

**Housing Authority of the
City of Pittsburgh**

Single Audit

December 31, 2009

MaherDuessel
Certified Public Accountants

Pursuing the profession while promoting the public good*
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HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

SINGLE AUDIT

DECEMBER 31, 2009

DIRECTORY

Financial Statements and Required Supplementary and Additional Information:

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**Housing Authority of the
City of Pittsburgh**

Financial Statements and Required
Supplementary and Additional
Information

For the Years Ended December 31, 2009
and 2008

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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Independent Auditor's Report

Board of Commissioners
Housing Authority of the City of Pittsburgh

We have audited the accompanying 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, 2009 and 2008, 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 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, 2009 and 2008, 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 September 13, 2010 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.

The Management's Discussion and Analysis section on pages i through xvii is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The additional information found on pages 26 through 42 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on page 43 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-*

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

Profit Organizations, and is also not a required part of the basic financial statements of the Authority. Such information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maheer Duessel

Pittsburgh, Pennsylvania
September 13, 2010

Housing Authority of the City of Pittsburgh, Pennsylvania

Management's Discussion and Analysis

Fiscal Year Ended December 31, 2009

Management's Discussion and Analysis

The management of the Housing Authority of the City of Pittsburgh (HACP or the 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, 2009.

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 Additional 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.

HACP Program Overview

Low-Income Public Housing - Under the Low-Income Public Housing Program, the Authority rents apartments that it owns to low-income households. The 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 30.00% 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 30.00% of household income.

DHAP - Represents the Disaster Housing Assistance Program, which is HUD funds used 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 community.

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.

HOPE VI Grants – This grant program is funded by HUD and used to explore redevelopment opportunities, and to plan, design, and build new housing communities.

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 HACP, 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. HACP business activities also include the Allies & Ross Management Development Corporation (ARMDC), which is reported as a blended component unit.

Other Federal, State, and Local Programs - The Other State and Local Programs operated by the Authority include, but are not limited to, Resident Opportunity and Supportive Services violence prevention training and job skills, the Street Team Youth Development Project, and the Clean Slate Program (blended component unit).

Financial Analysis of the Authority

The Authority's Statements of Net Assets for the years ending December 31, 2009 and 2008 are presented in the following Table 1.

Table 1
Housing Authority of the City of Pittsburgh
Statements of Net Assets
As of December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>	<u>Total Change</u>	<u>% Change</u>
Current Assets*	\$125,412,095	\$114,559,263	\$10,852,832	9.5%
Capital Assets, Net of Accumulated Depreciation*	\$93,999,907	\$67,659,753	\$26,340,154	38.9%
Investment in Mixed Finance Development Activities	\$75,762,943	\$71,085,055	\$4,677,888	6.6%
Total Assets	\$295,174,945	\$253,304,071	\$41,870,874	16.5%
Current Liabilities*	\$12,194,943	\$9,389,154	\$2,805,789	29.9%
Noncurrent Liabilities	\$32,376,336	\$31,318,485	\$1,057,851	3.4%
Total Liabilities	\$44,571,279	\$40,707,639	\$3,863,640	9.5%
Invested in Capital Assets, Net of Related Debt*	\$69,196,715	\$63,576,541	\$5,620,174	8.84%
Restricted Net Assets*	\$117,362,819	\$106,724,758	\$10,638,061	10.0%
Unrestricted Net Assets*	\$64,044,132	\$42,295,133	\$21,748,999	51.42%
Total Net Assets	\$250,603,666	\$212,596,432	\$38,007,234	17.9%
Total Liabilities and Net Assets	\$295,174,945	\$253,304,071	\$41,870,874	16.5%

* 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 \$41,870,874 and Total Liabilities increased by \$3,863,640. The results of operations in fiscal year 2009 created an overall increase in Net Assets of \$38,007,234. The Authority's Restricted Net Assets increased by \$10,638,061 and Unrestricted Net Assets increased by \$21,748,999. There was an increase of \$5,620,174 in Investments in Capital Assets, Net of Related Debt. Current Assets increased in 2009 by \$10,852,832 as Current Liabilities increased by \$2,805,789, and Noncurrent Liabilities increased by \$1,057,851.

Current Assets increased to \$125,412,095 in 2009, from \$114,559,263 in 2008 due to large increases in Section 8 cash, ARMDC receivables, and ARRA receivables, offset by a large decrease in Energy Performance Contract cash. Accordingly, the large increase in Capital Assets, Net of Accumulated Depreciation is directly related to the increase in Energy Performance Contract spending and ARRA Work in Progress. In fact, \$17,365,678 of the Energy Performance Contract cash was spent in 2009, which resulted in an increase in Work in Progress. ARRA spending also increased in 2009, resulting in a \$9,906,219 increase in Work in Progress. Current Liabilities also increased in 2009 due to the Energy Performance Contract. As the loan principal comes due, a larger portion was due within one year, which increased the Current Liabilities balance.

Invested in Capital Assets, Net of Related Debt saw a significant increase of \$5,620,174 due to the increase in ARRA Work in Progress. Restricted Net Assets also increased substantially by \$10,638,061 due to an increase in ARMDC Permanent Loan Receivables. Unrestricted Net Assets increased substantially by \$21,748,999 due to the results of operations.

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, 2009. Table II below provides this statement along with a comparison to the fiscal year 2008 results of operation.

Table II
Housing Authority of the City of Pittsburgh
Statements of Revenues, Expenses and Change in Net Assets
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>	<u>Total Change</u>	<u>% Change</u>
Grant Funding (Including Capital Grant)	\$ 123,527,574	\$ 108,211,274	\$ 15,316,300	14.15%
Tenant Revenue	7,482,797	7,701,120	(218,323)	-2.83%
Other Income	5,008,228	4,930,895	77,333	1.57%
Investment Income	464,587	1,942,756	(1,478,169)	-76.09%
Fraud Recovery	37,781	31,064	6,717	21.62%
Gain (Loss) on Sale of Fixed Assets	(575,815)	3,293,170	(3,868,985)	n/a
Total Revenues	<u>135,945,152</u>	<u>126,110,279</u>	<u>9,834,873</u>	<u>7.80%</u>
Grant Expense	7,568,976	4,638,920	2,930,056	63.16%
Housing Assistance Payments	29,160,200	29,454,237	(294,037)	-1.00%
Administrative	15,500,987	16,519,020	(1,018,033)	-6.16%
Depreciation/Amortization	7,678,530	9,004,665	(1,326,135)	-14.73%
Maintenance	9,913,991	9,135,137	778,854	8.53%
Utilities	8,709,112	10,296,303	(1,587,191)	-15.42%
Tenant Services	2,412,406	1,745,922	666,484	38.17%
Protective Services	2,820,625	3,105,190	(284,565)	-9.16%
General Expense & Int. Expense	11,780,526	10,248,050	1,532,476	14.95%
Insurance Expense	1,694,266	2,437,952	(743,686)	-30.50%
Ext. Maint & Casualty Loss	698,299	717,876	(19,577)	-2.73%
Total Expenses	<u>97,937,918</u>	<u>97,303,272</u>	<u>634,646</u>	<u>0.65%</u>
Change in Net Assets	38,007,234	28,807,007	9,200,227	31.94%
Beginning Net Assets	<u>212,596,432</u>	<u>183,789,425</u>	<u>28,807,007</u>	15.67%
Ending Net Assets	<u>\$ 250,603,666</u>	<u>\$ 212,596,432</u>	<u>\$ 38,007,234</u>	<u>17.88%</u>

Provided below in Table III is further detail by program of Revenues, Expenses, and Change in Net Assets during fiscal year 2009.

Table III
Housing Authority of the City of Pittsburgh
Revenues, Expenses, and Change in Net Assets - By Program
For The Year Ended December 31, 2009

	Low-Income Public Housing	Capital Fund Grant	MTW other Federal & HCV	Section 8 New Constr.	S8 MR & HCV FSS & DHAP	Hope VI	Ross Grant	State/Local, & Clean State	Business Activities	Elimination Entries	Total
Grant Funding	\$ 36,763,887	\$ 28,628,033	\$ 43,537,523	\$ 215,914	\$ 36,636	\$ 410,814	\$ 44,029	\$ 13,890,738	\$ -	\$ -	\$ 123,527,574
Tenant Revenue	7,482,797	-	-	-	-	-	-	-	-	-	7,482,797
Other Income	518,628	7,859	116,974	-	28,522	(23,151)	-	210,100	4,149,296	-	5,008,228
Investment Income	16,841	220,178	80,257	514	204	-	-	-	146,593	-	464,587
Fraud Recovery	210	-	37,571	-	-	-	-	-	-	-	37,781
Fee and Front-line Revenue	14,197,522	-	-	-	-	-	-	-	-	(14,197,522)	-
Gain (Loss) on Sale of Fixed Assets	(628,265)	52,450	-	-	-	-	-	-	-	-	(575,815)
Total Revenues	58,351,620	28,908,520	43,772,325	216,428	65,362	387,663	44,029	14,100,838	4,295,889	(14,197,522)	135,945,152
Housing Assistance Payments	-	-	28,927,592	182,641	49,967	-	-	-	-	-	29,160,200
Administrative & Grant expense	17,588,827	3,380,598	3,182,311	(1,059)	22,914	-	-	3,588,239	395,809	(8,061,629)	20,096,010
Asset Mgmt Fee	214,381	1,224,766	-	-	-	-	-	-	-	(1,439,147)	-
Depreciation/Amortization	5,707,408	-	7,673	-	-	-	-	-	1,963,449	-	7,678,530
Maintenance	12,183,480	135,631	39	-	-	-	-	-	-	(2,405,159)	9,913,991
Utilities	8,708,881	231	-	-	-	-	-	-	-	-	8,709,112
Tenant Services	3,859,986	144,506	193,511	-	-	402,253	44,029	59,708	-	(2,291,587)	2,412,406
Protective Services	171,028	2,641,036	-	-	-	8,561	-	-	-	-	2,820,625
General and Grant Expense	8,640,259	1,795,877	184,120	916	363	-	-	-	4,132,944	-	14,754,479
Insurance Expense	1,674,856	18,290	1,118	2	-	-	-	-	-	-	1,694,266
Casualty Losses	575,966	2,215	-	-	-	-	-	-	-	-	578,181
Extraordinary Maintenance	120,118	-	-	-	-	-	-	-	-	-	120,118
Total Expenses	59,445,190	9,343,150	32,496,364	182,500	73,244	410,814	44,029	3,647,947	6,492,202	(14,197,522)	97,937,918
Operating Transfers In	51,331	7,509,636	-	-	-	-	-	-	12,456,129	-	20,017,096
Operating Transfers Out	(14,278,763)	(5,687,002)	-	-	-	-	-	-	(51,331)	-	(20,017,096)
Total Other Financing Sources (Uses)	(14,227,432)	1,822,634	-	-	-	-	-	-	12,404,798	-	-
Change in Net Assets	(15,321,002)	21,388,004	11,275,961	33,928	(7,882)	(23,151)	-	10,452,891	10,208,485	-	38,007,234
Beginning Net Assets	46,559,686	41,518,951	17,598,899	150,169	445,072	4,938,644	-	-	101,385,011	-	212,596,432
Transfer of Equity	12,640,555	(2,741,946)	13,786	-	(6,176)	-	-	(9,906,219)	-	-	-
Prior Period Adjustment	-	-	-	-	-	-	-	-	-	-	-
Ending Net Assets	\$ 43,879,239	\$ 60,165,009	\$ 28,888,646	\$ 184,097	\$ 431,014	\$ 4,915,493	\$ -	\$ 546,672	\$ 111,593,496	\$ -	\$ 250,603,666

Financial Analysis of the Authority (continued)

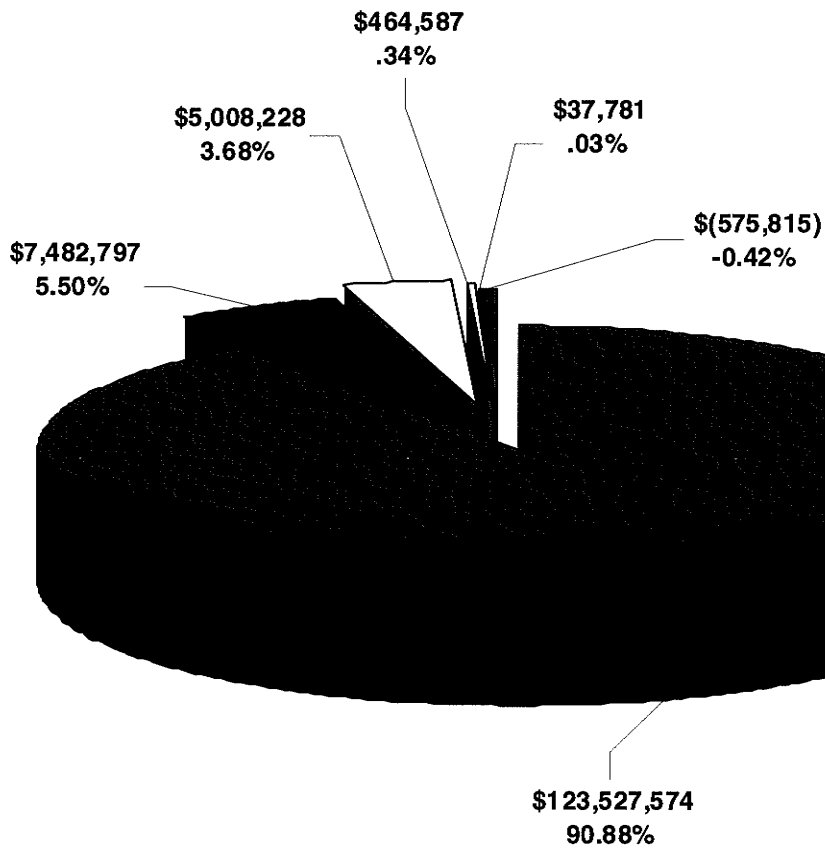
The following commentary is designed to discuss significant operating trends or events occurring in fiscal year 2009 relating to Revenues and Expenses that have been illustrated by the Statement of Revenues, Expenses, and Changes in Net Assets.

Revenues

Grants and subsidy payments from HUD are HACP's main source of funds. HACP 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 HACP receives, and security, that once funds are committed that they will be received since they are provided by the federal government.

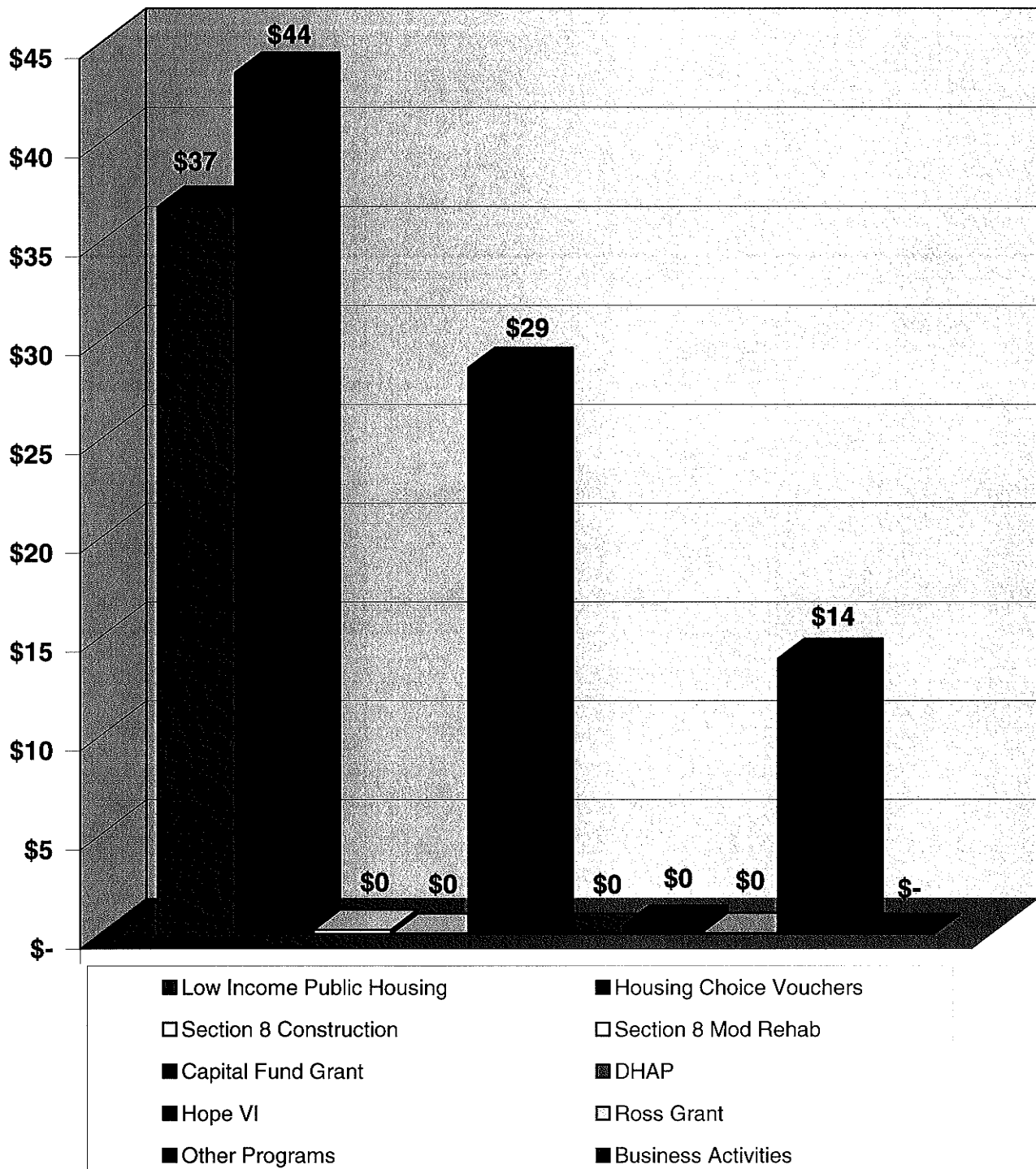
- ◆ \$123,527,574 or (90.88%) of the Authority's revenues are grants or subsidies received from governmental agencies, principally, HUD.
- ◆ \$7,482,797 or (5.50%) of the Authority's revenues are from tenants for dwelling rental charges, excess utilities, and miscellaneous charges. This amount decreased by -2.83% over the 2008 amount.
- ◆ In 2009, the Authority experienced a \$575,815 loss on the disposal of fixed assets. This is made up of losses from the Garfield Phase 2 Demolition and Broadhead Impairment, offset by a smaller gain on the East Hills Land sale.

2009 Total Revenues



- Grant Funding
- Tenant Revenue
- Other Income
- Investment Income
- Fraud Recovery
- Gain (Loss) on Sale of Fixed Assets

2009 Grant Funding Rounded to Nearest Million



Financial Analysis of the Authority (continued)

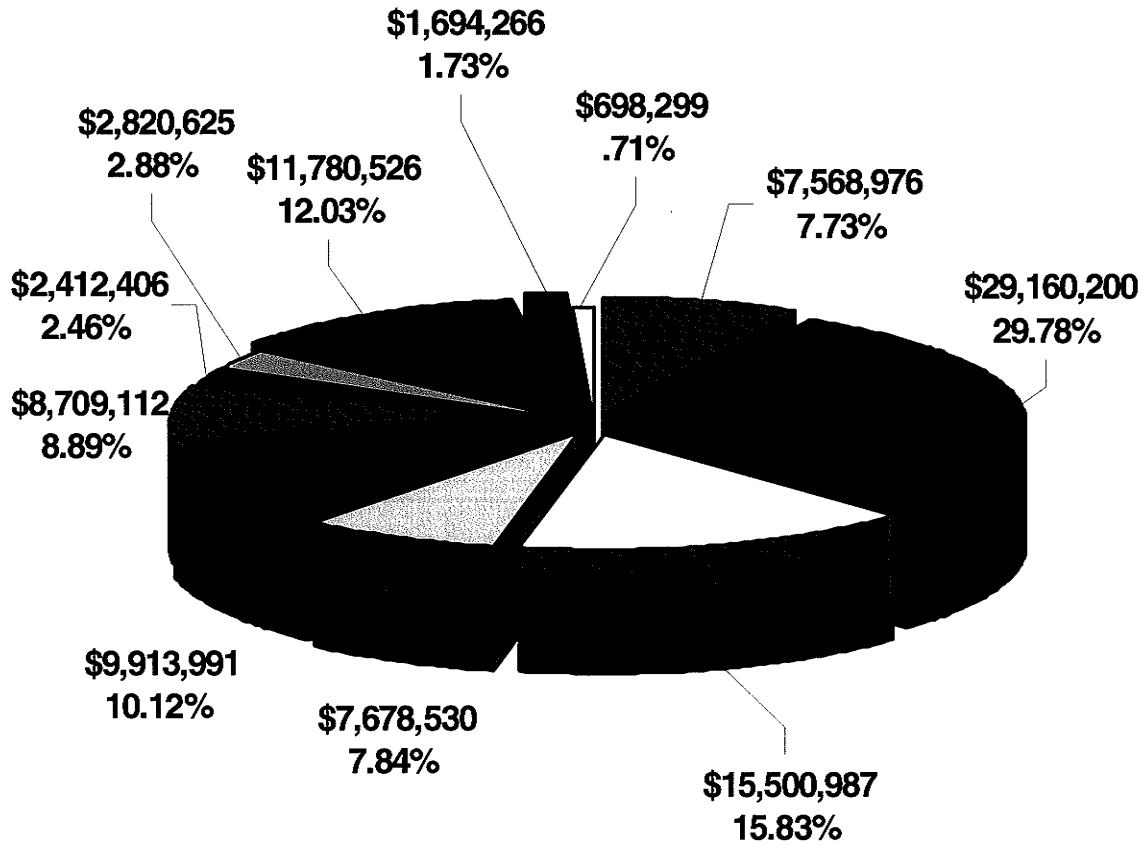
Expenses

Total Expenses for the Authority increased by \$634,646 or 0.65%, to \$97,937,918 for the year ended December 31, 2009 compared to Total Expenses of \$97,303,272 for the year ended December 31, 2008.

- ◆ 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' rent and the applicable payment standard. Housing Assistance Payments expense decreased by \$294,037 or -1.00%, to \$29,160,200 for the year ended December 31, 2009 compared to Housing Assistance Payments of \$29,454,237 for the year ended December 31, 2008.
- ◆ Grant Expense increased in 2009 due to higher levels of development during the year. Development work in process during 2009 included Garfield Phases 1 & 2. The fluctuation in this amount from year to year is normal and directly related to the number of Mixed Finance Development deals in place.

Other notable expenditure issues include the decrease in Depreciation Expense in 2009 over the 2008 level, due to the impairment of the Broadhead buildings. In contrast, General Expenses experienced an increase in 2009 due to small increases in both Other General Expense and Interest Expense.

2009 Total Expenses



■ Grant Expense	■ Housing Assistance Payments
□ Administrative	□ Depreciation / Amortization
■ Maintenance	■ Utilities
■ Tenant Services	■ Protective Services
■ General Expense	■ Insurance Expense
□ Extraordinary Maintenance	

Financial Analysis of the Authority (continued)

Capital Assets

Capital Assets, Net of Accumulated Depreciation, increased by \$26,340,154, or 38.93%, to \$93,999,907 as of December 31, 2009 compared to Capital Assets, Net of Accumulated Depreciation of \$67,659,753 as of December 31, 2008. The difference is the result of an increase in the ARRA and Energy Performance Contract Construction in Progress, offset by the continued demolition of aging structures. The following table illustrates the Capital Asset values as of December 31, 2009 and 2008.

Table IV
Housing Authority of the City of Pittsburgh
Capital Assets
As of December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>	<u>Total Change</u>	<u>% Change</u>
Land	\$ 19,139,631	\$ 18,688,471	\$ 451,160	2.42%
Construction in Progress	44,049,947	18,627,215	25,422,732	136.49%
Buildings	273,188,523	284,014,714	(10,826,191)	-3.82%
Furniture, Equipment, and Machinery - Dwellings	500,540	122,707	377,833	307.92%
Furniture, Equipment, and Machinery - Administration	3,240,435	3,529,221	(288,786)	-8.19%
	340,119,076	324,982,328	15,136,748	4.66%
Accumulated Depreciation	<u>(246,119,169)</u>	<u>(257,322,575)</u>	<u>11,203,406</u>	<u>-4.36%</u>
<i>Total Capital Assets</i>	<u>\$ 93,999,907</u>	<u>\$ 67,659,753</u>	<u>\$ 26,340,154</u>	<u>38.93%</u>

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. Table V illustrates the Authority's investment in these types of community development opportunities. During 2009, the communities with active Mixed Finance Development activities were Bedford and Garfield Heights.

Table V
Housing Authority of the City of Pittsburgh
Mixed Finance Development Activities
(Net of Amortization)
As of December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Short-Term Financing Provided To Mixed Finance Development Activities	\$ 6,945,770	\$ 12,546,478
Long-Term Investment (Net of Amortization In Mixed Finance Development Activities)	<u>74,748,153</u>	<u>63,434,729</u>
<i>Total Mixed Finance Development Activities</i>	<u><u>\$ 81,693,923</u></u>	<u><u>\$ 75,981,207</u></u>

Financial Analysis of the Authority (continued)

Long-Term Debt

During the year ended December 31, 2009, the Authority had modest increases in Reserved Escrow Funding and Other 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 conclude in October of 2021. As of December 31, 2009, approximately \$17 million of the Construction in Progress balance was related to assets acquired or constructed through this lease financing. The long-term liability activity for the year ended December 31, 2009 is reflected in Table VI.

Table VI
Housing Authority of the City of Pittsburgh
Debt Activity
As of December 31, 2009 and 2008

	<i>Balance at</i> <i>12/31/2008</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at</i> <i>12/31/2009</i>
Capital Lease	\$ 25,110,801	\$ -	\$ (307,609)	\$ 24,803,192
Self-Insurance Accruals	3,062,483	611,591	(1,130,513)	2,543,561
Reserved Escrow Funding	1,875,912	2,538,070	-	4,413,982
Compensated Absences	1,523,204	253,251	(121,802)	1,654,653
Other Long-Term Liabilities	842,795	272,452	-	1,115,247
Fannie Mae Line of Credit	-	8,910,549	(8,910,549)	-
<i>Totals</i>	<i>\$ 32,415,195</i>	<i>\$ 12,585,913</i>	<i>\$ (10,470,473)</i>	<i>\$ 34,530,635</i>

Financial Analysis of the Authority (continued)

Economic Factors and Events Affecting Operations

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

- ◆ HACP participates in the HUD demonstration program entitled “Moving-To-Work” (MTW). In 2009, HACP 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.
- ◆ HACP receives federal funding from HUD 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 2009 public housing funding pro-ration was 88.42% and the 2010 fiscal year was budgeted at 93.00%.
- ◆ In fiscal year 2008, HUD 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, HACP has completed the transition to the site-based management method. The management and staff of HACP 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 HACP operates at the project level.
- ◆ As part of the 2009 American Recovery and Investment Act, HACP received an additional grant of \$27,099,188 on March 17, 2009. HACP 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. HACP obligated all funds by the March 17, 2010 date and has already spent 62% of the funds as of August 19, 2010.

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 remains 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 HUD.

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**
STATEMENTS OF NET ASSETS
DECEMBER 31, 2009 AND 2008

<u>Assets</u>	<u>2009</u>	<u>2008</u>
Current assets:		
Cash and cash equivalents:		
Cash:		
Cash - unrestricted	\$ 56,786,744	\$ 22,822,358
Cash - other restricted	35,913,173	26,369,737
Cash - restricted - tenant security deposits	268,121	287,049
Total cash	<u>92,968,038</u>	<u>49,479,144</u>
Investments (cash equivalents):		
Investments - unrestricted	7,662,355	22,510,170
Investments - restricted	10,217,428	31,234,918
Total investments (cash equivalents)	<u>17,879,783</u>	<u>53,745,088</u>
Total cash and cash equivalents	<u>110,847,821</u>	<u>103,224,232</u>
Accounts receivable, net of allowances for doubtful accounts:		
Accounts receivable - PHA projects	526,275	123,696
Accounts receivable - HUD other projects	5,360,230	3,217,818
Accounts receivable - other government	153,217	-
Accounts receivable - miscellaneous	61,166	69,404
Accounts receivable - tenants - dwelling rents	736,273	909,939
Allowance for doubtful accounts - dwelling rents	(560,065)	(491,891)
Mixed finance notes receivable - current	6,945,770	5,546,478
Fraud recovery	249,115	248,832
Accrued interest receivable	2,942	123,250
Total accounts receivable, net of allowances for doubtful accounts	<u>13,474,923</u>	<u>9,747,526</u>
Prepaid expenses and other assets - current	602,484	1,075,238
Inventories, net of allowance	1	2,250
Assets held for sale	486,866	510,017
Total current assets	<u>125,412,095</u>	<u>114,559,263</u>
Noncurrent assets:		
Capital assets:		
Land	19,139,631	18,688,471
Buildings	273,188,523	284,014,714
Furniture, equipment, and machinery - dwellings	500,540	122,707
Furniture, equipment, and machinery - administration	3,240,435	3,529,221
Accumulated depreciation	(246,119,169)	(257,322,575)
Construction in progress	44,049,947	18,627,215
Total capital assets, net of accumulated depreciation	<u>93,999,907</u>	<u>67,659,753</u>
Prepaid expenses and other assets - noncurrent	400,000	-
Mixed finance notes receivable - noncurrent	-	7,000,000
Other notes receivable - noncurrent	614,790	650,326
Investment in mixed finance development activities, net of accumulated amortization	74,748,153	63,434,729
Total noncurrent assets	<u>169,762,850</u>	<u>138,744,808</u>
Total Assets	<u>\$ 295,174,945</u>	<u>\$ 253,304,071</u>

(Continued)

See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

STATEMENTS OF NET ASSETS

DECEMBER 31, 2009 AND 2008

(Continued)

Liabilities and Net Assets	2009	2008
Liabilities:		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 4,524,611	\$ 5,290,301
Accrued wage/payroll taxes payable	1,163,573	506,662
Accrued compensated absences - current	133,172	121,802
Accrued contingency liability	820,366	1,030,229
Accounts payable - HUD PHA programs	1,092	26,808
Accounts payable - PHA Projects	22,455	-
Tenant security deposits	268,121	287,049
Deferred revenue	123,406	237,330
Current portion of capital lease liability	1,282,265	204,679
Other current liabilities	3,855,882	1,684,294
Total current liabilities	12,194,943	9,389,154
Noncurrent liabilities:		
Capital lease liability - noncurrent	23,520,927	24,906,122
Accrued compensated absences - noncurrent	1,521,481	1,401,402
Other noncurrent liabilities	7,333,928	5,010,961
Total noncurrent liabilities	32,376,336	31,318,485
Total Liabilities	44,571,279	40,707,639
Net Assets:		
Invested in capital assets, net of related debt	69,196,715	63,576,541
Restricted for:		
Business Activities Loans	111,593,497	101,385,011
Low-Income Public Housing Program	4,225,000	4,255,000
Housing Choice Voucher Program	1,544,322	1,084,747
Unrestricted net assets	64,044,132	42,295,133
Total Net Assets	250,603,666	212,596,432
Total Liabilities and Net Assets	\$ 295,174,945	\$ 253,304,071

(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, 2009 AND 2008

	2009	2008
Operating Revenues:		
Tenant revenue:		
Net tenant rental revenue	\$ 7,425,667	\$ 7,628,012
Tenant revenue - other	57,130	73,108
Total tenant revenue	7,482,797	7,701,120
HUD PHA operating grants	110,176,005	99,315,519
Other revenue	5,008,228	4,930,895
Investment income - unrestricted	306,903	1,093,377
Investment income - restricted	157,684	849,379
Fraud recovery	37,781	31,064
Total operating revenues	123,169,398	113,921,354
Operating Expenses:		
Housing assistance payments	29,160,200	29,454,237
Grant expense	7,568,976	4,638,920
Administrative:		
Administrative salaries	6,748,475	6,993,454
Employee benefit contributions - administrative	2,183,384	1,939,844
Other operating - administrative	6,569,128	7,585,722
Tenant services:		
Tenant services - salaries	1,083,489	765,253
Relocation costs	192,006	-
Employee benefit contributions - tenant services	357,785	263,230
Tenant services - other	779,126	717,439
Utilities:		
Water	1,665,259	1,947,519
Electricity	2,016,833	2,237,758
Gas	3,224,638	4,768,545
Sewer	1,802,382	1,342,481
Ordinary maintenance and operations:		
Ordinary maintenance and operations - labor	5,448,874	4,886,300
Ordinary maintenance and operations - materials and other	1,473,266	1,795,560
Ordinary maintenance and operations - contract costs	836,058	577,864
Employee benefit contributions - ordinary maintenance	2,155,793	1,875,413
Protective services:		
Protective services - labor	125,343	97,743
Protective services - other contract costs	2,695,089	2,961,340
Protective services - other	193	-
Employee benefit contributions - protective services	-	46,107
Insurance expense:		
Property insurance	472,920	506,713
Liability insurance	395,203	397,135
Workmen's compensation	580,427	963,700
All other insurance	245,716	570,404
General expense:		
Other general expenses	4,089,272	3,287,467
Bad debt expense	3,950,178	4,059,952
Outside management fees	3,420,727	2,900,631
Mixed financing investment amortization	1,963,449	1,403,988
Total operating expenses	91,204,189	88,984,719
Operating Income (Loss)	31,965,209	24,936,635

(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, 2009 AND 2008 (Continued)

	2009	2008
Non-Operating Revenues (Expenses):		
Extraordinary maintenance	(120,118)	(30,265)
Casualty losses - non-capitalized	(578,181)	(687,611)
Interest expense	(320,349)	-
Gain (loss) on disposition of fixed assets	(575,815)	3,293,170
Depreciation expense	(5,715,081)	(7,600,677)
 Total non-operating revenues (expenses)	 (7,309,544)	 (5,025,383)
Capital Contributions:		
HUD capital grants	13,351,569	8,895,755
 Change in Net Assets	 38,007,234	 28,807,007
Total net assets - beginning	212,596,432	183,789,425
Total net assets - ending	<u>\$ 250,603,666</u>	<u>\$ 212,596,432</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, 2009 AND 2008

	2009	2008
Cash Flows From Operating Activities:		
Operating grants received	\$ 110,176,005	\$ 105,999,896
Receipts from tenants	7,629,283	7,604,044
Other receipts	971,758	1,296,084
Housing assistance payments	(29,562,779)	(29,578,022)
Payments for goods and services	(26,867,499)	(28,964,773)
Grant expense	(7,568,976)	(4,638,920)
Payments to employees	(17,314,783)	(18,883,259)
Net cash provided by (used in) operating activities	37,463,009	32,835,050
Cash Flows From Non-Capital Financing Activities:		
Cash received from outstanding loans receivable	5,546,478	-
Cash paid out for loans receivable	-	(3,000,000)
Net cash provided by (used in) non-capital financing activities	5,546,478	(3,000,000)
Cash Flows From Capital and Related Financing Activities:		
Capital grants received for capital assets	11,209,157	8,895,755
Cash paid out for long term loan investments	(13,222,643)	(8,245,641)
Proceeds from debt	8,910,549	25,110,801
Payments on debt	(9,218,158)	-
Interest payments	(320,349)	-
Acquisition and construction of capital assets	(33,329,349)	(14,697,079)
Sale of capital assets	-	5,000,000
Net cash provided by (used in) capital and related financing activities	(35,970,793)	16,063,836
Cash Flows From Investing Activities:		
Interest and dividends on investments	584,895	2,041,247
Net Increase (Decrease) in Cash and Cash Equivalents	7,623,589	47,940,133
Cash and Cash Equivalents:		
Beginning of year	103,224,232	55,284,099
End of year	\$ 110,847,821	\$ 103,224,232

(Continued)

See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

(Continued)

	2009	2008
Reconciliation of Operating Income (Loss) to Net Cash		
Provided by (Used in) Operating Activities:		
Operating income (loss)	\$ 31,965,209	\$ 24,936,635
Adjustments to reconcile operating income (loss) to net cash and cash equivalents provided by (used in) operating activities:		
Investment (income) loss	(464,587)	(1,942,756)
Mixed financing investment amortization	1,963,449	1,403,988
Change in assets and liabilities:		
Accounts receivable	(338,639)	7,467,715
Allowance for uncollectible accounts	68,174	185,498
Prepaid expenses and other current assets	75,003	401,546
Assets held for sale	23,151	216,109
Accounts payable and accrued liabilities	4,285,173	167,213
Deferred revenue	(113,924)	(898)
Total adjustments	5,497,800	7,898,415
Net cash and cash equivalents provided by (used in) operating activities	\$ 37,463,009	\$ 32,835,050

(Concluded)

Cash and cash equivalents at end of year:		
Cash - unrestricted	\$ 56,786,744	\$ 22,822,358
Cash - restricted	36,181,294	26,656,786
Investments - unrestricted	7,662,355	22,510,170
Investments - restricted	10,217,428	31,234,918
	\$ 110,847,821	\$ 103,224,232

See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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. This blended component unit is included within the Business Activities program.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

200 Ross Street Housing Development Corporation (200 Ross HDC)

During 2002, the Authority created the 200 Ross HDC (Corporation) as a separate non-profit organization to enter into a master lease agreement with a landlord. The Corporation then entered into multiple separate lease agreements with tenants that participate in the Section 8 Voucher Program. These tenants are former Low-Income Public Housing Program participants that required temporary housing during renovations to their former residence. This blended component unit is included within the Business Activities program.

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. This blended component unit is included as a separate program strip within the Financial Data Schedules (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.

For the year ended December 31, 2008, the Authority converted to the asset management model within their LIPH Program, and as part of that process, all Capital Fund Program

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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, and will continue to be reported as such into the future.

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 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 reported together with the LIPH Program on the FDS.

HOPE VI Program: Grant program funded by HUD to explore redevelopment opportunities, and to plan, design, and build new housing communities. It is the Authority's policy to present all operating expenses paid from these programs as administrative expenses on the statements of activities.

Major Reconstruction of Obsolete Public Housing Projects (MROP): 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.

DHAP: Represents the Disaster Housing Assistance Program, which is HUD funds used 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 Payment Programs that are administered by the Authority. During 2007, the oversight of all but one of these properties was turned over to the Pennsylvania Housing Finance Agency. In June 2009, HUD paid the final accounts receivable due to the Authority in the amount of approximately \$103,000. The Authority anticipates that HUD will approve the transfer of the remaining net assets of approximately \$150,000 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: Represents Housing Assistance Payments administered by the Authority under the Section 8 Moderate Rehabilitation Program.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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: 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 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. Business Activities also includes the 200 Ross Street HDC and ARMDC (blended component units).

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

- Resident Opportunity and Supportive Services
- State and Local
- 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.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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.
- 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 Fannie Mae line of credit as described in Notes 2 and 6, 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." Designations of unrestricted net assets represent tentative management plans that may be subject to change. As of December 31, 2009 and 2008, no amounts were designated for future use.

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.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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 based upon quoted market prices.

Inventories

Prior to 2008, materials and supplies were carried in an inventory account at cost and were subsequently charged to expenses when the items were used at the site. Beginning in 2008, the Authority began expensing these materials and supplies when purchased, but any amounts in inventory prior to 2008 will remain as inventory until used at the site. The 2009 inventory balance of \$1 presented on the statements of net assets is net of an allowance for obsolescence of \$562,102. The 2008 inventory balance of \$2,250 presented on the statements of net assets is net of an allowance for obsolescence of \$697,149.

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.

During 2009, the Authority changed their policy for the reporting of compensated absence expense on both the FDS and the financial statements. Any payments during the year to employees for sick and vacation time (as set forth each year by the various employment contracts) is considered compensated absence expense in the FDS, and is reported as an

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

employee benefit expense on the financial statements. These items were previously reported as salaries expense on the FDS, and other general expense on the financial statements, and the only amounts reported as compensated absence expense were for the change in the compensated absence liability balance as of year-end. For comparative purposes, 2008 expenses were reclassified to conform to the new policy, with no effect on overall expenses.

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.

As of December 31, 2009, \$1,100,000 of the Authority's \$38,018,664 bank balance (with a carrying amount of \$37,998,253 as of December 31, 2009) was insured by the Federal Deposit Insurance Corporation. The remaining bank balance of \$36,918,664 was exposed to custodial credit risk, which 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.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

Included in the 2009 deposit amounts in the preceding paragraph are \$686,520 of certificates of deposit and \$100,170 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 \$55,756,475 and a bank balance of \$63,974,523 described in more detail under the investments section below.

As of December 31, 2008, \$1,100,000 of the Authority's \$27,979,888 bank balance (with a carrying amount of \$28,312,525 as of December 31, 2009) was insured by the Federal Depository Insurance Corporation. The remaining bank balance of \$26,879,888 was exposed to custodial credit risk, which 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 2008 deposit amounts in the preceding paragraph are \$674,710 of certificates of deposit and \$100,000 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 \$21,941,329 and a bank balance of \$24,768,723 described in more detail under the investments section below.

Restricted Cash

At December 31, 2009, cash was restricted for the following purposes: \$538,538 and \$271,704 for the LIPH and Voucher Family Self Sufficiency Programs, respectively (total of \$810,242 for the Family Self Sufficiency Program), \$268,121 for tenant security deposits, \$26,746,682 for mixed financing initiatives, \$4,225,000 as collateral for the Fannie Mae line of credit, and \$4,131,249 for the Honeywell capital lease.

At December 31, 2008, cash was restricted for the following purposes: \$354,826 and \$239,733 for the LIPH and Voucher Family Self Sufficiency Programs, respectively (total of \$594,559 for the Family Self Sufficiency Program), \$287,049 for tenant security deposits, \$24,396 for mixed financing initiatives, \$4,255,000 as collateral for the Fannie Mae line of credit, and \$21,495,782 for the Honeywell capital lease.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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, 2009:

Investment Type	Fair Market Value	Book Value
Money Markets - J.P. Morgan	\$ 3,873,926	\$ 4,413,983
Mutual Funds - Blackrock	71,197,434	68,435,585
	\$ 75,071,360	\$ 72,849,568

The difference of \$2,221,792 between fair value and book value is due to outstanding checks as of December 31, 2009.

As of December 31, 2009, investments of \$63,974,523 in Blackrock mutual funds with a book value of \$55,756,475 are considered to be cash and cash equivalents for presentation on the statements of net assets. \$786,690 of deposits discussed in more detail in the "cash" section above is considered to be investments for presentation on the statements of net assets.

Investments consisted of the following at December 31, 2008:

Investment Type	Fair Market Value	Book Value
Money Markets - J.P. Morgan	\$ 1,627,032	\$ 1,875,910
Mutual Funds - Blackrock	75,863,189	73,035,797
	\$ 77,490,221	\$ 74,911,707

The difference of \$2,578,514 between fair value and book value is due to outstanding checks as of December 31, 2009.

As of December 31, 2008, investments of \$24,768,723 in Blackrock mutual funds with a book value of \$21,941,329 are considered to be cash and cash equivalents for presentation on the statements of net assets. \$774,710 of deposits discussed in more detail in the "cash" section above is considered to be investments for presentation on the statements of net assets.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

The following is a description of the Authority's investment risks:

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, 2009, investments in J.P. Morgan and Blackrock have received an AAA rating from Standards & 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.

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, 2009 and 2008, all investments had an average maturity of less than one year.

Restricted Investments

Investments of \$4,413,982 and \$1,875,912, as of December 31, 2009 and 2008, respectively, are restricted because of contractual agreements with a mixed finance development partnership. Investments of \$2,182,767 and \$2,168,395, as of December 31, 2009 and 2008, respectively, are restricted for fire loss and commercial property self-insured contingency. Also, investments of \$3,620,679 and \$27,190,611, as of December 31, 2009 and 2008, respectively, were generated from HOPE VI and Capital Fund loan repayments and are restricted as to their use.

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

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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.

Mixed Finance Development Activities (Dollars in Millions)

<u>As of December 31, 2009:</u>	
Bridge loan financing	\$ 6.9
Long-term investments (net of amortization)	<u>74.7</u>
Balance	<u><u>\$ 81.6</u></u>
 <u>As of December 31, 2008:</u>	
Bridge loan financing	\$ 12.5
Long-term investments (net of amortization)	<u>63.4</u>
Balance	<u><u>\$ 75.9</u></u>

The net assets (consisting of cash, investments, and notes receivable) of the mixed finance business activities are considered restricted net assets and total \$111,593,497 and \$101,385,011 for the years ended December 31, 2009 and 2008, respectively.

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, 2009, there were approximately 403 Plan participants and at December 31, 2008, there were approximately 429 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

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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 fiscal year ended December 31, 2009 were approximately \$999,000 and \$751,000, respectively, and for the fiscal year ended December 31, 2008 were approximately \$1.06 million 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, 2009 AND 2008

	December 31, 2008	Increases	Decreases	December 31, 2009
Capital assets, not being depreciated:				
Land	\$ 18,688,471	\$ 455,206	\$ (4,046)	\$ 19,139,631
Construction in progress	18,627,215	32,240,661	(6,817,929)	44,049,947
Total capital assets not being depreciated	<u>37,315,686</u>	<u>32,695,867</u>	<u>(6,821,975)</u>	<u>63,189,578</u>
Capital assets being depreciated:				
Buildings	284,014,714	6,817,929	(17,644,120)	273,188,523
Furniture, equipment, and machinery - dwellings	122,707	382,833	(5,000)	500,540
Furniture, equipment, and machinery - administration	<u>3,529,221</u>	<u>94,047</u>	<u>(382,833)</u>	<u>3,240,435</u>
Total capital assets, being depreciated	<u>287,666,642</u>	<u>7,294,809</u>	<u>(18,031,953)</u>	<u>276,929,498</u>
Less accumulated depreciation for:				
Buildings	(254,975,493)	(5,365,570)	16,913,485	(243,427,578)
Furniture, equipment, and machinery - dwellings	(106,597)	(160,273)	5,000	(261,870)
Furniture, equipment, and machinery - administration	<u>(2,240,485)</u>	<u>(265,801)</u>	<u>76,565</u>	<u>(2,429,721)</u>
Total accumulated depreciation	<u>(257,322,575)</u>	<u>(5,791,644)</u>	<u>16,995,050</u>	<u>(246,119,169)</u>
Total capital assets being depreciated, net	<u>30,344,067</u>	<u>1,503,165</u>	<u>(1,036,903)</u>	<u>30,810,329</u>
Total capital assets	<u><u>\$ 67,659,753</u></u>	<u><u>\$ 34,199,032</u></u>	<u><u>\$ (7,858,878)</u></u>	<u><u>\$ 93,999,907</u></u>

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	December 31, 2007	Increases	Decreases	December 31, 2008
Capital assets, not being depreciated:				
Land	\$ 18,889,060	\$ 16,689	\$ (217,278)	\$ 18,688,471
Construction in progress	13,471,907	12,999,765	(7,844,457)	18,627,215
Total capital assets not being depreciated	<u>32,360,967</u>	<u>13,016,454</u>	<u>(8,061,735)</u>	<u>37,315,686</u>
Capital assets being depreciated:				
Buildings	283,132,038	8,946,645	(8,063,969)	284,014,714
Furniture, equipment, and machinery - dwellings	1,490,133	-	(1,367,426)	122,707
Furniture, equipment, and machinery - administration	<u>5,910,828</u>	<u>616,948</u>	<u>(2,998,555)</u>	<u>3,529,221</u>
Total capital assets, being depreciated	<u>290,532,999</u>	<u>9,563,593</u>	<u>(12,429,950)</u>	<u>287,666,642</u>
Less accumulated depreciation for:				
Buildings	(254,533,998)	(7,255,885)	6,814,390	(254,975,493)
Furniture, equipment, and machinery - dwellings	(1,494,730)	(9,441)	1,397,574	(106,597)
Furniture, equipment, and machinery - administration	<u>(4,487,103)</u>	<u>(335,351)</u>	<u>2,581,969</u>	<u>(2,240,485)</u>
Total accumulated depreciation	<u>(260,515,831)</u>	<u>(7,600,677)</u>	<u>10,793,933</u>	<u>(257,322,575)</u>
Total capital assets being depreciated, net	<u>30,017,168</u>	<u>1,962,916</u>	<u>(1,636,017)</u>	<u>30,344,067</u>
Total capital assets	<u><u>\$ 62,378,135</u></u>	<u><u>\$ 14,979,370</u></u>	<u><u>\$ (9,697,752)</u></u>	<u><u>\$ 67,659,753</u></u>

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 is capped at 10%, and as part of the agreement, the Authority is required to maintain an escrow cash account in the amount of \$4,225,000 as collateral on the line of credit. In 2009 the Authority drew down approximately \$8.9 million, and repaid that full amount and any interest owed prior to December 31, 2009. The line of credit option remains outstanding as of December 31, 2009. No draws were made during 2008.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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 increase over the life of the lease to approximately \$281,000 at the end of the lease term.

Yearly payment amounts are as follows:

<u>Year Ending December 31,</u>	<u>Principal Payment</u>	<u>Interest Payment</u>
2010	\$ 1,282,266	\$ 1,246,284
2011	1,407,742	1,188,200
2012	1,541,077	1,124,285
2013	1,682,692	1,054,172
2014	1,833,039	977,475
2015-2019	11,760,335	3,476,611
2020-2021	5,296,041	531,571
	<u>\$ 24,803,192</u>	<u>\$ 9,598,598</u>

All improvements were still considered construction in progress as of year-end, and as such no depreciation was taken on these assets during the year. As of December 31, 2009, approximately \$23.4 million of the construction in progress 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, 2009 was as follows:

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Balance at December 31, 2008	Additions	Reductions	Balance at December 31, 2009	Due Within One Year
Capital lease	\$ 25,110,801	\$ -	\$ (307,609)	\$ 24,803,192	\$ 1,282,265
Self-insurance accruals	3,062,483	611,591	(1,130,513)	2,543,561	738,862
Reserved escrow funding	1,875,912	2,538,070	-	4,413,982	-
Compensated absences	1,523,204	253,251	(121,802)	1,654,653	133,172
Other long-term liabilities	842,795	272,452	-	1,115,247	-
Fannie Mae Line of Credit	-	8,910,549	(8,910,549)	-	-
Long-term liabilities	<u>\$ 32,415,195</u>	<u>\$ 12,585,913</u>	<u>\$ (10,470,473)</u>	<u>\$ 34,530,635</u>	<u>\$ 2,154,299</u>

Long-term liability activity for the year ended December 31, 2008 was as follows:

	Balance at December 31, 2007	Additions	Reductions	Balance at December 31, 2008	Due Within One Year
Capital lease	\$ -	\$ 25,110,801	\$ -	\$ 25,110,801	\$ 204,679
Self-insurance accruals	2,725,370	1,598,100	(1,260,987)	3,062,483	770,229
Reserved escrow funding	1,786,417	89,495	-	1,875,912	-
Compensated absences	1,485,799	346,027	(308,622)	1,523,204	121,802
Other long-term liabilities	466,759	376,036	-	842,795	-
Long-term liabilities	<u>\$ 6,464,345</u>	<u>\$ 27,520,459</u>	<u>\$ (1,569,609)</u>	<u>\$ 32,415,195</u>	<u>\$ 1,096,710</u>

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

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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 \$1.3 million and \$1.8 million as of December 31, 2009 and 2008, respectively. Fire loss paid was approximately \$526,000 and \$419,000 for the years ended December 31, 2009 and 2008, respectively.

Commercial Property

The Authority carries commercial insurance for property losses.

Workers' Compensation

The Authority has a limited self-insurance program for workers' compensation. The Authority is 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.

On March 11, 1997, the Authority entered into a revised irrevocable agreement of trust with the Commonwealth of Pennsylvania Bureau of Workers Compensation that requires the Authority to establish a trust fund and to deposit funds up to the current value of its outstanding claims liability minus \$1,470,000. Independent actuarial assessments of self-insured workers' compensation were performed as of July 2009 and 2008. The actuary assessments were revised to indicate the outstanding claims liability balance at December 31, 2009 and 2008, which were \$1,231,437 and \$1,283,712, respectively. As a result, the Commonwealth of Pennsylvania Bureau of Workers Compensation waived the establishment of a trust fund deposit. The discount rate used to discount the above 2009 liability was 4.4%.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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 a third-party administrator to make payments on the workers' compensation claims under the self insured program. The third-party administrator has established an escrow account, which was funded by the Authority. The third-party administrator pays any workers' compensation claims from this account, with the Authority reimbursing the third-party administrator. During 2009 and 2008, claims paid out of the account approximated \$603,837 and \$665,180, respectively.

Accrued Claims Liability

Workers' Compensation Fund:

	December 31, 2009	December 31, 2008
Unpaid claims, beginning of fiscal year	\$ 1,283,712	\$ 1,283,209
Incurred claims (including IBNRs- incurred but not reported)	551,562	665,683
Claim payments and changes in estimates	(603,837)	(665,180)
Unpaid claims, end of fiscal year	<u>\$ 1,231,437</u>	<u>\$ 1,283,712</u>

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 (i.e. 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,

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

or has been deemed immaterial, as of the date of the financial statements. Therefore, no accrual has been made as of December 31, 2009.

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 \$82,000 as of December 31, 2009. The accrual for litigation pending as of December 31, 2008 was approximately \$286,000.

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, 2009 and 2008 amounted to approximately \$19 million and \$28 million, respectively. The Authority is also responsible for providing operating subsidy to the owners/managers of approximately 1,057 apartments, which are dedicated for use by residents of the Authority's Conventional Low-Income Public Housing Program. Related operating subsidy payments for the years ended December 31, 2009 and 2008 amounted to approximately \$3.4 million and \$2.9 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, 2009 and 2008 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 2010 but such reductions are not currently expected to have a material adverse impact to the Authority.

Additional Information

**Financial Data Schedule –
Entity-Wide**

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

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2009

<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>		
Programs Relating to Conventional Low-Income Housing Program:		
Public and Indian Housing (Low-Income Housing Assistance Program)	14.850	\$ 36,763,887
MROP	14.850 (b)	<u>427,676</u>
Total CFDA #14.850		<u>37,191,563</u>
 Public Housing Capital Fund Cluster:		
Public Housing Capital Fund	14.872	28,628,033
ARRA - Public Housing Capital Fund Stimulus (Formula)	14.885	<u>13,463,062</u>
Total Public Housing Capital Fund Cluster		<u>42,091,095</u>
 Demolition and Revitalization of Severely Distressed Public Housing (HOPE VI)	14.866	410,814
Resident Opportunity and Supportive Services - Homeownership and Family	14.870	44,029
 Programs Relating to Low-Income Housing Program (Section 8):		
Section 8 Housing Choice Vouchers	14.871	32,501,380
Section 8 New Construction and Substantial Rehabilitation	14.182	215,914
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	21,444
<u>U.S. Department of Justice</u>		
Programs Relating to Low-Income Housing Program (Section 8):		
Disaster Housing Assistance Program Grant	97.109	<u>15,192</u>
 Total Expenditures of Federal Awards		<u><u>\$ 112,491,431</u></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, 2009

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards for the year ended December 31, 2009 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 OMB 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, 2009

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 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, 2009, and have issued our report thereon dated September 13, 2010. 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 September 13, 2010.

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

* * * * *

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
September 13, 2010

Independent Auditor's Report on Compliance with Requirements Applicable to 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 compliance of the Housing Authority of the City of Pittsburgh (Authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. 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.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

Internal Control over Compliance

The 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, 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.

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 to detect and correct, noncompliance with a type of compliance requirement of a

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Applicable to Each Major Program

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.

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

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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.

Maher Duessel

Pittsburgh, Pennsylvania
September 13, 2010

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2009

1. Summary of Auditor's Results:

- i. The auditor's report on the financial statements was an unqualified opinion.
- ii. There were no significant deficiencies or material weaknesses in internal control that were disclosed by the audit of the financial statements.
- iii. There were no instances of noncompliance material to the financial statements, which would be required to be reported in accordance with *Government Auditing Standards*, disclosed during the audit.
- iv. There were no significant deficiencies or material weaknesses in internal control over major federal programs disclosed during the audit.
- v. The auditor's report on compliance for each of its major federal programs was an unqualified opinion.
- vi. The audit did not disclose any audit findings that were required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- vii. The major federal programs were:
 - a. Section 8 Housing Choice Vouchers CFDA # 14.871
 - b. Public Housing Capital Fund Cluster CFDA #14.872 and 14.885
- viii. The dollar threshold used to distinguish between type A and type B programs was \$3,000,000.
- ix. The Housing Authority of the City of Pittsburgh did not qualify to be a low risk auditee.

2. Findings related to financial statements that are required to be reported in accordance with GAGAS.

No matters were reported.

3. Finding and questioned cost for federal award.

No matters were reported.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 2009

There were no prior year findings or questioned costs.

**Housing Authority of the
City of Pittsburgh**

Single Audit

December 31, 2009