

PHILADELPHIA HOUSING DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

AND

SUPPLEMENTAL INFORMATION

**FOR THE YEARS ENDED
JUNE 30, 2008 and 2007**

WITH

INDEPENDENT AUDITORS' REPORT

AND

**REPORT ON COMPLIANCE
AND INTERNAL CONTROL**

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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 years ended June 30, 2008 and 2007, 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 audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PHDC as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2008 on our consideration of PHDC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, on pages 3 to 10, is not a required part of the basic financial statements but is 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 was conducted for the purpose of forming an opinion on the financial statements that collectively comprise PHDC's basic financial statements. The accompanying supplemental information, including the schedules of assets, liabilities, and net assets and the schedules of revenues, expenses, and changes in net assets and schedules requested by the City of Philadelphia including, the statements of net assets and activities and schedules of interfund balances and changes in capital asset balances are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Milligan & Company LLC

Milligan & Company, LLC

November 25, 2008



Philadelphia Housing Development Corporation
Management's Discussion and Analysis
For the Years Ended June 30, 2008 and 2007

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, 2008 and 2007. 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 sources 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 11 to 13.

**Philadelphia Housing Development Corporation
Management's Discussion and Analysis
For the Years Ended June 30, 2008 and 2007**

Assets

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

	<u>FY 2008</u>	<u>FY 2007</u>
<u>Current</u>		
Cash & receivables	\$ 8,218	\$ 11,230
Property & other	\$ 1,964	\$ 1,866
<u>Non-current</u>		
Capital assets	<u>\$ 192</u>	<u>\$ 200</u>
Total Assets	\$ 10,374	\$ 13,296

Total assets at June 30, 2008 are approximately \$2.9 million, or 22.0%, less than they were at the end of FY 2007. This reduction is directly related to the decrease in 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 thousand in program income to cover FY 2009 insurance premiums has been approved by OHCD.

Decreases in total assets in FY 2007 from the prior year totaling approximately \$768 thousand are primarily the net result of reductions to landbank properties owned and increases in prepaid expenses classified as other current assets.

Liabilities

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

	<u>FY 2008</u>	<u>FY 2007</u>
<u>Current</u>		
Payables & accrued liabilities	\$ 3,786	\$ 4,343
Contract retention	\$ 31	\$ -
Program income payable	\$ 648	\$ 1,610
Mortgage note payable	\$ -	\$ -
Loans payable	\$ 1,128	\$ 1,428
Advances from funding sources	\$ 668	\$ 1,894
Due to other agencies	\$ 135	\$ 135
Other	\$ 85	\$ 69
<u>Non-current</u>		
Mortgage note payable	<u>\$ 43</u>	<u>\$ 45</u>
Totals	\$ 6,524	\$ 9,524

The reduction in Total Liabilities by approximately \$3.0 million, or 31.5%, in FY 2008 was due to the reduction in liabilities and advances due the City as explained above.

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Total liabilities decreased in FY 2007 from the prior year by approximately \$955 thousand primarily as the net result of a decrease in trade accounts payable due to lower volume in spending activity and a decrease in loan payable for third party loans due to collections in FY 2007. The overall decrease was net of increases in program income and program advances payable, which increased as a result of FY 2007 property sales and the transfer of advances related to the Homeownership Rehabilitation Program (which PHDC began administering in FY 2007).

Revenues

For the fiscal years ended June 30, 2008 and 2007 PHDC revenues totaled approximately \$39.0 million and \$33.7 million, respectively.

<u>Revenues (in thousands):</u>	<u>FY 2008</u>	<u>FY 2007</u>
<i>Operating:</i>		
Contracts with City and other agencies	\$ 38,744	\$ 33,021
Sale of Property	\$ 125	\$ 431
Other	\$ -	\$ 71
<i>Non-operating:</i>		
Interest	\$ 116	\$ 187
Other	<u>\$ 6</u>	<u>\$ 15</u>
Totals	\$ 38,991	\$ 33,725

Expenses

For the fiscal years ended June 30, 2008 and 2007 PHDC expenses totaled approximately \$38.9 million and \$33.5 million, respectively.

<u>Expenses (in thousands)</u>	<u>FY 2008</u>	<u>FY 2007</u>
<i>Operating:</i>		
Costs associated with City/agency contracts	\$ 29,671	\$ 23,170
Cost allocable to sold properties	\$ 88	\$ 740
Salaries & benefits	\$ 7,317	\$ 7,564
Office rents	\$ 564	\$ 594
Outside fees	\$ 885	\$ 1,009
Depreciation	\$ 42	\$ 49
Other	\$ 342	\$ 407
<i>Non-operating:</i>		
Interest	<u>\$ 4</u>	<u>\$ 6</u>
Totals	\$ 38,913	\$ 33,539

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Overall total revenue and expense levels in FY 2008 were approximately 15.6% and 16.0%, respectively, more than in the prior year. This change was mainly the result of a one-time increase of funding for the Basic Systems Repair Program that was targeted to three specific councilmanic districts. Also, there was approximately \$1 million in Homestart Program activity in FY 2008, whereas, there was no activity for this program in FY 2007.

Overall total revenue and expense levels in FY 2007 decreased by 10% from the prior year, mainly as a result of funding reductions in the Basic Systems Repair Program and Homestart activity in FY 2007.

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 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 2008 the portion of operating revenue recognized by PHDC from the various funding sources totaled less than 1% from the restricted City Grant activity, approximately 90% from the City contract activity, 10% from State contract activity and less than 1% from unrestricted Development Reserve account activity.

In FY 2007 the portion of operating revenue recognized 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

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Development Reserve account activity. Below is a comparative summary of the sources and uses of funds received by the corporation (in thousands):

	<u>FY 2008</u>	<u>FY 2007</u>
<u>Revenues (in thousands)</u>		
Unrestricted Development Reserve Account	\$ 116	\$ 907
City Grant Account	\$ 130	\$ 141
City Contract Account	\$ 34,813	\$ 28,366
State Contract Account	\$ 3,932	\$ 4,311
Plant Account	<u>\$ -</u>	<u>\$ -</u>
Totals	\$ 38,991	\$ 33,725
 <u>Expenses (in thousands)</u>		
Unrestricted Development Reserve Account	\$ 11	\$ 770
City Grant Account	\$ 153	120
City Contract Account	\$ 34,809	\$ 28,351
State Contract Account	\$ 3,909	\$ 4,232
Plant Account	<u>\$ 31</u>	<u>\$ 66</u>
Totals	\$ 38,913	\$ 33,539

Financial Highlights

Overall Spending Patterns

PHDC expended a total of approximately \$39 million in administering a variety of City, State and Federally sponsored housing activities during the year, which is approximately a 16% increase when compared to spending levels of the previous fiscal year. As noted previously, increases in spending can be attributed to increases 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 2008 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.

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Decrease in Overall Total Net Assets

PHDC recorded a total increase in net assets totaling approximately \$78 thousand in FY 2008 and prior year increases in FY 2007 as noted below:

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

Net Assets – Unrestricted Development Reserve Funds

The net assets of the unrestricted account increased by approximately \$105 thousand in FY 2008 primarily as a result of interest income earned of approximately \$117 thousand 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 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 uncollectable receivable (\$23 thousand) net of loan repayments of \$4 thousand.

In FY 2007, the net assets of the City Grant and City Contract Accounts increased by approximately \$28 thousand 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 2008 of \$8 thousand due to an approximate increase of \$22 thousand in capital equipment and an additional reduction of \$30 thousand for annual depreciation.

In FY 2007 the net assets of the Plant Account were increased by a net of \$21 thousand as a result of approximate increases of \$87 thousand in capital equipment and reductions of \$66 thousand for depreciation.

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Management's Discussion and Analysis
For the Years Ended June 30, 2008 and 2007**

Capital Assets and Debt Administration

PHDC's investment in capital assets as of June 30, 2008 and 2007, respectively, was approximately \$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, 2008 and 2007, respectively, consists of its mortgage note payable of approximately \$43 thousand and \$45 thousand, as described in note 8 to the financial statements.

There was no outstanding construction loan at June 30, 2008. During FY 2007, PHDC repaid the balance of a construction loan for phase one of the Southwest Philadelphia Renewal project in the amount of \$506 thousand as the remaining properties in the project were completed and sold.

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 delegate 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 into the next fiscal year. As a result, the amount of program income PHDC will be required to earn to fund operations is \$1.78 million in FY 2009, while this is a decrease from the \$2 million required in FY 2008, it is still substantially more than the \$800 thousand that was budgeted in prior years.

During this period of reduced funding, PHDC has been dealing with the added burden of increases in the costs of employee benefits. Even with considering reductions in the number of staff, the corporation has experienced a 74% increase in pension costs alone since FY 2004, an area of cost over which PHDC has no control or ability to reasonably project from one year to the next.

The corporation, however, continues to explore various options for continuation of peak operations with reduced resources.

Alternative Funding

PHDC continues to be 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.

In addition, PHDC had 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.

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Management's Discussion and Analysis
For the Years Ended June 30, 2008 and 2007**

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 2008 and into FY 2009 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'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, 2008 and 2007

Assets	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents	\$ 1,161,988	\$ 4,441,326
Accounts receivable, net of allowance for doubtful accounts of \$119,972 and \$81,072 for 2008 and 2007	5,927,742	5,360,264
Loans receivable	1,128,272	1,428,311
Other current assets	570,562	631,637
Property held for development or sale	1,393,173	1,234,801
Total current assets	<u>10,181,737</u>	<u>13,096,339</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation of \$1,023,022 and \$1,036,256 for 2008 and 2007, respectively	192,417	200,318
Total assets	<u>\$ 10,374,154</u>	<u>\$ 13,296,657</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,785,828	\$ 4,343,102
Contract retainage payable	30,377	-
Program income payable	647,698	1,610,265
Mortgage note payable, current portion	198	222
Loans payable	1,128,272	1,428,311
Program advances	668,220	1,893,696
Due to governmental agency	135,221	135,185
Other	84,835	68,466
Total current liabilities	<u>6,480,649</u>	<u>9,479,247</u>
Noncurrent liabilities:		
Mortgage note payable, noncurrent portion	43,120	44,589
Total liabilities	<u>6,523,769</u>	<u>9,523,836</u>
Net Assets		
Invested in capital assets, net of related debt	192,417	200,318
Restricted	496,875	516,245
Unrestricted - unreserved	3,161,093	3,056,258
	<u>\$ 3,850,385</u>	<u>\$ 3,772,821</u>

The accompanying notes are an integral part of the financial statements.

Philadelphia Housing Development Corporation
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2008 and 2007

	2008	2007
Operating revenues:		
Revenues applicable to contracts with the City of Philadelphia and other agencies	\$ 38,743,992	\$ 33,021,552
Sale of property held for development or sale	124,611	431,023
Other operating revenue	-	70,827
	38,868,603	33,523,402
 Operating expenses:		
Property costs applicable to contracts with the City of Philadelphia and other agencies	29,670,323	23,170,299
Costs applicable to sale of property held for development or sale	88,092	739,476
Personnel	7,317,246	7,564,088
Office rental	564,287	593,924
Outside services fees	885,138	1,009,394
Depreciation	42,098	49,306
Other	341,775	406,541
	38,908,959	33,533,028
 Operating loss	(40,356)	(9,626)
 Nonoperating revenues (expenses):		
Interest income	116,473	186,842
Other nonoperating revenue	5,570	14,975
Interest expense	(4,123)	(5,653)
	117,920	196,164
 Changes in net assets	77,564	186,538
 Total net assets, beginning of year	3,772,821	3,586,283
 Total net assets, end of year	\$ 3,850,385	\$ 3,772,821

The accompanying notes are an integral part of the financial statements.

Philadelphia Housing Development Corporation
Statements of Cash Flows
For the Years Ended June 30, 2008 and 2007

	2008	2007
Cash flows from operations		
Receipts from contracts with the City of Philadelphia and other agencies	\$ 36,955,734	\$ 36,981,659
(Payments for) Proceeds from sale of property held for development or sale	(837,956)	750,551
Receipts from other operating sources	-	70,827
Payments to employees for wages and benefits	(7,514,193)	(7,594,431)
Payments for property costs applicable to contracts	(29,639,910)	(23,513,511)
Payments to suppliers for other costs	(2,090,452)	(2,750,651)
Purchase of property held for development or sale	(246,464)	(1,576,769)
Net cash (used)/provided by operating activities	(3,373,241)	2,367,675
Cash flows from capital and related financing activities		
Repayment of mortgage note payable	(1,493)	(1,274)
Interest paid on mortgage note	(4,123)	(5,653)
Purchase of capital assets	(22,524)	(87,121)
Net cash used by capital and related financing activities	(28,140)	(94,048)
Cash flows from non-capital and related financing activities		
Receipts from other non-operating sources	5,570	14,975
Net cash provided by non-capital and related financing activities	5,570	14,975
Cash flows from investing activities		
Interest received on deposits	116,473	186,842
Net cash provided by investing activities	116,473	186,842
Net (decrease)/increase in cash	(3,279,338)	2,475,444
Cash, beginning of year	4,441,326	1,965,882
Cash, end of year	\$ 1,161,988	\$ 4,441,326
Reconciliation of operating loss to net cash (used)/provided by operating activities		
Operating loss	\$ (40,356)	\$ (9,626)
Adjustments to reconcile operating loss to net cash (used)/provided by operating activities:		
Depreciation expense	42,098	49,306
(Gain)/Loss on disposal of assets	(11,673)	16,448
Changes in operating assets and liabilities:		
Accounts receivable	(567,478)	2,696,066
Property held for development or sale	(158,372)	837,293
Other current assets	61,075	(622,602)
Accounts payable and accrued liabilities	(557,274)	(1,385,933)
Contract retainage payable	30,377	(149,206)
Program income payable	(962,567)	319,528
Program advances	(1,225,476)	731,090
Due to governmental agency	36	(106,885)
Other	16,369	(7,804)
Net cash (used)/provided by operating activities	\$ (3,373,241)	\$ 2,367,675

Supplemental disclosure of non-cash investing activity:

- In fiscal 2008, PHDC retired capital assets totaling \$43,659 and related accumulated depreciation totaling \$55,332.
- In fiscal 2007, PHDC retired capital assets totaling \$859,888 and related accumulated depreciation totaling \$843,440.

The accompanying notes are an integral part of the financial statements.

Philadelphia Housing Development Corporation
Notes to Financial Statements
For The Years Ended June 30, 2008 and 2007

Note 1. 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 twenty-one 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, 2008, the City has not indicated any intention to suspend or terminate its funding relationship with PHDC. However, during fiscal year 2007, the Mayor's Neighborhood Transformation Initiative implemented a reorganization of the City's housing agencies, including PHDC. Downsizing of PHDC staff occurred as a result of the reorganization.

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:

Philadelphia Housing Development Corporation
Notes to Financial Statements
For The Years Ended June 30, 2008 and 2007

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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.

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.

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.

Philadelphia Housing Development Corporation
Notes to Financial Statements
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Note 1. 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 carrying amount or fair value, and includes long-held vacant properties as well as units recently acquired for potential rehabilitation and sale.

CDBG Rehabilitation Properties: Under contracts with OHCD (in connection with the Eleventh through Thirty-First 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.

Consistent with the policy of immediate recognition of all revenues due under terms of its contracts with OHCD, PHDC charges all costs associated with CDBG programs to expense, including the acquisition and rehabilitation costs of properties still owned by PHDC that will ultimately be conveyed to program beneficiaries.

Income Taxes: PHDC is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. 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.

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 equipment	5 years

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.

Reclassifications: From time to time certain prior year balances may be reclassified to conform to the current year's presentation. Such changes have no impact on previously reported results of operations or net assets.

Philadelphia Housing Development Corporation
Notes to Financial Statements
For The Years Ended June 30, 2008 and 2007

Note 1. Summary of Significant Accounting Policies (Continued)

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. Unreserved net assets consist of all other net assets not included in the above categories.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Significant estimates include the valuation of property held for development or sale, which is based primarily on historical sales trends and other considerations, without the benefit of recent appraisals. Although management does not anticipate additional adjustments to the inventory to be necessary, future circumstances could require further adjustments to the remaining estimated property values.

Significant estimates also include accounts payable and accounts receivable, which are based on activity occurring subsequent to year-end. PHDC closes the vouchers payable system on June 30 each year in order to meet OHCD's reporting deadlines. Based on subsequent vouchers payable activity, management estimates additional payables related to the year under audit. A corresponding entry is recorded to accounts receivable, since all such amounts are reimbursable by the respective agencies.

Note 2. Budgetary Information

Annual budgets are adopted based upon approved 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.

Philadelphia Housing Development Corporation
Notes to Financial Statements
For The Years Ended June 30, 2008 and 2007

Note 3. Cash and Cash Equivalents

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 does not have a deposit for custodial credit risk. As of June 30, 2008 and 2007, \$2,362,746 and \$5,308,577 of PHDC's bank balance of \$2,462,746 and \$5,408,577 was exposed to custodial credit risk as follows:

	2008	2007
Uninsured and collateral held in custody by pledging bank but not in PHDC's name	\$ <u>2,362,746</u>	\$ <u>5,308,577</u>

Note 4. Accounts Receivable

Accounts receivable for years ended June 30, 2008 and 2007, consists of the following:

	2008	2007
Billed		
OHCD	\$ 4,256,236	\$ 4,307,639
State	389,029	258,968
Other, net of allowance of \$119,972 for 2008 and \$81,072 for 2007	89,612	127,631
Total billed	4,734,877	4,694,238
Unbilled		
OHCD	1,147,083	666,026
State	31,097	-
Total unbilled	1,178,180	666,026
Accrued unbilled		
OHCD	14,685	-
Total accrued unbilled	14,685	-
Total	\$ 5,927,742	\$ 5,360,264

Philadelphia Housing Development Corporation
Notes to Financial Statements
For The Years Ended June 30, 2008 and 2007

Note 4. Accounts Receivable (Continued)

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 (see Note 6) and retainage at year-end that cannot be billed until subsequent to fiscal year-end.

Note 5. Capital Assets

Capital assets activity for the years ended June 30, 2008 and 2007 are as follows:

	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	-	-	322,671
Vehicles	444,122	19,885	(43,659)	420,348
Furniture and equipment	369,366	2,639	-	372,005
Total capital assets	<u>1,236,574</u>	<u>22,524</u>	<u>(43,659)</u>	<u>1,215,439</u>
Less - accumulated depreciation	<u>(1,036,256)</u>	<u>(42,098)</u>	<u>55,332</u>	<u>(1,023,022)</u>
	<u>\$ 200,318</u>	<u>\$ (19,574)</u>	<u>\$ 11,673</u>	<u>\$ 192,417</u>
	Balance June 30, 2006	Increases	Decreases	Balance June 30, 2007
Building	\$ 25,384	\$ -	\$ -	\$ 25,384
Leasehold improvements	75,031	-	-	75,031
Computers and equipment	1,130,856	7,231	(815,416)	322,671
Vehicles	383,917	78,571	(18,366)	444,122
Furniture and equipment	394,153	1,319	(26,106)	369,366
Total capital assets	<u>2,009,341</u>	<u>87,121</u>	<u>(859,888)</u>	<u>1,236,574</u>
Less - accumulated depreciation	<u>(1,830,390)</u>	<u>(49,306)</u>	<u>843,440</u>	<u>(1,036,256)</u>
	<u>\$ 178,951</u>	<u>\$ 37,815</u>	<u>\$ (16,448)</u>	<u>\$ 200,318</u>

Depreciation expense for capital assets was \$42,098 and \$49,306 and for the years ended June 30, 2008 and 2007, respectively.

Philadelphia Housing Development Corporation
Notes to Financial Statements
For The Years Ended June 30, 2008 and 2007

Note 6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities for the years ended June 30, 2008 and 2007, consist of the following:

	2008	2007
Vouchered trade payables	\$ 2,480,290	\$ 2,840,617
Accrued payroll and payroll taxes	151,014	136,192
Compensated absences	281,979	236,069
Accrued pension contributions	872,545	1,130,224
 Total	 \$ 3,785,828	 \$ 4,343,102

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 and has no defined expiration date. As of June 30, 2008 and 2007, respectively, there was no balance outstanding.

Note 8. Mortgage Note Payable

At June 30, 2008 and 2007 a mortgage note of \$43,318 and \$44,811, respectively, was outstanding with an interest rate of 8.625%. The mortgage note is secured by a property held for sale.

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

Years Ending June 30,	Principal	Interest	Total
2009	198	4,679	4,877
2010	1,169	3,708	4,877
2011	1,274	3,603	4,877
2012	1,388	3,489	4,877
2013	1,513	3,364	4,877
2014-2018	9,861	14,522	24,383
2019-2023	15,155	9,229	24,384
2024-2028	12,760	1,879	14,639
Total	\$ 43,318	\$ 44,473	\$ 87,791

Philadelphia Housing Development Corporation
Notes to Financial Statements
For The Years Ended June 30, 2008 and 2007

Note 8. Mortgage Note Payable, continued

A summary of the changes in mortgage notes payable and the line of credit for the years ended June 30, 2008 and 2007 are as follows:

	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	\$ 44,811	\$ -	\$ (1,493)	\$ 43,318

	Balance June 30, 2006	Add: Borrowings	Less: Repayments	Balance June 30, 2007
Line of credit	\$ -	\$ 750,000	\$ (750,000)	\$ -
Mortgage note payable	46,085	-	(1,274)	44,811
Total	\$ 46,085	\$ 750,000	\$ (751,274)	\$ 44,811

Interest expense for the years ended June 30, 2008 and 2007 was \$4,123 and \$5,653, respectively.

Note 9. Due to Governmental 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 RDA was \$135,221 and \$135,185 at June 30, 2008 and 2007, 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, 2008 and 2007, respectively, 250 and 290 loans receivable aggregating \$1,128,272 and \$1,428,311 were outstanding, which are recorded in the Statements of Net Assets as "Loans receivable". Corresponding liabilities are also recorded in the Statements of Net Assets as "Loans payable". Payments received from these loans are authorized to be rechanneled into PHDC's operations as program income.

Philadelphia Housing Development Corporation
Notes to Financial Statements
For The Years Ended June 30, 2008 and 2007

Note 10. Loans Receivable and Payable, continued

The amounts presented in the financial statements are reported net of a reserve for uncollectible accounts of \$320,771 for 2008 and 2007. See Note 17 for more details on these balances.

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, 2008 are as follows:

<u>Years Ending June 30,</u>	<u>Gross Future Minimum Annual Rentals</u>	<u>Less: Sublease Income</u>	<u>Net Future Minimum Annual Rentals</u>
2009	853,368	(311,364)	542,004
2010	<u>281,408</u>	<u>(103,788)</u>	<u>177,620</u>
Total	<u>\$ 1,134,776</u>	<u>\$ (415,152)</u>	<u>\$ 719,624</u>

PHDC incurred rental and lease expenses, net of sublease income, totaling \$603,799 and \$616,650 for 2008 and 2007, respectively.

Contracts with Third-Party Subrecipients: Approximately \$1,149,000 and \$1,094,000 in property costs and advances applicable to contracts with the City were expended by various third-party subrecipients for the years ended June 30, 2008 and 2007, respectively. As of September 18, 2008, PHDC has not determined the eligibility of cumulative costs and advances of \$1,083,000 (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.

Philadelphia Housing Development Corporation
Notes to Financial Statements
For The Years Ended June 30, 2008 and 2007

Note 11. Commitments and Contingencies, continued

Southwest Initiative Project: In 2006, PHDC undertook a new development known as the Southwest Initiative Project, which is reported in the Development Reserved 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 expects to begin construction on the five (5) units in Phase II of the project in the fall of 2008.

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.

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 total \$4,191; however, no liability has been included in the financial statements. PHDC has reconciled the discrepancy and responded to the IRS, and is awaiting final notice absolving the assessment.

Note 12. Related Party Transactions

Related parties of PHDC include the City of Philadelphia, RDA, and the Philadelphia Housing Authority. Amounts receivable from the City and its authorities are \$5,418,004 and \$4,973,665 at June 30, 2008 and 2007, respectively. Amounts payable to the City and its authorities are \$1,299,625 and \$3,165,730 at June 30, 2008 and 2007, respectively.

Substantially all assets, liabilities, revenues and expenditures as of and for the years ended June 30, 2008 and 2007 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 LDCs, none of which are currently active in construction activity. The LDCs were formed for purposes 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
For The Years Ended June 30, 2008 and 2007

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.

Philadelphia Housing Development Corporation
Notes to Financial Statements
For The Years Ended June 30, 2008 and 2007

Note 13. Pension Plan, continued

Plan Description, continued: PHDC's 2008 covered payroll and total payroll was \$2,981,087 and \$3,345,876 and, respectively. PHDC's 2007 covered payroll and total payroll was \$3,246,069 and \$3,872,013, respectively.

Contributions Required and Made: Employees of PHDC are required to pay 3.75% and 1.85%, 2.53% and 3.75%, and 1.86% and 2.54% of their gross earnings to the pension plan for the J Plan, Y Plan and Y5 Plan, respectively for 2008 and 2007. PHDC is required to contribute at actuarially determined rates, which were 92.956% and 82.793% of covered payroll for the J Plan for 2008 and 2007, respectively, and 5.538% and 5.030% of covered payroll for the Y Plans for 2008 and 2007, respectively. PHDC's required contributions to the City PERS for 2008 and 2007 were \$2,488,658 and \$2,543,590, 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, 2008 and 2007, approximately \$753,000 and \$1,020,000 was due to the City PERS. The amounts represent the quarterly liability and the pension retro-adjustment of approximately \$482,000 and \$271,000, respectively for 2008, and approximately \$388,000 and \$632,000, respectively for 2007.

Note 14. Post Employment Benefits

In addition to providing pension benefits, PHDC provides certain post-employment health and dental care benefits for retired employees, through provisions of City of Philadelphia ordinances, civil service regulations and agreements with its various employee bargaining units. PHDC provides these benefits for one to five years after retirement depending upon the classification of the employee at his/her retirement. Substantially all of PHDC's employees may become eligible for those benefits if they reach normal retirement age while working for PHDC. PHDC finances the plans on a pay-as-you-go basis. As of June 30, 2008 and 2007, 25 and 28 retirees, respectively, were eligible for these post-employment benefits, the cost of which approximated \$227,000 and \$197,000, respectively.

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
For The Years Ended June 30, 2008 and 2007

Note 16. New Pronouncements Issued

GASB has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which may impact future financial presentations.

This Statement, which will be effective for PHDC beginning with its year ending June 30, 2010, requires that all intangible assets, such as easements, water rights, timber rights, patents, trademarks, and computer software, be classified as capital assets.

Management has not currently determined what, if any, impact implementation of the new statement may have on the financial statements of PHDC.

Note 17. Prior Period Adjustment and Restatement

The beginning balances of loans receivable and payable (see Note 10) have been adjusted to properly reflect the application of a reserve for uncollectible accounts. Since these two accounts are offsetting balances in the Statements of Net Assets, there was no effect on previously reported net assets. As a result of this restatement, both loans receivable and payable balances as of July 1, 2006 decreased by \$320,771. The following financial statement line items for fiscal year 2007 were affected by these corrections:

Statement of Net Assets - June 30, 2007	As Originally Reported	As Restated	Effect of Correction
Loans receivable	\$ 1,749,082	\$ 1,428,311	\$ (320,771)
Loans payable	\$ 1,749,082	\$ 1,428,311	\$ (320,771)

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
Assets						
Current assets:						
Cash and cash equivalents	\$ (693,227)	\$ 3,049,917	\$ (1,401,121)	\$ 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
Property held for development or sale	1,083,368	170,098	139,707	-	-	1,393,173
Total current assets	471,180	3,220,015	5,863,997	626,545	-	10,181,737
Noncurrent assets:						
Capital assets, net of accumulated depreciation of \$1,023,022	-	-	-	-	192,417	192,417
Total assets	\$ 471,180	\$ 3,220,015	\$ 5,863,997	\$ 626,545	\$ 192,417	\$ 10,374,154
Liabilities						
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
Other	84,835	-	-	-	-	84,835
Total current liabilities	134,268	58,922	5,745,495	541,964	-	6,480,649
Noncurrent liabilities:						
Mortgage note payable, noncurrent portion	43,120	-	-	-	-	43,120
Total liabilities	177,388	58,922	5,745,495	541,964	-	6,523,769
Net Assets						
Invested in capital assets, net of related debt	-	-	-	-	192,417	192,417
Restricted	293,792	-	118,502	84,581	-	496,875
Unrestricted - unreserved	-	3,161,093	-	-	-	3,161,093
Total net assets	\$ 293,792	\$ 3,161,093	\$ 118,502	\$ 84,581	\$ 192,417	\$ 3,850,385

Philadelphia Housing Development Corporation
Schedule of Assets, Liabilities and Net Assets
June 30, 2007

	City Grant Account	Development Reserve Account	City Contract Account	State Contract Account	Plant Account	Total
Assets						
Current assets:						
Cash and cash equivalents	\$ (742,053)	\$ 3,064,743	\$ 1,211,274	\$ 907,362	\$ -	\$ 4,441,326
Accounts receivable, net of allowance for doubtful accounts of \$81,072	120,464	7,800	4,973,032	258,968	-	5,360,264
Loans receivable	-	-	1,428,311	-	-	1,428,311
Other current assets	9,583	-	622,054	-	-	631,637
Property held for development or sale	1,094,810	989	139,002	-	-	1,234,801
Total current assets	482,804	3,073,532	8,373,673	1,166,330	-	13,096,339
Noncurrent assets:						
Capital assets, net of accumulated depreciation of \$1,036,256	-	-	-	-	200,318	200,318
Total assets	\$ 482,804	\$ 3,073,532	\$ 8,373,673	\$ 1,166,330	\$ 200,318	\$ 13,296,657
Liabilities						
Current liabilities:						
Accounts payable and accrued liabilities	\$ 7,015	\$ 17,274	\$ 3,710,480	\$ 608,333	\$ -	\$ 4,343,102
Contract retainage payable	-	-	-	-	-	-
Program income payable	-	-	1,606,866	3,399	-	1,610,265
Mortgage note payable, current portion	222	-	-	-	-	222
Loans payable	-	-	1,428,311	-	-	1,428,311
Program advances	45,335	-	1,378,344	470,017	-	1,893,696
Due to governmental agency	-	-	135,185	-	-	135,185
Other	68,466	-	-	-	-	68,466
Total current liabilities	121,038	17,274	8,259,186	1,081,749	-	9,479,247
Noncurrent liabilities:						
Mortgage note payable, noncurrent portion	44,589	-	-	-	-	44,589
Total liabilities	165,627	17,274	8,259,186	1,081,749	-	9,523,836
Net Assets						
Invested in capital assets, net of related debt	-	-	-	-	200,318	200,318
Restricted	317,177	-	114,487	84,581	-	516,245
Unrestricted - unreserved	-	3,056,258	-	-	-	3,056,258
Total net assets	\$ 317,177	\$ 3,056,258	\$ 114,487	\$ 84,581	\$ 200,318	\$ 3,772,821

Philadelphia Housing Development Corporation
Schedule of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2008

	City Grant Account	Development Reserve Account	City Contract Account	State Contract Account	Plant Account	Total
Operating revenues:						
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
Total operating revenues	124,611	(615)	34,813,305	3,931,302	-	38,868,603
Operating expenses:						
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
Total operating expenses	148,993	11,473	34,809,290	3,908,778	30,425	38,908,959
Operating loss	(24,382)	(12,088)	4,015	22,524	(30,425)	(40,356)
Nonoperating revenues (expenses):						
Interest income	-	116,473	-	-	-	116,473
Other nonoperating revenue	5,120	450	-	-	-	5,570
Interest expense	(4,123)	-	-	-	-	(4,123)
Net nonoperating revenues (expenses)	997	116,923	-	-	-	117,920
Transfers						
Inter-account transfer	-	-	-	(22,524)	22,524	-
Changes in net assets	(23,385)	104,835	4,015	-	(7,901)	77,564
Total net assets, beginning of year	317,177	3,056,258	114,487	84,581	200,318	3,772,821
Total net assets, end of year	\$ 293,792	\$ 3,161,093	\$ 118,502	\$ 84,581	\$ 192,417	\$ 3,850,385

Philadelphia Housing Development Corporation
Schedule of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2007

	City Grant Account	Development Reserve Account	City Contract Account	State Contract Account	Plant Account	Total
Operating revenues:						
Revenues applicable to contracts with the City of Philadelphia and other agencies	\$ -	\$ 362,896	\$ 28,347,845	\$ 4,310,811	\$ -	\$ 33,021,552
Sale of property held for development or sale	115,198	297,563	18,262	-	-	431,023
Other operating revenue	10,827	60,000	-	-	-	70,827
Total operating revenues	<u>126,025</u>	<u>720,459</u>	<u>28,366,107</u>	<u>4,310,811</u>	<u>-</u>	<u>33,523,402</u>
Operating expenses:						
Property costs applicable to contracts with the City of Philadelphia and other agencies	25,061	24,547	20,108,859	3,011,832	-	23,170,299
Costs applicable to sale of property held for development or sale	86,259	634,955	18,262	-	-	739,476
Personnel	-	86,906	6,506,548	970,634	-	7,564,088
Office rental	-	6,733	492,770	94,421	-	593,924
Outside services fees	2,191	12,572	897,081	97,550	-	1,009,394
Depreciation	-	-	-	-	49,306	49,306
Other	290	4,197	327,804	57,802	16,448	406,541
Total operating expenses	<u>113,801</u>	<u>769,910</u>	<u>28,351,324</u>	<u>4,232,239</u>	<u>65,754</u>	<u>33,533,028</u>
Operating loss	12,224	(49,451)	14,783	78,572	(65,754)	(9,626)
Nonoperating revenues (expenses):						
Interest income	37	186,805	-	-	-	186,842
Other nonoperating revenue	14,975	-	-	-	-	14,975
Interest expense	(5,653)	-	-	-	-	(5,653)
Net nonoperating revenues (expenses)	<u>9,359</u>	<u>186,805</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>196,164</u>
Transfers						
Inter-account transfer	-	-	(8,549)	(78,572)	87,121	-
Changes in net assets	21,583	137,354	6,234	-	21,367	186,538
Total net assets, beginning of year	<u>295,594</u>	<u>2,918,904</u>	<u>108,253</u>	<u>84,581</u>	<u>178,951</u>	<u>3,586,283</u>
Total net assets, end of year	<u>\$ 317,177</u>	<u>\$ 3,056,258</u>	<u>\$ 114,487</u>	<u>\$ 84,581</u>	<u>\$ 200,318</u>	<u>\$ 3,772,821</u>

Philadelphia Housing Development Corporation
Statements of Net Assets
(Amounts rounded to nearest thousand)
June 30, 2008 and 2007

	2008	2007
Assets		
Current assets:		
Cash	\$ 1,162,000	\$ 4,441,000
Accounts receivable, net	510,000	386,000
Due from other funds	5,418,000	4,974,000
Loans receivable	1,128,000	1,428,000
Other current assets	571,000	632,000
Property held for development or sale	1,393,000	1,235,000
Total current assets	10,182,000	13,096,000
Noncurrent assets:		
Capital assets	192,000	200,000
Total assets	10,374,000	13,296,000
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	3,786,000	4,343,000
Contract retainage payable	30,000	-
Program income payable	648,000	1,610,000
Mortgage note payable, current portion	-	1,000
Loans payable	1,128,000	1,428,000
Program advances	668,000	1,894,000
Due to governmental agency	135,000	135,000
Other	85,000	68,000
Total current liabilities	6,480,000	9,479,000
Noncurrent liabilities:		
Mortgage note payable, noncurrent portion	44,000	45,000
Total liabilities	6,524,000	9,524,000
Net Assets		
Invested in capital assets, net of related debt	192,000	200,000
Restricted	497,000	516,000
Unrestricted	3,161,000	3,056,000
Total net assets	\$ 3,850,000	\$ 3,772,000

The accompanying notes are an integral part of the financial statements.

Philadelphia Housing Development Corporation
Statement of Activities
(Amounts rounded to nearest thousand)
For the Year Ended June 30, 2008

Function/Program	Expenses	Operating Grants	Charges for Services				Net (Expense) Revenue and Changes in Net Assets
			Revenues Applicable to Contracts with the City of Philadelphia & Other Agencies	Sale of Property Held for Development or Resale	Rental	Other	
City Grant & Development Reserve	\$ 164,000	\$ -	\$ -	\$ 124,000	\$ -	\$ 122,000	\$ 82,000
City Contract	34,809,000	8,139,000	26,674,000	-	-	-	4,000
State Contract	3,931,000	970,000	2,961,000	-	-	-	-
Plant	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>
Change in net assets:							
Net assets, beginning of year							<u>3,772,000</u>
Net assets, end of year							<u>\$ 3,850,000</u>

Philadelphia Housing Development Corporation
Statement of Activities
(Amounts rounded to nearest thousand)
For the Year Ended June 30, 2007

Function/Program	Expenses	Operating Grants	Charges for Services				Net (Expense) Revenue and Changes in Net Assets
			Revenues Applicable to Contracts with the City of Philadelphia & Other Agencies	Sale of Property Held for Development or Resale	Rental	Other	
City Grant & Development Reserve	\$ 889,000	\$ -	\$ 363,000	\$ 412,000	\$ 70,000	\$ 203,000	\$ 159,000
City Contract	28,352,000	8,343,000	19,997,000	18,000	-	-	6,000
State Contract	4,232,000	1,220,000	3,012,000	-	-	-	-
Plant	66,000	87,000	-	-	-	-	21,000
	<u>\$ 33,539,000</u>	<u>\$ 9,650,000</u>	<u>\$ 23,372,000</u>	<u>\$ 430,000</u>	<u>\$ 70,000</u>	<u>\$ 203,000</u>	<u>186,000</u>
Change in net assets:							
Net assets, beginning of year							3,586,000
Net assets, end of year							<u>\$ 3,772,000</u>

Philadelphia Housing Development Corporation
Schedules of Interfund Balances
(Amounts rounded to nearest thousand)
June 30, 2008 and 2007

Statements of Net Assets Classifications

	2008	2007
Due from other funds:		
a.) Receivable from Office of Housing and Community Development	\$ 5,418,000	\$ 4,974,000
Total	\$ 5,418,000	\$ 4,974,000
Due to other funds and governmental agencies:		
a.) Liability to Office of Housing and Community Development	\$ 1,144,000	\$ 3,010,000
b.) Liability to Philadelphia Housing Authority	21,000	21,000
c.) Liability to Redevelopment Authority	135,000	135,000
Total	\$ 1,300,000	\$ 3,166,000

Philadelphia Housing Development Corporation
Schedule of Changes in Capital Asset Balances
Year Ended June 30, 2008

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Fine arts	-	-	-	-
Construction in process	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets not being depreciated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
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	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets being depreciated	<u>1,236,574</u>	<u>22,524</u>	<u>(43,659)</u>	<u>1,215,439</u>
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	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total accumulated depreciation	<u>(1,036,256)</u>	<u>(42,098)</u>	<u>55,332</u>	<u>(1,023,022)</u>
Total capital assets being depreciated, net	<u>200,318</u>	<u>(19,574)</u>	<u>11,673</u>	<u>192,417</u>
Business-Type Activities Capital Assets, net	<u>\$ 200,318</u>	<u>\$ (19,574)</u>	<u>\$ 11,673</u>	<u>\$ 192,417</u>

Philadelphia Housing Development Corporation
Schedule of Changes in Capital Asset Balances
Year Ended June 30, 2007

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Fine arts	-	-	-	-
Construction in process	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets not being depreciated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital assets being depreciated:				
Buildings	25,384	-	-	25,384
Other improvements	-	-	-	-
Equipment	1,514,773	85,802	(833,782)	766,793
Furniture	394,153	1,319	(26,106)	369,366
Leasehold improvements	75,031	-	-	75,031
Infrastructure	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets being depreciated	<u>2,009,341</u>	<u>87,121</u>	<u>(859,888)</u>	<u>1,236,574</u>
Less accumulated depreciation for:				
Buildings	(25,384)	-	-	(25,384)
Other improvements	-	-	-	-
Equipment	(1,338,760)	(47,079)	817,334	(568,505)
Furniture	(391,215)	(2,227)	26,106	(367,336)
Leasehold improvements	(75,031)	-	-	(75,031)
Infrastructure	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total accumulated depreciation	<u>(1,830,390)</u>	<u>(49,306)</u>	<u>843,440</u>	<u>(1,036,256)</u>
Total capital assets being depreciated, net	<u>178,951</u>	<u>37,815</u>	<u>(16,448)</u>	<u>200,318</u>
Business-Type Activities Capital Assets, net	<u>\$ 178,951</u>	<u>\$ 37,815</u>	<u>\$ (16,448)</u>	<u>\$ 200,318</u>

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Philadelphia Housing Development Corporation
Philadelphia, PA

We have audited the financial statements of the Philadelphia Housing Development Corporation (“PHDC”) as of and for the year ended June 30, 2008, and have issued our report thereon dated November 25, 2008. 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 opinions 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 certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 PHDC’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 PHDC’s financial statements that is more than inconsequential will not be prevented or detected by the PHDC’s internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item #08-01 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 PHDC'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 do not believe that the significant deficiency described above is 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item #08-01.

We noted certain other matters that we reported to management of PHDC, in a separate letter dated November 25, 2008.

PHDC's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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 audit committee, 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 these specified parties.

Milligan & Company LLC

Milligan & Company, LLC

November 25, 2008



PHILADELPHIA HOUSING DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

PART 1: Findings - Financial Statement Audit (Government Auditing Standards):

Finding 08-01: Filing of Annual Information Returns

Criteria: The Internal Revenue Service (IRS) mandates that tax-exempt organizations with gross receipts exceeding \$25,000 annually file Form 990 *Return of Organization Exempt from Income Tax* by the 15th day of the 5th month following the end of the organization's accounting period. Extensions may be requested, and if granted, ultimately allows the exempt organization an additional six months to file Form 990.

Under section 6652(c)(1)(A) of the Internal Revenue Code, failure to submit a complete and accurate filing by the required due date can result in the IRS charging penalties against the organization.

Condition: PHDC excluded Schedule B-Schedule of Contributors 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.

Cause: PHDC did not have staff adequately trained in preparing Form 990.

Effect: The IRS levied PHDC's bank account for \$18,167 for failing to file a complete return. The IRS has also submitted notices of intent to levy the accounts of two LDCs for a total of \$252,133 in penalties and interest for late filing of the returns. As of November 25, 2008, the IRS has waived \$170,526 of the assessment.

Questioned Costs: None.

Recommendation: A tracking system should be implemented that identifies required filings and due dates for PHDC and any other entities to ensure that the information is prepared and reviewed in sufficient time before the due dates. Alternatively, PHDC may consider outsourcing this function to a third-party if staffing limits persist. All returns for the five LDCs should be filed immediately.

Management's Response: Limited knowledge of tax return preparation led to delays in filing the required returns. PHDC is actively and diligently working to resolve these issues. Staff has initiated contact with the IRS in an effort to fully comply with the filing requirements with the goal of having the penalties and interest waived.

PHILADELPHIA HOUSING DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

**PART 1: Findings - Financial Statement Audit (Government Auditing Standards),
continued:**

Finding 08-01: Filing of Annual Information Returns, continued

Corrective Action: 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, 2008, all required returns for two of 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 LDCs 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.

Timetable: PHDC expects to complete its review and filing of any additional 990 returns by December 31, 2008, and will continue to correspond with the IRS in an effort to resolve this matter. The IRS will ultimately determine the timeframe of the final resolution.

Responsibility: PHDC accounting staff will be assigned the responsibility for completing this assignment.

Monitoring: PHDC's Fiscal Director is responsible for monitoring the timely completion of this project.

PHILADELPHIA HOUSING DEVELOPMENT CORPORATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2008

PART 2: Status of Prior Audit Findings

<u>Prior Year Reference</u>	<u>Brief Description of Finding</u>	<u>Current Year Status</u>
Finding 07-1: Timely Performance of Bank Reconciliations	<i>Significant Deficiency:</i> There were a few instances where a reconciliation of bank balances to the general ledger was not performed for up until four months after PHDC received the bank statements. As a result, several material adjusting entries were needed to balance bank and book amounts.	PHDC's management took corrective action during the year ended June 30, 2008 by improving the timeliness of preparing bank reconciliations. Therefore, this comment is no longer applicable.

Questioned costs: None