

URBAN
REDEVELOPMENT
AUTHORITY OF
PITTSBURGH

(A COMPONENT UNIT OF THE CITY OF PITTSBURGH, PENNSYLVANIA)

FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY
AND
ADDITIONAL INFORMATION

YEAR ENDED DECEMBER 31, 2008

WITH

INDEPENDENT AUDITOR'S REPORT

MaherDuessel

Certified Public Accountants || *Pursuing the Profession While Promoting the Public Good*[®]

URBAN REDEVELOPMENT AUTHORITY OF PITTSBURGH

STATEMENT OF NET ASSETS

DECEMBER 31, 2008

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Pittsburgh Housing Development Corporation
Assets				
Cash and investments	\$ 89,868,415	\$ 134,899,008	\$ 224,767,423	\$ 869,214
Restricted cash and investments	-	5,552,046	5,552,046	-
Due from other governments	6,936,057	-	6,936,057	-
Other receivables	11,516,355	442,171	11,958,526	213,150
Internal balances	(98,715)	98,715	-	-
Loans to component units	2,520,119	-	2,520,119	-
Loans receivable, net	26,244,833	64,349,669	90,594,502	1,600,000
Property held for redevelopment	17,435,952	-	17,435,952	6,837,173
Other assets	-	1,334,010	1,334,010	100
Capital assets:				
Non-depreciable	24,655,638	-	24,655,638	-
Depreciable, net of accumulated depreciation	23,983,719	7,075,823	31,059,542	-
Total Assets	\$ 203,062,373	\$ 213,751,442	\$ 416,813,815	\$ 9,519,637
Liabilities				
Accounts payable and other accrued liabilities	\$ 32,122,097	\$ 1,178,033	\$ 33,300,130	\$ 199,229
Deferred revenue	13,040,806	1,239,922	14,280,728	-
Loans payable to URA	-	-	-	2,520,119
Noncurrent liabilities:				
Due within one year	6,520,587	38,792,264	45,312,851	1,367,109
Due in more than one year	20,625,755	114,595,867	135,221,622	-
Total Liabilities	72,309,245	155,806,086	228,115,331	4,086,457
Net Assets				
Invested in capital assets, net of related debt	21,004,876	4,718,559	25,723,435	-
Restricted for urban development	30,904,573	-	30,904,573	-
Restricted for lending programs	28,764,952	52,210,354	80,975,306	-
Restricted for housing program	-	-	-	5,433,180
Unrestricted	50,078,727	1,016,443	51,095,170	-
Total Net Assets	130,753,128	57,945,356	188,698,484	5,433,180
Total Liabilities and Net Assets	\$ 203,062,373	\$ 213,751,442	\$ 416,813,815	\$ 9,519,637

The notes to the financial statements are an integral part of this statement.

URBAN REDEVELOPMENT AUTHORITY OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Urban Redevelopment Authority of Pittsburgh (URA) was established in 1946 under the Pennsylvania Urban Redevelopment Law. The URA acquires and clears blighted property; initiates rebuilding with the private sector; negotiates with the federal, state, county, and local governments for public funds and facilities; and works to maintain and improve Pittsburgh neighborhoods and business districts. Funding for the URA projects and programs is obtained primarily through revenue bonds and intergovernmental grants.

The URA is considered to be a component unit of the City of Pittsburgh (City) as the Mayor of Pittsburgh appoints the Board of Directors of the URA and a financial benefit/burden relationship exists between the City and the URA.

The reporting entity of the URA includes the accounts of all URA operations as well as an entity that qualifies as a component unit of the URA. The component unit of the URA is the Pittsburgh Housing Development Corporation (PHDC) as the URA appoints the Board of Directors of this non-profit corporation and has the ability to impose its will upon the PHDC. The PHDC initiates, plans, finances, develops, and manages housing development throughout the City, with particular emphasis on activities in low- and moderate-income census tracts. This component unit is discretely presented on the government-wide statements.

The component unit operates on a fiscal year ending December 31. Separate financial statements and information for PHDC can be obtained through the Finance Department of the URA.

The Pittsburgh Economic and Industrial Development Corporation (PEIDC)

The URA provides administrative support to PEIDC. PEIDC is a non-profit corporation which was formed to formulate, implement, and promote commercial, industrial and other economic development goals, strategies, and projects in and for the City. The Board members are elected by the PEIDC membership. As a result, the PEIDC is not considered a component unit of the URA. Financial information is available for PEIDC at the URA's offices.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary

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government and its component units. *Governmental activities*, which normally are supported by intergovernmental grants, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for services. Likewise, the *primary government* is reported separately from a legally separate *component unit* for which the primary government is financially responsible.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from services or privileges provided by a given function or segment and 2) grants that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary and fiduciary funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as soon as all eligibility requirements imposed by the grantor have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures related to compensated absences are recorded only when payment is due.

Federal, state, and local grants designated for payment of specific URA expenditures are recognized when the related expenditures are incurred. Interest earnings associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current period. Any excess of grant-specific revenues or expenditures at year-end is recorded as deferred revenue or accounts receivable, respectively. All other

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revenue items are considered to be measurable and available only when cash is received by the URA.

The URA reports the following major governmental funds:

The *General Fund* is the URA's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The *CDBG and CDBG Program Income Funds* account for substantially all of the URA's Community Development Block Grant program which provides grants and loans for economic development and housing in the City.

The *South Side Works Fund* accounts for the significant development activities in process on the City's South Side, including office, housing, entertainment, and recreation components.

The *Downtown Retail Corridor Fund* accounts for the property acquisitions in the downtown area in preparation for future development.

Through funding provided by the Department of Housing and Urban Development, the URA uses its *HOME Fund* to provide financial assistance specifically to meet the housing related needs of the City. HOME money is utilized for both rehabilitation and new construction through existing URA housing programs. Assistance may be in the form of loans or grants to individual borrowers or developers.

The *Pittsburgh Technology Center Fund* is currently accounting for activity related to an office park located in the Hazelwood neighborhood of Pittsburgh. Phase II of the project is currently underway which includes the utilization of federal loan dollars for the completion of a new parking garage. Continuing infrastructure development will enable the sale of remaining parcels, increasing the tax base.

The *RACP Grant Fund* accounts for those Redevelopment Assistance Capital Program (RACP) grants for which the URA serves as a conduit between the Commonwealth of Pennsylvania and a grant sub-awardee. The State Budget Office of the Commonwealth of Pennsylvania administers the RACP program which is designed to fund projects that have regional impact such as job creation or increased tax base.

The URA reports the following major proprietary funds:

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The *Mortgage Revenue Bond Program* accounts for the issuance of tax-exempt bonds to finance below-market rate mortgages for the purchase and rehabilitation of residential property within the City.

The *Home Improvement Loan Program* accounts for the activities of the issuance of tax-exempt and taxable bonds to finance the rehabilitation of residential housing for persons and families of low to middle income throughout the City but without regard to borrower's income in certain designated targeted areas within the City.

The *Single Family Mortgage Revenue Draw Down Bonds Fund* accounts for the activities of a facility put in place to preserve the URA's private-activity volume cap for its housing bond programs.

The *Pittsburgh Development Fund* accounts for the activities of a major loan fund making funds available for large initiatives and projects within the City that serve to attract new businesses, expand and retain existing businesses, and encourage downtown, riverfront, and neighborhood development. The fund was established by the issuance of redevelopment bonds which are being repaid from a pledged portion of the City's RAD tax.

The *Produce Terminal Fund* accounts for the activities of a URA-owned property that includes a wholesale fruit and vegetable distribution center and office space located in the City's Strip District.

The *Lexington Technology Park Fund* accounts for the activities of URA-owned property that houses mixed-use light industrial facilities, the Allegheny County 911 facilities, and other County offices. It is located in the City's North Point Breeze/Homewood neighborhood.

Additionally, the URA reports the following fiduciary funds:

Agency Funds are used to account for assets held by the URA as an agent for other governments. The URA's *Tax Lien Fund*, *Fulton Debt Service Reserve Fund*, and *Tax Increment Financing Fund* are classified as agency funds as they are custodial in nature and do not involve measurement of results of operations.

Private-sector standards of accounting and financial reporting issued prior to November 30, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds,

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subject to this same limitation. The URA has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the URA's governmental and business-type funds and its component unit. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers for rents, property management services, interest on loans in its lending programs and investment interest earned which is to be used to further the programs, 2) operating grants and 3) capital grants. Internally dedicated resources are reported as *general revenues* rather than program revenues. Likewise, operating grants to support the URA's general functions are reported as general revenue.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal on-going operations. The principal operating revenues of the URA's loan program enterprise funds (Mortgage Revenue Bond Program, Home Improvement Loan Program, Pittsburgh Development Fund, and the Single Family Mortgage Revenue Draw Down Bonds) are interest earned on loans and for the Produce Terminal Fund, the Western Restoration Center Fund, and the Lexington Technology Park Fund are property management service fees. Operating expenses for the enterprise funds include the cost of fair value discounts on loans, originating lender service fees, bad debt expenses, administrative expenses, depreciation expense on capital assets and property management and improvement costs. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

Cash and Cash Equivalents

The URA's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Use of cash and cash equivalents is generally limited to the related programs. Certain cash and deposits are classified as restricted assets because the use of those assets is contractually restricted.

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Investments

Investments are recorded at fair value based on quoted market prices with the exception of investment agreements, which are recorded at cost.

Interfund Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Loans Receivable

In the governmental funds, loans receivable are recognized when the loan is established for loans with terms of thirty years or less. In the governmental funds, the loan balances are fully offset by deferred revenue as loan repayments are not considered to be available as current resources. Loans with amortization terms greater than thirty years or which are repayable on a contingent basis such as the sale of the property or completion of development are treated as grants for accounting purposes and recorded as expenditures when disbursed, or are fully reserved.

In the proprietary funds, amortizing loans are recorded at their principal balance due less an allowance for uncollectible accounts.

It is the URA's policy to provide for future losses on loans based on an evaluation of the current loan portfolio, current economic conditions, and such other factors which, in the URA's judgment, may impact collectibility.

Property Held for Redevelopment

Property held for redevelopment relates mainly to land and buildings held by the URA that is available for redevelopment. Depending on the nature of the redevelopment activity, the transfer of this property may consist of many forms: grant, subsidized or below-market sale, or an independent, market-based sale. This property is held at cost or estimated net realizable value, if less than cost, and is offset by deferred revenue in the governmental funds, as this property is not considered to be available as current resources. Estimated net realizable value is calculated once plans or disposition agreements are in place to dispose of the property at less than cost. When assets are sold, the proceeds are either returned to the program to further its purposes or returned to the grantor agency that funded the original purchase.

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Capital Assets

Capital assets, which include land, land improvements, and buildings are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the URA as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities would be included as part of the capitalized value of the assets constructed if the projects were financed. No capital assets were constructed using external, interest-bearing financing during 2008 in the URA's business-type funds; accordingly, no interest was capitalized.

Buildings and improvements are depreciated using the straight line method. Buildings are assigned a useful life of 30-40 years and building improvements are amortized over 15 years or the remaining building life as of the year of completion.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as other assets and amortized over the term of the related debt.

Compensated Absences

The URA's compensated absences consist of accumulated unpaid vacation pay and unpaid accumulated sick leave which can be converted to a termination benefit provided certain criteria are met.

Urban Development Expenditures

Urban development expenditures include construction costs incurred for the creation of infrastructure assets on behalf of the City as part of various development projects. At certain

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points during the projects, the URA dedicates these infrastructure assets to the City. As the URA will not own or maintain the assets, these assets are not capitalized on the URA's financial statements.

The 2008 Urban development expenditures also include a \$1.5 million payment to the City to support its capital program. The expenditure is recorded in the General Fund and was funded via a transfer from the UDAG Fund to the General Fund.

Budgets

Formal legal budgetary accounting is not employed for the governmental funds of the URA. Budgetary control for the General Fund is achieved through management-designed analyses. Budgetary control for the Special Revenue Funds is achieved via compliance with grant agreements related to the special revenue activities. Accordingly, budget-to-actual statements are not presented and encumbrance accounting is not employed.

Tax Increment Financing

The Authority is involved with several Tax Increment Financing (TIF) transactions. As described in Note 9, the Authority has no obligation for repayment of such debt, and, accordingly, the debt has been excluded from the financial statements. To the extent TIF transactions involve proceeds available for use by the Authority; the related proceeds are recorded in special revenue funds. Other TIF transactions involve the Authority acting as an agent for others, and, as such, the related proceeds are recorded in fiduciary funds.

Nature and Purpose of Reservations and Designations of Fund Balances

The Special Revenue Fund balance reservations for specified purposes relate to use restrictions imposed by the grantor agencies on the residual funds held.

General Fund fund balance designations relate to funds to be used for subsequent year's expenditures (\$2.2 million), funds designated for housing programs and current projects that may require bridge financing (\$17 million), and funds designated for the construction of South Side Works Garage #5 (\$2 million). A designation of \$4 million has also been established by the Board for potential relocation costs associated with one of the URA's current projects.

Deficit Fund Balance

The South Side Works Fund has a deficit balance of \$567,533 at December 31, 2008, significantly reduced from \$1,249,570 at December 31, 2007. The URA intends to fund this

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deficit with proceeds of future land sales, Tax Increment Financing funds, Infrastructure Facilities Improvement Program from DCED, as well as Section 108 and BEDI grant funds.

The Community Development Block Grant - Program Income deficit of \$538,274 at December 31, 2008 is intended to be funded with repayments received in the CDBG revolving loan funds throughout 2009. The URA anticipates 2009 repayments to approximate \$2.3 million.

The Southside Riverfront Fund has a deficit of \$645,027 at December 31, 2008 which the URA intends to fund with future grant awards, primarily a \$2.5 million Redevelopment Assistance Capital Program grant from the State that is expected to be finalized in 2009.

Other deficits are monitored by URA management and will be funded by future grants or other operating income.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Pending Pronouncements

In June 2008, GASB issued Statement No. 53, "*Accounting and Financial Reporting for Derivative Instruments*." This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. This Statement is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements and will be effective for the URA's financial statements for the year ended December 31, 2010. The URA is currently considering the impact that this new pronouncement will have on the financial statements.

2. CASH AND INVESTMENTS

The URA is authorized to make investments of the following types pursuant to the Redevelopment Act which requires investments meet a "reasonable man" standard. Under

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the URA's policy, authorized investments include (1) United States Treasury bills, (2) short-term obligations of the United States government or its agencies or instrumentalities, (3) deposits in savings accounts or time deposits or share accounts of institutions which are insured, (4) obligations of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities or any political subdivision thereof, and (5) shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, provided that the investments of that company meet the criteria of (1) through (4) above.

The deposit and investment practices of the URA and its component unit adhere to statutory and contractual requirements and prudent business practice. Deposits of the governmental funds are either maintained in demand deposits or savings accounts, and certificates of deposit. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the trust indentures.

GASB Statement No. 40, "*Deposit and Investment Risk Disclosures*," requires disclosures related to the following deposit and investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. The following is a description of the URA's and their component unit's deposit and investment risks:

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the URA's deposits may not be returned to it. The URA does not have a formal policy for custodial credit risk. As of December 31, 2008, \$28,147,140 of the URA's bank balance of \$30,147,140 was exposed to custodial credit risk, which is collateralized 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. As of December 31, 2008, the carrying amounts of the URA's deposits were \$29,140,180.

As of December 31, 2008, \$510,800 of the component unit's bank balance of \$905,309 was exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania state legislature. As of December 31, 2008, the carrying amounts of the component unit's deposits were \$869,214.

As of December 31, 2008, \$955 of the Agency Fund's bank balance of \$4,611 was exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania state legislature. At December 31, 2008, the bank balance was the same as the carrying amount of these deposits.

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In addition to the deposits noted above, included in the cash and investments were the following:

	Fair market value	Maturity in years						
		Less than 1 year	1-5 years	6-10 years	11-15 years	16-20 years	21-25 years	26-30 years
Money Market Funds	\$ 117,672,959	\$ 117,672,959	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Bonds	3,400,125	-	-	-	3,400,125	-	-	-
GNMA	12,441,736	-	1,166	285,339	2,302,986	-	2,191,319	7,660,926
Guaranteed Investment Contracts	27,500,000	27,500,000	-	-	-	-	-	-
FHLB	1,356,934	1,090,627	266,307	-	-	-	-	-
Freddie Mac	1,390,543	-	-	-	-	-	-	1,390,543
FNMA	36,524,187	-	22,009	475,309	4,411,517	14,709,362	12,925,012	3,980,978
FHLMC	892,805	892,805	-	-	-	-	-	-
Total	\$ 201,179,289	\$ 147,156,391	\$ 289,482	\$ 760,648	\$ 10,114,628	\$ 14,709,362	\$ 15,116,331	\$ 13,032,447

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of the URA's investments. The URA's policy is to attempt to match its investments with anticipated cash flow requirements. Unless matched to specific cash flow requirements, the URA will not directly invest in securities maturing more than five years from the date of purchase or in accordance with state and local statutes and ordinances.

Certain investments are comprised of assets securitized in the secondary market from loans issued from the loan programs. The maturities noted in the table above reflect the final maturity of the respective security and does not take into consideration non-routine repayments on principal as it is not possible to forecast these repayments. It is management's intention to hold these securities until maturity. Interest rates on these investments are fixed and principal and interest repayments from these investments will be used to repay the related debt service.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The URA has an investment policy that limits its investment choices based on credit qualifications by investment type. As of December 31, 2008, the URA's investments in money market funds, FHLB investments, FNMA investments, and FHLMC investments were rated AAA by Standard & Poor's. The Authority's investment in the guaranteed investment contract is unrated.

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Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investments in a single issuer. The URA has a concentration of credit risk policy to monitor concentrations to single issuers on a quarterly basis. More than 5% of the URA's investments are in Fannie Mae asset-backed securities (18%) and Guaranteed Investment Contracts (14%).

3. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivables, payables, and transfers as of December 31, 2008 consisted of:

Fund	Receivables	Payables
Major Funds:		
General	\$ -	\$ 4,468,377
Community Development Block Grant	-	1,817,784
Community Development Block Grant Program Income	-	317,730
South Side Works	472,092	-
Downtown Retail Corridor	1,187,294	-
HOME	422,008	-
Pittsburgh Technology Center	4,758,174	-
Produce Terminal	108,917	-
Other Enterprise Fund	-	10,202
Other Governmental Funds	10,905,274	11,239,666
	<u>\$17,853,759</u>	<u>\$17,853,759</u>

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Fund	Transfers In	Transfers Out
Major Funds:		
General	\$ 2,026,033	\$ 1,098,453
Community Development Block Grant	-	2,976,407
Community Development Block		
Grant Program Income	754	44,430
South Side Works	138,545	142,088
Home Improvement Loan Program	-	250,000
Other Enterprise Fund	124,776	-
Other Governmental Funds	7,209,078	4,987,808
	<u>\$ 9,499,186</u>	<u>\$ 9,499,186</u>

The URA transfers between its funds to accommodate the need to account for CDBG funds through a clearing account and to fill funding gaps.

4. LOANS RECEIVABLE

Loans receivable from individual property-owners and enterprises within the City are reported net of any applicable allowances for uncollectible loans in the following funds at December 31, 2008:

Governmental Funds:	Amount
Major Funds:	
General Fund, net of an allowance for uncollectible loans of \$19,361	\$ 268,393
Community Development Block Grant Program Income, net of an allowance for uncollectible loans of \$922,478	3,852,238
Pittsburgh Technology Center	575,750
HOME, net of allowance of \$61,660	687,239
Other Funds, net of an allowance for uncollectible loans of \$16,748,906	23,381,332
	<u>\$28,764,952</u>

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	<u>Amount</u>
<u>Enterprise Funds:</u>	
Mortgage Revenue Bond Program, net of an allowance for uncollectible loans of \$222,423	\$ 20,952,792
Home Improvement Loan Program, net of a fair value discount of \$1,080,229	4,682,627
Pittsburgh Development Fund, net of an allowance for uncollectible loans of \$6,245,011	38,714,250
	<u>\$ 64,349,669</u>
<u>Component Unit:</u>	
Pittsburgh Housing Development Corporation	<u>\$ 1,600,000</u>

The most significant of the governmental fund loans relates to the UDAG Program and the Community Development Block Grant (CDBG) Program. UDAG loans are made to individual businesses. The CDBG loans are made to individual homeowners as well as to businesses.

In 1985, the URA loaned the Grant Liberty Development Group Associates (Grant Liberty) \$20.85 million to aid in the construction of the Liberty Center. The loan has a twenty-five year term and bears interest at 4.9%. In accordance with the terms of the loan agreement, principal and interest payments are to be equal to 50% of Grant Liberty's 40% share of the venture's positive net cash flow. If cash flow for the year is negative, the scheduled interest payment is deferred and added to the outstanding balance upon which interest is accrued. During 2006, Grant Liberty resumed payment on this loan; furthermore they committed to pay a minimum of \$400,000 annually. The loan was amended to no longer require that unpaid interest be added to the principal balance of the loan. As of December 31, 2008, the outstanding balance of the loan was \$63 million. The URA established a loan reserve equal to the outstanding balance because of uncertainties surrounding the ultimate repayment of the loan. As this loan is fully reserved, neither the loan nor the allowance is reflected on the financial statements. During 2008, approximately \$3.1 million of accrued interest was paid and is reflected as loan repayment income in the UDAG fund.

The Mortgage Revenue Bond Program provides below market rate mortgages for the purchase and rehabilitation of residential property. Funds to finance the mortgages have been provided principally through the issuance of tax-exempt bonds. The Home Improvement Loan program also finances the rehabilitation of residential housing through the issuance of tax-exempt and taxable bonds as well as grants. The Pittsburgh Development

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Fund loans were made to targeted and strategic commercial development ventures to encourage and expand economic development within the City.

Loans receivable include \$2,520,119 due from PHDC, the URA's discretely-presented component unit, as described at Note 8.

As of December 31, 2008, the URA had approved \$8.8 million of PDF loans to various borrowers. These loans will close and begin to be paid out to the borrowers in 2009. Additionally, there was \$9.1 million in remaining disbursements available to borrowers on closed PDF loans as of December 31, 2008.

5. CAPITAL ASSETS

Capital Assets

Activity for the year was as follows for the URA's governmental activities:

	Balance at December 31, 2007	Additions	Disposals	Balance at December 31, 2008
Non-Depreciable Assets:				
Land and improvements	\$ 14,260,885	\$ -	\$ 85,993	\$ 14,174,892
Construction in progress	-	10,480,746	-	10,480,746
	<u>14,260,885</u>	<u>10,480,746</u>	<u>85,993</u>	<u>24,655,638</u>
Depreciable Assets:				
Buildings	25,915,496	1,720,000	-	27,635,496
Less: accumulated depreciation	<u>(2,986,036)</u>	<u>(665,741)</u>	-	<u>(3,651,777)</u>
	<u>22,929,460</u>	<u>1,054,259</u>	-	<u>23,983,719</u>
Governmental activities capital assets, net	<u>\$ 37,190,345</u>	<u>\$ 11,535,005</u>	<u>\$ 85,993</u>	<u>\$ 48,639,357</u>

Business-Type Capital Assets

The business-type funds' capital assets are valued at cost less accumulated depreciation determined using the straight-line method. The capital assets are included in the Produce

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Terminal Fund and Lexington Technology Park Fund. Depreciation charged to expenses was \$310,585 and \$349,949 for Produce Terminal Fund and Lexington Technology Park Fund, respectively.

A summary of capital asset activity in the Enterprise Funds is as follows:

	Balance at December 31, 2007	Additions	Disposals	Balance at December 31, 2008
Buildings and improvements	\$ 17,596,804	\$ -	\$ -	\$ 17,596,804
Less: accumulated depreciation	(9,860,447)	(660,534)	-	(10,520,981)
	<u>\$ 7,736,357</u>	<u>\$ (660,534)</u>	<u>\$ -</u>	<u>\$ 7,075,823</u>

6. PROPERTY HELD FOR REDEVELOPMENT

The URA holds property for redevelopment which is valued at cost or net realizable value, if less than cost. A summary of the property held for redevelopment by fund at December 31, 2008 is as follows:

	# of Parcels	Amount
<u>Valued at cost:</u>		
Major Funds:		
General Fund	7	\$ 1,214,693
Community Development Block Program Income	1	260,900
Downtown Retail Corridor Fund	13	9,517,012
Pittsburgh Technology Center	1	125,000
Other Governmental Funds	28	<u>6,016,777</u>
		<u>17,134,382</u>
<u>Valued at Estimated Net Realizable Value:</u>		
South Side Works Fund	16.53 acres	<u>301,570</u>
		<u>301,570</u>
		<u>\$ 17,435,952</u>
Total property held for redevelopment		

The first section includes property held for redevelopment which is valued at cost, which approximates estimated net realizable value as there are no current plans or disposition agreements in place to dispose of the property at less than cost. However, an amount less

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than the recorded value may be realized in the future due to the purpose for the transfer of the asset.

The second section includes funds with property held for redevelopment which is valued at estimated net realizable value based on management's estimate at December 31, 2008.

7. DEFINED CONTRIBUTION PLAN

The URA provides a defined contribution retirement plan covering all employees who have completed one year of service. The total contribution for any plan participant is 10% of their base salary. Participants who were employed after December 31, 1985 contribute 5% of their base salary and receive a matching contribution by the URA. Participants hired before January 1, 1986 make no contribution to the plan as the URA funds the entire 10% contribution. Employer contributions, net of forfeitures, for the year ended December 31, 2008 were \$314,060 and employee contributions were \$144,673.

Under the defined contribution plan, the participants become vested at 25% per year after the first year of participation. Upon termination of employment, the non-vested portion of a participant's account is returned to the URA and credited against current expenses. Upon attainment of normal retirement age as defined by the plan, the participants become 100% vested regardless of the number of years of service.

8. LONG-TERM DEBT

The following is a summary of changes in long-term obligations of the URA for the year ended December 31, 2008:

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	Balance at December 31, 2007	Additions	Retirements	Balance at December 31, 2008
Primary Government:				
<i>Governmental:</i>				
Bank loans	\$ 6,801,239	\$ 1,500,000	\$ 405,107	\$ 7,896,132
HUD Section 108 loans	8,960,000	10,500,000	670,000	18,790,000
Compensated absences	477,478	-	17,268	460,210
Total Governmental Fund Debt	16,238,717	12,000,000	1,092,375	27,146,342
<i>Proprietary:</i>				
Mortgage Revenue Bond Program	85,835,000	-	4,620,000	81,215,000
Home Improvement Loan Program	4,565,000	-	140,000	4,425,000
Single Family Mortgage Revenue			-	27,500,000
Draw Down Bonds	27,500,000	-	-	27,500,000
Bank loan	2,729,116	-	371,852	2,357,264
PDF Trust bonds	47,575,000	-	5,320,000	42,255,000
Deferred amounts:				532,059
For issuance premiums	620,735	-	88,676	532,059
On refunding	(5,712,224)	-	(816,032)	(4,896,192)
Total Proprietary Fund Debt	163,112,627	-	9,724,496	153,388,131
Total Debt and Other Long-Term Obligations - Primary Government	\$ 179,351,344	\$ 12,000,000	\$ 10,816,871	180,534,473
Component Unit:				
Pittsburgh Housing Development Corporation:				
Loans payable to the URA	\$ 2,335,808	\$ 288,425	\$ 104,114	2,520,119
Bank construction loans	854,273	691,545	178,709	1,367,109
Total Component Unit Debt	\$ 3,190,081	\$ 979,970	\$ 282,823	3,887,228
Total Debt and Other Long-Term Obligations - Reporting Entity				\$ 184,421,701

Proprietary Fund debt at December 31, 2008 is composed of the following individual issues:

Mortgage Revenue Bonds

The Mortgage Revenue Bond Program was created to provide below market rate mortgages for the purchase and rehabilitation of residential property within the City. The bonds, including various series and term bonds, bear interest at rates from 3.20% to 6.40% and mature through 2036. \$3,250,000 is due in 2009.

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Home Improvement Loan Program Bonds

The URA issued various series of bonds over the life of the program to finance the rehabilitation of residential housing for persons and families of low to middle income throughout the City but without regard to borrower's income in certain designated redevelopment areas within the City. Serial bonds of \$2,650,000 are currently outstanding. They bear interest at 4.65% to 5.15% and mature through 2017. There are also term bonds outstanding of \$1,775,000 with a stated interest rate of 5.25% and maturity dates ranging from 2010 through 2021. \$100,000 is due in 2009.

Single Family Mortgage Revenue Draw Down Bonds

The purpose of the program is to preserve tax-exempt private activity volume cap by warehousing note proceeds resulting from prepayment redemptions, maturing principal, or other special redemptions of the URA until the issuance of long-term bonds. As of December 31, 2008, \$27,500,000 of tax-exempt, short-term notes is outstanding, of which \$19,013,000 accrues interest subject to alternative minimum tax. The bonds accrue interest at a variable rate determined as follows: 1) interest on bonds subject to alternative minimum tax shall accrue interest at a rate equal to the Securities Industry and Financial Markets Association (SIFMA) Index plus 0.70%; 2) interest on bonds not subject to alternative minimum tax shall accrue interest at a rate equal to the SIFMA Index plus 0.60%; 3) interest, at a minimum, shall not accrue at a rate less than 95% of LIBOR; and 4) interest, at a maximum, shall not exceed the rate of interest on the underlying investment contract in which the proceeds of the bonds have been invested. The note proceeds are invested in a guaranteed investment agreement at a fixed rate. Upon the issuance of long-term bonds, the notes will be refunded. The bonds have a mandatory tender date of June 1, 2009 and if issued no principal payments are due until 2031. In the event that long-term bonds are not issued, the notes will be repaid by the Authority in 2009.

Pittsburgh Development Fund (PDF) Bonds

On September 1, 2005, the Authority issued \$57,470,000 of Special Tax Development Refunding Bonds (2005 Bonds). The proceeds of the 2005 Bonds were used to provide funds for the current refunding of the 1995 Bond Series. Including the upfront payment received, this refunding resulted in an economic gain to the Authority of approximately \$2,450,500. Debt service payments remained materially consistent with the previous debt service requirements. In connection with the debt refunding, the Authority recorded a deferred refunding adjustment of \$7,344,288, which is being amortized as an adjustment to interest expense over the life of the bonds using the effective interest method.

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The 2005 Bonds were issued at a premium of \$798,088, which is being amortized as an adjustment to interest expense over the life of the bonds using the effective interest method.

The City has allocated a portion of the Regional Asset District (RAD) Tax imposed by Allegheny County and irrevocably assigned that portion to the Authority. The 2005 Bonds are limited obligations of the Authority payable solely from that portion of the RAD Tax paid to the Authority or the trustee and certain funds held under the indenture and the earnings thereon. The 2005 Bonds shall not be deemed to be a debt of the Commonwealth of Pennsylvania, Allegheny County, or the City or a pledge of the faith and credit of the Commonwealth of Pennsylvania, Allegheny County, or the City, and shall not be an obligation of the Authority payable from any source except that portion of the RAD Tax assigned to the Authority or the Trustee pursuant to the City's agreement and certain funds held under the indenture and the earnings thereon. The Authority has no taxing power.

The 2005 Bonds bear interest at 5.00% and mature through 2014. \$5,585,000 is due in 2009.

Bank Loan

The URA received a loan to finance renovations to the Lexington Technology Park buildings. Monthly interest payments are currently being made at an effective rate between 5.62% and 8.30%. Lease rental payments are pledged as collateral for this loan. Final maturity is April 1, 2009. \$2,357,264 is due in 2009.

General long-term debt loans payable are described below:

Bank Loans

In 2002, the URA received a loan to finance construction costs incurred to build a garage located at the South Side Works. Interest payments are at an effective rate of 6.81%, which is the three-year FHLB rate plus 2.75%. Rental payments and a mortgage are pledged as collateral for this loan. At December 31, 2008, \$2,568,837 is outstanding. Final maturity is February 28, 2019. \$193,170 is due on this loan in 2009.

In 2003, the URA received a second loan to finance construction costs incurred to build garage #2 at the South Side Works. Interest payments are at an effective rate of 6.75%, which is the five-year FHLB rate plus 2.75%. A mortgage is pledged as collateral for this loan. At December 31, 2008, \$891,430 is outstanding. Final maturity is February 28, 2025. \$33,141 is due on this loan in 2009.

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On March 26, 2004, the Authority entered into a construction loan agreement with Citizens Bank. The proceeds were used to finance the construction of an 868 space parking garage (South Side Works Garage No. 3). As of December 31, 2008, the outstanding loan balance was \$3,035,865. Final maturity is March 1, 2011. \$94,276 is due in 2009. The loan bears interest at one month LIBOR plus 225 basis points and the Authority makes monthly payments of both principal and interest.

In 2008, the URA received a \$1.5 million loan to finance the purchase of property. As of December 31, 2008, \$1.4 million is outstanding. Final maturity is 2010 and \$0 is due on this loan in 2009. The loan bears interest at 6.0% and the Authority makes monthly interest payments.

HUD Section 108 Loans

During 2003, the URA received two HUD Section 108 loans to provide funding for the construction of garages at South Side Works. The first loan, in the original principal amount of \$4.5 million is for an 850-space parking garage, known as Garage #3. The loan bears interest at 4%, with semiannual principal and interest payments due February 1 and August 1. The loan matures on August 1, 2018. The loan is secured by 60% of the tax increment from certain properties located in the South Side Works TIF District (South Side). At December 31, 2008, \$3.55 million is outstanding. \$295,000 is due in 2009.

The second loan, in the original principal amount of \$6.5 million is for the construction of a 367-space parking garage (Garage #2) and site improvements in the South Side. The loan bears interest at 4%, with semiannual principal and interest payments due February 1 and August 1. The loan matures on August 1, 2018. The loan is secured by 60% of the tax increment from certain properties located in the South Side as well as future Community Development Block Grants. At December 31, 2008, \$4.74 million is outstanding. \$405,000 is due in 2009.

During 2008, the URA received three additional HUD Section 108 loans to provide funding for the Pittsburgh Technology Center. The first loan, in the original principal amount of \$3 million is for site improvements and streets and utilities relocation. The loan bears interest at 4.8% with semiannual principal and interest payments due February 1 and August 1. The loan matures on August 1, 2026. At December 31, 2008, \$3 million is outstanding. \$0 is due in 2009.

The second loan, in the original principal amount of \$2 million is for the construction of a 160-space parking condominium. The loan bears interest at 4.8% with semiannual principal and interest payments due February 1 and August 1. The loan matures on August 1, 2026. At December 31, 2008, \$2 million is outstanding. \$0 is due in 2009.

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The third loan, in the original principal amount of \$5.5 million will also be used for the construction of the 160-space parking condominium. The loan bears interest at 2.6% with semiannual principal and interest payments due February 1 and August 1. The loan matures on August 1, 2009. At December 31, 2008, \$5.5 million is outstanding. \$5.5 million is due in 2009.

The 2008 loans are secured by future Community Development Block Grant grants, the pledged increment for the Pittsburgh Technology Center Tax Increment Financing District, and payments under the minimum payment agreement.

Annual debt service requirements on outstanding bonds and loans of the URA are as follows:

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 45,312,851	\$ 8,350,494	\$ 53,663,345
2010	12,048,142	7,186,417	19,234,559
2011	13,898,358	6,624,135	20,522,493
2012	11,167,424	6,204,202	17,371,626
2013	11,661,379	6,569,107	18,230,486
2014-2018	36,614,723	19,205,780	55,820,503
2019-2023	20,468,459	12,376,162	32,844,621
2024-2028	22,987,060	6,594,270	29,581,330
2029-2033	9,195,000	1,551,363	10,746,363
2034-2036	1,085,000	129,500	1,214,500
	<u>\$ 184,438,396</u>	<u>\$ 74,791,430</u>	<u>\$ 259,229,826</u>

Component unit debt consists of the following:

PHDC-URA Loans

PHDC had outstanding construction loans payable to the URA of \$2,520,119. The loans are non-interest bearing. The loans are due upon the sale of related project units but are not scheduled to mature past 2009. The loans are secured by a third lien position on real property and improvements.

PHDC-Bank Loan

The PHDC had outstanding construction loans payable to banks of \$1,367,109. Interest accrues on the loans at rates between 2.50% through 8.25%. Loans are due on demand.

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Future Maturities

Principal payments of \$3,887,228 are due in 2009 for the component unit.

All interest expense on loans of the primary government and its component unit is reported as program expense as the borrowings are essential to the programs and the financial statements would be misleading to exclude these charges as direct expenses.

9. NO-COMMITMENT DEBT

The URA is involved in a number of debt transactions for which the URA issued debt in its name but retained no obligation for the repayment of the debt. The responsibility for repayment belongs either to the City, other taxing authorities, or to private borrowers. As of December 31, 2008, the aggregate amount of no-commitment debt outstanding was \$88,115,353. The amount is comprised of \$13,627,000 Multi-Family Revenue Bonds and \$74,488,353 Tax Increment Financing Bonds and Notes (TIF debt).

Responsibility for repayment of the Multi-Family Revenue Bonds and the Industrial Development Bonds rests with private borrowers. TIF debt is repaid from incremental Allegheny County, City, and School District of the City tax revenues. Generally, third parties are responsible for the repayment of TIF debt to the extent incremental tax revenues are not sufficient to meet debt service requirements.

10. INTEREST RATE SWAP

During fiscal year 2004, the Authority entered into a pay-fixed, receive-variable interest rate swap contract. The interest rate swap occurs on the first day of each month beginning October 1, 2004 and terminating on March 1, 2011.

The intention of the swap is to effectively change the Authority's variable interest rate on the 2004 construction loan agreement (construction loan) to a synthetic fixed rate of 5.00% plus 225 basis points.

The loan accrues interest at 1 month LIBOR (London Interbank Offered Rate) plus 225 basis points. Per the interest rate swap agreement the Authority will receive 1 month LIBOR while paying a fixed rate of 5.00%.

The interest payments on the interest rate swap are calculated based on an original notional amount of \$4,500,000, which began reducing on April 1, 2006 so that the notional amount approximates or is less than the principal outstanding on the underlying construction loan.

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As of December 31, 2008, the notional amount is \$4,194,177. The swap will expire on March 1, 2011 consistent with the last anticipated principal payment on the construction loan.

The Authority makes net swap payments as required by the terms of the contract, that is, receiving a variable rate as noted above for the term of the swap from the counterparty and making a fixed rate payment to the counterparty.

As of December 31, 2008, the swap had a fair value of \$(334,363). The mark to market value is an estimated net present value of the expected cash flows calculated using relevant mid-market data inputs and based on the assumption of no unusual market conditions or forced liquidation.

The Authority has the ability to early terminate the swap and to cash settle the transaction on any business day by providing at least five business days written notice to the counterparty. Evidence that the Authority has sufficient funds available to pay any amount payable to the counterparty must be provided at the time notice is given. At early termination, the Authority will be required to pay or receive a settlement amount which is comprised of the market value of the terminated transaction based on market quotations and any amounts accrued under the contract.

Through the use of a derivative instrument such as this interest rate swap, the Authority is exposed to a variety of risks, including credit risk, interest rate risk, termination risk, and basis risk.

- Credit risk is the risk that a counterparty will not fulfill its obligations. On December 31, 2008, the interest rate swap counterparty was rated A- by Standard & Poor's, a nationally recognized statistical rating organization. If the counterparty failed to perform according to the terms of the swap agreement, there is some risk of loss to the Authority, up to the fair market value of the swap. Performance of the counterparty as it relates to this transaction is unsecured.
- Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the Authority's financial instruments or the Authority's cash flows. The Authority could be exposed to interest rate risk if the long-term interest rates are less than 5.00%.
- Termination risk is the risk that a derivative's unscheduled end will affect the Authority's asset/liability strategy or will present the Authority with potentially significant unscheduled termination payments to the counterparty. The counterparty to the transaction does not have the ability to voluntarily terminate the swap;

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however, the Authority is exposed to termination risk in the event that the counterparty defaults.

11. RISK MANAGEMENT

The URA 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. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not significantly exceeded commercial insurance coverage in the past. There were no significant changes in insurance coverage during the year.

12. COMMITMENTS AND CONTINGENCIES

Grants

Grants received or receivable are subject to audit and adjustment by grantor agencies, principally the state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds.

Litigation

There are various matters of pending litigation in which the URA is involved. The URA believes it has meritorious defenses and intends to contest these matters. The amount of liability, if any, related to these matters is not subject to determination. Accordingly, the financial statements do not include any adjustment for possible effects of these cases.

Contract Commitments

At December 31, 2008, the URA had entered into contracts for professional services and construction totaling approximately \$12.4 million. Approximately \$2.1 million relates to the Southside Works construction, \$2.7 million relates to Garfield Heights, \$2.5 million relates to Pittsburgh Technology Center construction, and \$1.2 million relates to Federal North. The remaining contract commitments relate to various other projects.

Arena Land Agreement

In 2007, as part of a Memorandum of Understanding between the Commonwealth of Pennsylvania, the County of Allegheny (County), the City of Pittsburgh, the Sports and Exhibition Authority (SEA) and the Lemieux Group LP, as developer of a new arena, the developer received redevelopment rights to property surrounding the new arena site. The

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developer is entitled to an aggregate of \$15 million of credits which may be applied to the purchase price of the property over a 10 year period. If all the property is not acquired for redevelopment by the developer, the URA entered into a Put Agreement with the SEA and the County whereby the URA and the Redevelopment Authority of Allegheny County, a component unit of the County, would each agree to purchase from the SEA one half (1/2) of the portion of the property that remains at the end of the draw down period, for a purchase price equal to one half (1/2) of any unpaid portion of the \$15 million credit.