

# McGladrey & Pullen

Certified Public Accountants

## Philadelphia Housing Development Corporation

Financial and Compliance Report  
June 30, 2009

# Philadelphia Housing Development Corporation

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# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

To the Board of Directors  
Philadelphia Housing Development Corporation  
Philadelphia, Pennsylvania

We have audited the accompanying basic financial statements of Philadelphia Housing Development Corporation ("PHDC"), a component unit of the City of Philadelphia, Pennsylvania, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of PHDC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Philadelphia Housing Development Corporation for the year ended June 30, 2008 were audited by other auditors whose report, dated November 25, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2009 financial statements referred to above present fairly, in all material respects, the financial position of Philadelphia Housing Development Corporation as of June 30, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2010 on our consideration of Philadelphia Housing Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. Other auditors issued a similar report, dated November 25, 2008, in conjunction with their audit of PHDC's 2008 basic financial statements.

The Management's Discussion and Analysis on pages 3 to 11 and Schedule of Other Postemployment Benefits on page 29 are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit of the 2009 financial statements was conducted for the purposes of forming an opinion on the financial statements that collectively comprise Philadelphia Housing Development Corporation's basic financial statements. The accompanying other supplemental schedules for 2009, including the schedule of assets, liabilities, and net assets, the schedule of revenues, expenses, and changes in net assets, and the schedules requested by the City of Philadelphia, including the statement of net assets, statement of activities, schedule of interfund balances and changes in capital asset balances are presented for the purpose of additional analysis and are not a required part of the basic 2009 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 2009 financial statements and in our opinion, is fairly stated, in all material respects, in relation to the basic 2009 financial statements taken as a whole. The 2008 comparative schedule of assets, liabilities, and net assets, the schedule of revenues, expenses, and changes in net assets and the schedules requested by the City of Philadelphia, including the statement of net assets, the statement of activities, the schedule of interfund balances and the schedule of changes in capital asset balances were audited by other auditors whose report dated November 25, 2008, expressed an unqualified opinion on such information in relation to the basic financial statements taken as a whole.

*McGladrey & Pullen, LLP*

Blue Bell, Pennsylvania  
January 14, 2010

**Philadelphia Housing Development Corporation  
Management's Discussion and Analysis (Unaudited)  
For the Years Ended June 30, 2009 and 2008**

Our discussion and analysis of the financial performance of the Philadelphia Housing Development Corporation (PHDC) provides an overview of the corporation's significant financial activities for the fiscal years ended June 30, 2009 and 2008. 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 PHDC. The annual financial report is comprised of three components: management's discussion and analysis, the financial statements (including related notes to the financial statements), and supplemental schedules.

The financial statements are designed to provide readers with a broad overview of the finances of PHDC 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 an 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 assets.

PHDC is considered a governmental non-profit organization. As a result, the format of the attached 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 statement of net assets presents information on all of PHDC's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in PHDC's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the corporation, you need to also consider non-financial factors such as PHDC's ability to continue receiving contracts from the City and State for housing activities, and also the condition of the PHDC property inventory.

The statement of revenues, expenses, and changes in net assets presents information on how PHDC's net assets changed during the year. This statement separates operating revenues and expenses from non-operating revenues and expenses.

The statement of cash flows provides information about the source and uses of cash during the fiscal year.

**Basic Financial Statements**

PHDC's audited Statements of Net Assets, Statements of Revenues, Expenses, and Changes in Net Assets, and Statements of Cash Flows are presented on pages 12 to 14.

**Philadelphia Housing Development Corporation  
Management's Discussion and Analysis (Unaudited)  
For the Years Ended June 30, 2009 and 2008**

**Assets**

PHDC's total assets at June 30 consisted of the following (in thousands):

	<u>FY 2009</u>	<u>FY2008</u>	<u>FY 2007</u>
<u>Current</u>			
Cash & receivables	\$ 9,517	\$ 8,218	\$11,230
Property & other	\$ 2,462	\$ 1,964	\$ 1,866
<u>Non-current</u>			
Capital assets	\$ 134	\$ 192	\$ 200
<b>Total Assets</b>	<b>\$12,113</b>	<b>\$10,374</b>	<b>\$13,296</b>

Total assets at June 30, 2009 are approximately \$1.7 million more than they were at the end of FY 2008. At June 30, 2009 property held for development under the City Contract Account included approximately \$963 thousand in capitalized cost related to the 16<sup>th</sup> and Norris Project that was completed in Fiscal 2009. The 16<sup>th</sup> and Norris Street Project was funded with a grant from the Office of Housing and Community Development (OHCD) and sales proceeds. The capitalized portion of expenditures at June 30, 2009 are funded by sales proceeds, income and expense will be recognized at time of sale. Other assets at June 30, 2008 were comprised mainly of prepaid insurance premiums. Premiums for FY 2010 were not paid until July of 2009, resulting in the reduction of Other Assets of approximately \$536 thousand from FY 2008 to FY 2009.

Total assets at June 30, 2008 were approximately \$2.9 million less than they were at the end of Fiscal 2007. This reduction is directly related to decrease in the liabilities to OHCD. At June 30, 2008 PHDC's liability to the City for program income and advances was approximately \$2.2 million less than it was at the end of the prior fiscal year. In accordance with contract guidelines established by OHCD, PHDC has been utilizing program income and funds advanced prior to invoicing OHCD. PHDC's request to carry \$562,000 in program income to cover FY 2009 insurance premiums was approved by OHCD.

**Philadelphia Housing Development Corporation  
Management's Discussion and Analysis (Unaudited)  
For the Years Ended June 30, 2009 and 2008**

**Liabilities**

PHDC's total liabilities at June 30 consisted of the following (in thousands):

	<u>FY2009</u>	<u>FY2008</u>	<u>FY2007</u>
<u>Current</u>			
Payables & accrued liabilities	\$5,513	\$3,786	\$ 4,343
Contract retention	\$ 235	\$ 31	\$ -
Program income payable	\$ 238	\$ 648	\$ 1,610
Construction note payable	\$ 338	\$ -	\$ -
Loans payable	\$ 808	\$1,128	\$ 1,428
Advances from funding sources	\$1,177	\$ 668	\$ 1,894
Due to other agencies	\$ 108	\$ 135	\$ 135
Other	\$ 27	\$ 85	\$ 69
<u>Non-current</u>			
Mortgage note payable	<u>\$ 41</u>	<u>\$ 43</u>	<u>\$ 45</u>
<b>Totals</b>	<b>\$8,485</b>	<b>\$6,524</b>	<b>\$ 9,524</b>

The increase in Total Liabilities by approximately \$2.0 million in FY 2009 is comprised mainly of the increase in payables and accrued liabilities and construction note payable. These increases are directly related to the increases in cash and receivables from the prior year. PHDC schedules vendor payments to coincide with scheduled cost reimbursements from its funding sources. As a result, cash and receivables will increase and just prior to payment of outstanding liabilities.

Total liabilities decreased in FY 2008 from the prior year by approximately \$3 million due the reduction in PHDC's liabilities to the City for program income and advances as noted above.

**Revenues**

For the fiscal years ended June 30, 2009 and 2008 PHDC revenues totaled approximately \$35.3 million and \$39 million, respectively.

<u>Revenues (in thousands):</u>	<u>FY2009</u>	<u>FY 2008</u>	<u>FY 2007</u>
<i>Operating:</i>			
Contracts with City and other agencies	\$35,151	\$ 38,744	\$ 33,021
Sale of Property	\$ 152	\$ 125	\$ 431
Other	\$ 7	\$ -	\$ 71

**Philadelphia Housing Development Corporation  
Management's Discussion and Analysis (Unaudited)  
For the Years Ended June 30, 2009 and 2008**

*Non-operating:*

Interest	\$ 10	\$ 116	\$ 187
Other	\$ -	\$ 6	\$ 15
	<hr/>	<hr/>	<hr/>
<b>Totals</b>	\$35,320	\$ 38,991	\$ 33,725

**Expenses**

For the fiscal years ended June 30, 2009 and 2008 PHDC expenses totaled approximately \$35.5 million and \$38.9 million, respectively.

<u>Expenses (in thousands)</u>	<u>FY2009</u>	<u>FY2008</u>	<u>FY 2007</u>
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*Operating:*

Costs associated with City/agency contracts	\$26,358	\$29,671	\$ 23,170
Cost allocable to sold properties	\$ 319	\$ 88	\$ 740
Salaries & benefits	\$ 7,258	\$ 7,317	\$ 7,564
Office rents	\$ 474	\$ 564	\$ 594
Outside fees	\$ 750	\$ 885	\$ 1,009
Other	\$ 340	\$ 342	\$ 407
Depreciation	\$ 41	\$ 42	\$ 49

*Non-operating:*

Interest	\$ 3	\$ 4	\$ 6
	<hr/>	<hr/>	<hr/>

<b>Totals</b>	\$35,543	\$38,913	\$ 33,539
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Overall total revenue and expense levels in FY 2009 were approximately 9.4% and 8.7%, respectively, less than in the prior year. This change was mainly the result of a one-time increase of funding in FY 2008 for the Basic Systems Repair Program that was targeted to four specific councilmanic districts. Also, there was approximately \$1 million in Homestart Program activity in FY 2008, whereas, there were only minor expenditures for this program in FY 2009.

Overall total revenue and expense levels in FY 2008 increased by approximately 15.6% and 16.0%, respectively, more than in the prior year, mainly as a result of activity for the in the Basic Systems Repair and Homestart programs as noted above.

**Supplemental Schedules**

This annual report also contains schedules reporting supplemental information categorized by account and funding sources. PHDC made a change in the presentation of Net Assets beginning in FY 2007. Amounts previously reported as "Unrestricted Net Assets" are now reported separately as Restricted Net Assets in the City Grant Account and Unrestricted-unreserved Net

**Philadelphia Housing Development Corporation  
Management's Discussion and Analysis (Unaudited)  
For the Years Ended June 30, 2009 and 2008**

Assets in the Development Reserve Account. The following is a description of the Account groupings:

- City Grant Account – funds derived from the original \$2 million grant that established the corporation in 1965 and spent to further housing activities not supported by a specific government funded contract.
- Development Reserve Account – non-Federal, non-State and non-City Funds arising from the sale of PHDC's multi-family properties. These funds are used to further PHDC's goal of providing homeownership to families of modest financial means through projects approved by PHDC's Board of Directors.
- City Contract Account – funds received and spent under the terms of contracts executed with the City of Philadelphia.
- State Contract Account – funds received and spent under the terms of contracts executed directly with the Commonwealth of Pennsylvania.
- Plant Account – accounts for certain property and equipment utilized by PHDC in its operations.

In FY 2009 the portion of operating revenue recognized by PHDC from the various funding sources totaled less than 1% from the restricted City Grant and unrestricted Development Reserve activity, approximately 89% from the City contract activity, 11% from State contract activity.

In FY 2008, the allocation of revenue by funding source was approximately the same as in FY 2009. Below is a comparative summary of the sources and uses of funds received by the corporation (in thousands):

In FY 2007 the portion of operating revenue received by PHDC from the various funding sources totaled less than 1% from the restricted City Grant activity, approximately 85% from City contract activity, 13% from State contract activity and approximately 2% from unrestricted Development Reserve account activity.

<u>Revenues (in thousands)</u>	<u>FY 2009</u>	<u>FY 2008</u>	<u>FY 2007</u>
Unrestricted Development Reserve Account	\$ 10	\$ 116	\$ 907
City Grant Account	\$ 166	\$ 130	\$ 141
City Contract Account	\$ 31,416	\$ 34,813	\$ 28,366
State Contract Account	\$ 3,729	\$ 3,932	\$ 4,311
Plant Account	\$ -	\$ -	\$ -
<b>Totals</b>	<u>\$ 35,321</u>	<u>\$ 38,991</u>	<u>\$ 33,725</u>

**Philadelphia Housing Development Corporation  
Management's Discussion and Analysis (Unaudited)  
For the Years Ended June 30, 2009 and 2008**

Expenses (in thousands)

Unrestricted Development			
Reserve Account	\$ -	\$ 11	\$ 770
City Grant Account	\$ 342	\$ 153	\$ 120
City Contract Account	\$ 31,413	\$ 34,809	\$ 28,351
State Contract Account	\$ 3,729	\$ 3,909	\$ 4,232
Plant Account	\$ 59	\$ 31	\$ 66
<b>Totals</b>	<b>\$ 35,543</b>	<b>\$ 38,913</b>	<b>\$ 33,539</b>

**Financial Highlights**

Overall Spending Patterns

PHDC expended a total of approximately \$35 million in administering a variety of City, State and Federally sponsored housing activities during the year, which is approximately an 11% decrease when compared to spending levels of the previous fiscal year. As noted previously, decreases in spending can be attributed to decreases in funding and activity for the Basic Systems and Homestart programs.

Despite the consistent reductions in overall Federal funding to the City, PHDC has continued to receive a relatively constant level of funds from the City for its chartered activities. In FY 2009 PHDC received three major funding contracts from the City and Commonwealth of Pennsylvania, as it has over the last ten-year period and anticipates a continuation of these awards into the foreseeable future. The existence of the corporation in its current mode depends primarily on the continuation of this repetitive funding stream.

Decrease in Overall Total Net Assets

PHDC recorded a total decrease in net assets totaling approximately \$222 thousand in FY 2009 and prior year increases in FY 2008 and 2007 as noted below:

	<u>FY 2009</u>	<u>FY 2008</u>	<u>FY 2007</u>
Unrestricted Development			
Reserve Account	\$ 10	\$ 105	\$ 137
City Grant Account	\$ (177)	\$ (23)	\$ 22
City Contract Account	\$ 3	\$ 4	\$ 6
State Contract Account	\$ -	\$ -	\$ -
Plant Account	\$ (58)	\$ (8)	\$ 21
<b>Total increase in net assets</b>	<b>\$ (222)</b>	<b>\$ 78</b>	<b>\$ 186</b>

**Philadelphia Housing Development Corporation  
Management's Discussion and Analysis (Unaudited)  
For the Years Ended June 30, 2009 and 2008**

Net Assets – Unrestricted Development Reserve Funds

The net assets of the unrestricted account increased by approximately \$10 thousand in FY 2009 as a result of interest income. Interest income in FY 2009 was approximately \$100 thousand less than earnings in FY 2008 due to reductions in interest rates.

The net assets of the unrestricted account increased by approximately \$105 thousand in FY 2008 primarily as a result of investment income less operating expenses of \$12 thousand.

The net assets of the unrestricted account increased by approximately \$137 thousand in FY 2007 primarily as a result of investment income.

Net Assets – Restricted Accounts

In FY 2009, the net assets of the City Grant Account decreased by \$177 thousand as a result of the sale of one property under the 16<sup>th</sup> and Norris Project. There was no subsidy for this property since the buyer did not qualify for the federal grant. The City Grant Account subsidized the costs. The City Contract Account increased by approximately \$3 thousand as a result of rental income.

In FY 2008, the net assets of the City Grant and City Contract Accounts decreased by approximately \$19 thousand mainly as a result of a write off of an uncollectible receivable in the amount of \$23 thousand net of rent collections of \$4 thousand.

In FY 2007, the net assets of the City Grant and City Contract Accounts increased by approximately \$28 as a result of rents, loan repayments and fees collected.

Net Assets – Plant Account

Net assets in the Plant Account, which represent the carrying value of PHDC's capital assets reported a net decrease in FY 2009 of \$58 thousand for annual depreciation.

In FY 2008 the net assets of the Plant Account decreased by a net of \$8 thousand as a result of approximate increases of \$22 thousand in capital equipment and reductions of \$30 thousand for depreciation.

In FY 2007 the net assets of the Plant Account were increased by a net of \$21 thousand, \$87 increase in capital equipment less \$66 thousand in depreciation.

**Philadelphia Housing Development Corporation  
Management's Discussion and Analysis (Unaudited)  
For the Years Ended June 30, 2009 and 2008**

Capital Assets and Debt Administration

PHDC's investment in capital assets as of June 30, 2009, 2008 and 2007, respectively, was approximately \$134 thousand, \$192 thousand and \$200 thousand. The capital assets activity is described in note 5 to the financial statements.

PHDC's outstanding debt at June 30, 2009, 2008 and 2007, respectively, consists of its mortgage note payable of approximately \$42 thousand, \$43 thousand and \$45 thousand, as described in note 8 to the financial statements.

In addition, there was an outstanding construction loan of \$337 thousand for the 16<sup>th</sup> and Norris Street Project at June 30, 2009. There was no outstanding construction loan at June 30, 2008 and 2007.

Operating Funding and Trends

As a result of the ongoing trend where the City continues to receive a reduced funding allocation from the Federal government, the City of Philadelphia has mandated a downsizing of the operations of all major delegates agencies, including PHDC. This downsizing took effect during FY 2007 and included the limiting of budgeted staff positions and, in some cases, the sharing of services with the City of Philadelphia, resulting in staff reductions at PHDC. It is apparent at the time of this report that the reduction in Federal funds will continue for the foreseeable future.

During Fiscal 2009, the corporation was able to secure an additional \$372,000 in operating funds from the State for the administration of the Weatherization Program to help offset these reductions.

The corporation will continue to explore various options for continuation of peak operations with reduced resources.

Alternative Funding

PHDC has been the recipient of funds made available from the issuance of City bonds relating to the financing of the City's Neighborhood Transformation Initiative (NTI). The level of NTI funding is contingent upon the judgment of the City concerning the program activities and funding needs defined by City officials for PHDC. The future availability of these funds is doubtful.

PHDC has further diversified its funding by securing commitments from the Federal Home Loan Bank as well as private commercial banks. These funds will be used to supplement funds from the Unrestricted and City Contract Accounts that are used for major development projects.

**Philadelphia Housing Development Corporation  
Management's Discussion and Analysis (Unaudited)  
For the Years Ended June 30, 2009 and 2008**

Notes to Statements

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

Issues That May Have a Significant Impact

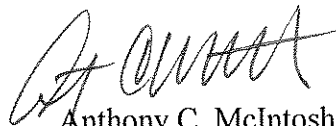
PHDC continues to implement cost saving measures through FY 2009 and into FY 2010 with the purpose of reducing annual operating expenses to correlate with reduced levels of City funding. In addition, PHDC has been asked to undertake activities and incur expenses for which funding has not been provided.

Despite these issues, the corporation has been successful in securing additional City grant programs and related funding in early FY 2008 and will continue to aggressively solicit other alternative funding sources.

PHDC has been selected to be a major recipient of federal funding awarded to the State of Pennsylvania through the American Recovery and Reinvestment Act for weatherization activity. PHDC anticipates receipt of approximately \$16 million in stimulus funding covering a thirty-month period beginning in September 2009.

PHDC's challenge will be to continue providing services to address the housing needs of the citizens of Philadelphia in an environment of shrinking federal funds.

Sincerely,



Anthony C. McIntosh  
Executive Vice President



James Quinn  
Fiscal Director

Philadelphia Housing Development Corporation

Statements of Net Assets  
June 30, 2009 and 2008

	2009	2008
<b>Assets</b>		
Current Assets		
Cash	\$ 2,224,311	\$ 1,161,988
Accounts receivable, net of allowance for doubtful accounts of \$119,972 for both 2009 and 2008	6,483,887	5,927,742
Loans receivable	808,264	1,128,272
Other current assets	34,703	570,562
Property held for development or sale	2,427,530	1,393,173
<b>Total current assets</b>	<b>11,978,695</b>	<b>10,181,737</b>
Noncurrent Assets		
Capital assets, net of accumulated depreciation of \$1,011,424 and \$1,023,022 for 2009 and 2008, respectively	133,847	192,417
<b>Total assets</b>	<b>12,112,542</b>	<b>10,374,154</b>
<b>Liabilities</b>		
Current Liabilities		
Accounts payable and accrued liabilities	5,512,520	3,785,828
Construction note payable	336,966	-
Contract retainage payable	235,000	30,377
Program income payable	237,609	647,698
Mortgage note payable, current portion	1,283	198
Loans payable	808,264	1,128,272
Program advances	1,176,701	668,220
Due to governmental agency	108,342	135,221
Other	26,976	84,835
<b>Total current liabilities</b>	<b>8,443,661</b>	<b>6,480,649</b>
Noncurrent Liabilities		
Mortgage note payable, noncurrent portion	40,890	43,120
<b>Total noncurrent liabilities</b>	<b>40,890</b>	<b>43,120</b>
<b>Total liabilities</b>	<b>8,484,551</b>	<b>6,523,769</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	133,847	192,417
Restricted	323,347	496,875
Unrestricted	3,170,797	3,161,093
<b>Total net assets</b>	<b>\$ 3,627,991</b>	<b>\$ 3,850,385</b>

See Notes to Financial Statements.

Philadelphia Housing Development Corporation

Statements of Revenues, Expenses and Changes in Net Assets  
Years Ended June 30, 2009 and 2008

	2009	2008
Operating revenue		
Revenues applicable to contracts with the City of Philadelphia and other agencies	\$ 35,151,157	\$ 38,743,992
Sale of property held for development or sale	152,306	124,611
Other operating revenue	7,410	-
	<u>35,310,873</u>	<u>38,868,603</u>
Total operating revenues		
Operating expenses		
Property costs applicable to contracts with the City of Philadelphia and other agencies	26,358,018	29,670,323
Costs applicable to sale of property held for development or sale	318,485	88,092
Personnel	7,258,405	7,317,246
Office rental	474,447	564,287
Outside services fees	749,843	885,138
Depreciation	40,673	42,098
Other	340,236	341,775
	<u>35,540,107</u>	<u>38,908,959</u>
Total operating expenses		
Operating loss	<u>(229,234)</u>	<u>(40,356)</u>
Nonoperating revenues (expenses)		
Interest income	10,228	116,473
Other nonoperating revenue	-	5,570
Interest expense	(3,388)	(4,123)
	<u>6,840</u>	<u>117,920</u>
Net nonoperating revenues		
Changes in net assets	<u>(222,394)</u>	<u>77,564</u>
Total net assets, beginning	<u>3,850,385</u>	<u>3,772,821</u>
Total net assets, ending	<u>\$ 3,627,991</u>	<u>\$ 3,850,385</u>

See Notes to Financial Statements.

Philadelphia Housing Development Corporation

Statements of Cash Flows

Years Ended June 30, 2009 and 2008

	2009	2008
<b>Cash Flows from Operating Activities</b>		
Receipts from contracts with the City of Philadelphia and other agencies	\$ 34,598,861	\$ 36,955,734
(Payments for) proceeds from sale of property held for development or sale	152,306	(837,956)
Receipts from other sources	75,074	-
Payments to employees for wages and benefits	(6,724,706)	(7,514,193)
Payments for property costs applicable to contracts	(24,406,646)	(29,639,910)
Payments to suppliers for other costs	(1,622,385)	(2,090,452)
Purchase of property held for development or sale	(1,352,842)	(246,464)
<b>Net cash provided by (used in) operating activities</b>	<b>719,662</b>	<b>(3,373,241)</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchase of capital assets	-	(22,524)
<b>Net cash used in capital and related financing activities</b>	<b>-</b>	<b>(22,524)</b>
<b>Cash Flows from Non-Capital and Related Financing Activities</b>		
Receipts from other non-operating sources	-	5,570
Borrowings from construction note	453,841	-
Repayment of construction note	(116,875)	-
Repayment of mortgage note payable	(1,145)	(1,493)
Interest paid on mortgage note	(3,388)	(4,123)
<b>Net cash provided by (used in) non-capital and related financing activities</b>	<b>332,433</b>	<b>(46)</b>
<b>Cash Flows from Investing Activities</b>		
Interest received on deposits	10,228	116,473
<b>Net cash provided by investing activities</b>	<b>10,228</b>	<b>116,473</b>
<b>Net increase (decrease) in cash</b>	<b>1,062,323</b>	<b>(3,279,338)</b>
Cash, beginning	1,161,988	4,441,326
Cash, ending	<u>\$ 2,224,311</u>	<u>\$ 1,161,988</u>
<b>Reconciliation of operating loss to net cash provided by (used in) operating activities:</b>		
Operating loss	\$ (229,234)	\$ (40,356)
<b>Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:</b>		
Depreciation expense	40,673	42,098
(Gain) loss on disposal of assets	-	(11,673)
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(556,145)	(567,478)
Property held for development or sale	(1,034,357)	(158,372)
Other current assets	535,859	61,075
Accounts payable and accrued liabilities	1,744,589	(557,274)
Contract retainage payable	204,623	30,377
Program income payable	(410,089)	(962,567)
Program advances	508,481	(1,225,476)
Due to governmental agency	(26,879)	36
Other	(57,859)	16,369
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 719,662</b>	<b>\$ (3,373,241)</b>

Supplemental Disclosure of Non-Cash Capital and Related Financing Activities:

In fiscal 2009, PHDC retired capital assets totaling \$70,173 and related accumulated depreciation totaling \$52,276.

In fiscal 2008, PHDC retired capital assets totaling \$43,659 and related accumulated depreciation totaling \$55,332.

See Notes to Financial Statements.

## Philadelphia Housing Development Corporation

### Notes to Financial Statements

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#### Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity: The Philadelphia Housing Development Corporation ("PHDC") is a nonprofit, quasi-governmental corporation founded by the City of Philadelphia (the "City"). PHDC is governed by a member board of directors composed of five (5) ex officio members who are officials of the City of Philadelphia, the Executive Vice President of the corporation and nine members who are appointed by the Mayor of the City of Philadelphia. Its chartered and major purposes include helping to make homeownership possible for families of modest financial means through growth and development in the City of Philadelphia, and the provision of technical assistance to individuals and organizations that also seek to improve housing.

As required by accounting principles generally accepted in the United States of America, based on the significance of its operational and financial relationships with the City, PHDC is considered a component unit of the City and as such, is included in the City's reporting entity. There are no organizations or agencies that should be included in PHDC's basic financial statements.

Through the City's Office of Housing and Community Development ("OHCD"), PHDC receives grants for Community Development Block Grant (CDBG) projects from the U.S. Department of Housing and Urban Development ("HUD"). PHDC also receives Federal Home Program funds through OHCD. The City has also designated PHDC as a direct recipient of funds from HUD and the Commonwealth of Pennsylvania (the "State") for Weatherization Programs. These grants fund most of PHDC's programs and daily activities. The contract between PHDC and OHCD states, "If funding available to the City...is reduced, suspended, or terminated by the federal government, the funds provided PHDC...may be reduced, suspended, or terminated by the City..." As of June 30, 2009, the City has not indicated any intention to suspend or terminate its funding relationship with PHDC.

Fund Accounting: PHDC accounts for its activities and various programs in five separate accounts: the City Contract Account, State Contract Account, Plant Account, City Grant Account and Development Reserve Account. However, for financial reporting purposes, PHDC reports its activities as one Enterprise fund. A description of these accounts is as follows:

*City Grant Account:* The City Grant Account represents the remainder of the \$2,000,000 appropriation established by ordinance of Council of the City of Philadelphia, and approved by the Mayor of the City of Philadelphia on February 10, 1965. These funds were provided to carry out activities as outlined in City Council Ordinance #1845, dated June 28, 1966 and authorized to be transferred to PHDC under City Council Ordinance #369, dated October 2, 1968.

*Development Reserve Account:* The Development Reserve Fund contains non-Federal, non-State and non-City funds arising from the sale of PHDC's multi-family properties.

*City Contract Account:* The City Contract Account accounts for all revenues and costs recorded by PHDC in its ongoing contracts with the City. These contracts, which are funded with Federal funding passed through the City of Philadelphia, are renewed each year and involve the acquisition, rehabilitation, and development of single family homes and apartments as well as provide basic repair and weatherization services for low and moderate income residents of the City. The contracts also fund the operating costs of PHDC on a cost reimbursement basis.

*State Contract Account:* The State Contract Account accounts for the revenues of costs related to PHDC's ongoing contracts with the Commonwealth of Pennsylvania. These contracts primarily fund weatherization and energy efficiency services to eligible City residents. Revenues are recorded on a cost reimbursement basis.

*Plant Account:* Certain capital assets owned by PHDC are accounted for in the Plant Account.

## Philadelphia Housing Development Corporation

### Notes to Financial Statements

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#### Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Financial Reporting: PHDC is considered to be a governmental non-profit organization. As such, PHDC 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 principals. PHDC considers itself to be a special purpose government engaged only in business type activities.

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 and direct Federal and state grant funds are recognized as revenue when the related costs are incurred. Such costs include costs of acquisition and rehabilitation of certain real property to be alternately conveyed to program beneficiaries, and are charged to operations as incurred.

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

As permitted by GASB statement No. 20, PHDC has not and does not intend to apply any statements and interpretations of the Financial Accounting Standards Board issued after November 30, 1989.

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 and 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 expenses 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. See Note 4 for the allowance for doubtful accounts recorded at June 30, 2009 and 2008. See Note 12 for disclosure on amounts due from related parties.

Unbilled receivables are comprised of amounts vouchered by PHDC at year-end that have not been billed prior to fiscal year-end. Accrued unbilled receivables are comprised of estimated unvouchered trade payables and retainage at year-end that cannot be billed until subsequent to fiscal year-end.

Government Grants and Contracts: PHDC records advances under grants and contracts with state and local government agencies as program advances until the related costs are incurred or services performed, at which time they are recognized as revenue.

Loans Receivable: PHDC records a loan receivable for the principal balance of purchase money mortgages outstanding with low- and moderate-income homeowners. The balance is shown net of a reserve for uncollectible accounts. See Note 10.

# Philadelphia Housing Development Corporation

## Notes to Financial Statements

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### Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Property Held for Development or Sale: Nonsubsidized property held for development or sale and rental property is stated at the lower of accumulated cost or fair value, and includes long-held vacant properties as well as units recently acquired for potential rehabilitation and sale.

Capital Assets and Depreciation: Capital assets are carried at cost or estimated historical cost, less accumulated depreciation. Capital assets are defined by PHDC as assets with a cost of more than \$500 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:

Building	30 years
Leasehold improvements	10 years
Vehicles, furniture and equipment	10 years
Computer and equipment	5 years

CDBG Rehabilitation Properties: Under contracts with OHCD (in connection with the Eleventh through Thirty-Second Year Community Developments Block Grant), PHDC has undertaken the rehabilitation of certain deteriorated residential properties within the City. In accordance with the terms of the contracts, OHCD reimburses PHDC for all acquisitions, construction and administrative costs associated with the program as such costs are incurred.

Net Assets: Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are 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 assets consist of all other net assets not included in the above categories.

Compensated Absences: 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. The employees may carry over unused vacation on January 1, 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.

Other Postemployment Benefits: PHDC adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as of July 1, 2008 (Note 14). This statement requires governments to recognize an expense under the accrual basis for annual required other postemployment benefits contributions, regardless of amounts paid. The cumulative difference between amounts expensed and paid creates a liability (asset) similar to net pension obligations.

Income Taxes: PHDC is exempt from Federal income taxes under Section 501(c)(3) 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 and municipal services charges under Ordinance No. 1845, as amended by the Council of the City of Philadelphia in Ordinance No. 39.

Reclassifications: Certain items in the 2008 presentation have been reclassified to conform to the 2009 presentation. The reclassification has no effect on previously reported change in net assets or net assets.

## Philadelphia Housing Development Corporation

### Notes to Financial Statements

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#### Note 2. Budgetary Information

Annual budgets are adopted based upon approval funding contracts with outside grantor agencies on a basis consistent with U.S. generally accepted accounting principles. The one exception is the PHDC unreserved accounts, for which PHDC's Executive staff and Board authorize the adoption of a flexible budget, since no external grantor is involved. All budgets continue to exist for the period defined in the scope of the funding contract.

In the spring of each year, PHDC is notified of the funds that will be made available in upcoming funding contracts from the city and state, and is required to submit a detailed budget supporting the total fund allocation proposed. Final approval of the proposed budget takes place in May when the overall city housing budget is presented to the City of Philadelphia Council for approval. PHDC's executed contracts with the grantor agency follow a few months thereafter.

The appropriated budget is prepared by account and function. PHDC may make transfers of appropriations within the agency based upon written authorization from the grantor.

#### Note 3. Cash

Legal and Contractual Restrictions: PHDC is 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, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit.

Analysis of Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, PHDC's deposits may not be returned to it. PHDC's deposit policy for custodial credit is to have uninsured deposits collateralized. As of June 30, 2009, all of PHDC's bank balances of \$2,988,219 were insured by the FDIC under the transaction account guarantee program component of Temporary Liquidity Guarantee Program. As of June 30, 2008, \$2,362,746 of PHDC's bank balance of \$2,462,746 was exposed to custodial credit risk. As of June 30, 2008, the funds were uninsured, with collateral held in custody by the pledging bank, but not in PHDC's name.

## Philadelphia Housing Development Corporation

### Notes to Financial Statements

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#### Note 4. Accounts Receivable

Accounts receivable at June 30, 2009 and 2008, consists of the following:

	2009	2008
Billed		
OHCD	\$ 3,819,397	\$ 4,256,236
State	598,164	389,029
Other, net of allowance of \$119,972 for both 2009 and 2008	21,948	89,612
Total billed	<u>4,439,509</u>	<u>4,734,877</u>
Unbilled		
OHCD	1,998,905	1,147,083
State	45,473	31,097
Total unbilled	<u>2,044,378</u>	<u>1,178,180</u>
Accrued unbilled		
OHCD	-	14,685
Total accrued unbilled	<u>-</u>	<u>14,685</u>
Total	<u>\$ 6,483,887</u>	<u>\$ 5,927,742</u>

Philadelphia Housing Development Corporation

Notes to Financial Statements

Note 5. Capital Assets

Capital assets activity for the years ended June 30, 2009 and 2008 are as follows:

	Balance June 30, 2008	Increases	Decreases	Balance June 30, 2009
Building	\$ 25,384	\$ -	\$ -	\$ 25,384
Leasehold improvements	75,031	-	-	75,031
Computers and equipment	279,012	-	-	279,012
Vehicles	464,007	-	(70,173)	393,834
Furniture and equipment	372,005	-	-	372,005
Total capital assets	1,215,439	-	(70,173)	1,145,266
Less - accumulated depreciation	(1,023,022)	(40,673)	52,276	(1,011,419)
	\$ 192,417	\$ (40,673)	\$ (17,897)	\$ 133,847

	Balance June 30, 2007	Increases	Decreases	Balance June 30, 2008
Building	\$ 25,384	\$ -	\$ -	\$ 25,384
Leasehold improvements	75,031	-	-	75,031
Computers and equipment	322,671	-	(43,659)	279,012
Vehicles	444,122	19,885	-	464,007
Furniture and equipment	369,366	2,639	-	372,005
Total capital assets	1,236,574	22,524	(43,659)	1,215,439
Less - accumulated depreciation	(1,036,256)	(42,098)	55,332	(1,023,022)
	\$ 200,318	\$ (19,574)	\$ 11,673	\$ 192,417

Depreciation expense for capital assets was \$40,673 and \$42,098 for the years ended June 30, 2009 and 2008, respectively.

Note 6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2009 and 2008, consist of the following:

	2009	2008
Vouchered trade payables	\$ 3,697,043	\$ 2,480,290
Accrued payroll and payroll taxes	167,126	151,014
Compensated absences	279,819	281,979
Accrued pension contributions	1,214,057	872,545
Accrued other postemployment liability	154,475	-
Total	\$ 5,512,520	\$ 3,785,828

## Philadelphia Housing Development Corporation

### Notes to Financial Statements

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#### Note 7. Line of Credit

PHDC has a \$3 million line of credit with a bank. Borrowings are collateralized by receivables from the City and are used primarily to fund short-term contract funding delays. The line of credit bears interest at prime (3.25% at June 30, 2009) and has no defined expiration date. As of June 30, 2009 and 2008, respectively, there was no balance outstanding. Subsequent to year end in July 2009, the interest rate on the line of credit was changed to LIBOR plus three hundred basis points.

#### Note 8. Construction and Mortgage Notes Payable

PHDC has a \$2 million revolving construction note with a bank. Borrowings are collateralized by underlying real estate for which the borrowings were made by PHDC, and any related sales, leases or rents from the real estate. Proceeds from the sale of such collateralized real estate are remitted back to the bank upon receipt of sales proceeds by PHDC. The note bears interest at LIBOR plus 225 basis points (2.5575% at June 30, 2009) and expires on June 25, 2010. As of June 30, 2009 and 2008, respectively, the balance outstanding was \$336,966 and \$0. All amounts outstanding at year-end are due on demand upon receipt of sales proceeds, as described above and are considered current liabilities at June 30, 2009

At June 30, 2009 and 2008, a mortgage note of \$42,173 and \$43,318, respectively, was outstanding with an interest rate of 8.625%. The mortgage note is collateralized by properties held for sale.

Interest expense on the notes payable for the years ended June 30, 2009 and 2008 was \$3,388 and \$4,123, respectively.

Annual debt service requirements, including principal and interest, are as follows:

Years Ending June 30,	Principal	Interest	Total
2010	\$ 1,283	\$ 3,594	\$ 4,877
2011	1,398	3,479	4,877
2012	1,524	3,353	4,877
2013	1,660	3,217	4,877
2014	1,810	3,067	4,877
2015-2019	11,795	12,589	24,384
2020-2024	18,126	6,258	24,384
2025-2027	4,577	220	4,797
Total	\$ 42,173	\$ 35,777	\$ 77,950

## Philadelphia Housing Development Corporation

### Notes to Financial Statements

#### Note 8. Construction and Mortgage Notes Payable (Continued)

A summary of the change in notes payable and the line of credit for the years ended June 30, 2009 and 2008 are as follows:

	Balance June 30, 2008	Add: Borrowings	Less: Repayments	Balance June 30, 2009
Line of credit	\$ -	\$ -	\$ -	\$ -
Construction note	-	453,841	(116,875)	336,966
Mortgage note payable	43,318	-	(1,145)	42,173
Total	<u>\$ 43,318</u>	<u>\$ 453,841</u>	<u>\$ (118,020)</u>	<u>\$ 379,139</u>

	Balance June 30, 2007	Add: Borrowings	Less: Repayments	Balance June 30, 2008
Line of credit	\$ -	\$ -	\$ -	\$ -
Mortgage note payable	44,811	-	(1,493)	43,318
Total	<u>\$ 44,811</u>	<u>\$ -</u>	<u>\$ (1,493)</u>	<u>\$ 43,318</u>

#### Note 9. Due to Government Agency

As part of its recurring program activities, PHDC collects proceeds from the sale of houses that have been rehabilitated under city contracts. The related property costs are allocated against the sales proceeds in the year incurred. Remaining amounts to be refunded to the governmental agency are held until the contracts are closed. The amount due to Redevelopment Authority ("RDA") was \$108,342 and \$135,221 at June 30, 2009 and 2008, respectively.

#### Note 10. Loans Receivable and Payable

PHDC, acting as an agent of the City of Philadelphia, OHCD and in conjunction with the current OHCD programs that it administers, continues to service existing loans to low- and moderate- income homeowners utilizing a purchase money mortgage with terms that range from one to thirty years. Effective June 30, 1999, PHDC no longer issues new purchase money mortgages. As of June 30, 2009 and 2008, respectively, 204 and 250 loans receivable aggregating \$808,264 and \$1,128,272 were outstanding, which are recorded in the Statements of Net Assets as "loans receivable." Payments received from these loans are authorized to be rechanneled into PHDC's operations as program income.

The amounts presented in the financial statements are reported net of a reserve for uncollectible accounts of \$384,000 and \$320,771 for 2009 and 2008.

# Philadelphia Housing Development Corporation

## Notes to Financial Statements

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### Note 11. Commitments and Contingencies

Lease Commitments: PHDC leases office space, copiers and telephone equipment under leases expiring at various dates through October 31, 2009. Future minimum annual rentals at June 30, 2009 are as follows:

Years Ending June 30,	Gross Future Minimum Annual Rentals	Less: Sublease Income	Net Future Minimum Annual Rentals
2010	\$ 223,112	\$ (117,424)	\$ 105,688
Total	\$ 223,112	\$ (117,424)	\$ 105,688

PHDC incurred rental and lease expenses, net of sublease income, totaling \$483,215 and \$603,799 for 2009 and 2008, respectively.

Contracts with Third-Party Subrecipients: Approximately \$1,779,000 and \$1,149,000 in property costs and advances applicable to contracts with the City were expended by various third-party subrecipients for the years ended June 30, 2009 and 2008, respectively. As of January 14, 2010, PHDC has not determined the eligibility of cumulative costs and advances of \$299,000 (including prior year amounts) expended by these subrecipients because PHDC has not received and reviewed audit reports required from third-party subrecipient auditors covering such items. Ultimate eligibility of these costs is contingent upon PHDC obtaining the appropriate audit reports indicating compliance on the part of the subrecipients.

Litigation: PHDC is a named defendant in several lawsuits arising in the ordinary course of business. While the outcome of the lawsuits against PHDC cannot be predicted with certainty, management does not expect these matters to have a material adverse impact on the financial statements.

Union Contract: Approximately 80% of PHDC's workforce is represented by a local labor union that can initiate a strike. The union's existing contract expired on June 30, 2004. PHDC is actively involved in negotiations with the union. It is unclear at this time whether the labor issue will have any significant impact on operations subsequent to year-end.

Southwest Initiative Project: In 2006, PHDC undertook a new development known as the Southwest Initiative Project, which is reported in the Development Reserve Account. This development differs from other development projects because PHDC has secured financing for the project outside of the normal City and Federal grant-funding streams.

The project is being permanently financed with funds made available from the Federal Home Loan Bank, the RDA's Homeownership Repair Program, and the sales proceeds of the properties being rehabilitated. Temporary financing is provided through construction loans with a bank.

Construction on Phase I of the project, which comprised nine (9) units, was completed as of February 8, 2006. All Phase I units have been sold as of June 30, 2008. PHDC began construction on the four (4) units in Phase II of the project in July 2009.

In conjunction with the development of the Southwest Initiative Project, PHDC has signed a construction contract with a general contractor for work to be performed in future years totaling approximately \$593,000.

## Philadelphia Housing Development Corporation

### Notes to Financial Statements

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#### Note 11. Commitments and Contingencies (Continued)

Loss on 16<sup>th</sup> & Norris Development Project (the "Project"): During the year ended June 30, 2009, PHDC incurred a loss of approximately \$179,000, resulting from the sale of an unsubsidized unit in the Project. The loss has been charged to the City Grant Account, due to the Board of Directors not authorizing the loss on the Project to be charged to the Development Reserve Account. Upon approval by the Board of Directors, the loss will be transferred to unrestricted net assets of the Development Reserve Account. The net effect will be an increase of approximately \$179,000 to restricted net assets and a decrease of approximately \$179,000 to unrestricted net assets.

City Grant Account Agreed-Upon Procedures: PHDC has currently engaged an accounting firm to perform agreed-upon procedures on expenditures charged to the City Grant Account for the five-year period beginning July 1, 2001 through June 30, 2006 to determine if the expenditures met the criteria to be charged to the City Grant Account. The criteria were established in 1968 by the \$2.0 million contribution by the City of Philadelphia. The engagement is still ongoing and expected to be completed during the fiscal year ended June 30, 2010. Management believes the findings of the report will not have a material effect on the net assets of the City Grant Account and the Development Reserve Account.

Tax Penalties: The Internal Revenue Service (IRS) has imposed a levy against PHDC's account in the amount of \$18,167 for the incomplete filing of its Form 990: *Return of Organization Exempt from Income Tax* for the fiscal year ended June 30, 2003. On February 24, 2009, PHDC received a refund from the IRS for the \$18,167 plus an additional interest earned on levied funds totaling \$802.

In addition, the IRS notified PHDC of a discrepancy in PHDC's Forms 941: *Employer's Quarterly Federal Tax Return* and Forms W-2: *Wage and Tax Statement* for the calendar year tax period ended December 31, 2004. Principal, interest and penalties assessed totaled \$4,191. PHDC has reconciled the discrepancy and responded to the IRS notice. On April 13, 2009, PHDC received a letter from the IRS indicating that this matter has been resolved with no balance due from PHDC.

#### Note 12. Related Party Transactions

Related parties of PHDC include the City of Philadelphia and RDA. Amounts receivable from the City and its authorities are \$5,818,302 and \$5,418,004 at June 30, 2009 and 2008, respectively (Note 4). Amounts payable to the City and its authorities are \$1,494,659 and \$1,278,930 at June 30, 2009 and 2008, respectively.

Substantially all assets, liabilities, revenues and expenses as of and for the years ended June 30, 2009 and 2008 are included under and dependent upon Federal funding primarily received through contracts with the City under the jurisdiction of OHCD.

PHDC has participated in the creation of five Local Development Corporations ("LDCs"), none of which are currently active in construction activity. The LDCs were formed for purpose of developing new construction projects in cooperation with community groups. The LDCs are administered by boards of directors each including two PHDC staff members and three representatives of the community where the project is being built. PHDC has acted as an agent of the City of Philadelphia in these developments, as defined in its funding contracts with the City. The LDCs are substantially funded by the City with Federal funding.

## Philadelphia Housing Development Corporation

### Notes to Financial Statements

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#### Note 13. Pension Plan

Plan Description: PHDC participates 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 (DROP) was initiated on October 1, 1999. Under this plan, employees that 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 the City of Philadelphia.

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 5 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 .68 of one percent in addition to the normal Plan Y rate for 5 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.

PHDC's 2009 covered payroll and total payroll was \$2,932,252 and \$3,324,397, respectively. PHDC's 2008 covered payroll and total payroll was \$2,981,087 and \$3,345,876, respectively.

Contributions Required and Made: Employees of PHDC are required to pay 3.75%, 1.86% and 2.54%, and 3.75%, 1.85%, and 2.53% of their gross earnings to the pension plan for the J Plan, Y Plan and Y5 Plan, respectively for 2009 and 2008. PHDC is required to contribute at actuarially determined rates, which were 105.450% and 92.956% of covered payroll for the J Plan for 2009 and 2008, respectively, and 5.697% and 5.538% of covered payroll for the Y Plans for 2009 and 2008, respectively. PHDC's required contributions to the City PERS for 2009 and 2008 were \$2,482,491 and \$2,488,658, respectively. PHDC's required contributions to the City PERS represents less than 1% of the total actuarially determined contribution requirement for all employees covered by the pension plan. PHDC makes quarterly payments to the City PERS within 30 days of the end of each quarter. The annual pension retro-adjustment is remitted to the City PERS within 30 days of the end of the third quarter. As of June 30, 2009 and 2008, approximately \$818,000 and \$753,000 was due to the City PERS. The amounts represent the quarter liability and the pension retro-adjustment of approximately \$527,000 and \$291,000, respectively for 2009 and \$482,000 and \$271,000, respectively for 2008.

# Philadelphia Housing Development Corporation

## Notes to Financial Statements

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### Note 14. Postemployment Benefits Other Than Pensions (OPEB)

Plan Description: In addition to providing pension benefits, PHDC provides certain other postemployment medical, prescription drug, dental, vision and life insurance benefits for retired employees through provisions of City of Philadelphia ordinances, civil service regulations and agreements with its various employee bargaining units (the "Plan"). PHDC provides medical, prescription drug, dental and vision benefits for five years after retirement. PHDC also provides life insurance of \$6,000 until the death of the retiree. Substantially all of PHDC's employees may become eligible for those benefits if they reach normal retirement age while working for PHDC. PHDC pays the full cost of coverage for these benefits through private insurers, except for a co-payment for major medical insurance that is based on the coverage selected by retirees in the Plan.

Membership of the OPEB Plan consisted of the following at June 30, 2008, the date of the latest actuarial valuation:

Retirees	78
Active plan members	69
	<hr/>
	147
	<hr/> <hr/>

Funding Policy: PHDC is funding plan benefits on a pay-as-you-go basis by making monthly premiums payments for participants to PHDC's insurance companies under arrangements covering all employees.

The 2009 and 2008 required annual contribution rates are 11.2% and 10.7%, respectively, of annual covered payroll. For the fiscal years ended June 30, 2009 and 2008, PHDC contributed approximately \$233,000 and \$242,000, respectively. PHDC's contributions for retirees represented 7.0% and 7.2% of covered payroll. Contributions made by retirees were approximately \$16,000 and \$22,000, respectively, for the years ended June 30, 2009 and 2008. PHDC's obligation to contribute to the Plan is established and may be amended by the City of Philadelphia Council.

Annual OPEB Cost and Net OPEB Obligation: PHDC's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of PHDC's OPEB cost for the period from July 1, 2007 through June 30, 2009, the amount contributed to the plan on an age adjusted basis, and changes in PHDC's net OPEB obligation.

Cumulative two year required contribution	\$ 728,356
Interest on net OPEB obligation	2,786
Adjustment to annual required contribution	(2,950)
	<hr/>
Annual OPEB cost (expense)	728,192
Contributions made (on an age adjusted basis)	(573,717)
	<hr/>
Increase in net OPEB obligation	154,475
Net OPEB obligation - July 1, 2007	-
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Net OPEB obligation - June 30, 2009	\$ 154,475
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## Philadelphia Housing Development Corporation

### Notes to Financial Statements

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#### Note 14. Postemployment Benefits Other Than Pensions (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued): PHDC's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2009 and 2008 were as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed (On an Age Adjusted Basis)	Net OPEB Obligation
2009	\$ 371,372	79.8%	\$ 154,475
2008	356,821	77.7%	79,608

Funding Status and Funding Progress: As of June 30, 2008, the most recent actuarial valuation date, the Plan was not funded. The unfunded actuarial accrued liability (UAAL) was \$4,228,378. The covered payroll (annual payroll of active employees covered by the plan) was \$3,324,397, and the ratio of the UAAL to the covered payroll was 127.2 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2008 actuarial valuation, the Projected Unit Credit method, with linear pro-ration to assumed benefit commencement, was used. The actuarial assumption includes a 3.5 percent investment rate of return based upon the continuation of funding on a pay-as-you-go basis and that general fund investments can earn 3.5% over the long term. The annual healthcare cost trend is assumed to be 6.0% for the current year, increasing to 9.5% for the year ending June 30, 2010, and decreasing annually 0.5% to an ultimate rate of 5.0%. The 6.0% assumption for the year ended June 30, 2009 is based upon current premiums. The UAAL is being amortized over 30 years using a 30-year amortization as a level dollar amount. The remaining amortization period at June 30, 2009 was 29 years.

#### Note 15. Risk Management

PHDC 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 PHDC carries commercial insurance. There were no significant reductions in coverage from prior year. Settlements have not exceeded coverage over the past two years.

## Philadelphia Housing Development Corporation

### Notes to Financial Statements

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#### Note 16. Accounting Pronouncements Issued, Not Yet Implemented

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, issued June 2007, will be effective for PHDC beginning with its year ending June 30, 2010. This Statement provides guidance regarding how to identify, account for and report intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature and has an initial useful life extending beyond a single reporting period.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, issued June 2008, will be effective for PHDC beginning with the year ending June 30, 2010. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments.

GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*, issued March 2009, will be effective for PHDC beginning with the year ending June 30, 2011. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, unassigned amounts are considered to have been spent.

PHDC's management has not yet determined the effect, if any, these Statements will have on PHDC's financial statements.

Philadelphia Housing Development Corporation  
 Required Supplementary Information

Schedules of Funding Progress and Employer Contributions  
 Other Postemployment Benefits -  
 Required Supplementary Information

(Unaudited - See Accompanying Independent Auditor's Report)

Schedule of Funding Progress

Actuarial Valuation Date June 30,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
2008	\$ -	\$ 4,228,378	\$ 4,228,378	0.0%	\$ 3,324,397	127.2%

Schedule of Employer Contributions

Fiscal Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2009	\$ 371,372	79.80%
2008	356,372	77.70%

Actuarial Methods and Assumptions

Amortization method Level dollar

Remaining amortization period 30

Actuarial assumptions:

Investment rate of return 3.50%

Projected salary increases - wage inflation 5.00%

Annual healthcare cost trend:

Year ended June 30, 2009 6.00%

Year ending June 30, 2010 9.50%

Years ending after June 30, 2010 - decrease  
 by 0.5% annually through June 30, 2019 to an  
 ultimate rate of 5.0%

Philadelphia Housing Development Corporation  
Schedule of Assets, Liabilities and Net Assets  
June 30, 2009

	City Grant Account	Development Reserve Account	City Contract Account	State Contract Account	Plant Account	Total
<b>Assets</b>						
Current Assets						
Cash	\$ -	\$ 1,916,063	\$ 308,248	\$ -	\$ -	\$ 2,224,311
Accounts receivable, net of allowance for doubtful accounts of \$119,972	21,948	-	5,818,302	643,637	-	6,483,887
Loans receivable	-	-	808,264	-	-	808,264
Other current assets	9,545	-	25,158	-	-	34,703
Due from other accounts (funds)	116,875	1,022,803	-	-	-	1,139,678
Property held for development or sale	1,081,227	244,096	1,102,207	-	-	2,427,530
<b>Total current assets</b>	<b>1,229,595</b>	<b>3,182,962</b>	<b>8,062,179</b>	<b>643,637</b>	<b>-</b>	<b>13,118,373</b>
Noncurrent Assets						
Capital assets, net of accumulated depreciation of \$1,011,424	-	-	-	-	133,847	133,847
<b>Total assets</b>	<b>1,229,595</b>	<b>3,182,962</b>	<b>8,062,179</b>	<b>643,637</b>	<b>133,847</b>	<b>13,252,220</b>
<b>Liabilities</b>						
Current Liabilities						
Accounts payable and accrued liabilities	46,209	12,165	4,973,574	480,572	-	5,512,520
Construction note payable	-	-	336,966	-	-	336,966
Contract retainage payable	-	-	235,000	-	-	235,000
Program income payable	-	-	237,308	301	-	237,609
Mortgage note payable, current portion	1,283	-	-	-	-	1,283
Loans payable	-	-	808,264	-	-	808,264
Program advances	45,335	-	1,124,370	6,996	-	1,176,701
Due to governmental agency	-	-	108,342	-	-	108,342
Due to other accounts (funds)	951,818	-	116,875	70,985	-	1,139,678
Other	26,976	-	-	-	-	26,976
<b>Total current liabilities</b>	<b>1,071,621</b>	<b>12,165</b>	<b>7,940,699</b>	<b>558,854</b>	<b>-</b>	<b>9,583,339</b>
Noncurrent Liabilities						
Mortgage note payable, noncurrent portion	40,890	-	-	-	-	40,890
<b>Total liabilities</b>	<b>1,112,511</b>	<b>12,165</b>	<b>7,940,699</b>	<b>558,854</b>	<b>-</b>	<b>9,624,229</b>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	-	-	-	-	133,847	133,847
Restricted	117,084	-	121,480	84,783	-	323,347
Unrestricted	-	3,170,797	-	-	-	3,170,797
<b>Total net assets</b>	<b>\$ 117,084</b>	<b>\$ 3,170,797</b>	<b>\$ 121,480</b>	<b>\$ 84,783</b>	<b>\$ 133,847</b>	<b>\$ 3,627,991</b>

Philadelphia Housing Development Corporation  
Schedule of Assets, Liabilities and Net Assets  
June 30, 2008

	City Grant Account	Development Reserve Account	City Contract Account	State Contract Account	Plant Account	Total
<b>Assets</b>						
Current Assets						
Cash	\$ -	\$ 955,569	\$ -	\$ 206,419	\$ -	\$ 1,161,988
Accounts receivable, net of allowance for doubtful accounts of \$119,972	71,425	-	5,436,191	420,126	-	5,927,742
Loans receivable	-	-	1,128,272	-	-	1,128,272
Other current assets	9,614	-	560,948	-	-	570,562
Due from other accounts (funds)	-	2,094,348	-	-	-	2,094,348
Property held for development or sale	1,083,368	170,098	139,707	-	-	1,393,173
<b>Total current assets</b>	<b>1,164,407</b>	<b>3,220,015</b>	<b>7,265,118</b>	<b>626,545</b>	<b>-</b>	<b>12,276,085</b>
Noncurrent Assets						
Capital assets, net of accumulated depreciation of \$1,023,022	-	-	-	-	192,417	192,417
<b>Total assets</b>	<b>1,164,407</b>	<b>3,220,015</b>	<b>7,265,118</b>	<b>626,545</b>	<b>192,417</b>	<b>12,468,502</b>
<b>Liabilities</b>						
Current Liabilities						
Accounts payable and accrued liabilities	3,900	43,230	3,348,249	390,449	-	3,785,828
Contract retainage payable	-	15,692	14,685	-	-	30,377
Program income payable	-	-	642,000	5,698	-	647,698
Mortgage note payable, current portion	198	-	-	-	-	198
Loans payable	-	-	1,128,272	-	-	1,128,272
Program advances	45,335	-	477,068	145,817	-	668,220
Due to governmental agency	-	-	135,221	-	-	135,221
Due to other accounts (funds)	693,227	-	1,401,121	-	-	2,094,348
Other	84,835	-	-	-	-	84,835
<b>Total current liabilities</b>	<b>827,495</b>	<b>58,922</b>	<b>7,146,616</b>	<b>541,964</b>	<b>-</b>	<b>8,574,997</b>
Noncurrent Liabilities						
Mortgage note payable, noncurrent portion	43,120	-	-	-	-	43,120
<b>Total liabilities</b>	<b>870,615</b>	<b>58,922</b>	<b>7,146,616</b>	<b>541,964</b>	<b>-</b>	<b>8,618,117</b>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	-	-	-	-	192,417	192,417
Restricted	293,792	-	118,502	84,581	-	496,875
Unrestricted	-	3,161,093	-	-	-	3,161,093
<b>Total net assets</b>	<b>\$ 293,792</b>	<b>\$ 3,161,093</b>	<b>\$ 118,502</b>	<b>\$ 84,581</b>	<b>\$ 192,417</b>	<b>\$ 3,850,385</b>

Philadelphia Housing Development Corporation

Schedule of Revenues, Expenses and Changes in Net Assets  
Year Ended June 30, 2009

	City Grant Account	Development Reserve Account	City Contract Account	State Contract Account	Plant Account	Total
<b>Operating revenue</b>						
Revenues applicable to contracts with the City of Philadelphia and other agencies	\$ 5,976	\$ -	\$ 31,416,352	\$ 3,728,829	\$ -	\$ 35,151,157
Sale of property held for development or sale	152,306	-	-	-	-	152,306
Other	7,410	-	-	-	-	7,410
<b>Total operating revenues</b>	<b>165,692</b>	<b>-</b>	<b>31,416,352</b>	<b>3,728,829</b>	<b>-</b>	<b>35,310,873</b>
<b>Operating expenses</b>						
Property costs applicable to contracts with the City of Philadelphia and other agencies	20,050	-	23,925,001	2,412,967	-	26,358,018
Costs applicable to sale of property held for development or sale	318,485	-	-	-	-	318,485
Personnel	-	-	6,221,133	1,037,272	-	7,258,405
Office rental	-	-	370,094	104,353	-	474,447
Outside services fees	482	(330)	655,068	94,623	-	749,843
Depreciation	-	-	-	-	40,673	40,673
Other	-	849	242,078	79,412	17,897	340,236
<b>Total operating expenses</b>	<b>339,017</b>	<b>519</b>	<b>31,413,374</b>	<b>3,728,627</b>	<b>58,570</b>	<b>35,540,107</b>
<b>Operating income (loss)</b>	<b>(173,325)</b>	<b>(519)</b>	<b>2,978</b>	<b>202</b>	<b>(58,570)</b>	<b>(229,234)</b>
<b>Nonoperating revenues (expenses)</b>						
Interest income	5	10,223	-	-	-	10,228
Interest expense	(3,388)	-	-	-	-	(3,388)
<b>Net nonoperating revenues</b>	<b>(3,383)</b>	<b>10,223</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,840</b>
<b>Transfers</b>						
Inter-account transfer	-	-	-	-	-	-
<b>Changes in net assets</b>	<b>(176,708)</b>	<b>9,704</b>	<b>2,978</b>	<b>202</b>	<b>(58,570)</b>	<b>(222,394)</b>
Total net assets, beginning	293,792	3,161,093	118,502	84,581	192,417	3,850,385
Total net assets, ending	\$ 117,084	\$ 3,170,797	\$ 121,480	\$ 84,783	\$ 133,847	\$ 3,627,991

Philadelphia Housing Development Corporation

Schedule of Revenues, Expenses and Changes in Net Assets  
Year Ended June 30, 2008

	City Grant Account	Development Reserve Account	City Contract Account	State Contract Account	Plant Account	Total
<b>Operating revenue</b>						
Revenues applicable to contracts with the City of Philadelphia and other agencies	\$ -	\$ (615)	\$ 34,813,305	\$ 3,931,302	\$ -	\$ 38,743,992
Sale of property held for development or sale	124,611	-	-	-	-	124,611
<b>Total operating revenues</b>	<b>124,611</b>	<b>(615)</b>	<b>34,813,305</b>	<b>3,931,302</b>	<b>-</b>	<b>38,868,603</b>
<b>Operating expenses</b>						
Property costs applicable to contracts with the City of Philadelphia and other agencies	59,485	4,949	26,651,444	2,954,445	-	29,670,323
Costs applicable to sale of property held for development or sale	88,092	-	-	-	-	88,092
Personnel	-	3,937	6,585,953	727,356	-	7,317,246
Office rental	-	312	458,638	105,337	-	564,287
Outside services fees	1,411	1,459	798,744	83,524	-	885,138
Depreciation	-	-	-	-	42,098	42,098
Other	5	816	314,511	38,116	(11,673)	341,775
<b>Total operating expenses</b>	<b>148,993</b>	<b>11,473</b>	<b>34,809,290</b>	<b>3,908,778</b>	<b>30,425</b>	<b>38,908,959</b>
<b>Operating income (loss)</b>	<b>(24,382)</b>	<b>(12,088)</b>	<b>4,015</b>	<b>22,524</b>	<b>(30,425)</b>	<b>(40,356)</b>
<b>Nonoperating revenues (expenses)</b>						
Interest income	-	116,473	-	-	-	116,473
Other nonoperating revenue	5,120	450	-	-	-	5,570
Interest expense	(4,123)	-	-	-	-	(4,123)
<b>Net nonoperating revenues (expenses)</b>	<b>997</b>	<b>116,923</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>117,920</b>
<b>Transfers</b>						
Inter-account transfer	-	-	-	(22,524)	22,524	-
<b>Changes in net assets</b>	<b>(23,385)</b>	<b>104,835</b>	<b>4,015</b>	<b>-</b>	<b>(7,901)</b>	<b>77,564</b>
<b>Total net assets, beginning</b>	<b>317,177</b>	<b>3,056,258</b>	<b>114,487</b>	<b>84,581</b>	<b>200,318</b>	<b>3,772,821</b>
<b>Total net assets, ending</b>	<b>\$ 293,792</b>	<b>\$ 3,161,093</b>	<b>\$ 118,502</b>	<b>\$ 84,581</b>	<b>\$ 192,417</b>	<b>\$ 3,850,385</b>

Philadelphia Housing Development Corporation

Statements of Net Assets  
(Amounts rounded to nearest thousand)  
June 30, 2009 and 2008

	2009	2008
<b>Assets</b>		
Current Assets		
Cash	\$ 2,224,000	\$ 1,162,000
Accounts receivable, net of allowance for doubtful accounts of \$120,000 for both 2009 and 2008	6,484,000	5,928,000
Loans receivable	808,000	1,128,000
Other current assets	35,000	571,000
Property held for development or sale	2,428,000	1,393,000
<b>Total current assets</b>	<b>11,979,000</b>	<b>10,182,000</b>
Noncurrent Assets		
Capital assets, net of accumulated depreciation of \$1,011,000 and \$1,023,000 for 2009 and 2008, respectively	134,000	192,000
<b>Total noncurrent assets</b>	<b>134,000</b>	<b>192,000</b>
<b>Total assets</b>	<b>12,113,000</b>	<b>10,374,000</b>
<b>Liabilities</b>		
Current Liabilities		
Accounts payable and accrued liabilities	5,513,000	3,786,000
Construction note payable	337,000	-
Contract retainage payable	235,000	30,000
Program income payable	238,000	648,000
Mortgage note payable, current portion	1,000	-
Loans payable	808,000	1,128,000
Program advances	1,177,000	668,000
Due to governmental agency	108,000	135,000
Other	27,000	85,000
<b>Total current liabilities</b>	<b>8,444,000</b>	<b>6,480,000</b>
Noncurrent Liabilities		
Mortgage note payable, noncurrent portion	41,000	44,000
<b>Total noncurrent liabilities</b>	<b>41,000</b>	<b>44,000</b>
<b>Total liabilities</b>	<b>8,485,000</b>	<b>6,524,000</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	134,000	192,000
Restricted	323,000	497,000
Unrestricted	3,171,000	3,161,000
<b>Total net assets</b>	<b>\$ 3,628,000</b>	<b>\$ 3,850,000</b>

Philadelphia Housing Development Corporation

Statement of Activities  
 (Amounts rounded to nearest thousand)  
 Year Ended June 30, 2009

Function/Program	Expenses	Operating Grants	Revenues Applicable to Contracts with the City of Philadelphia & Other Agencies	Sale of Property Held for Development of Resale	Rental	Other	Net (Expense) Revenue and Changes in Net Assets
City Grant Account	\$ 343,000	\$ -	\$ 6,000	\$ 153,000	\$ 7,000	\$ -	\$ (177,000)
Development Reserve Account	-	-	-	-	-	10,000	10,000
City Contract Account	31,414,000	7,341,000	24,076,000	-	-	-	3,000
State Contract Account	3,729,000	1,316,000	2,413,000	-	-	-	-
Plant Account	58,000	-	-	-	-	-	(58,000)
	<u>\$ 35,544,000</u>	<u>\$ 8,657,000</u>	<u>\$ 26,495,000</u>	<u>\$ 153,000</u>	<u>\$ 7,000</u>	<u>\$ 10,000</u>	<u>\$ (222,000)</u>

Changes in net assets:	
Net assets, beginning of year	\$ 3,850,000
Net assets, end of year	<u>\$ 3,628,000</u>

Philadelphia Housing Development Corporation

Statement of Activities  
 (Amounts rounded to nearest thousand)  
 Year Ended June 30, 2008

Function/Program	Expenses	Operating Grants	Revenues Applicable to Contracts with the City of Philadelphia & Other Agencies	Sale of Property Held for Development of Resale	Rental	Other	Net (Expense) Revenue and Changes in Net Assets
City Grant Account & Development Reserve Account	\$ 164,000	\$ -	\$ -	\$ 124,000	\$ -	\$ 122,000	\$ 82,000
City Contract Account	34,809,000	8,139,000	26,674,000	-	-	-	4,000
State Contract Account	3,931,000	970,000	2,961,000	-	-	-	-
Plant Account	31,000	23,000	-	-	-	-	(8,000)
	<u>\$ 38,935,000</u>	<u>\$ 9,132,000</u>	<u>\$ 29,635,000</u>	<u>\$ 124,000</u>	<u>\$ -</u>	<u>\$ 122,000</u>	<u>\$ 78,000</u>

Changes in net assets:	
Net assets, beginning of year	\$ 3,772,000
Net assets, end of year	<u>\$ 3,850,000</u>

Philadelphia Housing Development Corporation

Schedules of Interfund Balances  
(Amounts expressed in thousands)  
June 30, 2009 and 2008

	2009	2008
<hr/>		
Statement of Net Assets Classifications		
Due from other funds:		
a.) Receivable from Office of Housing and Community Development	\$ 5,819,000	\$ 5,418,000
Total	<u>\$ 5,819,000</u>	<u>\$ 5,418,000</u>
Due to other funds and governmental agency:		
a.) Liability to Office of Housing and Community Development	\$ 1,387,000	\$ 1,144,000
b.) Liability to Redevelopment Authority	108,000	135,000
c.) Liability to Philadelphia Housing Authority	-	21,000
Total	<u>\$ 1,495,000</u>	<u>\$ 1,300,000</u>

Philadelphia Housing Development Corporation

Schedule of Changes in Capital Asset Balances  
Year Ended June 30, 2009

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-Type Activities</b>				
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Fine arts	-	-	-	-
Construction in process	-	-	-	-
<b>Total capital assets not being depreciated</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Capital assets being depreciated:				
Buildings	25,384	-	-	25,384
Other improvements	-	-	-	-
Equipment	743,019	-	(70,173)	672,846
Furniture	372,005	-	-	372,005
Leasehold improvements	75,031	-	-	75,031
Infrastructure	-	-	-	-
<b>Total capital assets being depreciated</b>	<b>1,215,439</b>	<b>-</b>	<b>(70,173)</b>	<b>1,145,266</b>
Less accumulated depreciation for:				
Buildings	(25,384)	-	-	(25,384)
Other improvements	-	-	-	-
Equipment	(552,780)	(39,070)	52,276	(539,574)
Furniture	(369,827)	(1,603)	-	(371,430)
Leasehold improvements	(75,031)	-	-	(75,031)
Infrastructure	-	-	-	-
<b>Total accumulated depreciation</b>	<b>(1,023,022)</b>	<b>(40,673)</b>	<b>52,276</b>	<b>(1,011,419)</b>
<b>Total capital assets being depreciated, net</b>	<b>192,417</b>	<b>(40,673)</b>	<b>(17,897)</b>	<b>133,847</b>
<b>Business-Type Activities Capital Assets, net</b>	<b>\$ 192,417</b>	<b>\$ (40,673)</b>	<b>\$ (17,897)</b>	<b>\$ 133,847</b>

Philadelphia Housing Development Corporation

Schedule of Changes in Capital Asset Balances  
Year Ended June 30, 2008

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-Type Activities</b>				
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Fine arts	-	-	-	-
Construction in process	-	-	-	-
Total capital assets not being depreciated	-	-	-	-
Capital assets being depreciated:				
Buildings	25,384	-	-	25,384
Other improvements	-	-	-	-
Equipment	766,793	19,885	(43,659)	743,019
Furniture	369,366	2,639	-	372,005
Leasehold improvements	75,031	-	-	75,031
Infrastructure	-	-	-	-
Total capital assets being depreciated	1,236,574	22,524	(43,659)	1,215,439
Less accumulated depreciation for:				
Buildings	(25,384)	-	-	(25,384)
Other improvements	-	-	-	-
Equipment	(568,505)	(39,607)	55,332	(552,780)
Furniture	(367,336)	(2,491)	-	(369,827)
Leasehold improvements	(75,031)	-	-	(75,031)
Infrastructure	-	-	-	-
Total accumulated depreciation	(1,036,256)	(42,098)	55,332	(1,023,022)
Total capital assets being depreciated, net	200,318	(19,574)	11,673	192,417
Business-Type Activities Capital Assets, net	\$ 200,318	\$ (19,574)	\$ 11,673	\$ 192,417

# McGladrey & Pullen

Certified Public Accountants

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

To the Board of Directors  
Philadelphia Housing Development Corporation  
Philadelphia, Pennsylvania

We have audited the financial statements of Philadelphia Housing Development Corporation ("PHDC"), a component unit of the City of Philadelphia, Pennsylvania, as of and for the year ended June 30, 2009, and have issued our report thereon dated January 14, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and responses as item 09-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal controls that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency describe above is not a material weakness.

### Compliance and Other Matters

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

We noted certain other matters that we reported to management of PHDC in a separate letter dated January 14, 2010.

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

This report is intended solely for the information and use of management, the finance committee, Board of Directors, City Council, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than those specified parties.

*McGladrey & Pullen, LLP*

Blue Bell, Pennsylvania  
January 14, 2010

Philadelphia Housing Development Corporation

Schedule of Findings and Responses  
Year Ended June 30, 2009

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Findings Related to the Financial Statements Audit as Required to be Reported in Accordance with  
Government Auditing Standards

Finding 09-01: Implementation of Government Accounting Standards Board Statement No. 45 (GASB 45),  
Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions

Criteria: GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, should have been implemented effective July 1, 2007. This statement requires governments to recognize an expense under the accrual basis for annual required other postemployment benefits contributions, regardless of amounts paid. The cumulative difference between amounts expensed and paid creates a liability (asset) similar to net pension obligations.

Condition: Management was not familiar with GASB 45 and did not implement GASB 45 until the year ended June 30, 2009.

Context: As of June 30, 2008, PHDC's other postemployment benefits (OPEB) liability was not recorded in accordance with generally accepted accounting principles.

Effect: PHDC understated its OPEB liability, related unbilled receivable and corresponding revenue and expenses by \$79,608 as of and for the year ended June 30, 2008.

Cause: Management did not understand the current GASB pronouncements that affected PHDC. It was an oversight by Management.

Recommendation: Management should make themselves more familiar with recently issued accounting standards and the potential impact on PHDC.

Views of Responsible  
Officials and Planned  
Corrective Actions:

Management's Response: Management became aware of the GASB 45 requirement during the Fiscal 2009 audit. An actuarial firm was hired to complete a report on PHDC's liability for postemployment benefits other than pensions. The results of the report are included in the financial report for the period ending June 30, 2009 in accordance with generally accepted accounting principles.

Corrective Action: Effective for Fiscal 2010, management will familiarize itself with all future GASB pronouncements to determine if they affect PHDC.

Responsibility: PHDC's Fiscal Director is responsible for completing and monitoring this project.

## Philadelphia Housing Development Corporation

Schedule of Prior Audit Findings  
Year Ended June 30, 2009

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### Status of Prior Audit Findings:

#### Finding 08-01: Filing of Annual Information Returns

Condition: PHDC excluded Schedule B – Schedule of Contributions when Form 990 for the tax period ended June 30, 2003 was filed. In addition, PHDC was responsible for filing approximately 30 annual returns for five Local Development Corporations (LDCs) dating back to 1996, which were not filed on time.

Corrective Action Taken: Form 990 – Schedule B for PHDC for the tax period ended June 30, 2003 was completed and filed on April 25, 2008.

Beginning with the tax return for the period ending June 30, 2005, PHDC has been using a tax software package to prepare the 990 returns. This software package checks for any missing information and schedules before the returns are completed, thus preventing the filing of an incomplete return.

As of July 1, 2009, all required returns for the LDCs referred to above have been filed. Staff will continue to correspond with the IRS in an effort to have the penalties and interest waived. The LDC's are no longer active and PHDC is in the process of dissolving these organizations.

Staff has sought advice and received recommendations from outside sources with experience in dealing with the IRS on behalf of tax-exempt organizations. Staff is currently reviewing accounting records to determine if any additional returns need to be filed.

As noted above, the IRS has imposed a levy against PHDC's account in the amount of \$18,167 for the incomplete filing of its Form 990: *Return of Organization Exempt from Income Tax* for the fiscal year ended June 30, 2003. On February 24, 2009, PHDC received a refund from the IRS for the \$18,167 plus an additional interest earned on levied funds totaling \$802.