

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 years ended June 30, 2016 and 2015, 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, 2016, 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 3-5 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 13 2016 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 13, 2016

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, 2016.

Financial Highlights

+ The assets of the Rochester Land Bank Corporation exceeded its liabilities at the close of the most recent fiscal year by \$1,109,622 (*net position*). Of this amount, \$1,109,622 (*unrestricted net position*) 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 the 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 two grants. The first grant in the amount of \$2,780,942 has a term of 24 months commencing January 1, 2014 through December 31, 2015. The second grant in the amount of \$1,864,820 has a term of 24 months commencing January 1, 2015 through December 31, 2016. 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, demolish blighted structures, and fund certain staffing positions. The Rochester Land Bank Corporation has executed agreements with the Rochester Housing Development Fund Corporation (RHDFC), the Greater Rochester Housing Partnership (GRHP), and the City of Rochester in the form of a Share Services agreement 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 position* presents information on all of the Rochester Land Bank Corporation's assets and liabilities, with the difference between the two reported as *net position*. 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.

The corporation-wide financial statements can be found on pages immediately following this section.

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 \$1,109,622 at the close of the most recent fiscal year. The Rochester Land Bank Corporation's net position consists primarily of grant proceeds.

Rochester Land Bank Corporation's Net Position

	<u>2016</u>	<u>2015</u>
Assets	\$ <u>1,411,407</u>	\$ <u>614,809</u>
Liabilities	<u>301,785</u>	<u>112,167</u>
Net position	\$ <u>1,109,622</u>	\$ <u>502,642</u>

	<u>2016</u>	<u>2015</u>
Operating Revenues	\$2,058,832	\$ 885,215
Operating Expenses	<u>1,451,852</u>	<u>943,437</u>
Change in net position	606,980	(58,222)
Net position – beginning of year	<u>502,642</u>	<u>560,864</u>
Net position – end of year	\$ <u>1,109,622</u>	\$ <u>502,642</u>

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 0.4% from July 2015 to July 2016. New York State added 131,700 private sector jobs (+1.4%) from July 2015 to July 2016. Private sector jobs in the Rochester metropolitan area increased over the year by 800, or 0.2 percent, to 452,100 in July 2016. Gains were concentrated in leisure and hospitality (+2,000), education and health services (+1,700), construction (+700) and financial activities (+600). Job losses were concentrated in professional and business services (-3,100), and manufacturing (-1,200). Government employment declined (-100) over the year, non-farm employment increased by 0.1% for the same period. In New York State leisure and hospitality increased by 3.2% representing the largest increase of any major industry sector, while information employment rose by 3.0%. For the same period, natural resources and mining employment showed a 6.9% decline; representing the largest major industry sector decline, while the manufacturing sector declined by 0.9%.

As of June 2016, the primary 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 (15.0%), and professional/business services (12.6%). Manufacturing jobs constituted (11.0%), and leisure and hospitality (9.3%).

The unemployment rate for the Rochester metro area was 4.7% as of July 2016 (down from 5.3% as of July 2015). This compares to the unemployment rate for New York State of 4.7% as of July 2016 (down from 5.1% at July 2015) and for the nation of 4.9% as of July 2016 (down from 5.3% as of July 2015).

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 32.9%, 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, Rochester Regional Health, Wegman's Food Markets, Xerox Corporation, and Paychex Inc. 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. The University of Rochester was responsible for 25,773 jobs. 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.

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 increased from 3.25% a year ago, to the current rate of 3.50% as the Federal Open Markets Committee (FOMC) maintains the target range for the federal funds rate at 0.25 - 0.50. Currently long term interest rates hover around 1.50%. 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.

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ROCHESTER LAND BANK CORPORATION
(A COMPONENT UNIT OF CITY OF ROCHESTER)
STATEMENTS OF NET POSITION
For the Years Ended June 30,

ASSETS	2016	2015
Current assets:		
Cash and cash equivalents	\$ 1,386,407	\$ 614,809
Accounts receivable	25,000	-
Total assets	<u>1,411,407</u>	<u>614,809</u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	228,707	43,579
Due to City of Rochester	73,078	68,588
Total liabilities	<u>301,785</u>	<u>112,167</u>
Net position:		
Unrestricted	\$ <u>1,109,622</u>	\$ <u>502,642</u>

See notes to basic financial statements.

ROCHESTER LAND BANK CORPORATION
(A COMPONENT UNIT OF CITY OF ROCHESTER)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended June 30,

	<u>2016</u>	<u>2015</u>
Operating revenues:		
NYS grant	\$ 1,883,973	\$ 735,823
Sale of real estate	174,859	149,392
Total operating revenues	<u>2,058,832</u>	<u>885,215</u>
Operating expenses:		
Acquisition costs	270,382	44,310
Renovation and construction	894,740	600,810
Salaries and benefits	268,670	283,539
Other	18,060	14,778
Total operating expenses	<u>1,451,852</u>	<u>943,437</u>
Change in net assets	<u>606,980</u>	<u>(58,222)</u>
Net position - beginning of year	<u>502,642</u>	<u>560,864</u>
Net position - end of year	<u>\$ 1,109,622</u>	<u>\$ 502,642</u>

See notes to basic financial statements.

ROCHESTER LAND BANK CORPORATION
(A COMPONENT UNIT OF CITY OF ROCHESTER)
STATEMENTS OF CASH FLOWS
For the Years Ended June 30,

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from grants	\$ 1,883,973	\$ 1,395,677
Cash received from sale of real estate	149,859	149,410
Payments to service providers	(998,054)	(1,036,819)
Payments for employee services	(264,180)	(214,951)
Net cash provided by operating activities	<u>771,598</u>	<u>293,317</u>
Net increase in cash and cash equivalents	771,598	293,317
Cash and cash equivalents - beginning of year	614,809	321,492
Cash and cash equivalents - end of year	<u>\$ 1,386,407</u>	<u>\$ 614,809</u>
Reconciliation of income (loss) from operations to net cash provided by operating activities:		
Income (loss) from operations	606,980	(58,222)
Adjustment to reconcile income from operations to net cash provided by operating activities:		
Change in assets and liabilities:		
Decrease (increase) in:		
Due from other governments	-	659,854
Decrease (increase) in:		
Accounts receivable	(25,000)	18
Increase (decrease) in:		
Accounts payable	189,618	(308,333)
Net cash provided by operating activities	<u>\$ 771,598</u>	<u>\$ 293,317</u>

See notes to basic financial statements.

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**ROCHESTER LAND BANK CORPORATION.
(A COMPONENT UNIT OF CITY OF ROCHESTER)
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 under 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.

The accompanying financial statements include assets, liabilities, net position, and the financial activities of the corporation, a component unit of the City of Rochester.

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. The Corporation has no net position in this class.
- 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. The Corporation has no net position in this class.
- 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
(A COMPONENT UNIT OF CITY OF ROCHESTER)
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 and is exempt from federal income taxes under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes has been made on the accompanying financial statements.

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.

G. ACCOUNTING PRONOUNCEMENTS

During the fiscal year ended June 30, 2016, the Corporation adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An amendment of GASB Statement No. 27*; Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*; Statement No. 72, *Fair Value Measurements and Application*; and Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The primary objective of Statement No. 68 and No. 71 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. These Statements result from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. There was no material impact to the Corporation's financial statements as a result of the implementation of these statements.

The GASB has issued the following new statements:

- Statement No. 80, *Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*, which will be effective for the year ending June 30, 2018.

The Corporation is currently reviewing this statement and plans on adoption, as required.

**ROCHESTER LAND BANK CORPORATION
(A COMPONENT UNIT OF CITY OF ROCHESTER)
NOTES TO BASIC FINANCIAL STATEMENTS**

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 \$1,386,407 at June 30, 2016. 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.

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, 2016.

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. COMMITMENTS AND CONTINGENCIES

A. CONTINGENCIES

The Corporation participates in a grant program with the State of New York Office of the Attorney General (the OAG), the principal of which are subject to program compliance audits pursuant to the OAG program guidelines. Accordingly, the Corporation's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Corporation anticipates such amounts, if any, will be immaterial.

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