

**RESOLUTION NO. 2019 - \_\_\_\_**

**RESOLUTION ACCEPTING PHILADELPHIA LAND BANK  
AUDITED FINANCIAL STATEMENTS FOR YEAR ENDING JUNE 30, 2019**

**WHEREAS**, the Land Bank Act, 68 Pa.C.S.A. § 2101, *et seq.*, requires the Philadelphia Land Bank to prepare an annual financial audit for submission to the Department of Community and Economic Development and Philadelphia City Council;

**WHEREAS**, the Land Bank has engaged the audit firm of Mercadien, P.C., Certified Public Accountants, to audit the Land Bank's financial statements for Fiscal Year 2019;

**WHEREAS**, Mercadien has issued its Independent Auditor's Report; and

**WHEREAS**, the Land Bank Board has reviewed, and desires to accept, the Independent Auditor's Report.

**NOW THEREFORE, BE IT RESOLVED** by the Philadelphia Land Bank that:

1. The Independent Auditor's Report of the Philadelphia Land Bank issued by Mercadien, P.C., Certified Public Accountants for Year Ended June 30, 2019 is hereby accepted as attached to this Resolution.
2. Land Bank staff is directed to submit the Auditor's Report to the Department of Community and Economic Development and to Philadelphia City Council as required by the Land Bank Act.
3. This Resolution shall take effect immediately upon adoption by the Board.

**PHILADELPHIA LAND BANK**  
**(A Component Unit of the City of Philadelphia)**  
**Financial Statements**  
**and**  
**Supplementary Information**

**June 30, 2019**

**PHILADELPHIA LAND BANK**  
(A Component Unit of the City of Philadelphia)

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June 30, 2019

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**PHILADELPHIA LAND BANK**  
(A Component Unit of the City of Philadelphia)

**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, 2019 and 2018. 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 management's 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 supplementary information are 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 statements 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, 2019 and 2018, 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 12 through 14.

**PHILADELPHIA LAND BANK**  
(A Component Unit of the City of Philadelphia)

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

**Assets**

The Land Bank's total assets as of June 30, 2019, 2018 and 2017, consisted of the following:

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>% Change</u>
<b><u>Current</u></b>				
Cash	\$ 943,530	\$ 2,437,517	\$ 3,040,536	-61%
Accounts Receivable	808,366	864,026	349,353	-6%
<b><u>Non-Current</u></b>				
Property Held for Development or Sale	28,796,333	25,590,211	25,884,936	13%
Capital Assets	12,544	23,959	35,373	-48%
<b>Total Assets</b>	<b>\$ 30,560,773</b>	<b>\$ 28,915,713</b>	<b>\$ 29,310,198</b>	<b>6%</b>

**2019**

Total assets at June 30, 2019, reflected a net increase of approximately \$1.6 million from the prior year. The Land Bank acquired 394 properties during the fiscal year from the City of Philadelphia's Department of Public Property (4), from the Philadelphia Redevelopment Authority ("PRA") (12), from Sheriff Sales – tax foreclosure (378), totaling a book value of approximately \$8 million. Property held for development or sale accounts for approximately 94% of total assets with a valuation of approximately \$29 Million. The Land Bank sold forty-seven (47) 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 2020, the Land Bank did establish an impairment allowance, to adjust the values of properties valued at \$10,000 or less, for which transfer of ownership may be prohibitive, to reflect changing/current market conditions beyond the pricing model.

Total properties acquired and the entity of origin as of June 30, 2019, 2018 and 2017, consisted of the following:

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>TOTAL</u>
<b><u>Properties Acquired</u></b>				
PHDC	-	-	134	134
PRA	12	7	162	181
City of Philadelphia (Public Properties)	4	1	673	678
Sheriff Sales	378	35	30	443
Private	-	-	1	1
<b>Total Properties</b>	<b>394</b>	<b>43</b>	<b>1,000</b>	<b>1,437</b>

Cash on hand decreased by approximately 61% from June 30, 2018, to approximately \$944,000. Accounts receivable accounted for approximately 3% of total assets.

The receivable balance of approximately \$808,000 includes \$672,000 pertaining to 72 VPRC purchase money mortgages. Two purchase money mortgages were issued during the fiscal year totaling approximately \$136,000 with the expectation that minimal proceeds will be received as these mortgages are self-amortizing over a ten-year period.

**PHILADELPHIA LAND BANK**  
(A Component Unit of the City of Philadelphia)

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

**Assets (Continued)**

**2018**

Total assets at June 30, 2018, reflected a net decrease of approximately \$394,000 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 \$843,000. 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.

Cash on hand decreased by approximately 20% from June 30, 2017, to approximately \$2.4 million. Accounts receivable accounted for approximately 3% of total assets. Approximately \$108,000 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.

The remaining receivable balance of approximately \$756,000 includes \$701,000 transferred from PRA pertaining to 72 VPRC purchase money mortgages. Twenty-eight (28) purchase money mortgages were issued during the fiscal year totaling approximately \$336,000 (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, 2019, 2018 and 2017, consisted of the following:

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>% Change</u>
<b><u>Current</u></b>				
Accounts Payable	\$ 92,472	\$ 2,136	\$ 126,261	4229%
Escrows Payable	42,291	31,611	14,000	34%
Accrued Liabilities	301,959	390,860	46,652	-23%
Compensated Absences	70,681	58,036	42,061	22%
Unearned Revenue	-	1,578,353	2,836,642	-100%
<b>Total Liabilities</b>	<b>\$ 507,403</b>	<b>\$ 2,060,996</b>	<b>\$ 3,065,616</b>	<b>-75%</b>

**PHILADELPHIA LAND BANK**  
(A Component Unit of the City of Philadelphia)

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

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**Liabilities (Continued)**

**2019**

At June 30, 2019, total liabilities decreased by approximately \$1.6 million (75%) to approximately \$507,000, primarily consisting of:

- Accounts payable obligations of approximately \$92,000 which is primarily timing difference from recording of deeds payments.
- Escrow payables increased by approximately \$11,000. Land Bank received twenty-three security escrow deposits totaling \$19,000 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, 2019, for approximately \$302,000. Comprised of \$114,000 in payroll costs which include Land Bank's direct payroll accrual, PRA fringe and PHDC salary direct and indirect costs, \$68,000 legal and appraisal fees, \$120,000 due to the Department of Housing and Community Development ("DHCD") for reimbursable operating expenses.
- Compensated absences increased by approximately 22% to \$71,000 as the Land Bank's staff increased by four full time employees and existing staff accrued additional time.

**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 \$2,000 which is primarily timing difference from recording of deeds payments.
- Escrow payables increased by approximately \$18,000. Land Bank received twenty-three security escrow deposits totaling \$29,000 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 \$390,000. Comprised of \$232,000 in payroll costs which include Land Bank's direct payroll accrual, PRA and PHDC salary direct and indirect costs, \$97,000 legal and appraisal fees, \$39,000 audit fees, \$15,000 due to the Department of Housing and Community Development ("DHCD") for reimbursable operating expenses and \$7,000 for stormwater charges.
- Compensated absences increased by approximately 38% to \$58,000 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.

**PHILADELPHIA LAND BANK**  
(A Component Unit of the City of Philadelphia)

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

**Revenues**

The Land Bank's total revenues for the years ended June 30, 2019, 2018 and 2017, consisted of the following:

	2019	2018	2017	% Change
Revenues applicable to:				
City of Philadelphia	\$ 3,326,733	\$ 850,000	\$ 450,000	291%
Philadelphia Redevelopment Authority	2,091,514	2,300,192	2,146,953	-9%
Other - City Agencies	-	-	45,218	0%
Other - Developer's Escrow	-	-	44,259	0%
<b>Total Operating Revenues</b>	<b>\$ 5,418,247</b>	<b>\$ 3,150,192</b>	<b>\$ 2,686,430</b>	<b>72%</b>

**2019**

In Fiscal Year 2019, the Land Bank generated revenue of \$5,418,247, \$3,326,733 from the City in general funds and expended \$2,091,514 of deferred revenue from the PRA. As of June 30, 2019, the Land Bank recorded \$5,418,247 in total revenue and had an unearned revenue balance of \$0.

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 2019 forty-seven (47) properties were sold below market value with and/or without subsidy generating net sales proceeds of approximately \$0.5 million, the book value of these properties was approximately \$2.2 million so an annual non-operating loss of approximately \$1.7 million associated with these dispositions is reported through a netting of revenues recorded for transferred properties.

For Fiscal Year 2020, 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.

**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 \$701,000, the book value of these properties was approximately \$1.2 million so an annual non-operating loss of approximately \$485,000 associated with these dispositions will be reported.



**PHILADELPHIA LAND BANK**  
(A Component Unit of the City of Philadelphia)

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

**Expenses**

The Land Bank's total expenses for the years ended June 30, 2019, 2018 and 2017, consisted of the following:

	2019	2018	2017	% Change
Personnel	\$ 1,495,703	\$ 1,431,211	\$ 1,631,267	5%
Office rental	52,153	38,229	81,514	36%
Outside service fees	4,991,303	2,655,951	929,600	88%
Depreciation and amortization	94,922	15,840	11,414	499%
<b>Total Operating Expenses</b>	<b>\$ 6,634,081</b>	<b>\$ 4,141,231</b>	<b>\$ 2,653,795</b>	<b>60%</b>

**2019**

Total operating expenses increased by approximately \$2.5 million (60%) driven primarily by outside service fees. For fiscal year 2019, 75% of total expenses incurred pertained to outside contracts and service fees which include primarily tax lien acquisitions \$3.7 million, legal fees \$274,000, insurance \$265,000, stormwater charges \$51,000, and \$956,000 for other administrative and technology expenses. Personnel expenses increased by 5% to \$1.5 million. Personnel at June 30, 2019 includes eighteen (18) full-time assigned staff compared to (14) in fiscal year 2018 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 \$52,153. 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 2019, approximately \$240,000 was expended to reimburse DHCD for services and contracts entered into on behalf of the Land Bank.

**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 \$384,000, insurance \$127,000, stormwater charges \$456,000, and \$455,000 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 \$300,000 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

**PHILADELPHIA LAND BANK**  
(A Component Unit of the City of Philadelphia)

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

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**Expenses (Continued)**

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 \$165,000 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 2019 by the difference between revenue and expense. Through June 30, 2019, the Land Bank's net position of \$30,053,369 represents approximately (104%) of revenue generated as a result of the Land Bank recording the ownership of 2,403 properties (\$28,801,333) and primarily the net loss of \$1,667,577 on FY 2019 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 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.

**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 the Land Bank will continue to strive to reduce the financial dependency on the City.

**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**

An issue raised in the FY 2018 Management's Discussion & Analysis statement was the City Administration's efforts to consolidate the functions and services of the Housing Agencies (Land Bank, PRA and PHDC). As of the writing of this statement the City Administration has been successful in consolidating the agencies. The Staffing and Labor Plan by Local 1971 (DC33) and DC 47 which provides Union Representation to the housing agencies has been ratified. All staff are now PHDC employees allowing for the effective transfer and operations of PRA Land Management operations to the Land Bank.

**PHILADELPHIA LAND BANK**  
(A Component Unit of the City of Philadelphia)

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

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

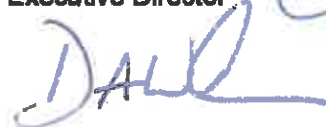
Currently, the Land Bank seeks to hire two (2) Senior Development Specialists and a full-time permanent Deputy Executive Director, that will be solely dedicated to Land Management. The Land Bank is also developing an action plan to align how each land holding agency disposes of property. Currently, PHDC, the Land Bank and the City of Philadelphia Department of Public Property have an agreed upon process. The Land Bank is working to resolve any issues with PRA's process as their dispositions are governed by Urban Renewal Law, which the other agencies are not required to follow.

As of June 30, 2019, two thousand four hundred and three (2,403) properties have been transferred to or acquired by the Land Bank. This number will increase drastically once the proposed City Council legislation changes how the City of Philadelphia manages its inventory of surplus vacant property. The proposed legislation will likely result in the transfer of the City of Philadelphia's three thousand eight hundred and fourteen vacant (3,814) parcels, eliminate the Vacant Property Review Committee (VPRC) and streamline the process for disposition by one (1) month. The Land Bank is currently assessing the impact that this transfer will have on its operations, i.e. insurance and property management functions.

Sincerely,



Angel Rodriguez  
Executive Director



Darren Williams  
Director of Finance

## **INDEPENDENT AUDITORS' 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"), a Component Unit of the City of Philadelphia, as of and for the years ended June 30, 2019 and 2018, 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, 2019 and 2018, 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 eight 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.

#### *Supplementary 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, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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, 2019

## **BASIC FINANCIAL STATEMENTS**



**PHILADELPHIA LAND BANK**  
(A Component Unit of the City of Philadelphia)

**STATEMENTS OF NET POSITION**  
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 943,530	\$ 2,437,517
Accounts receivable, net of allowance for doubtful accounts	808,366	864,026
<b>Total Current Assets</b>	<u>1,751,896</u>	<u>3,301,543</u>
<b>Noncurrent Assets</b>		
Property held for development or sale	28,796,333	25,590,211
Capital assets, net of accumulated depreciation	12,544	23,959
<b>Total Noncurrent Assets</b>	<u>28,808,877</u>	<u>25,614,170</u>
<b>Total Assets</b>	<u>\$ 30,560,773</u>	<u>\$ 28,915,713</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 92,472	\$ 2,136
Escrows payable	42,291	31,611
Accrued liabilities	301,959	390,860
Compensated absences	70,681	58,036
Unearned revenue	-	1,578,353
<b>Total Current Liabilities</b>	<u>507,403</u>	<u>2,060,996</u>
<b>Total Liabilities</b>	<u>507,403</u>	<u>2,060,996</u>
<b>Net Position</b>		
Net investment in capital assets	28,808,877	25,614,170
Unrestricted	1,244,492	1,240,547
<b>Total Net Position</b>	<u>30,053,369</u>	<u>26,854,717</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 30,560,773</u>	<u>\$ 28,915,713</u>

**PHILADELPHIA LAND BANK**  
(A Component Unit of the City of Philadelphia)

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
Years Ended June 30, 2019 and 2018

	2019	2018
<b>Operating Revenues</b>		
Revenues applicable to:		
City of Philadelphia	\$ 3,326,733	\$ 850,000
Philadelphia Redevelopment Authority	2,091,514	2,300,192
<b>Total Operating Revenues</b>	<b>5,418,247</b>	<b>3,150,192</b>
<b>Operating Expenses</b>		
Personnel	1,495,703	1,431,211
Office rental	52,153	38,229
Outside services fees	4,991,303	2,655,951
Depreciation and amortization	94,922	15,840
<b>Total Operating Expenses</b>	<b>6,634,081</b>	<b>4,141,231</b>
<b>Operating Loss</b>	<b>(1,215,834)</b>	<b>(991,039)</b>
Net Gain on sales and transfers of land	3,560,043	1,279,043
Miscellaneous fees	37,321	8,630
Capital contributions	817,122	313,500
<b>Total Non-Operating Revenues</b>	<b>4,414,486</b>	<b>1,601,173</b>
<b>Changes in Net Position</b>	<b>3,198,652</b>	<b>610,134</b>
<b>Net Position, Beginning of year</b>	<b>26,854,717</b>	<b>26,244,583</b>
<b>Net Position, End of year</b>	<b>\$ 30,053,369</b>	<b>\$ 26,854,717</b>

**PHILADELPHIA LAND BANK**  
(A Component Unit of the City of Philadelphia)

**STATEMENTS OF CASH FLOWS**  
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Cash Flows From Operating Activities</b>		
Receipts from contracts with the City of Philadelphia and other agencies	\$ 4,044,916	\$ 1,137,594
Payments to employees for wages and benefits	(1,268,151)	(1,209,353)
Payments to suppliers for other costs	<u>(5,406,290)</u>	<u>(2,442,023)</u>
Net cash used in operating activities	<u>(2,629,525)</u>	<u>(2,513,782)</u>
<b>Cash Flows From Non-Capital Financing Activities</b>		
Proceeds from sale of property held for development or sale	<u>1,135,538</u>	<u>1,910,763</u>
Net cash provided by non-capital financing activities	<u>1,135,538</u>	<u>1,910,763</u>
<b>Net Decrease in Cash</b>	(1,493,987)	(603,019)
<b>Cash, Beginning of year</b>	<u>2,437,517</u>	<u>3,040,536</u>
<b>Cash, End of year</b>	<u>\$ 943,530</u>	<u>\$ 2,437,517</u>
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b>		
Operating loss	\$ (1,215,834)	\$ (991,039)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	94,922	15,840
Changes in operating assets and liabilities:		
Accounts receivable	55,660	(514,673)
Accounts payable	90,336	(124,125)
Accrued liabilities	(88,901)	344,208
Unearned revenue	(1,578,353)	(1,259,968)
Compensated absences	<u>12,645</u>	<u>15,975</u>
<b>Net Cash Provided by Operating Activities</b>	<u>\$ (2,629,525)</u>	<u>\$ (2,513,782)</u>

**PHILADELPHIA LAND BANK**  
(A Component Unit of the City of Philadelphia)

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's mission is to return vacant and tax delinquent property to productive reuse. The Land Bank consolidates 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 enable it to help return derelict properties to productive use. The Land Bank:

- Acquires tax-delinquent properties through tax foreclosure.
- With the City's consent, clears the title to those properties so that new owners are not burdened by old liens.
- Consolidates properties owned by multiple public agencies into single ownership to speed property transfers to new private owners.
- Assists 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 other ten board members. 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, 2019, 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 Board ("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**  
(A Component Unit of the City of Philadelphia)

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 considers the Land Bank as a Component Unit of the City, with its annual financial information being consolidated into the City's Comprehensive Annual Financial Report ("CAFR").

**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**  
(A Component Unit of the City of Philadelphia)

**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, 2019. 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, 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. As of June 30, 2019, the Land Bank owned 2,403 total properties, 700 acquired from PHDC, 1,094 acquired from the City of Philadelphia Department of Public Property, 181 acquired from the Philadelphia Redevelopment Authority, 427 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 2020, 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**  
(A Component Unit of the City of Philadelphia)

**NOTES TO FINANCIAL STATEMENTS**

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

**Inventory (Property) Impairment Reserve Account**

The Land Bank utilizes 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. Prior to the current Fiscal Year, the Land Bank has not attempted to adjust its property valuation to reflect changing/current market conditions. A large tranche of properties the Land Bank maintains interest in are in economically and geographically challenged locations, sometimes prohibiting the easy transfer of ownership. Accordingly, the valuations of these properties are unlikely to appreciate thus inflating the Land Bank's Balance sheet. Effective July 1, 2018, the following methodology was adopted to more accurately account for potential property value impairment. A fifteen (15) percent contra asset impairment account reserve was set up by the Land Bank (as a provision for the potential future loss of market value of its property inventory portfolio at the end of the reporting period). This methodology was applied to all properties in the Inventory with a book value of \$10,000 or less. A corresponding reduction in current year revenue was recorded in the Land Bank's income statement.

**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, 2019 and 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 \$1,121 and \$5,936 for the years ended June 30, 2019 and 2018, respectively. The second lease was entered into in June 2017, for a total of \$14,138 with an outstanding balance of \$3,556 and \$10,582 for the years ended June 30, 2019 and 2018, respectively.

**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.

**PHILADELPHIA LAND BANK**  
(A Component Unit of the City of Philadelphia)

**NOTES TO FINANCIAL STATEMENTS**

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

**Other Post-employment Benefits**

On behalf of Land Bank, PHDC accounts for other post-employment benefits under GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment 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 the plan annually. The cumulative difference between amounts expensed and paid creates a liability (asset) similar to net pension obligations. For the years ended June 30, 2019 and 2018, the Land Bank did not incur costs for other post-employment benefits.

**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.

**Accounting Pronouncements Issued, Not Yet Implemented**

The GASB has issued a pronouncement that has an effective date that may impact future financial presentations.

***GASB Statement No. 87, Leases***

This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.



**PHILADELPHIA LAND BANK**  
(A Component Unit of the City of Philadelphia)

**NOTES TO FINANCIAL STATEMENTS**

**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.

**D. ACCOUNTS RECEIVABLE**

Accounts Receivable as of June 30, 2019 and 2018, are as follows:

	2019	2018
PRA and Net VPRC proceeds	\$ -	\$ 108,153
Private Developers	115,000	-
Purchase Money Mortgages	693,366	755,873
	<u>\$ 808,366</u>	<u>\$ 864,026</u>

**PHILADELPHIA LAND BANK**  
(A Component Unit of the City of Philadelphia)

NOTES TO FINANCIAL STATEMENTS

**D. ACCOUNTS RECEIVABLE (CONTINUED)**

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, Philadelphia Redevelopment Authority would administer the process and the Land Bank would receive the net sales proceeds. The purchase money mortgages ("PMM") receivable will likely be unrealized and the expense is being amortized over the life of the mortgage.

**E. CAPITAL ASSETS**

Capital assets activity as of June 30, 2019 and 2018, was:

	<u>2019</u>	<u>2018</u>
Computers and equipment	\$ 55,637	\$ 55,637
Furniture and equipment	2,870	2,870
<b>Total Capital Assets</b>	<u>58,507</u>	<u>58,507</u>
Less - accumulated depreciation	<u>(45,963)</u>	<u>(34,549)</u>
<b>Total Capital Assets</b>	<u>\$ 12,544</u>	<u>\$ 23,959</u>

Depreciation expenses for capital assets were \$11,414 and \$11,414 for the years ended June 30, 2019 and 2018, respectively.

**F. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities at June 30, 2019 and 2018, consist of the following:

	<u>2019</u>	<u>2018</u>
Accounts Payable	\$ 92,472	\$ 2,136
Escrows Payable	42,291	31,611
Accrued Administrative Expenses	301,959	390,860
Compensated Absences	<u>70,681</u>	<u>58,036</u>
	<u>\$ 507,403</u>	<u>\$ 482,643</u>

**G. RELATED-PARTY TRANSACTIONS**

Related parties of the Land Bank include the City, PHDC and the PRA. Net Accounts payable to PRA are \$48,155 and \$1,726, net amounts receivable from PHDC are \$24,131 and \$65,940, and net accounts payable to the City are \$120,644 and \$0 as of June 30, 2019 and 2018 respectively. Substantially all assets, liabilities, revenues and expenses as of and for the years ended June 30, 2019 and 2018, are included under and dependent upon contracts and management agreements with the City and its agencies. These are included in the accounts payable and accounts receivable line items in the Statements of Net Position.

**PHILADELPHIA LAND BANK**  
(A Component Unit of the City of Philadelphia)

NOTES TO FINANCIAL STATEMENTS

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**H. 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%.

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.

**PHILADELPHIA LAND BANK**  
(A Component Unit of the City of Philadelphia)

**NOTES TO FINANCIAL STATEMENTS**

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**H. PENSION PLAN (CONTINUED)**

**Contributions Required and Made**

Employees of PHDC were required to pay 4.75%, 3.08% (4.08% if hired after November 14, 2014), 3.63% and 3.87% of their gross earnings to the pension plan for the J Plan, Y Plan, Y5 Plan and Y10 Plan, respectively, for 2019; compared to 4.75%, 3.14% (4.14% if hired after November 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. Employees of the higher DC-33 Plan pay based on a tiered system.

PHDC was required to contribute at actuarially determined rates, which were 294.31% and 253.103% of covered payroll for the J Plan for 2019 and 2018, respectively, and 10.86% and 10.180% of covered payroll for the Y Plan for 2019 and 2018, respectively. PHDC contributed 3.24% and 1.44% of covered payroll for Plan 10 for 2019 and 2018, respectively. PHDC makes quarterly payments to the City PERS within 30 days of the end of each quarter. The Land Bank reimbursed PHDC for \$64,065 and \$58,220 in pension related expenses for the years ended June 30, 2019 and 2018, respectively. There were no eligible J Plan employees in 2019.

**I. 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.

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

**J. 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 \$136,000 in 2019.

## **SUPPLEMENTARY INFORMATION**

**PHILADELPHIA LAND BANK**  
(A Component Unit of the City of Philadelphia)

**SCHEDULE OF PAYMENTS TO OTHER CITY AGENCIES**

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

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<b>FY 2019 PHDC labor expenses</b>	
July 2018 - April 2019	\$ 273,679
<b>6/30/2019 Accrued labor expenses</b>	
May & June 2019 labor expenses	24,131
<b>Other payment reimbursements</b>	
Insurance Broker Fee	9,206
Computer Supplies	428
Other	2,928
	<u>12,562</u>
<b>Total reimbursed PHDC expenses</b>	<b>\$ 310,372</b>

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

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<b>Accrued labor &amp; reimbursable expenses</b>	
Annual Rent	\$ 52,153
Accrued March-June 2019 fringe expenses	48,155
	<u>100,308</u>
<b>Total PRA expenses</b>	<b>\$ 100,308</b>

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

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Q1 & Q2 of FY 2019	\$ 120,376
Accrued Q3 & Q4 of FY 2019	120,044
	<u>240,420</u>
<b>Total DHCD expenses</b>	<b>\$ 240,420</b>

**\* City of Philadelphia**

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L&I Zoning Board Review fee	\$ 520
Survey Fee (Orianna St)	680
Accrued Survey fees (Bodine St)	600
	<u>1,800</u>
<b>Total City of Philadelphia expenses</b>	<b>\$ 1,800</b>

**PHILADELPHIA LAND BANK**  
(A Component Unit of the City of Philadelphia)

**SCHEDULE OF CAPITAL ASSETS**  
As of June 30, 2019

<u>Computer Equipment (5 years)</u>	<u>Amount</u>	<u>Date Purchased</u>	<u>Useful Life (Months)</u>	<u>FY 2019 Depreciation</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Dell Latitude E74400	\$ 1,429	3/22/2015	60	\$ 286	\$ 1,222	\$ 207
Dell Optiplex 7020 MT	669	3/20/2015	60	134	573	96
Dell Optiplex 7020 MT	669	3/20/2015	60	134	573	96
Dell Optiplex 7020 MT	669	3/20/2015	60	134	573	96
Dell Optiplex 7020 MT	669	3/20/2015	60	134	573	96
Dell Optiplex 7020 MT	669	3/20/2015	60	134	573	96
Dell Optiplex 7020 MT	669	3/20/2015	60	134	573	96
Dell Optiplex 7020 MT	669	3/20/2015	60	134	573	96
Dell Optiplex 7020 MT	669	3/20/2015	60	134	573	96
IBM 16GB Memory Kit (Server)	11,810	3/23/2015	60	2,322	9,918	1,692
Dell Precision T1700 GIS 42710-120	1,449	6/9/2015	60	290	1,176	273
Dell Precision T1700 GIS 42710-120	1,449	6/9/2015	60	290	1,176	273
Dell Precision T1700 GIS 42710-120	1,449	6/9/2015	60	290	1,176	273
Dell Latitude E7450	1,644	9/30/2015	60	329	1,233	411
Dell Optiplex 7020 MT 210-ACRY 17.3	860	9/20/2015	60	172	650	210
Dell Optiplex 7020 MT 210-ACRY 17.3	860	9/20/2015	60	172	650	210
Dell Optiplex 7020 MT 210-ACRY 17.3	860	9/20/2015	60	172	650	210
Dell Optiplex 7020 MT 210-ACRY 17.3	860	9/20/2015	60	172	650	210
Dell Optiplex 7020 MT 210-ACRY 17.3	860	9/20/2015	60	172	650	210
Dell Optiplex 7020 MT 210-ACRY 17.3	860	9/20/2015	60	172	650	210
Dell Optiplex 7020 MT 210-ACRY 17.3	860	9/20/2015	60	172	650	210
Dell Optiplex 7020 MT 210-ACRY 17.3	860	9/20/2015	60	172	650	210
Dell Optiplex 7020 MT 210-ACRY 17.3	860	9/20/2015	60	172	650	210
Dell Optiplex 7020 MT 210-ACRY 17.3	860	9/20/2015	60	172	650	210
Dell Precision 3620 XCTO	1,852	6/5/2016	60	330	1,013	639
Dell Precision 3620 XCTO	1,852	6/5/2016	60	330	1,013	639
Dell Optiplex 5040	1,197	6/1/2016	60	239	736	461
Dell Optiplex 5040	1,197	6/1/2016	60	239	736	461
Dell Optiplex 5040	1,197	6/1/2016	60	239	736	461
	<u>39,875</u>			<u>7,975</u>	<u>31,218</u>	<u>8,657</u>
<b>Computer Software (5 years)</b>	<b>Amount</b>	<b>Date Purchased</b>	<b>Useful Life (Months)</b>	<b>FY 2019 Depreciation</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Microsoft Dynamics SL 2015	15,762	3/10/2015	60	3,162	13,576	2,188
	<u>15,762</u>			<u>3,162</u>	<u>13,576</u>	<u>2,188</u>
<b>Equipment (10 years)</b>	<b>Amount</b>	<b>Date Purchased</b>	<b>Useful Life (Months)</b>	<b>FY 2019 Depreciation</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Widmer S-3 Check Signer	975	5/7/2015	120	97	404	571
Epson Home Cinema Projector	1,896	6/18/2015	120	190	765	1,131
	<u>2,870</u>			<u>287</u>	<u>1,169</u>	<u>1,702</u>
<b>TOTAL</b>	<b>\$ 68,507</b>			<b>\$ 11,414</b>	<b>\$ 45,963</b>	<b>\$ 12,544</b>

**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, 2019, 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, 2019.

**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.

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

October 29, 2019