not subsidize the Authority's operations, and does not guarantee any Authority debt service. The operations of the Authority are subsidized primarily by the federal government.

The Authority is not considered to be a component unit of the City because, although the City appoints the governing body of the Authority, the City cannot impose its will on the Authority, and there is no financial burden or benefit relationship between the City and the Authority.

The Authority was incorporated as a public corporation of the Commonwealth of Pennsylvania, organized and existing under the Housing Authority Law. The Authority is charged with the responsibility to provide decent, safe, and sanitary housing for its tenants in the most efficient and economical manner, as defined by its annual contribution contracts with the U.S. Department of Housing and Urban Development (HUD).

A blended component unit, although a legally separate entity is, in substance, part of the government's operations and so data from the following blended component units is combined with data of the primary government (the Authority).

Blended Component Units:

Allies and Ross Management and Development Corporation (ARMDC)

During 2007, the Authority created ARMDC as a separate non-profit organization to provide housing opportunities and housing-related activities. ARMDC is provided grants by the Authority, and in turn, is a contributing partner in mixed financing development activities described further in Note 3. The board members of ARMDC are not compensated by ARMDC. This blended component unit is included as a separate program within the Financial Data Schedules (FDS).

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

Guarantee Corporation

During 2011, ARMDC created a guarantee corporation for which the officers of the guarantee corporation are the same as the officers of ARMDC. The board members of the guarantee corporation are not compensated by the guarantee corporation. The guarantee corporation was granted \$5 million by ARMDC, which is set aside to guarantee completion of mixed finance development projects for which the Authority will eventually become the management agent. This blended component unit is included within the ARMDC program within the FDS.

Clean Slate E3

During 2008, the Authority created Clean Slate E3, Inc., (a separate non-profit organization) to promote a drug-free lifestyle and support educational opportunities and human and social service programs for residents of affordable and mixed income housing communities. The board members of Clean Slate E3, Inc. are not compensated by Clean Slate E3, Inc. This blended component unit is included as a separate program within the FDS.

Basis of Accounting

The Authority is accounted for as a proprietary fund and is considered to be an Enterprise Fund and, as such, uses the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred. In applying the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds,"* the Authority applies all GASB pronouncements and all Financial Accounting Standards Board (FASB) pronouncements, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 which do not conflict or contradict GASB pronouncements.

The Enterprise Fund of the Authority is made up of the following programs:

Low-Income Public Housing Program: Under the Low-Income Public Housing (LIPH) Program, the Authority rents apartments that it owns to low-income households. The LIPH Program is operated under an Annual Contributions Contract (ACC) with HUD and HUD provides Operating Subsidy funding to enable the PHA to provide the housing at a rent that is based upon 30% of household income.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

All Capital Fund Program activity (except for Capital Fund Program funding through the American Recovery and Reinvestment Act (ARRA), as described below) is required to be reported together with the LIPH Program on the FDS.

Capital Program: This program includes the Capital Fund Program and the Replacement Housing Factor Program. The Authority receives funding to rehabilitate and repair existing housing stock and to develop new housing. The Capital Fund Program is the primary funding source for physical and management improvements to the Authority's properties. It is the Authority's policy to present all operating expenses paid from these programs as administrative expenses on the statements of activities. As discussed above in the LIPH Program description, the Capital Program is required to be reported together with the LIPH Program on the FDS.

Major Reconstruction of Obsolete Public Housing Projects (MROP): This is a grant program funded by HUD to finance the capital cost of rehabilitation of old public housing to maintain or expand the supply of decent, safe, and sanitary housing for low-income families. It is the Authority's policy to present all operating expenses paid from these programs as administrative expenses on the statements of activities.

Section 8 New Construction: This program represents Section 8 Housing Assistance Payment Programs that are administered by the Authority. During 2007, the oversight of all but two of these properties was turned over to the Pennsylvania Housing Finance Agency. The Authority anticipates that HUD will approve the transfer of the remaining net assets of approximately \$117,000 in the closed programs for use in the Housing Choice Voucher Program; however, the Authority is still waiting for the final closeout instructions in regard to these properties.

Section 8 Moderate Rehabilitation Program: This program represents Housing Assistance Payments administered by the Authority under the Section 8 Moderate Rehabilitation Program.

Section 8 Housing Choice Voucher Program: Under the Section 8 Housing Choice Voucher Program, the Authority administers contracts with independent landlords that own rental property. The Authority subsidizes the family's rent through a Housing Assistance Payment made to the landlord.

MTW Programs: This program represents a demonstration program that provides the opportunity to design and test innovative, locally-designed strategies that use federal dollars more efficiently, help residents find employment and become self-sufficient, and increase housing choices for low-income families. This program allows the flexibility to

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

combine funds from the LIPH Program, Capital Fund Program, and Section 8 Housing Choice Voucher program into a "block grant" to help them better meet the purposes of the demonstration and the needs of the community.

Business Activities: The Authority utilizes various methods to construct new public housing communities. One such method, referred to as Mixed Finance Development Activities, employs funds from traditional public housing sources such as the Capital Fund Program and uses capital generated from the sale of low-income housing tax credits.

Capital Fund Program - ARRA: Under the Capital Fund Program - ARRA, the Authority receives additional funding to be used for purposes similar to the regular Capital Fund Program as described above. This program is required to be reported separately from the regular Capital Fund Program on the FDS.

Other Programs: Other programs operated by the Authority include:

- Resident Opportunity and Supportive Services (ROSS)
- Community Development Block Grant (CDBG)
- Department of Community and Economic Development (DCED)
- Disaster Housing Assistance Program (DHAP)
- Clean Slate E3 (blended component unit)

Operating and Non-Operating Revenues

Operating revenues and expenses consist of those revenues and expenses that result from ongoing principal operations of the Authority. Operating revenues consist of users' fees and governmental grants. Non-operating revenues and expenses consist of those revenues and expenses relating to capital items.

Classification of Net Assets

Assets are classified into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets 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.
-

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

- Restricted – This component of net assets consists of those net assets with limits on their use that are externally imposed (in the Authority's case, by the grantor). A portion of the Authority's restricted net assets are restricted in accordance with the mixed financing agreements as discussed in Note 3, for the Guarantee Corporation as described previously, for the Fannie Mae line of credit as described in Notes 2 and 6, for the Oak Hill mixed financing project, and for housing assistance payments within the Section 8 Housing Choice Voucher Program.
- Unrestricted – The component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Use of Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets

The Authority's activities are governed by budgets which are established by the Board Commissioners and are reviewed by its grantor agencies, chiefly HUD.

Statements of Cash Flows

For purposes of the statements of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

The Authority initially records the total amount of revenue billed or accrued in accounts receivable. The portion of accounts receivable not expected to be collected is offset by an allowance for doubtful accounts, estimated based on historical experience.

Investments

The Authority's investments are stated at fair value.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

Capital Assets

The Authority capitalizes assets with a value of \$5,000 or greater and useful lives exceeding beyond one year. Capital assets are valued at historical or estimated historical cost. Depreciation is computed using the straight-line method over their estimated useful lives: 27.5 years for buildings and extensive modernization efforts; 10 years for standard modernization efforts; seven years for vehicles; five years for dwelling equipment; and three years for computer equipment.

Compensated Absences

Unused employee vacation is accumulated and paid upon resignation, retirement, or termination. Unused employee sick time is accumulated and paid to those employees who retire after at least 20 years of service, and who also reach 50 years of age. The amount of the compensated absence liability is accrued and expensed as earned.

Reclassification

Certain prior year amounts were reclassified to conform to the current year presentation.

2. CASH AND INVESTMENTS

Cash

Statutes allow the Authority to invest in direct obligations of the federal government backed by the full faith and credit of the United States of America, obligations of federal government agencies, securities of government-sponsored agencies, and demand and savings deposits. The Authority's depositories are required by statute to continuously and fully secure all deposits in excess of the amounts insured under federal or state plans by the deposit or setting aside of collateral of the types, and in the manner as is prescribed by state law for the security of public funds. Such collateral shall at all times be of a market value at least equal to the amount of deposits so secured.

The following is a description of the Authority's deposit risk:

Custodial Credit Risk – For a deposit, custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority's investment policy requires that any deposits in excess of insurance coverage are to be fully collateralized by securities that are approved under the investment policy.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

As of December 31, 2011, \$83,421,855 of the Authority's \$89,947,580 bank balance (with a carrying amount of \$87,703,179 as of December 31, 2011) was insured by the Federal Deposit Insurance Corporation. The remaining bank balance of \$6,525,725 was exposed to custodial credit risk, but is collateralized both in accordance with the Authority's investment policy, and in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name.

Included in the 2011 deposit amounts in the preceding paragraph are \$707,415 of certificates of deposit and \$101,090 of savings deposits classified as investments on the statements of net assets. Bank value approximates book value for all of these investments.

As of December 31, 2010, \$1,314,245 of the Authority's \$31,635,518 bank balance (with a carrying amount of \$31,522,558 as of December 31, 2011) was insured by the Federal Deposit Insurance Corporation. The remaining bank balance of \$30,321,273 was exposed to custodial credit risk, but was collateralized both in accordance with the Authority's investment policy, and also in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name.

Included in the 2010 deposit amounts in the preceding paragraph are \$696,889 of certificates of deposit and \$100,747 of savings deposits classified as investments on the statements of net assets. Bank value approximates book value for all of these investments. Excluded from the above amounts, but presented as cash and cash equivalents on the statements of net assets, are investments with a carrying balance of \$42,532,967 and a bank balance of \$44,773,057 described in more detail under the investments section below.

Restricted Cash

At December 31, 2011, cash was restricted for the following purposes: \$622,132 and \$651,563 for the LIPH and Voucher Family Self Sufficiency Programs, respectively (total of \$1,273,695 for the Family Self Sufficiency Program), \$234,322 for tenant security deposits, \$30,162,593 for the Allies and Ross Blended component unit, \$5,000,000 for the Tax Guarantee Corporation, \$9,997,249 for Program Income, \$4,225,000 as collateral for the Fannie Mae line of credit, and \$1,290,515 for the Oak Hill mixed financing project.

At December 31, 2010, cash was restricted for the following purposes: \$552,487 and \$435,727 for the LIPH and Voucher Family Self Sufficiency Programs, respectively (total of

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

\$988,214 for the Family Self Sufficiency Program), \$241,760 for tenant security deposits, \$23,735,642 for mixed financing initiatives, \$4,235,139 as collateral for the Fannie Mae line of credit, \$3,786,343 for the Oak Hill mixed financing project, and \$240,725 for the Honeywell capital lease.

Investments

Investments are highly liquid and are classified as cash and cash equivalents for financial statement purposes. Investments consisted of the following at December 31, 2011:

Investment Type	Fair Value	Book Value
Money Markets - J.P. Morgan	\$ 4,788,738	\$ 4,788,738
PNC Capital Market	36,646,668	36,646,668
Mutual Funds - Blackrock	1,628,674	1,628,674
	<u>\$ 43,064,080</u>	<u>\$ 43,064,080</u>

As of December 31, 2011, deposits of \$808,505 discussed in more detail in the “cash” section above are considered to be investments for presentation on the statements of net assets.

Investments consisted of the following at December 31, 2010:

Investment Type	Fair Value	Book Value
Money Markets - J.P. Morgan	\$ 4,728,795	\$ 4,728,795
PNC Capital Market	45,441,179	45,441,179
Mutual Funds - Blackrock	50,111,433	47,871,345
	<u>\$ 100,281,407</u>	<u>\$ 98,041,319</u>

The difference of \$2,240,088 between fair value and book value is due to outstanding checks as of December 31, 2010.

As of December 31, 2010, investments of \$44,773,057 in Blackrock mutual funds with a book value of \$42,532,967 are considered to be cash and cash equivalents for presentation on the statements of net assets. \$797,636 of deposits discussed in more detail in the “cash” section above is considered to be investments for presentation on the statements of net assets. The following is a description of the Authority’s investment risks:

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

Credit risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The Authority's investment policy does not limit its investment choices based on credit ratings by nationally recognized statistical rating organizations; however, it does require the investment company to provide a statement of potential default and risk. As of December 31, 2011, all investments in U.S government agency obligations through PNC Capital Market have received an AA+ rating from Standard & Poor's.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside entity. The Authority's investment policy for custodial credit risk limits the amount of funds invested in any investment vehicle, and also requires a statement of potential default and risk be provided to the Authority by the investment company. The Authority's investments in J.P. Morgan and Blackrock are not exposed to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form. All of the Authority's investments in U.S government agency obligations through PNC Capital Market are not exposed to custodial credit risk, as the investments are held by the trustee in the name of the Authority.

Interest Rate Risk – Per the Authority's investment policy, investments are scheduled to mature when funds are needed, and the Authority may invest in securities with a maturity of up to five years; however, the average duration of the portfolio should not exceed two years. As of December 31, 2011 and 2010, no investment maturities exceeded five years, and the aggregate investments had an average maturity of less than two years.

Restricted Investments

Investments of \$4,788,738 and \$4,728,795, as of December 31, 2011 and 2010, respectively, are restricted because of contractual agreements with a mixed finance development partnership. Investments of \$1,628,674 and \$1,627,199, as of December 31, 2011 and 2010, respectively, are restricted for fire loss and commercial property self-insured contingency. Also, investments of \$10,609,737 and \$13,626,452, as of December 31, 2011 and 2010, respectively, were generated from HOPE VI and Capital Fund loan repayments and are restricted as to their use.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

3. MIXED FINANCE DEVELOPMENT ACTIVITIES PROGRAM

The Authority has embarked on a program to develop mixed income housing developments to replace a significant portion of its aging and isolated housing stock. The Authority is providing grants, short-term financing, and long-term investments from its HOPE VI and Capital Fund Programs to leverage low-income housing tax credits and additional private sector financing to develop mixed-income housing communities.

The Authority's Investment in Mixed Finance Development Activities is in the form of bridge loans and long-term financing. Bridge loans are short-term financing provided to the development until the construction is completed and permanent financing is put in place. These bridge loans are normally paid back to the Authority within five years of the loan being drawn. Long-term investments are in the form of a long-term note receivable, and are amortized over the life of each note receivable. Amortization expense is included in general expense in the statements of revenues, expenses, and changes in net assets. The interest revenue on each long-term note receivable is recorded as other revenue on the financial statements. Due to the nature of the notes, and the length of period before repayment of the interest is required, the revenue is offset by bad debt expense of the same amount on the financial statements.

Mixed Finance Development Activities (Dollars in Millions)

<u>As of December 31, 2011:</u>	
Bridge loan financing	\$ 0.7
Long-term investments (net of amortization)	<u>94.3</u>
Balance	<u>\$ 95.0</u>
 <u>As of December 31, 2010:</u>	
Bridge loan financing	\$ 0.4
Long-term investments (net of amortization)	<u>85.7</u>
Balance	<u>\$ 86.1</u>

The net assets (consisting of cash, investments, and notes receivable) of the mixed finance business activities are considered restricted net assets and total \$145,523,143 and \$118,108,565 for the years ended December 31, 2011 and 2010, respectively.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

4. PENSION PLAN

The Authority sponsors and acts as the trustee for a defined contribution, contributory pension plan, the "Housing Authority of the City of Pittsburgh Pension Plan" (Plan) covering all eligible employees, which qualifies under Section 401(a) of the Internal Revenue Code. At December 31, 2011, there were approximately 380 Plan participants and at December 31, 2010, there were approximately 410 Plan participants. The Authority's contribution is 6% of the first \$4,800 earned by the participating employee and 8% of the employee's earnings in excess of \$4,800. The employee's contribution is 4% of the first \$4,800 and 6% of the employee's earnings in excess of \$4,800. As of January 1, 2008, participants begin to vest in employer contributions after a participant has met a service requirement of one year. Participants continue to vest ratably in employer contributions during their years of service until they reach 100% vesting at five years of service. Plan provisions and contribution requirements are established and may be amended by the Authority.

The Authority deposits the total contribution with a trustee for investment and administration. The contributions made by the Authority and employees for the year ended December 31, 2011 were approximately \$1,057,000 and \$792,000, respectively, and for the year ended December 31, 2010 were approximately \$1,063,000 and \$798,000, respectively.

5. CAPITAL ASSETS/ACCUMULATED DEPRECIATION

A summary of changes in capital assets is as follows:

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	December 31, 2010	Increases	Decreases	December 31, 2011
Capital assets, not being depreciated:				
Land	\$ 20,830,611	\$ 379,447	\$ (18,067)	\$ 21,191,991
Construction in progress	47,682,451	8,823,738	(46,511,140)	9,995,049
Total capital assets not being depreciated	68,513,062	9,203,185	(46,529,207)	31,187,040
Capital assets being depreciated:				
Buildings	247,627,936	49,723,342	(24,558,933)	272,792,345
Furniture, equipment, and machinery - dwellings	500,540	-	-	500,540
Furniture, equipment, and machinery - administration	3,307,970	226,634	(680,030)	2,854,574
Total capital assets, being depreciated	251,436,446	49,949,976	(25,238,963)	276,147,459
Less accumulated depreciation for:				
Buildings	(216,318,790)	(10,116,460)	23,245,639	(203,189,611)
Furniture, equipment, and machinery - dwellings	(344,433)	(79,540)	-	(423,973)
Furniture, equipment, and machinery - administration	(2,690,742)	(189,641)	670,419	(2,209,964)
Total accumulated depreciation	(219,353,965)	(10,385,641)	23,916,058	(205,823,548)
Total capital assets being depreciated, net	32,082,481	39,564,335	(1,322,905)	70,323,911
Total capital assets	<u>\$ 100,595,543</u>	<u>\$ 48,767,520</u>	<u>\$(47,852,112)</u>	<u>\$ 101,510,951</u>

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	December 31, 2009	Increases	Decreases	December 31, 2010
Capital assets, not being depreciated:				
Land	\$ 19,139,631	\$ 1,698,541	\$ (7,561)	\$ 20,830,611
Construction in progress	44,049,947	11,640,166	(8,007,662)	47,682,451
Total capital assets not being depreciated	63,189,578	13,338,707	(8,015,223)	68,513,062
Capital assets being depreciated:				
Buildings	273,188,523	8,007,662	(33,568,249)	247,627,936
Furniture, equipment, and machinery - dwellings	500,540	-	-	500,540
Furniture, equipment, and machinery - administration	3,240,435	207,375	(139,840)	3,307,970
Total capital assets, being depreciated	276,929,498	8,215,037	(33,708,089)	251,436,446
Less accumulated depreciation for:				
Buildings	(243,427,578)	(5,580,877)	32,689,665	(216,318,790)
Furniture, equipment, and machinery - dwellings	(261,870)	(82,563)	-	(344,433)
Furniture, equipment, and machinery - administration	(2,429,721)	(400,861)	139,840	(2,690,742)
Total accumulated depreciation	(246,119,169)	(6,064,301)	32,829,505	(219,353,965)
Total capital assets being depreciated, net	30,810,329	2,150,736	(878,584)	32,082,481
Total capital assets	\$ 93,999,907	\$ 15,489,443	\$ (8,893,807)	\$ 100,595,543

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

6. LONG -TERM LIABILITIES

Fannie Mae Line of Credit

In December 2008, the Authority obtained a five-year, \$16.9 million variable rate line of credit through Fannie Mae. The interest rate was capped at 10%, and as part of the agreement, the Authority was required to maintain an escrow cash account in the amount of \$4,225,000 as collateral on the line of credit. In 2011, the Authority drew down approximately \$534,000, and repaid that full amount and any interest owed prior to December 31, 2011, and the line of credit was closed in November 2011. In 2010, the Authority had drawn down approximately \$6.4 million, and repaid that full amount and any interest owed prior to December 31, 2010.

Honeywell Lease

In 2008, the Authority entered into a partnership with Honeywell International to improve the energy efficiency of the Authority's LIPH units by retro fitting the units with renewable geothermal technology. To finance this project, the Authority obtained \$25,110,801 tax-exempt lease financing at an interest rate of 4.6%. The lease payments began in November 2009, and will end in October 2021. The monthly payment is approximately \$209,000 a month, and increases over the life of the lease to approximately \$281,000 at the end of the lease term.

Yearly payment amounts are as follows:

Year Ending December 31,	Principal Payment	Interest Payment
2012	\$ 1,541,076	\$ 1,124,285
2013	1,682,692	1,054,172
2014	1,833,039	977,475
2015	1,992,582	893,784
2016	2,161,824	802,671
2017-2021	12,901,970	2,311,728
	<u>\$ 22,113,183</u>	<u>\$ 7,164,115</u>

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

As of December 31, 2011, approximately \$25 million of the capital assets balance was related to assets acquired or constructed through this lease financing.

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011 was as follows:

	Balance at December 31, 2010	Additions	Reductions	Balance at December 31, 2011	Due Within One Year
Capital lease	\$23,520,926	\$ -	\$ (1,407,743)	\$ 22,113,183	\$ 1,541,076
Self-insurance accruals	2,605,743	750,640	(1,716,797)	1,639,586	1,520,784
Reserved escrow funding	4,728,795	59,943	-	4,788,738	-
Compensated absences	1,778,950	205,516	(149,262)	1,835,204	142,102
Other long-term liabilities	1,317,303	4,825	-	1,322,128	-
Fannie Mae line of credit	-	533,981	(533,981)	-	-
Long-term liabilities	<u>\$33,951,717</u>	<u>\$ 1,554,905</u>	<u>\$ (3,807,783)</u>	<u>\$ 31,698,839</u>	<u>\$ 3,203,962</u>

Long-term liability activity for the year ended December 31, 2010 was as follows:

	Balance at December 31, 2009	Additions	Reductions	Balance at December 31, 2010	Due Within One Year
Capital lease	\$24,803,192	\$ -	\$ (1,282,266)	\$ 23,520,926	\$ 1,407,743
Self-insurance accruals	2,543,561	692,501	(630,319)	2,605,743	1,136,075
Reserved escrow funding	4,413,982	314,813	-	4,728,795	-
Compensated absences	1,654,653	257,469	(133,172)	1,778,950	149,262
Other long-term liabilities	1,115,247	202,056	-	1,317,303	-
Fannie Mae line of credit	-	6,409,844	(6,409,844)	-	-
Long-term liabilities	<u>\$34,530,635</u>	<u>\$ 7,876,683</u>	<u>\$ (8,455,601)</u>	<u>\$ 33,951,717</u>	<u>\$ 2,693,080</u>

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

7. RISK MANAGEMENT

Fire Losses

Until 2007, the Authority maintained a self-insurance program for all fire losses, which was initially funded with subsidies from HUD. Excess insurance coverage was not carried for this purpose. Funds set aside for fire losses were reviewed annually for sufficiency based upon known claims and those for which it was deemed probable that a liability had been incurred, at the date of the financial statements, and the amount of the loss was reasonably estimable.

During 2007, the Authority made the decision to end their self-insurance program, and purchased a commercial insurance policy to cover any future fire losses. As the new policy only covered future losses, a liability was set-up to accrue for the costs required to repair any units damaged by fire prior to the policy taking effect. The Authority intends to carry commercial insurance for fire losses going forward. The Authority anticipates repairing or demolishing the fire-damaged units during future periods, at which time the fire loss liability will be reduced accordingly.

The accrual for fire loss was approximately \$118,802 and \$712,000 as of December 31, 2011 and 2010, respectively. During 2011, a number of fire damaged units were demolished as part of modernization of the entire site at which they were located. As such, the portion of the fire loss liability related to these units was reduced accordingly as of December 31, 2011. Fire loss paid was approximately \$588,000 for the year ended December 31, 2010.

Commercial Property

The Authority carries commercial insurance for property losses.

Workers' Compensation

Prior to 2010, the Authority administered a limited self-insurance program for workers' compensation. During 2010, the Authority began using commercial insurance purchased from independent third parties to handle current claims; however, claims incurred prior to the purchase of the commercial insurance will still continue to be administered through the self-insurance program.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

Self-Insurance

The Authority was self insured for workers' compensation and employers' liability losses resulting from bodily injury by any one accident or from disease sustained by one employee for the first \$400,000 of each occurrence. The Authority maintains aggregate excess insurance for losses as a result of any one injury by accident and as a result of injury by disease sustained by all employees during the annual period of the policy. As part of this self-insurance program, the Authority was also required to enter into a revised irrevocable agreement of trust with the Commonwealth of Pennsylvania Bureau of Workers Compensation that required the Authority to establish a trust fund and to deposit funds up to the current value of its outstanding claims liability minus an amount as determined by the Commonwealth.

Independent actuarial assessments of self-insured workers' compensation were performed as of July 2011 and 2010. The actuarial assessments were revised to indicate the outstanding claims liability balance at December 31, 2011 and 2010, which was \$1,520,784 and \$1,893,434, respectively. The discount rate used to discount the above 2011 liability was 3.95%.

The provision for the workers' compensation fund is based on estimates of the amounts necessary to pay prior and current-year claims and administrative fees and to maintain the necessary reserves.

The Authority utilizes third-party administrators to make payments on the workers' compensation claims under the self insured program. The third-party administrators have established escrow accounts, which were funded by the Authority. The third-party administrators pay any workers' compensation claims from this account, with the Authority reimbursing the third-party administrators.

Accrued Claims Liability:

	December 31, 2011	December 31, 2010
Unpaid claims, beginning of fiscal year	\$ 1,893,434	\$ 1,231,437
Incurred claims (including IBNRs- incurred but not reported) and change in estimates	750,640	1,067,827
Claim payments	(1,123,290)	(405,830)
Unpaid claims, end of fiscal year	<u>\$ 1,520,784</u>	<u>\$ 1,893,434</u>

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

Other Risks

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters. Other significant business risks (e.g., professional liability, etc.) are handled by commercial insurance. There have been no significant reductions in insurance coverage from the prior year and settlements under these policies have been less than insurance coverage for each of the past three fiscal years.

8. CONTINGENCIES AND COMMITMENTS

Contingencies

The Authority is currently involved in pending litigation concerning contracts for the modernization of several housing projects. While it is not feasible to predict or determine the outcome of these cases, it is management's opinion that the Authority's defenses are meritorious in these cases, and that exposure to loss, if any, cannot be reasonably estimated, or has been deemed immaterial, as of the date of the financial statements. Therefore, no accrual has been made as of December 31, 2011.

In addition, the Authority is currently involved in pending litigation concerning other matters. While it is not feasible to predict or determine the outcome of these cases and it is management's opinion that the Authority's defenses are meritorious, an accrual has been provided for these cases in the amount of approximately \$780,000 as of December 31, 2011. The accrual for litigation pending as of December 31, 2010 was approximately \$1,135,000.

The Authority's grant programs are subject to review by the funding sources. Such reviews could result in amounts that may require repayment upon final settlement. No such reviews are currently underway. The Authority is unable to estimate the amount of repayment, if any, that may be required as a result of potential audits. No material repayments are anticipated by management.

Commitments

Construction commitments related to the rehabilitation and/or construction of public housing neighborhoods at December 31, 2011 and 2010 amounted to approximately \$53 million and \$7.5 million, respectively. The Authority is also responsible for providing operating subsidy to the owners/managers of 1,177 apartments, which are dedicated for use by residents of the Authority's Conventional Low-Income Public Housing Program. Related operating subsidy

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

payments for the years ended December 31, 2011 and 2010 amounted to approximately \$4.2 million and \$3.8 million, respectively.

9. LETTERS OF CREDIT

The Authority has three irrevocable Letters of Credit for \$200,000 each related to mixed finance properties. These Letters of Credit are per agreements with Riverview Terrace Housing Partnership L.P., Manchester Housing Partnership L.P.1, and Manchester Housing Partnership L.P.2. The amount and balance drawn on these letters of credit as of December 31, 2011 and 2010 were \$0 for both years.

10. ECONOMIC DEPENDENCY

The Authority is economically dependent on receiving operating subsidies and grant funding from HUD. The Authority's ability to maintain or improve operations would be severely impacted by a material reduction in HUD funds. Reductions in operating subsidies are anticipated for fiscal year 2012, but such reductions are not currently expected to have a material adverse impact to the Authority.

Supplementary Information

**Financial Data Schedule –
Entity-Wide**

**Financial Data Schedule –
Low-Income Public Housing**

Public Housing Balance Sheet

[illegible]

[illegible]

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2011

<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>		
MROP	14.850 (b)	\$ 92,184
Moving to Work Demonstration Program	14.881	96,796,818
ARRA - Public Housing Capital Fund Stimulus (Formula)	14.885	3,999,386
Resident Opportunity and Supportive Services - Homeownership and Family	14.870	27,657
Section 8 Housing Choice Vouchers	14.871	1,286,032
Section 8 New Construction and Substantial Rehabilitation	14.182	<u>205,413</u>
Total Expenditures of Federal Awards		<u>\$ 102,407,490</u>

See accompanying note to schedule of expenditures of federal awards.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2011

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards for the year ended December 31, 2011 includes the federal grant activity of the Housing Authority of the City of Pittsburgh and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**Housing Authority of the
City of Pittsburgh**

Independent Auditor's Reports in
Accordance with OMB Circular A-133

Year Ended December 31, 2011

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

Board of Commissioners
Housing Authority of the City of Pittsburgh

We have audited the accompanying basic financial statements of the business-type activity of the Housing Authority of the City of Pittsburgh (Authority) as of and for the year ended December 31, 2011, and have issued our report thereon dated July 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Authority in a separate letter dated July 24, 2012.

Board of Commissioners
Housing Authority of the City of Pittsburgh
Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters

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This report is intended solely for the information and use of the Authority's Board of Commissioners, management, others within the Authority, and the U.S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Mahe Duessel

Pittsburgh, Pennsylvania
July 24, 2012

Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Board of Commissioners
Housing Authority of the City of Pittsburgh

Compliance

We have audited the Housing Authority of the City of Pittsburgh's (Authority) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

As described in item 2011-1 in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding reporting to the PIH Information Center (PIC) that are applicable to its Moving to Work Demonstration Program. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major programs for the year ended December 31, 2011.

Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance,

Board of Commissioners
Housing Authority of the City of Pittsburgh
Independent Auditor's Report on Compliance with Requirements that
Could Have a Direct and Effect on Each Major Program

but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-1 to be a material weakness.

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

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Maher Duessel

Pittsburgh, Pennsylvania
July 24, 2012

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2011

I. Summary of Audit Results

1. Type of auditor's report issued: Unqualified
2. Internal control over financial reporting:

Material weakness(es) identified? ☐ yes ☒ no
Significant deficiencies identified that are not considered to be material weakness(es)?
☐ yes ☒ none reported
3. Noncompliance material to financial statements noted? ☐ yes ☒ no
4. Internal control over major programs:

Material weakness(es) identified? ☒ yes ☐ no
Significant deficiencies identified that are not considered to be material weakness(es)?
☐ yes ☒ none reported
5. Type of auditor's report issued on compliance for major programs: Qualified for 14.881 Moving to Work Demonstration Program; unqualified for 14.885 ARRA - Public Housing Capital Fund Stimulus (Formula)
6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☒ yes ☐ no
7. Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.881	Moving to Work Demonstration Program
14.885	ARRA - Public Housing Capital Fund Stimulus (Formula)
8. Dollar threshold used to distinguish between type A and type B programs: \$3,000,000
9. Auditee qualified as low-risk auditee? ☐ yes ☒ no

II. Findings related to the financial statements which are required to be reported in accordance with GAGAS.

No matters were reported.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2011

(continued)

III. Findings and questioned costs for federal awards.

FINDING: 2011-1 – PIC Reporting

Federal Agency: Department of Housing and Urban Development (HUD)

Program: Moving to Work Demonstration Program CFDA #14.881

Condition: During our review of 60 Form 50058 submissions to the PIH Information Center (PIC), we noted four submissions that were not completed within the required 60 days.

Criteria: PIH Notice PIC-2010-25, states that HUD Form 50058's should be submitted into the Public and Indian Housing Information Center (PIC) no later than 60 calendar days from the effective date of any action recorded on the Form 50058. As such, all submissions of the Form 50058 by the Authority are to be completed within this time frame.

Cause: Although procedures were in place to ensure timely initial submission of the Form 50058 to PIC, and there was evidence of significant efforts put forth by management of the Authority to ensure timely submission, the procedures in place did not allow for timely follow up on those submissions that were not successfully uploaded to PIC.

Effect: The Authority had four Form 50058's that were not submitted to HUD through the PIC system on a timely basis.

Recommendation: We recommend that the Authority implement additional procedures to ensure those Form 50058's submitted are all received and accepted by PIC, and to the extent they are not, that action be taken to resolve any issues, and that this action be documented.

Questioned Costs: None

Views of Responsible Official and Planned Corrective Action: The Authority accepts the audit finding pertaining to PIC submissions. See separately issued corrective action plan for the Authority's detailed response to this finding.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 2011

Finding 2010-1: - PIC Reporting

**Department of Housing and Urban Development (HUD)
CFDA# - 14.881**

Condition: During our review of 60 Form 50058 submissions to the PIH Information Center (PIC), we noted five submissions that were not completed within the required 60 days.

Status: Current year review indicates that the Form 50058 submissions still continues to require attention. See finding 2011-1.

Attachment B
Pension Fund Statement December 31, 2012

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH PENSION PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

DECEMBER 31, 2011 AND 2010

<u>Assets</u>	<u>2011</u>	<u>2010</u>
Investments, at fair value	\$ 30,576,103	\$ 32,027,182
Receivables:		
Employer contributions	30,248	-
Employee contributions	20,523	-
Notes receivable from participants	<u>818,383</u>	<u>673,252</u>
Total Assets	31,445,257	32,700,434
<u>Liabilities</u>	<u>-</u>	<u>-</u>
Net Assets Available for Benefits	<u><u>\$ 31,445,257</u></u>	<u><u>\$ 32,700,434</u></u>

See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH PENSION PLAN

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Additions:		
Contributions:		
Employer contributions	\$ 1,057,211	\$ 1,062,833
Employee contributions	791,950	798,123
Rollovers and other contributions	10,482	-
Miscellaneous	-	372
Total contributions	1,859,643	1,861,328
Registered investment company net investment gain (loss)	(1,333,784)	2,746,621
Interest and dividends	841,517	642,206
Interest on notes receivable from participants	40,362	41,022
Total additions	1,407,738	5,291,177
Deductions:		
Benefits	2,646,268	2,015,483
Administrative fees	16,465	8,869
Miscellaneous	182	-
Total deductions	2,662,915	2,024,352
Net Increase (Decrease) in Assets	(1,255,177)	3,266,825
Net Assets Available for Benefits:		
Beginning of year	32,700,434	29,433,609
End of year	\$ 31,445,257	\$ 32,700,434

See accompanying notes to financial statements.

Attachment C
Pre-Bid Sign In Sheets

PRE-BID SIGN IN SHEET

Project Name and Number
RFP 150-14-12 Financial Auditing Services

Date Issued
December 10, 2012

Due Date:
January 14, 2013

Pre Bid Meeting
January 4, 2013

Company Name	Company Address	Phone Number	Fax Number	E-Mail	Representative
Maier Dussel	503 Martindale St Suite 600 Pittsburg, PA 15212	412-535-5500	412-535-5508	BMcCall@md-cpas.com DEdelstein@md-cpas.com	Brian McCall Dana Edelstein
Clifton-Casson Allen	9515 Deere Rd Suite 500 Timonium, MD 21093	443-803-6989 410-453-0900	410-453-0914	mandy.heagy@cliftoncpa.com	Mandy Heagy
SCHNEIDER DOUGLAS	1133 Redo Ave Pittsburgh, PA 15222	412-697-5334	412-697-5734	T PETIKO @ SCHNEIDER DOUGLAS.COM	TED PETIKO
KERN Cameron Professional Management, LLC	1901 Centre Ave Pgh, PA 15219	412-251-5924		Kern.Cameron@cpromgt.com	Kern Cameron
Chen Reznick, LLC	535 N. Tyson St. Suite 1000 Charlotte, NC 28202	704-307-2418	704-307-2512	allan.kitchen@allanreznick.com	Allan Kitchen
HACP	2305 Bedford Ave 15219	412 395.3800 x1048	412 395.3070	Roxanne Thomas @HACP.org	Roxanne Thomas

PRE-BID SIGN IN SHEET

Project Name and Number RFP 150-14-12 Financial Auditing Services		Date Issued December 10, 2012	Due Date: January 14, 2013	Pre Bid Meeting January 4, 2013	
Company Name	Company Address	Phone Number	Fax Number	EMail	Representative
HACP	200 2051 ST. PITTSBURGH, PA 15219	412-456-5000 x 2135	412-456-5043	BENIE.MCGINLEY @ HKO.ORG	BENJAMIN MCGINLEY, CONTRACTOR
Camaron Professional	VIA	Phone			FRANCINE CAMARON
HACP					Kim DePue