

**PHILADELPHIA LAND BANK**  
City of Philadelphia,  
Commonwealth of Pennsylvania

Financial Statements  
and  
Supplementary Information

June 30, 2018

**PHILADELPHIA LAND BANK**  
City of Philadelphia, Commonwealth of Pennsylvania

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## **PHILADELPHIA LAND BANK**

City of Philadelphia, Commonwealth of Pennsylvania

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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Our discussion and analysis of the financial performance of the Philadelphia Land Bank ("Land Bank") provides an overview of the Land Bank's significant financial activities for the fiscal years ended June 30, 2018 and 2017. Please read it in conjunction with the attached financial statements for a comprehensive understanding of the reports.

#### **Overview and Use of the Financial Statements**

The discussion and analysis is intended to serve as an introduction to the basic financial statements of the Land Bank. The annual financial report is comprised of three components: management's discussion and analysis, the basic financial statements (including related notes to the financial statements), and supplemental schedules required by the City of Philadelphia (the "City").

The financial statements are designed to provide readers with a broad overview of the finances of the Land Bank in a manner similar to private-sector business. These statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units on the accrual basis. Under this basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period they are incurred. Depreciation of capital assets is recognized in the statement of revenues, expenses and changes in net position.

The Land Bank is considered to be a governmental unit. As a result, the format of the attached financial statements conforms with GAAP as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The statements of net position present information on all of the Land Bank's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in the Land Bank's net position are an indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Land Bank, you need to also consider non-financial factors such as the Land Bank's ability to continue receiving funding from the City, City Council's willingness to transfer properties into the Land Bank inventory, and the Administration's willingness to provide resources to facilitate the operations of the Land Bank.

The statements of revenues, expenses and changes in net position present information on how the Land Bank's net position at June 30, 2018 and 2017, is derived.

The statements of cash flows provide information about the sources and uses of cash during the fiscal year.

#### **Basic Financial Statements**

The Land Bank's audited Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows are presented on pages 14 through 16.

## PHILADELPHIA LAND BANK

City of Philadelphia, Commonwealth of Pennsylvania

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

#### Assets

The Land Bank's total assets as of June 30, 2018, 2017 and 2016, consisted of the following:

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>% Change</u>
<u>Current</u>				
Cash	\$ 2,437,517	\$ 3,040,536	\$ 1,307,054	-20%
Accounts Receivable	864,026	349,353	793,242	147%
Prepaid Assets	-	-	210	0%
<u>Non-Current</u>				
Property Held for Development or Sale	25,590,211	25,884,936	9,702,134	-1%
Capital Assets	<u>23,959</u>	<u>35,373</u>	<u>46,788</u>	-32%
<b>Total Assets</b>	<b><u>\$ 28,915,713</u></b>	<b><u>\$ 29,310,198</u></b>	<b><u>\$ 11,849,428</u></b>	<b>-1%</b>

#### **2018**

Total assets at June 30, 2018, reflected a net decrease of approximately \$394 thousand from the prior year. The Land Bank acquired 43 properties during the fiscal year from the City of Philadelphia's Department of Public Property (1) from the Philadelphia Redevelopment Authority ("PRA") (7), from Sheriff Sales – tax foreclosure (35), totaling a book value of approximately \$843 thousand. Property held for development or sale accounts for approximately 88% of total assets with a valuation of approximately \$25.6 Million. The Land Bank sold eighteen (18) properties during the fiscal year. The Land Bank continues to utilize the City of Philadelphia's Office of Property Assessment pricing model to determine the valuation "pricing" of its properties. This methodology will be reassessed in 2019, coupled with consideration for establishing an impairment allowance, if the Land Bank continues to maintain ownership of these properties for an extended period of time.

Total properties acquired and the entity of origin as of the years ended June 30, 2018, 2017 and 2016, consisted of the following:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>Properties Acquired</u>			
PHDC	-	134	585
PRA	7	162	-
City of Philadelphia (Public Properties)	1	673	427
Sheriff Sales	35	30	-
Private	-	1	-
<b>Total Properties</b>	<b><u>43</u></b>	<b><u>1,000</u></b>	<b><u>1,012</u></b>

Cash on hand decreased by approximately 20% from June 30, 2017, to approximately \$2.4 million. Accounts receivable accounted for approximately \$864 thousand and 3% of total assets. Approximately \$108 thousand of this balance is due from the PRA and pertains to net sales proceeds from the Vacant Property Review Committee ("VPRC") and personnel costs for shared employee. PRA administered this program which controls the disposition of city owned property during the fiscal year on behalf of Land Bank.

## PHILADELPHIA LAND BANK

City of Philadelphia, Commonwealth of Pennsylvania

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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#### **Assets (Continued)**

The remaining receivable balance of approximately of \$756 thousand pertains to 72 VPRC purchase money mortgages totaling approximately \$701 thousand transferred from PRA. With twenty-eight (28) purchase money mortgages issued during the fiscal year totaling approximately \$336 thousand for fiscal year 2018 (with the expectation that minimal proceeds will be received as these mortgages are self-amortizing over a ten-year period.).

#### **2017**

Total assets at June 30, 2017, reflected a net increase of approximately \$17.5 million from the prior year. The Land Bank acquired 1,000 properties with a book value of approximately \$16.2 million accounting for approximately 88% of total assets. The Land Bank adopted the City of Philadelphia's Office of Property Assessment pricing model to determine the valuation "pricing" of its properties.

Cash on hand increased by approximately 133% from June 30, 2016, to \$3 million. Accounts receivable accounted for approximately \$349 thousand and 1% of total assets. Approximately \$288 thousand of this balance is due from the PRA and pertains to net sales proceeds from the VPRC. PRA administered this program which controls the disposition of city owned property from January 1 through June 30, 2017, on behalf of Land Bank. The remaining receivable balance of approximately \$61.5 thousand is derived from four purchase money mortgages issued during the fiscal year totaling approximately \$44 thousand.

The remaining receivable balance of approximately \$756 thousand pertains to 72 VPRC purchase money mortgages totaling approximately \$701 thousand transferred from PRA. With twenty-eight (28) purchase money mortgages issued during the fiscal year totaling approximately \$336 thousand for fiscal year 2018 (with the expectation that minimal proceeds will be received as these mortgages are self-amortizing over a ten-year period.).

#### **Liabilities**

The Land Bank's total liabilities as of June 30, 2018, 2017 and 2016, consisted of the following:

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>% Change</u>
<b><u>Current</u></b>				
Accounts Payable	\$ 2,136	\$ 126,261	\$ 167,388	-98%
Escrows Payable	31,611	14,000	-	100%
Accrued Liabilities	390,860	46,652	286,121	738%
Compensated Absences	58,036	42,061	31,907	38%
Intercompany Payable	-	-	156,385	0%
Unearned Revenue	<u>1,578,353</u>	<u>2,836,642</u>	<u>1,455,495</u>	-44%
<b>Total Liabilities</b>	<u>\$ 2,060,996</u>	<u>\$ 3,065,616</u>	<u>\$ 2,097,296</u>	-33%

#### **2018**

At June 30, 2018, total liabilities decreased by approximately \$1 million (33%) to approximately \$2.1 million, primarily consisting of:

- Accounts payable obligations of approximately \$2 thousand which is primarily timing difference from recording of deeds payments.

## PHILADELPHIA LAND BANK

City of Philadelphia, Commonwealth of Pennsylvania

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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#### **Liabilities (Continued)**

- Escrow payables increased by approximately \$18 thousand. Land Bank received twenty-three security escrow deposits totaling \$29 thousand which will be repaid to the developer(s) upon the issuance of construction completion certificates.
- Accrued administrative expenses and contractual obligations as of June 30, 2018, for approximately \$390 thousand. Comprised of \$232 thousand in payroll costs which include Land Bank's direct payroll accrual, PRA and PHDC salary direct and indirect costs. \$97 thousand legal and appraisal fees, and \$39 thousand audit fees, and \$15 thousand due to the Department of Housing and Community Development ("DHCD") for reimbursable operating expenses and \$7 thousand for stormwater charges.
- Compensated absences increased by approximately 38% to \$58 thousand as the Land Bank's staff increased by four full time employees and existing staff accrued additional time.
- Approximately \$1.6 million of unearned revenue at June 30, 2018, went unexpended. The balance of this funding will remain under the Land Bank's budget authority and will be rolled over into Fiscal Year 2019's approved funding allocation. This represents a 44% decrease from the period ending June 30, 2017.

#### **2017**

At June 30, 2017, total liabilities increased by approximately \$968 thousand (46%) to approximately \$3.1 million, primarily consisting of:

- Accounts payable obligations of approximately \$126 thousand. Of which \$123 thousand is due to PHDC for reimbursement of June 2017 monthly salary and indirect cost allocation.
- The Land Bank received nine security escrow deposits totaling \$14 thousand which will be repaid to the developer(s) upon the issuance of construction completion certificates.
- Accrued administrative expenses and contractual obligations as of June 30, 2017, for approximately \$47 thousand. Comprised of \$38 thousand in audit fees and \$6 thousand due to the Department of Housing and Community Development ("DHCD") for reimbursable operating expenses.
- Compensated absences increased by approximately 32% to \$42 thousand as the Land Bank's staff increased by one full time employee and existing staff accrued additional time.
- The Land Bank did not have an intercompany payable with the PRA at June 30, 2017, but rather a receivable of \$288 thousand. The \$156 thousand payable due to the PRA for reimbursement of expenses incurred on behalf of Land Bank's for the period of January 1 through June 30, 2016 was recovered during the fiscal year.
- Approximately \$2.8 million of unearned revenue at June 30, 2017, went unexpended. The balance of this funding will remain under the Land Bank's budget authority and will be rolled over into Fiscal Year 2018's approved funding allocation. This represents a 95% increase from the period ending June 30, 2016.

## PHILADELPHIA LAND BANK

City of Philadelphia, Commonwealth of Pennsylvania

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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#### Revenues

The Land Bank's total revenues at June 30, 2018, 2017 and 2016, consisted of the following:

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>% Change</u>
Revenues applicable to:				
City of Philadelphia	\$ 850,000	\$ 450,000	\$ 350,000	89%
Philadelphia Redevelopment Authority	2,300,192	2,146,953	1,831,939	7%
Other - City Agencies	-	45,218	-	-100%
Other - Developer's Escrow	-	44,259	3,000	-100%
<b>Total Operating Revenues</b>	<b><u>\$ 3,150,192</u></b>	<b><u>\$ 2,686,430</u></b>	<b><u>\$ 2,184,939</u></b>	<b>17%</b>

#### **2018**

In Fiscal Year 2018, the Land Bank generated revenue of \$3,150,192, coupled with unearned revenue rolled over from Fiscal Year 2017, \$850,000 from the City in general funds and \$2,300,192 from the PRA. As of June 30, 2018, the Land Bank recorded \$3,150,192 in total revenue and had an unearned revenue balance of \$1,578,353. This represents an approximate decrease of 44%.

As the Land Bank continues to record the transfer of incoming properties from other City land holding agencies, donated property revenue is generated to offset the recording of assets on the Land Bank's statement of net position. These are synthetic transactions with no offsetting consideration. Consequently, in the initial year when properties are first recorded, revenue artificially increases the Land Bank's net position. During Fiscal Year 2018 eighteen (18) properties were sold below market value with and/or without subsidy generating net sales proceeds of approximately \$701 thousand, the book value of these properties was approximately \$1.2 million so an annual non-operating loss of approximately \$485 thousand associated with these dispositions will be reported.

For Fiscal Year 2019, a funding commitment is expected from the City of Philadelphia, as property sales are not expected to fully subsidize the Land Bank's operating budget and land acquisitions as detailed in the strategic plan.

#### **2017**

In Fiscal Year 2017, the Land Bank received \$2,642,171 in new funding, coupled with unearned revenue rolled over from Fiscal Year 2016, \$450,000 from the City in general funds, \$2,146,953 from the PRA and \$45,218 from the Department of Health. As of June 30, 2017, the Land Bank recorded \$1,846,544 in total revenue and had an unearned revenue balance of \$2,836,642. This represents an approximate increase of 18% and \$500 thousand in *operating* revenue on Fiscal Year 2016.

## PHILADELPHIA LAND BANK

City of Philadelphia, Commonwealth of Pennsylvania

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

#### Expenses

The Land Bank's total expenses for the years ended June 30, 2018, 2017 and 2016, consisted of the following:

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>% Change</u>
Personnel	\$ 1,431,211	\$ 1,631,267	\$ 1,178,942	-12%
Office rental	38,229	81,514	59,921	-53%
Outside service fees	2,655,951	929,600	927,775	186%
Depreciation and amortization	15,840	11,414	9,674	39%
<b>Total Operating Expenses</b>	<b><u>\$ 4,141,231</u></b>	<b><u>\$ 2,653,795</u></b>	<b><u>\$ 2,176,312</u></b>	<b>56%</b>

#### **2018**

Total operating expenses increased by approximately \$1.5 million (56%) driven primarily by outside service fees. For fiscal year 2018, 64% of total expenses incurred pertained to outside contracts and service fees which include primarily tax lien acquisitions \$1.23 million, legal fees \$384 thousand, insurance \$127 thousand, stormwater charges \$456 thousand, and \$455 thousand for other administrative and technology expenses. Personnel expenses decreased by 12% to \$1.43 million. The Land Bank received cost saving as PRA assigned employees were replaced with PHDC employees with lower fringe rates, as well as fringe benefits decreased by \$300 thousand as an employee entered the DROP program this fiscal year. Personnel at June 30, 2018 includes fourteen (14) full-time assigned staff compared to (9) in fiscal year 2017 and an indirect allocation of support staff expenses from PHDC as approved by the inter-agency memorandum of understanding.

Office rental decreased by approximately 53% to \$38,229. This can be attributed to payment to PRA based on square footage utilized as opposed to the revised computation outlined in the memorandum of understanding which utilizes total hours worked by the Land Bank staff which significantly increased as staff was added, over total PHDC hours worked to calculate reimbursable amounts.

An inter-agency memorandum of understanding also exists with DHCD. For Fiscal year 2018, approximately \$165 thousand was expended to reimburse DHCD for services and contracts entered into on behalf of the Land Bank.

#### **2017**

Total operating expenses increased by approximately \$478 thousand (22%) driven by personnel costs. For FY 2018, 61% of total expenses incurred pertain to personnel expenses, approximately \$1.63 million. Personnel at June 30, 2018 includes nine full time assigned staff (two employees were terminated during the fiscal year and two additional vacant positions) and an indirect allocation of support staff expenses from PHDC as approved by the inter-agency memorandum of understanding.

Office rental increased by approximately 36% to \$81,514, this can be attributed to the revised computation outlined in the memorandum of understanding which utilizes total hours worked by the Land Bank staff which significantly increased as staff was added, over total PHDC hours worked to calculate reimbursable amounts.

## **PHILADELPHIA LAND BANK**

City of Philadelphia, Commonwealth of Pennsylvania

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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#### **Expenses (Continued)**

The majority of other expenses \$929,600 (35%) are attributed to outside contracts and services and are predominately technology related, approximately \$320 thousand for the Drexel University fellows, who assist with Land Bank parcel reconciliations and pricing model analysis, approximately \$286 thousand for Land Bank insurance policies, approximately \$71 thousand pertaining to real estate activities, approximately \$45 thousand to maintain Land Bank owned properties. Approximately \$38 thousand for audit fees and approximately \$55 thousand for technological consulting pertaining to LAMA. (Land Bank's property management enterprise solution).

An inter-agency memorandum of understanding also exists with DHCD. For Fiscal year 2018 approximately \$116 thousand was expended to reimburse DHCD for services and contracts entered into on behalf of the Land Bank.

#### **Net Position**

The Land Bank's net position is derived for FY 2018 by the difference between revenue and expense. Through June 30, 2018, the Land Bank's net position of \$26,854,717 represents approximately (103%) of revenue generated as a result of the Land Bank recording the ownership of 2,055 properties (\$26,590,211) and primarily the net loss of \$485,017 on FY 2018 property dispositions coupled with cumulative net capital assets purchased. In subsequent years the Land Bank's net position surplus/deficit will be contingent on how many properties the Land Bank acquires and disposes of and changes to the City of Philadelphia land disposition policy.

The Land Bank's net position for the period ended June 30, 2017 of \$26,244,583 represents approximately (103%) of revenue generated as a result of the Land Bank recording the ownership of 2,012 properties (\$27,001,836) and primarily the net loss of \$839,886 on FY 2017 property dispositions coupled with cumulative net capital assets purchased.

#### **Alternative Funding**

The Land Bank has been the recipient of funds made available directly or indirectly from the City to support the Land Bank's initial startup. As property is transferred into the Land Bank and tax foreclosure properties are acquired, the Land Bank strives to reduce the dependency on the City for subsidy and within five years be able to finance its own activities and operation.

#### **Notes to the Financial Statements**

The notes to the financial statements are an integral part of the statements and should be thoroughly read for a complete detailed understanding of the financial position and activities of the Land Bank.

#### **Issues That May Have a Significant Impact**

A renewal of Memorandum of Understanding between the School District of Philadelphia, the City of Philadelphia, Philadelphia Gas Works, and Philadelphia Land Bank. The Land Bank sought and received a resolution to renew the Memorandum of Understanding ("MOU") reached with the School District, City, and PGW last year which expires on September 15, 2018. The MOU establishes a process for acquiring properties at Sheriff Sale as well as satisfying and clearing past due taxes and municipal liens on those properties. If all parties agree, the Land Bank also proposes to have the MOU renew automatically each year unless one party provides notice of termination.

## PHILADELPHIA LAND BANK

City of Philadelphia, Commonwealth of Pennsylvania

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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#### **Issues That May Have a Significant Impact (Continued)**

The Land Bank plans to acquire 325-350 privately-owned, delinquent vacant properties each year (*less than 0.5% of all delinquent properties in the City*). Properties will be targeted primarily for affordable, workforce, and market rate housing, with a smaller portion of projects related to side yards, community gardens, and business expansion.

The Land Bank has paid the School District approximately \$1,150,000 between October 2017 and July 2018 relating to the acquisition of 306 properties at Sheriff Sale.

PLB successfully submitted testimony and a brief to the Water Rate Board in May 2018, requesting relief from storm water management fees, an approximate expense of \$300,000 per fiscal year. In June 2018 the Water Rate Board approved a zero rate for Land Bank, the rate will take effect in September of 2018 (FY 2019). We are expecting an approximate refund of over \$60,000.

The fiscal 2019 budget was presented and approved at the July Land Bank Board after the passage of the City of Philadelphia's budget. The Land Bank has \$4,168,000 allocated for operations and acquisitions. PLB met with the Revenue and Budget Departments and agreed upon a process of reviewing and approving operational cash flow precluding Land Bank's need for a line of credit. With the approval of continued spending authority by the Land Bank Board, the Land Bank will continue to acquire properties through the next fiscal quarter.

Beginning July 2018, the Land Bank will follow the following procedure:

- The week before the scheduled monthly Sheriff sales the Land Bank will submit an invoice to the Department of Revenue and Budget.
- The invoice will consist of a cover sheet detailing the total amount for that month's Sheriff sale.
  - The invoice will be accompanied by a detailed spreadsheet identifying
    - The address
    - OPA Value
    - All City Liens (RE Taxes, Water, PGW, Other)
    - Bid Amount
    - Sheriff Costs
    - Final Amount Due from the Land Bank per the MOU
- On a quarterly basis the Land Bank will provide Revenue and Budget financial statements explaining the Land Bank's financial position.

The Land Bank entered into a Professional Services Agreement between the Land Bank and Interface Studios LLC for preparation of the 2019 Strategic Plan. This plan will establish 5-year goals for the Land Bank. Below is the timeline for completion:

**PHILADELPHIA LAND BANK**

City of Philadelphia, Commonwealth of Pennsylvania

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

**Issues That May Have a Significant Impact (Continued)**

Item	Completion Date
Kick-off Meeting	No later than July 23, 2018
First Round of Outreach Meetings	Early-August 2018, but to be completed no later than August 17, 2018
First Strategic Plan Draft Completed	September 14, 2018
Preliminary Strategic Plan Published for Public Comment	October 12, 2018
Second Round of Outreach Meetings	Mid/late October, 2018, but to be completed no later than October 19, 2018
Second Strategic Plan Draft Completed	October 26, 2018
Land Bank Public Hearing	No later than November 2, 2018
Final Strategic Plan Provided	November 9, 2018
Final Strategic Plan Adopted by Land Bank Board	November 15, 2018
Final Strategic Plan Introduced to City Council	November 29, 2018
Final Strategic Plan Adopted by City Council	December 6, 2018

As of June 30, 2018, the Land Bank was over its 2018 acquisitions budget by \$27 thousand based on the acquisitions of \$2.577 million and authorized budget as \$2.550 million. See the chart below for additional information related to property acquisitions as compared to the strategic plan goals.

FY 2018 ACTUAL AND ESTIMATED ACQUISITIONS	Acq. to Date	Strategic Plan Goals	Difference
Sideyards (LOTS)	5	81	-76
Total Housing/Mixed Use (LOTS)(GOAL IS IN UNITS)	15	205	-190
<i>Workforce/Affordable</i>	13	154	-141
<i>Market Rate</i>	2	51	-49
Commercial and Business Expansion (LOTS)	1	6	-5
Gardens/Open Space (LOTS)	2	33	-31
Community Use	1	0	1
TBD	256	0	256
TOTAL	280	325	-45

The Philadelphia Land Bank is currently staffed at 94% capacity based on the approved previously approved organization chart. In the last quarter of FY 2018, PLB Staff conducted a time study for all disposition processes:

- RFP,
- Competitive Bid,
- Side Yard,
- Business Expansion,
- Garden Open Space.

Because of the study we realized that the organization needed more Clerk III. To balance the budget, the Special Project Coordinator has been removed from the organization chart and we have inserted two (2) additional Clerk III positions. We have also begun the interview process for a third Sr. Development Specialist.

**PHILADELPHIA LAND BANK**  
City of Philadelphia, Commonwealth of Pennsylvania

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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**Contacting the Land Bank's Management**

If you have any questions about this report or need additional information, you can contact the Philadelphia Land Bank at 1234 Market Street, 16<sup>th</sup> Floor, Philadelphia, PA 19107, (215) 448-3040 or visit our website at [www.philadelphialandbank.org](http://www.philadelphialandbank.org).

Sincerely,

A handwritten signature in blue ink, appearing to read "Angel Rodriguez", with a large, stylized flourish extending to the right.

Angel Rodriguez  
Executive Director

A handwritten signature in blue ink, appearing to read "Darren Williams", with a large, stylized flourish extending to the right.

Darren Williams  
Director of Finance

**INDEPENDENT ACCOUNTANTS' REPORT**

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Philadelphia Land Bank  
City of Philadelphia, Commonwealth of Pennsylvania

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Philadelphia Land Bank (the "Land Bank"), City of Philadelphia, Commonwealth of Pennsylvania as of and for the years ended June 30, 2018 and 2017, and the related notes to financial statements, which comprise the Land Bank's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Land Bank as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages one through ten be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Land Bank's basic financial statements. The accompanying schedules of payments to other City agencies and capital assets are presented for purposes of additional analysis as required by the City of Philadelphia and are not a required part of the basic financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, these schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2018, on our consideration of the Land Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Land Bank's internal control over financial reporting and compliance.

*Mercedien, P.C.*

*Certified Public Accountants*

October 29, 2018

## **BASIC FINANCIAL STATEMENTS**

**PHILADELPHIA LAND BANK**

City of Philadelphia, Commonwealth of Pennsylvania

## STATEMENTS OF NET POSITION

June 30, 2018 and 2017

	<u>2018</u>	<u>2017*</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 2,437,517	\$ 3,040,536
Accounts receivable, net of allowance for doubtful accounts	864,026	349,353
<b>Total Current Assets</b>	<u>3,301,543</u>	<u>3,389,889</u>
<b>Noncurrent Assets</b>		
Property held for development or sale	25,590,211	25,884,936
Capital assets, net of accumulated depreciation	23,959	35,374
<b>Total Noncurrent Assets</b>	<u>25,614,170</u>	<u>25,920,310</u>
<b>Total Assets</b>	<u>\$ 28,915,713</u>	<u>\$ 29,310,199</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 2,136	\$ 126,261
Escrows payable	31,611	14,000
Accrued liabilities	390,860	46,652
Compensated absences	58,036	42,061
Unearned revenue	1,578,353	2,836,642
<b>Total Current Liabilities</b>	<u>2,060,996</u>	<u>3,065,616</u>
<b>Total Liabilities</b>	<u>2,060,996</u>	<u>3,065,616</u>
<b>Net Position</b>		
Net investment in capital assets	25,614,170	25,920,310
Unrestricted	1,240,547	324,273
<b>Total Net Position</b>	<u>26,854,717</u>	<u>26,244,583</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 28,915,713</u>	<u>\$ 29,310,199</u>

\*Certain account balances have been reclassified to conform with current year presentation

**PHILADELPHIA LAND BANK**

City of Philadelphia, Commonwealth of Pennsylvania

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

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Operating Revenues</b>		
Revenues applicable to:		
City of Philadelphia	\$ 850,000	\$ 450,000
Philadelphia Redevelopment Authority	2,300,192	2,146,953
Other - City Agencies	-	45,218
Other - Developer's Escrow	-	44,259
<b>Total Operating Revenues</b>	<u>3,150,192</u>	<u>2,686,430</u>
<b>Operating Expenses</b>		
Personnel	1,431,211	1,631,267
Office rental	38,229	81,514
Outside services fees	2,655,951	929,600
Depreciation and amortization	15,840	11,414
<b>Total Operating Expenses</b>	<u>4,141,231</u>	<u>2,653,795</u>
<b>Operating (Loss) Income</b>	<u>(991,039)</u>	<u>32,635</u>
Net Gain/(Loss) on sales and transfers of land	1,279,043	(839,886)
Miscellaneous fees	8,630	-
Capital contributions	313,500	17,299,702
<b>Total Non-Operating Revenues</b>	<u>1,601,173</u>	<u>16,459,816</u>
<b>Changes in Net Position</b>	610,134	16,492,451
<b>Net Position, Beginning of year</b>	<u>26,244,583</u>	<u>9,752,132</u>
<b>Net Position, End of year</b>	<u>\$ 26,854,717</u>	<u>\$ 26,244,583</u>

See notes to financial statements.

**PHILADELPHIA LAND BANK**

City of Philadelphia, Commonwealth of Pennsylvania

**STATEMENTS OF CASH FLOWS**

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Cash Flows From Operating Activities</b>		
Receipts from contracts with the City of Philadelphia and other agencies	\$ 1,137,594	\$ 4,111,225
Payments to employees for wages and benefits	(1,209,353)	(1,404,567)
Payments to suppliers for other costs	<u>(2,442,023)</u>	<u>(1,266,007)</u>
Net cash provided by operating activities	<u>(2,513,782)</u>	<u>1,440,651</u>
<b>Cash Flows From Non-Capital and Related Financing Activities</b>		
Proceeds from sale of property held for development or sale	<u>1,910,763</u>	<u>292,831</u>
Net cash non-capital and related financing activities	<u>1,910,763</u>	<u>292,831</u>
<b>Net (Decrease)/Increase in Cash</b>	(603,019)	1,733,482
<b>Cash, Beginning of year</b>	<u>3,040,536</u>	<u>1,307,054</u>
<b>Cash, End of year</b>	<u><u>\$ 2,437,517</u></u>	<u><u>\$ 3,040,536</u></u>
<b>Reconciliation of Operating (Loss) Income to Net Cash Provided by Operating Activities</b>		
Operating (loss) income	\$ (991,039)	\$ 32,635
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:		
Depreciation and amortization	15,840	11,414
Changes in operating assets and liabilities:		
Accounts receivable	(514,673)	443,889
Other current assets	-	210
Accounts payable	(124,125)	(41,127)
Accrued liabilities	344,208	(239,469)
Unearned revenue	(1,259,968)	1,379,330
Compensated absences	15,975	10,154
Intergovernmental payable	<u>-</u>	<u>(156,385)</u>
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ (2,513,782)</u></u>	<u><u>\$ 1,440,651</u></u>

See notes to financial statements.

## PHILADELPHIA LAND BANK

City of Philadelphia, Commonwealth of Pennsylvania

### NOTES TO FINANCIAL STATEMENTS

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#### A. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### **Nature of Operations and Reporting Entity**

The Philadelphia Land Bank (“Land Bank”) is an independent governmental unit. In December 2012, the Commonwealth of Pennsylvania enacted the *Pennsylvania Land Bank Act, 68 Pa.C.S.A. §§ 2101-2120*, authorizing the creation of “land banks” by municipalities as tools to facilitate the return of vacant, abandoned and tax delinquent land/properties to productive use. In December 2013, City Council unanimously passed the ordinance which created the Philadelphia Land Bank, which Mayor Nutter signed into law. In July 2014, the Land Bank was incorporated.

The Land Bank is a new agency whose mission is to return vacant and tax delinquent property to productive reuse. The Land Bank will consolidate many of the land acquisition and disposition processes of the City under one umbrella, making it easier for private individuals and organizations to acquire properties that contribute to neighborhood disinvestment and turn them into assets for the community in which they are located. The Land Bank possesses a number of tools that will enable it to help return derelict properties to productive use. The Land Bank can:

- Acquire tax-delinquent properties through tax foreclosure.
- With the City’s consent, clear the title to those properties so that new owners are not burdened by old liens.
- Consolidate properties owned by multiple public agencies into single ownership to speed property transfers to new private owners.
- Assist in the assemblage and disposition of land for community, nonprofit and for-profit uses.

The Land Bank is governed by a board of directors composed of eleven members, five appointed by the Mayor and five by City Council, with the eleventh appointed by the ten. All board members’ terms end with the end of the administration and council’s term in January 2020, although they will serve until they are replaced. Members serve at the pleasure of their appointing authority.

The Land Bank is funded both directly and indirectly through the City of Philadelphia (the “City”). In its inaugural year, the Land Bank received general fund dollars directly from the City and through the Philadelphia Redevelopment Authority (“PRA”) at the Mayor’s request. As of June 30, 2018, the City has not indicated any intention to suspend or terminate its funding relationship with the Land Bank.

##### **Financial Reporting**

The Land Bank is considered to be a governmental organization. As such, the Land Bank presents its financial statements in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Land Bank considers itself to be a special purpose governmental organization engaged only in business type activities.

## PHILADELPHIA LAND BANK

City of Philadelphia, Commonwealth of Pennsylvania

### NOTES TO FINANCIAL STATEMENTS

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#### A. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **Related Party and Memorandum of Understanding**

There are no organizations or agencies that should be included in the Land Bank's financial statements. Through a Management Contract with the Philadelphia Housing Development Corporation ("PHDC"), PHDC manages, oversees and operates the everyday activities of the Land Bank, which includes the authority to act on behalf of the Land Bank, hiring dedicated full time Land Bank staff, and organizing administrative and clerical support staff. PHDC personnel are also responsible for maintaining accurate financial records, facilitating the payment of operational expenses and debts, and all external financial reporting.

##### **Component Unit**

The City of Philadelphia is considering the Land Bank as a potential Component Unit of the City, with its annual financial information being consolidated into the City's Comprehensive Annual Financial Report ("CAFR"). As of June 30, 2018, no formal decision has been determined to its component unit status; however, the Land Bank will comply with the City's guidelines in terms of both mandated required submissions and the implementation of GASB Statement No.'s 68, 69 and 70, if applicable.

##### **Measurement Focus and Basis of Accounting**

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred. All pass-through funding is recognized as revenue when the related costs are incurred. Such costs could include costs of acquisition and rehabilitation of certain real property to be alternately conveyed to program beneficiaries.

Land Bank records all revenues derived and related expenses incurred from its programs and activities as operating revenues and expenses since they are generated from the Land Bank's daily operations needed to carry out its purposes.

In its accounting and financial reporting, the Land Bank follows the pronouncements of the GASB and other entities that promulgate accounting principles. GASB Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. Per the Statement, the sources of authoritative generally accepted accounting principles ("GAAP") are categorized in descending order of authority as follows: GASB Statements and Interpretations, GASB Technical Bulletins, GASB Implementation Guides, and literature of the American Institute of Certified Public Accountants ("AICPA") cleared by the GASB. Authoritative GAAP is incorporated periodically into the *Codification of Governmental Accounting and Financial Reporting Standards* ("Codification"), and when presented in the Codification, it retains its authoritative status. If the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP described above, a governmental entity should first consider accounting principles for similar transactions or other events within a source of authoritative GAAP described above and then may consider non-authoritative accounting literature from other sources. These include GASB Concepts Statements; pronouncements and other literature of the Financial Accounting Standards Board, Federal Accounting

## PHILADELPHIA LAND BANK

City of Philadelphia, Commonwealth of Pennsylvania

### NOTES TO FINANCIAL STATEMENTS

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#### A. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **Measurement Focus and Basis of Accounting (Continued)**

Standards Advisory Board, International Public Sector Accounting Standards Board, and International Accounting Standards Board, and AICPA literature not cleared by the GASB; practices that are widely recognized and prevalent in state and local government; literature of other professional associations or regulatory agencies; and accounting textbooks, handbooks and articles.

##### **Use of Estimates**

The preparation of 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 reported amounts and disclosure of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

##### **Accounts Receivable**

Accounts receivable generally represent amounts due under terms of grants and contracts for expenditures incurred or services provided prior to year-end. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off. The Land Bank had no such balances at June 30, 2018. See Note D.

##### **Revenue Recognition - Government Grants and Contracts**

The Land Bank records funding received in advance under contracts with the PRA and the City as unearned (deferred) revenue until the related costs are incurred or services performed, at that time they are recognized as revenue. In accordance with the terms of the PHDC Management Contract, Land Bank reimburses PHDC for all eligible and allowable costs incurred on behalf of the Land Bank and recognizes revenue accordingly.

##### **Property Held for Sale**

Property held for development or sale will be stated at the lower of the cost of acquisition (or equivalent valuation) or an impaired value, which reflects the land/property true valuation in accordance with GASB Statement No.'s 34, 42 and 72. This methodology will be applied to long-held vacant properties, as well as units recently acquired for sale. As of June 30, 2017, the Land Bank owned 2,012 total properties, 719 acquired from PHDC, 1,100 acquired from the City of Philadelphia Department of Public Property, 162 acquired from the Philadelphia Redevelopment Authority, 30 from sheriff sale, and one private acquisition. As of June 30, 2018, the Land Bank owned 2,055 total properties, 719 acquired from PHDC, 1,101 acquired from the City of Philadelphia Department of Public Property, 169 acquired from the Philadelphia Redevelopment Authority, 65 from sheriff sale, and one private acquisition. The Land Bank utilized the City of Philadelphia's Office of Property Assessment pricing model to determine the valuation "pricing" of its properties as the equivalent of the cost of acquisition. This methodology will be reassessed in 2019, coupled with consideration for establishing an impairment allowance, if the Land Bank maintains ownership of these properties for an extended period of time.

**PHILADELPHIA LAND BANK**

City of Philadelphia, Commonwealth of Pennsylvania

NOTES TO FINANCIAL STATEMENTS

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**A. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Capital Assets and Depreciation**

Capital assets are carried at cost or estimated historical cost, less accumulated depreciation. Capital assets are defined by the Land Bank as assets with a cost of more than \$750 and an estimated useful life in excess of one year. Depreciation is provided on the straight-line method over the estimated useful lives of the related assets as follows:

Buildings (operating real estate)	30 years
Leasehold improvements	10 years
Vehicles, furniture and equipment	10 years
Computer equipment and hardware	5 years

As of July 1, 2017, the Land Bank adopted an addendum to SAP E-72-002 (personal property perpetual inventory) which increased the minimum purchase price from \$500 to \$750 for an expenditure to be considered a capital asset.

**Lease Obligations**

The Land Bank has two lease agreements as of June 30, 2018. Both are thirty-six-month leases with Ford Credit for the lease of two vehicles. Lease payments will not be capitalized and will be expensed monthly. The first lease was entered into in October 2016, for a total of \$12,459 with an outstanding balance of \$5,936. The second lease was entered into in June 2017, for a total of \$14,138 with an outstanding balance of \$10,582 as of June 30, 2018.

**Compensated Absences**

Land Bank staff are employed by PHDC and accrue leave time in accordance with PHDC personnel policies. PHDC employees accumulate sick and vacation time in accordance with their applicable contracts. Employees are not compensated for unused sick leave upon termination unless termination is due to retirement. Retiring employees are entitled to 30% of their accumulated sick time. Employees may carry over unused vacation on January 1 of each year, up to 560 hours. Compensated absences are accrued when incurred and reported as a liability. A corresponding entry is recorded to accounts receivable, since all such amounts are reimbursable by the respective agencies. The accrued liability for compensated absences is also reflected in PHDC's financial statements.

**Other Post-employment Benefits**

On behalf of Land Bank, PHDC accounts for other post-employment benefits under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. This statement requires governmental agencies to recognize an expense under the accrual basis for the annual required other post-employment benefits contributions, regardless of amounts paid into your plan annually. The cumulative difference between amounts expensed and paid creates a liability (asset) similar to net pension obligations. For the year ended June 30, 2018 and 2017, the Land Bank did not incur costs for other post-employment benefits.

## **PHILADELPHIA LAND BANK**

City of Philadelphia, Commonwealth of Pennsylvania

### NOTES TO FINANCIAL STATEMENTS

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#### **A. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Net Position**

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets and property held for development or sale, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position invested in capital assets net of related debt excludes unspent debt proceeds. Net position is reported as restricted when limitations on their use are imposed through external restrictions by creditors, grantors or laws or regulations of other governments. Unrestricted net position consists of all other net position not included in the above categories.

##### **Income Taxes**

The Land Bank is exempt from federal income taxes under Section 115 [1] of the Internal Revenue Code. Accordingly, no provision for income taxes is presented in these financial statements. In addition, properties held for development are exempt from real estate taxes.

#### **B. BUDGETARY INFORMATION**

Annual budgets are adopted based upon approved funding commitments with outside grantor(s) (The City of Philadelphia, PRA) on a basis consistent with U.S. GAAP. All budgets continue to exist for the period defined in the scope of the funding management agreement. In December of each year, the Land Bank prepares a subsequent year budget and submits it to the City for consideration. The Mayor and Council decide the level of support and origin of funds the Land Bank receives.

The appropriated budget is prepared by account and function. Once the budget is funded, the Land Bank may make transfers of appropriations within the agency without written authorization from the grantor.

#### **C. CASH AND CASH EQUIVALENTS**

##### **Legal and Contractual Restrictions**

City of Philadelphia agencies are authorized by statute to deposit funds in depositories that are either banks, banking institutions or trust companies located in the Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral (with their trust department or other custodians) obligations of the United States, the Commonwealth of Pennsylvania or any political subdivision of the Commonwealth. Under Pennsylvania Act 72 of 1971 ("Act 72"), as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit. The Land Bank has no investments and receives no interest income for cash on deposit.

##### **Analysis of Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the Land Bank's deposits may not be returned to it. The Land Bank maintains its cash balances in accounts at a financial institution. The Federal Deposit Insurance Corporation ("FDIC") provides insurance coverage up to \$250,000. The financial institution secures Land Bank deposits in excess of FDIC with a pledge of collateral in accordance with Act 72. The pool of assets applicable to the financial institution's collateralization consists of Government National Mortgage Association (GNMA) securities and other collateral eligible under the U.S. Treasury Tax and Loan Program as in effect on the effective date of Act 72.

**PHILADELPHIA LAND BANK**

City of Philadelphia, Commonwealth of Pennsylvania

## NOTES TO FINANCIAL STATEMENTS

**D. ACCOUNTS RECEIVABLE**

Accounts Receivable as of June 30, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
PRA and Net VPRC proceeds	\$ 108,153	\$287,594
Private Developers	-	17,500
Purchase Money Mortgages	<u>755,873</u>	<u>44,259</u>
	<u>\$ 864,026</u>	<u>\$349,353</u>

The VPRC (“vacant property review committee”) program is administered directly by Land Bank staff coordinating the disposition of City-owned properties. Effective April 2018, the Land Bank processes all VPRC sales and directly collects the sales proceeds. Previously, PRA would administer the process and the Land Bank would receive the net sales proceeds. The PMM receivable will likely be unrealized.

**E. CAPITAL ASSETS**

Capital assets activity as of June 30, 2018 and 2017, was:

	<u>2018</u>	<u>2017</u>
Computers and equipment	\$ 55,637	\$ 55,638
Furniture and equipment	<u>2,870</u>	<u>2,870</u>
Total Capital Assets	58,507	58,508
Less - accumulated depreciation	<u>(34,549)</u>	<u>(23,134)</u>
<b>Total Capital Assets</b>	<u>\$ 23,959</u>	<u>\$ 35,373</u>

Depreciation expenses for capital assets were \$11,414 and \$11,414 for the years ended June 30, 2018 and 2017, respectively.

**F. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities at June 30, 2018 and 2017, consist of the following:

	<u>2018</u>	<u>2017</u>
Accounts Payable	\$ 2,136	\$126,261
Escrows payable	31,611	14,000
Accrued Administrative Expenses	390,860	46,652
Compensated Absences	<u>58,036</u>	<u>42,061</u>
	<u>\$482,643</u>	<u>\$228,974</u>

## **PHILADELPHIA LAND BANK**

City of Philadelphia, Commonwealth of Pennsylvania

### NOTES TO FINANCIAL STATEMENTS

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#### **G. COMMITMENTS AND CONTINGENCIES**

##### **Litigation**

The Land Bank is not a named defendant in any pending lawsuits.

#### **H. RELATED-PARTY TRANSACTIONS**

Related parties of the Land Bank include the City, PHDC and the PRA. Net Accounts (payable)/receivable from PRA are (\$1,726) and \$287,594 and Net amounts receivable/(payable) from PHDC are \$65,940 and (\$123,165) as of June 30, 2018 and 2017, respectively. Substantially all assets, liabilities, revenues and expenses as of and for the years ended June 30, 2018 and 2017, are included under and dependent upon contracts and management agreements with the City and its agencies.

#### **I. PENSION PLAN**

##### **Plan Description**

Land Bank staff can participate in the City of Philadelphia Municipal Public Employee Retirement System, a cost-sharing, multiple-employer Public Employees Retirement System ("PERS"). The City of Philadelphia issues a publicly available financial report that includes the applicable financial statements and required supplementary information for the PERS. The report may be obtained by contacting the Director of Finance of the City of Philadelphia. All full-time employees are eligible and required to participate in the PERS. The PERS provides pension benefits, deferred allowances and death and disability benefits. PHDC employees hired prior to January 1, 2002, participate in the J Plan. Under this plan, if an employee terminates his or her employment after at least 10 years of service but before reaching the age of 55, he or she may receive a refund of total contributions or defer pension benefits until reaching retirement age. Employees who retire after age 55 with at least one year of credited service are entitled to receive pension benefits for the rest of their lives equal to 2-1/2% of their final average compensation times the number of years for which they were employed by a participant in the PERS. After the first 20 years of service, the percentage of average final compensation to which an employee is entitled for each year of credited service decreases from 2-1/2% to 2%. Under Plan J, the highest maximum allowable benefit is 80%.

Participants in PERS may opt for early retirement with a reduced benefit. The Deferred Retirement Option Plan was initiated on October 1, 1999. Under this plan, employees who reach retirement age may accumulate their monthly service retirement benefit in an interest-bearing account at the Board of Pensions for up to four years and continue to be employed by PHDC.

PHDC employees hired after December 31, 2001, participate in Plan Y. Under this plan, employees with 10 years credited service may retire at age 60. Employees retiring after 60 are entitled to receive pension benefits for the rest of their lives equal to 2.2% of their final average compensation times the number of years for which they were employed by a participant in the PERS. After 10 years of service, the percentage of average final compensation to which an employee is entitled for each year of credited service decreases from 2.2% to 2%. Under Plan Y, the highest maximum allowable benefit is 100%.

## PHILADELPHIA LAND BANK

City of Philadelphia, Commonwealth of Pennsylvania

### NOTES TO FINANCIAL STATEMENTS

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#### I. PENSION PLAN (CONTINUED)

##### Plan Description (Continued)

Employees under Plan Y who are not eligible to be represented by a union must vest their retirement benefits in five years rather than the normal 10-year vesting period. Members of the 5-year vesting (the Y5 Plan) are required to pay a higher contribution rate of .62 of one percent in addition to the normal Plan Y rate for five years. Their contribution rate then reverts to the normal Y Plan rate for the remainder of their employment.

Under each plan, provisions include death benefits, whereby the surviving beneficiary is entitled to receive 50% of monthly retirement payments. Additionally, the plans provide for disability benefits under which the disabled employee is entitled to receive benefits computed as if the employee were receiving a regular service pension. All Land Bank pension obligations and post-employment benefits are included in PHDC's financial statements.

##### Contributions Required and Made

Employees of PHDC were required to pay 4.75%, 3.14% (4.14% if hired after 11/14/2014), 3.63% and 3.10% of their gross earnings to the pension plan for the J Plan, Y Plan, Y5 Plan and Y10 Plan, respectively, for 2018; compared to 4.75%, 3.02% (4.02% if hired after 11/14/2014), 3.63% and 3.47% of their gross earnings to the pension plan for the J Plan, Y Plan, Y5 Plan and Y10 Plan, respectively, for 2017. Employees of the higher DC-33 plan pay based on a tiered system.

PHDC was required to contribute at actuarially determined rates, which were 253.103% and 221.990% of covered payroll for the J Plan for 2018 and 2017, respectively; and 10.180% and 9.422% of covered payroll for the Y Plan for 2018 and 2017, respectively. PHDC contributed 1.440% and 1.243% of covered payroll for Plan 10 for 2018 and 2017, respectively. PHDC makes quarterly payments to the City PERS within 30 days of the end of each quarter. The Land Bank reimbursed PHDC for \$58,220 and \$326,607 in pension related expenses for the years ended June 30, 2018 and 2017, respectively. There were no eligible J Plan employees in 2018.

#### J. RISK MANAGEMENT

The Land Bank is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Land Bank carries insurance.

#### K. PURCHASE MONEY MORTGAGES

The Land Bank has the authority to enter into PMM agreements with potential property buyers to subsidize the agreed purchase price which consequently protects the Land Bank's financial interest. These PMMs are self-amortizing over a period of ten years. The Land Bank will recognize the PMM as a receivable and revenue in the agreement year and amortize annually, until forgiven. Upon default, the PMM principal and accrued interest calculated at 4% annually, is due in full immediately. The Land Bank recorded new PMM receivables of \$716 thousand in 2018.

## **SUPPLEMENTARY INFORMATION**

**PHILADELPHIA LAND BANK**

City of Philadelphia, Commonwealth of Pennsylvania

**SCHEDULE OF PAYMENTS TO OTHER CITY AGENCIES**

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**\* Philadelphia Housing Development Corporation (PHDC)**

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**FY 2018 PHDC labor expenses**July 2017 - April 2018 \$ 677,791

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**6/30/2018 Accrued labor expenses**May & June 2018 labor expenses 59,255

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**Other payment reimbursements**Vehicle Insurance 7,167Insurance Brooker Fee 23,842Computer Supplies 2,688Other 526

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34,223

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**Total reimbursed PHDC expenses****\$ 771,269**

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**\* Philadelphia Redevelopment Authority (PRA)**

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**Accrued labor & reimbursable expenses**Net September 2017 activity \$ 5,339Annual Rent 38,229

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**Total PRA expenses****\$ 43,568**

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**\* Division of Housing & Community Development (DHCD)**

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**Support Services**Q1 & Q2 of FY 2018 \$ 60,439Q3 & Q4 of FY 2018 89,663

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150,102

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**FY 2018 Reimbursable direct expenses**14,584

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**Total DHCD expenses****\$ 164,686**

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**\* City of Philadelphia - Survey District**

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Accrued Survey fees (Bodine St) \$ 6,440

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**Total City of Philadelphia expenses****\$ 6,440**

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**PHILADELPHIA LAND BANK**

City of Philadelphia, Commonwealth of Pennsylvania

**SCHEDULE OF CAPITAL ASSETS**

As of June 30, 2018

<b>Computer Equipment (5 years)</b>	<b>Amount</b>	<b>Date Purchased</b>	<b>Useful Life (months)</b>	<b>FY 2018 Depreciation</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Dell Latitude E74400	\$ 1,429	3/22/2015	60	\$ 286	\$ 936	\$ 493
Dell Optiplex 7020 MT	669	3/20/2015	60	134	439	230
Dell Optiplex 7020 MT	669	3/20/2015	60	134	439	230
Dell Optiplex 7020 MT	669	3/20/2015	60	134	439	230
Dell Optiplex 7020 MT	669	3/20/2015	60	134	439	230
Dell Optiplex 7020 MT	669	3/20/2015	60	134	439	230
Dell Optiplex 7020 MT	669	3/20/2015	60	134	439	230
Dell Optiplex 7020 MT	669	3/20/2015	60	134	439	230
Dell Optiplex 7020 MT	669	3/20/2015	60	134	439	230
IBM 16GB Memory Kit (Server)	11,610	3/23/2015	60	2,322	7,596	4,014
Dell Precision T1700 GIS 42710-120	1,449	6/9/2015	60	290	886	563
Dell Precision T1700 GIS 42710-120	1,449	6/9/2015	60	290	886	563
Dell Precision T1700 GIS 42710-120	1,449	6/9/2015	60	290	886	563
Dell Latitude E7450	1,644	9/30/2015	60	329	904	740
Dell Optiplex 7020 MT 210-ACRY 17.3	860	9/20/2015	60	172	478	382
Dell Optiplex 7020 MT 210-ACRY 17.3	860	9/20/2015	60	172	478	382
Dell Optiplex 7020 MT 210-ACRY 17.3	860	9/20/2015	60	172	478	382
Dell Optiplex 7020 MT 210-ACRY 17.3	860	9/20/2015	60	172	478	382
Dell Optiplex 7020 MT 210-ACRY 17.3	860	9/20/2015	60	172	478	382
Dell Optiplex 7020 MT 210-ACRY 17.3	860	9/20/2015	60	172	478	382
Dell Optiplex 7020 MT 210-ACRY 17.3	860	9/20/2015	60	172	478	382
Dell Optiplex 7020 MT 210-ACRY 17.3	860	9/20/2015	60	172	478	382
Dell Optiplex 7020 MT 210-ACRY 17.3	860	9/20/2015	60	172	478	382
Dell Precision 3620 XCTO	1,652	6/5/2016	60	330	683	969
Dell Precision 3620 XCTO	1,652	6/5/2016	60	330	683	969
Dell Optiplex 5040	1,197	6/1/2016	60	239	497	700
Dell Optiplex 5040	1,197	6/1/2016	60	239	497	700
Dell Optiplex 5040	1,197	6/1/2016	60	239	497	700
	<u>39,875</u>			<u>7,975</u>	<u>23,243</u>	<u>16,633</u>

  

<b>Computer Software (5 years)</b>	<b>Amount</b>	<b>Date Purchased</b>	<b>Useful Life (months)</b>	<b>FY 2018 Depreciation</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Microsoft Dynamics SL 2015	15,762	3/10/2015	60	3,152	10,424	5,338
	<u>15,762</u>			<u>3,152</u>	<u>10,424</u>	<u>5,338</u>

  

<b>Equipment (10 years)</b>	<b>Amount</b>	<b>Date Purchased</b>	<b>Useful Life (months)</b>	<b>FY 2018 Depreciation</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Widmer S-3 Check Signer	975	5/7/2015	120	97	307	668
Epson Home Cinema Projector	1,896	6/18/2015	120	190	575	1,321
	<u>2,870</u>			<u>287</u>	<u>882</u>	<u>1,989</u>

  

<b>TOTAL</b>	<b>\$ 58,507</b>			<b>\$ 11,414</b>	<b>\$ 34,549</b>	<b>\$ 23,959</b>
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**INDEPENDENT AUDITORS' 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**

To the Board of Directors of  
Philadelphia Land Bank  
City of Philadelphia, Commonwealth of Pennsylvania

We have audited, 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, the financial statements of the Philadelphia Land Bank (the "Land Bank"), City of Philadelphia, Commonwealth of Pennsylvania, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which comprise the Land Bank's basic financial statements, and have issued our report thereon dated October 29, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Land Bank's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purposes of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Land Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of the Land Bank's internal control.

*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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**INDEPENDENT AUDITORS' 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  
(CONTINUED)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Land Bank's financial statements are free from 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*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Land Bank's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Land Bank's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Mercadieu, P.C.*  
*Certified Public Accountants*

October 29, 2018