

**AUDITED
BASIC FINANCIAL STATEMENTS**

ROCHESTER LAND BANK CORPORATION

JUNE 30, 2014

ROCHESTER LAND BANK CORPORATION

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**SECTION A
FINANCIAL SECTION**

INDEPENDENT AUDITOR'S REPORT

The Board of Directors of the
Rochester Land Bank Corporation
Rochester, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the Rochester Land Bank Corporation, (the Corporation), a component unit of the City of Rochester, New York, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation, as of June 30, 2014, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1-2 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2014 on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Corporation's internal control over financial reporting and compliance.

Freed Maxick CPAs, P.C.

Rochester, New York
September 3, 2014

As management of the Rochester Land Bank Corporation, we offer readers of the Rochester Land Bank Corporation's financial statements this narrative overview and analysis of the financial activities of the Rochester Land Bank Corporation for the fiscal year ended June 30, 2014.

Financial Highlights

+ The assets of the Rochester Land Bank Corporation exceeded its liabilities at the close of the most recent fiscal year by \$560,864 (*net assets*). Of this amount, \$560,864 (*unrestricted net assets*) may be used to meet the Rochester Land Bank Corporation's ongoing EDA grant obligations.

+ The Rochester Land Bank Corporation's total assets are comprised primarily of grant proceeds received from a Community Revitalization Initiative ("CRI") grant program offered through the New York State Office of the Attorney General. The New York State Office of the Attorney General awarded the Rochester Land Bank Corporation a grant in the amount of \$2,780,942. The term of the grant agreement is 24 months commencing January 1, 2014 through December 31, 2015. The Rochester Land Bank Corporation utilizes the grant funding to supplement the City's investments in transforming vacant properties into affordable owner-occupied housing, develop new infill housing for homeownership in strategic project areas, and fund certain staffing positions. The Rochester Land Bank Corporation has executed agreements with the Rochester Housing Development Fund Corporation (RHDFC), and the Greater Rochester Housing Partnership (GRHP) to implement partnerships to fulfill the "CRI" grant initiatives.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Rochester Land Bank Corporation's basic financial statements. The Rochester Land Bank Corporation's basic financial statements comprise two components: 1) corporation-wide financial statements and 2) notes to the financial statements.

Corporation-wide financial statements. The *corporation-wide financial statements* are designed to provide readers with a broad overview of the Rochester Land Bank Corporation's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Rochester Land Bank Corporation's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Rochester Land Bank Corporation is improving or deteriorating.

The *statement of revenues, expenses, and changes in net position* presents information showing how the corporation's net assets changed during the most recent fiscal year. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. There is no change in net position as this is the first year of operations for the Rochester Land Bank Corporation.

The corporation-wide financial statements can be found on pages immediately following this section as the first two pages of the Basic Financial Statements.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the corporation-wide financial statements. The notes to the financial statements can be found following the Basic Financial Statements section of this report.

Corporation-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Rochester Land Bank Corporation, assets exceed liabilities by \$560,864 at the close of the most recent fiscal year. The Rochester Land Bank Corporation's net assets consist primarily of grant proceeds.

Assets:		
Cash and cash equivalents	\$	321,492
Accounts receivable		18
Due from other governments		659,854
Total assets		981,364
Liabilities:		
Accounts payable		420,500
Net position:		
Unrestricted		560,864

Rochester Land Bank Corporation's Changes in Net Position

2014

Revenues:		
NYS grants	\$	1,282,383
Sale of real estate		48,403
Total revenues		1,330,786
Expenses:		
Acquisition costs		79,422
Renovation and construction		690,500
Total expenses		769,922
Change in net position		560,864
Net position - beginning of year		0
Net position - end of year		560,864

Financial Analysis of the Corporation's Funds

Unrestricted Funds. The unrestricted funds consists primarily of the grant proceeds from the Community Revitalization Initiative ("CRI") grant proceeds offered through the New York State Office of the Attorney General.

Economic Factors

Non-farm employment in New York State increased by 1.5% from July 2013 to July 2014. New York State added 140,600 private sector jobs (+1.9%) from July 2013 to July 2014. Private sector employment in the Rochester metropolitan area increased by 1.3% from July 2013 to July 2014, with non-farm employment increasing by 1.1% for the same period. Education/health services employment increased by 3.1% representing the largest increase of any major industry sector, while business and professional services employment rose by 2.5%. For the same period, manufacturing employment showed a 2.0% decline; representing the largest major industry sector decline, while government jobs declined by 0.4%. The leisure and hospitality sector has performed extremely well, adding jobs during both the region's recession and subsequent recovery. This sector provides many entry-level employment opportunities for new entrants into the labor market. The sector has been at or near record high job levels for almost a year. The leisure and hospitality sector also experienced a 2.5% increase in employment, adding 22,200 jobs from July 2013 to July 2014.

As of July 2014, the labor force segment of the Rochester Metropolitan area's civilian labor force continued to be education and health services (22.3%), followed by trade/transportation/utilities (15.7%), government (14%), and professional/business services (13.1%). Manufacturing jobs constituted (11.2%), and leisure and hospitality (9.6%).

The unemployment rate for the Rochester metro area was 6.1% as of July 2014 (down from 7.2% as of July 2013). This compares to the unemployment rate for New York State of 6.6% as of July 2014 (down from 7.7% at July 2013) and for the nation of 6.2% as of July 2014 (down from 7.3% as of July 2013).

We are aware however, that in certain parts of the city of Rochester the unemployment rate for some populations may be as high as 40%. The overall poverty rate for the city is 31%, which ranks us 5th worst in the US for cities of our size.

The top five largest employers in the Rochester area are University of Rochester/Strong Medical Center, Wegman's Food Markets, Rochester General Health System, Xerox Corporation, and Unity Health System. UR/SMC continues to be the largest employer, as the Rochester region economy continues to transition from an economy which was heavily based on manufacturing decades ago to one with a greater emphasis on education, health services, and professional/business services. As of June 2014, the University of Rochester was responsible for 22,500 jobs (over 20,000 estimated full time equivalent positions). A significant share of the University's growth has occurred at the University of Rochester Medical Center as Strong Health extends clinical service penetration beyond the metropolitan area and URMC expands its research facilities and total employment. Eastman Kodak Company is now the eighth largest employer in the Rochester area. The company emerged from bankruptcy on September 3, 2013, and continues to operate as a much smaller business enterprise.

The US economy continued to show improvement as the Federal Reserve continued to utilize monetary policy to support the economic recovery. The prime rate of interest remained unchanged at 3.25% as the Federal Open Markets Committee (FOMC) continues to keep the target range for the federal funds rate at 0% - 0.25, while long term interest rates hover at 2.50%. As expansion continues inflation is expected to gradually rise toward the FOMC's objective of 2 percent. The U.S outlook is deemed favorable.

Requests for Information

This financial report is designed to provide a general overview of the Rochester Land Bank Corporation's finances for all those with an interest in the corporation's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Rochester Land Bank Corporation, City Hall – Room 125B, 30 Church Street, Rochester, NY 14614.

ROCHESTER LAND BANK CORPORATION
(A COMPONENT UNIT OF THE CITY OF ROCHESTER)
STATEMENT OF NET POSITION
JUNE 30, 2014

Assets:

Cash & cash equivalents	\$	321,492
Accounts receivable		18
Due from other governments		659,854
Total assets		<u>981,364</u>

Liabilities:

Accounts payable		<u>420,500</u>
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Net position:

Unrestricted	\$	<u><u>560,864</u></u>
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See notes to basic financial statements.

ROCHESTER LAND BANK CORPORATION
(A COMPONENT UNIT OF THE CITY OF ROCHESTER)
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

Revenues:

NYS Grants	1,282,383
Sale of real estate	\$ 48,403
Total revenues	<u>1,330,786</u>

Expenses:

Acquisition costs	79,422
Renovation and construction	<u>690,500</u>
Total expenses	<u>769,922</u>

Change in net position 560,864

Net position - beginning of year -

Net position - end of year \$ 560,864

See notes to basic financial statements.

ROCHESTER LAND BANK CORPORATION

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION

Rochester Land Bank Corporation (the "Corporation") is a public authority and not-for-profit corporation formed under Article 16 of the Not-for-Profit Corporation Law (the "Land Bank Act"). On November 14, 2012, by Ordinance Number 2012-416, the Rochester City Council approved the formation of a land bank pursuant to Section 1603(a) of the Land Bank Act. On February 21, 2013, the New York State Urban Development Corporation approved the creation of a land bank by the City of Rochester pursuant to Section 1603(g) of the Land Bank Act. On August 9, 2013, the City filed the Corporation's Certificate of Incorporation pursuant to Section 1603(a)(5) of the Land Bank Act.

The Land Bank Act, enacted as Chapter 257 of the Laws of 2011, authorizes the creation of land banks to acquire vacant, abandoned, and tax delinquent properties in order to facilitate their return to productive use. The mission of the Corporation is to return underutilized property to productive use, preserve and create quality housing, enhance the quality of life within neighborhoods, and encourage economic opportunities in the City of Rochester. The Corporation's acquisition, management, and disposition of vacant, abandoned, and tax delinquent properties is conducted in a manner that supports that mission in alignment with the City of Rochester's redevelopment strategies, goals and objectives.

There are seven members of the Board of Directors, five *ex officio* members, and two appointed members who serve three year terms.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Revenues, expenses, gains, and losses are classified into three classes of net position - restricted, unrestricted and net investment in capital assets - which are displayed in the statement of net position.

B. NET POSITION

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation.
- b. Restricted net position - Consists of net position with constraints on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

ROCHESTER LAND BANK CORPORATION

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. ACCOUNTS RECEIVABLE

Accounts receivable are reported at their net realizable value. Generally accepted accounting principles in the United States of America require the establishment of an allowance for doubtful accounts, however, no allowance for uncollectible accounts has been provided since management believes that such allowance would not be necessary.

D. INCOME TAXES

The Corporation is a Public Benefit corporation of the State of New York. The Corporation plans to submit Form 1023, *Application for Recognition of Exemption* with the Internal Revenue Service. As of the date of these financial statements this application has not been submitted.

E. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include certificates of deposit which mature within 90 days of issuance.

F. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3. DETAILS ON TRANSACTION CLASSES/ACCOUNTS

A. ASSETS

1. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include interest-bearing accounts and certificates of deposit totaling \$321,492 at June 30, 2014. The Corporation's investment policies are governed by State statutes. The Corporation's monies must be deposited in FDIC insured commercial banks or trust companies located within the State. Permissible investments include demand accounts and certificates of deposit, obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements and obligations of New York State or its localities.

Collateral is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and municipalities and school districts.

ROCHESTER LAND BANK CORPORATION

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 3. DETAILS ON TRANSACTION CLASSES/ACCOUNTS (Continued)

Investment and Deposit Policy

The Corporation currently follows an investment and deposit policy as directed by State statutes, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conformance with federal, state and other legal requirements; and provide sufficient liquidity of invested funds in order to meet obligations as they become due. Oversight of investment activity is the responsibility of the Board of Directors.

The Corporation's bank balance was fully collateralized at June 30, 2014.

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. The Corporation's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Corporation's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with the Corporation's investment and deposit policy, all deposits of the Corporation including interest bearing demand accounts and certificates of deposit, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIC) shall be secured by a pledge of securities with an aggregate value equal to 102% of the aggregate amount of deposits.

NOTE 4. RECEIVABLES

Major revenues accrued by the Corporation at June 30, include the following:

ESDC Grant	\$ <u>659,854</u>
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SECTION B
COMPLIANCE AND INTERNAL CONTROLS



**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**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rochester Land Bank Corporation
Rochester, New York

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Corporation, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated September 3, 2014.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Freed Maxick CPAs, P.C.

Rochester, New York
September 3, 2014