

City of Philadelphia

PENNSYLVANIA

Founded 1682



President's House

Comprehensive Annual Report Fiscal Year Ended June 30, 2011

City of Philadelphia

P E N N S Y L V A N I A

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2011



Michael Nutter
Mayor

Prepared by:

Office of the Director of Finance

Rob Dubow
Director of Finance

Michael J. Kauffman
Accounting Director



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City of Philadelphia

OFFICE OF THE DIRECTOR OF FINANCE

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Philadelphia, Pennsylvania 19102-1693

ROB DUBOW

Director of Finance

February 21, 2012

To the Honorable Mayor, Members of City Council, and the People of the City of Philadelphia:

The Comprehensive Annual Financial Report of the City of Philadelphia for the fiscal year ended June 30, 2011, is hereby submitted. The financial statements were prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP). Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City.

The Philadelphia Home Rule Charter (Charter) requires an annual audit of all City accounts by the City Controller, an independently elected official. The Charter further requires that the City Controller appoint a Certified Public Accountant in charge of auditing. These requirements have been complied with and the audit done in accordance with Generally Accepted Governmental Auditing Standards (GAGAS).

Management has provided a narrative to accompany the basic financial statements. This narrative is known as Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

PROFILE OF THE GOVERNMENT

The City of Philadelphia was founded in 1682 and was merged with the County of Philadelphia in 1854. The City currently occupies an area of 135 square miles along the Delaware River, serves a population in excess of 1.5 million and is the hub of a five county metropolitan area including Bucks, Chester, Delaware and Montgomery Counties in southeast Pennsylvania. The City is governed largely under the Home Rule Charter, which was adopted by the Electors of the City of Philadelphia on April 17, 1951, and became effective on the first Monday of January, 1952. However, in some matters, including the issuance of short-term and long-term debt, the City is governed by the laws of the Commonwealth of Pennsylvania. The Charter provides for a strong mayoral form of government with the Mayor and the seventeen members of the City Council, ten from districts and seven from the City at-large, elected every four years. Minority representation is assured by the requirement that no more than five candidates may be elected for Council-at-large by any one party or political body. The Mayor is prohibited from serving more than two consecutive terms.

This report includes all the funds of the City as well as its component units. The Philadelphia Municipal Authority's and the Pennsylvania Intergovernmental Cooperation Authority's statements are blended with the City's statements. The Philadelphia Gas Works', the Philadelphia Redevelopment Authority, the Philadelphia Parking Authority's, the School District of Philadelphia's, the Community College of Philadelphia's, Community Behavioral Health, Inc.'s, the Delaware River Waterfront Corporation's, and the Philadelphia Authority for Industrial Development's statements are presented discretely. A component unit is considered to be part of the City's reporting entity when it is concluded that the City is financially accountable for the entity or that the nature and significance of the relationship between the City and the entity is such that exclusion would cause the City's financial statements to be misleading or incomplete. The relationship between the City and its component units is explained further in the *Notes to the Financial Statements*.

Reflected in this report is the extensive range of services provided by the City of Philadelphia. These services include police and fire protection, emergency medical services, sanitation services, streets maintenance, recreational activities and cultural events, and traditional county functions such as health and human services, as well as the activities of the previously mentioned public agencies and authorities. The City operates water and wastewater systems that service the citizens of Philadelphia and the City operates two airports, Philadelphia International Airport which handles in excess of 30 million passengers annually as well as cargo and Northeast Philadelphia Airport which handles private aircraft and some cargo.

City government is responsible for establishing and maintaining internal controls designed to protect the assets of the City from loss, theft or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with GAAP. This internal control is subject to periodic evaluation by management and the City Controller's Office in order to determine its adequacy. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

The City maintains budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget proposed by the Mayor and approved by City Council for the fiscal year beginning July 1st. Activities of the General Fund, City Related Special Revenue Funds and the City Capital Improvement Funds are budgeted annually. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by major class within an individual department and fund for the operating funds and by project within department and fund for the Capital Improvement Funds. The City also maintains an encumbrance accounting system for control purposes. Encumbered amounts that have not been expended at year-end are carried forward into the succeeding year but appropriations that have not been expended or encumbered at year-end are lapsed.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in this report is best understood in the context of the environment in which the City of Philadelphia operates. A more comprehensive analysis of these factors is available in the City's Five-Year Financial Plan which is presented by the Mayor each year pursuant to the Pennsylvania Intergovernmental Cooperation Authority Act and can be obtained online at www.phila.gov/finance/.

Local Economy

Philadelphia is showing progress on several fronts, despite continued fiscal challenges that arise from the demographic and economic changes that have occurred over the last half century. After 50 years of losing residents to the suburbs, the City has experienced new investment in many of its neighborhoods spurred by the relative affordability of housing and the City's extensive array of cultural amenities. Still, significant challenges remain. While fewer people live and work here than in previous decades, social needs continue to grow just as the cost of providing services are rising considerably.

The City's tax base is under pressure as personal income levels remain relatively low in comparison to the region and poverty in the region has become increasingly concentrated in the City. These factors create an ongoing challenge to fund those public services required by a growing segment of our population with a revenue base that is unduly burdensome on the City and regional economy.

These challenges are only heightened in the current environment of a severe economic recession, which officially began in December 2007, and from which the nation and City are only beginning to emerge. The recession – the longest recession in the post WWII period – has been characterized by high unemployment, tight credit, decreased consumer spending and significant job loss. The erosion of the financial markets has in turn generated significant fiscal strain across the economy.

State and local governments have and continue to face large budget shortfalls primarily as a result of depressed tax collections and pension fund market losses. However, the City of Philadelphia had, at the close of fiscal year 2011, a positive fund balance of \$0.1 million.

In response to projected deficits, the City implemented significant expenditure reductions and efficiency savings, improved delinquent tax collections, and temporarily suspended scheduled wage and business tax rate reductions. In addition, the City implemented workforce reductions through layoffs and by leaving positions vacant. The City also implemented temporary sales and property tax increases.

As a result of these efforts, by the end of the current fiscal year 2012, the city is projecting a surplus of \$59.7 million.

While the recession officially ended in June 2009, unemployment remains high and many economists anticipate a slow and long recovery. This is particularly relevant to state and local governments, whose tax revenues generally lag economic conditions.

The table below shows how Philadelphia's local economy has trended in the past five years, characterized by population fluctuations, increases in total compensation and rising unemployment rates due to the impact of the recession in the last three years.

<u>Calendar Year</u>	<u>Population</u>	<u>Personal Income</u> (thousands of USD)	<u>Per Capita Personal Income</u> (USD)	<u>Unemployment Rate</u>
2006	1,520,251	47,566,075	31,288	6.2%
2007	1,530,031	50,672,227	33,118	6.0%
2008	1,540,351	53,689,351	34,855	7.1%
2009	1,547,297	54,125,507	34,981	9.8%
2010	1,528,306	54,565,206	35,703	10.9%

Long Term Financial Planning

Long term financial planning for the City and for businesses and governments around the world has been made much more challenging with the sudden and dramatic rate of deterioration in the economy in the past three and a half years. As discussed above, the City has made significant changes to its budget and five-year plan to compensate for projected deficits and will continue to make those adjustments as necessary.

Some of the largest and fastest growing expenditures in the City's budget include employee health and pension benefits. In fiscal 2011, employee benefits (12%) and pensions (13%) combined, will comprise 25% of the proposed budget expenditures.

In order to address the challenges these long term structural costs present, the City is seeking changes to its health and pension benefits by reducing the cost to the City, implementing efficiency savings and seeking increased employee contributions and risk sharing. Some of these changes are already being made to the City-administered programs and those related to the Fraternal Order of Police (FOP) as a result of the December 18, 2009 Act 111 arbitration award. Additionally, the City was awarded similar pension changes in the October 12, 2010 Act 111 arbitration award with the International Association of Fire Fighters (IAFF). While the economic provisions of the award are being appealed by the City, the award's pension provisions are not under appeal by the City or the IAFF. The City is seeking similar changes with the remaining bargaining units whose contracts expired in July of 2009. Also, during fiscal year 2011 the City introduced a new hybrid pension plan with defined benefit and defined contribution components.

Despite the immediate economic challenges facing the City, some planned initiatives must take place if the City is to be positioned for economic recovery in the long run. Some of those initiatives include:

- **Greenworks Philadelphia.** The City is committed to becoming the greenest city in the U.S. by 2015. In order to achieve that goal the City has created a detailed work plan and begun implementation of Greenworks Philadelphia, which outlines those goals and initiatives the City will engage in to limit its environmental footprint and capitalize on its competitive advantages in the emerging green economy.
- **Healthy Philadelphia Initiative.** The City's Department of Public Health in conjunction with other City agencies, non profit organizations and academic institutions will have implemented a multi-year plan for combating obesity by making healthy foods available to Philadelphians, decreasing the availability and consumption of non healthy foods and promoting physical activity in daily life.
- **PhillyGoes2College.** Improving educational outcomes is necessary in order to improve the overall well being of Philadelphia residents. As a way of increasing access to higher education the City has opened a new PhillyGoes2College office to assist residents to and through college as well as help them find scholarships to finance their education.
- **Investments in Technology.** Despite the significant budget cuts departments have endured over the course of the past two and a half years, the City is devoting resources to long-needed technology investments across government. These investments will help streamline operations and reduce costs in the long-term.
- **Jobs and Workforce Development.** Through Way to Work Philadelphia, the City and its partners leveraged federal stimulus dollars to provide wage subsidies for 14,000 part- and full-time jobs in Philadelphia - jobs for people who may otherwise have been unemployed. In addition, the City continues to work in partnership with economic development stakeholders to build work-readiness skills to youth ages 14-21, through paid summer job placements.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded its prestigious Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010. This was the thirty first consecutive year that the City of Philadelphia has received this prestigious award. The City received this recognition by publishing a report that was well organized and readable and satisfied both generally accepted accounting principles and applicable legal requirements.

The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the entire staff of the Office of the Director of Finance as well as various City departments and component units. Each has my sincere appreciation for their valuable contributions.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Rob Dubow', with a long horizontal flourish extending to the right.

ROB DUBOW
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Philadelphia
Pennsylvania

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

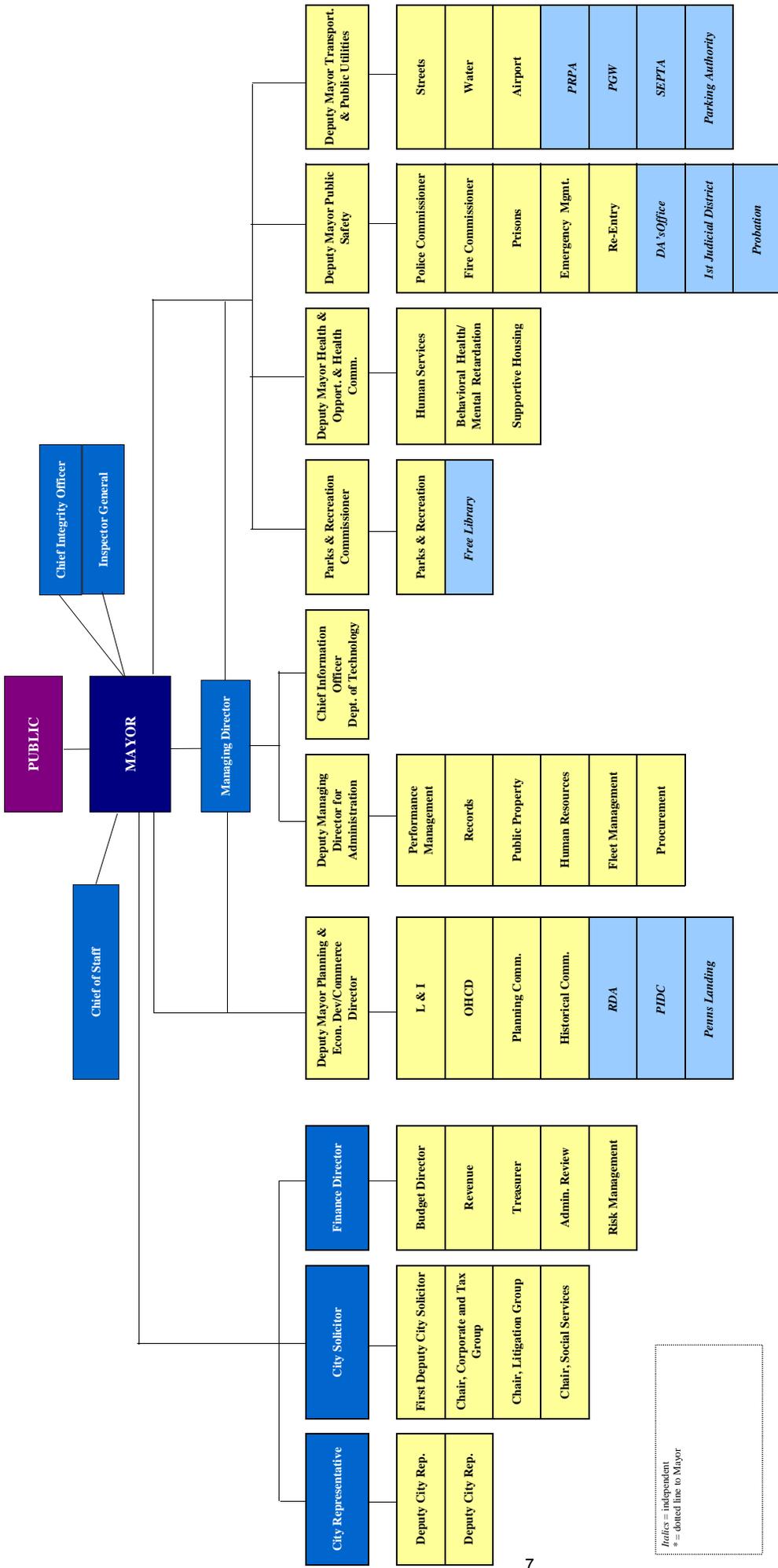


Linda C. Davison

President

Jeffrey R. Enos

Executive Director



Italics = independent
 * = dotted line to Mayor



Elected Officials

Mayor Michael A. Nutter

City Council

President, 2nd District Anna Cibotti Verna

1st District Frank DiCicco

3rd District Jannie L. Blackwell

4th District Curtis Jones, Jr.

5th District Darrell L. Clarke

6th District Joan L. Krajewski

7th District Maria D. Quinones-Sanchez

8th District Donna Reed Miller

9th District Marian B. Tasco

10th District Brian J. O'Neill

At-Large Blondell Reynolds Brown

At-Large W. Wilson Goode, Jr.

At-Large William K. Greenlee

At-Large Jack Kelly

At-Large James F. Kenney

At-Large Bill Green

At-Large Frank Rizzo

District Attorney Seth Williams

City Controller Alan Butkovitz

City Commissioners

Chairwoman Margaret M. Tartaglione

Commissioner Anthony Clark

Commissioner Joseph Duda

Register of Wills Ronald R. Donatucci

Sheriff Barbara Deeley

First Judicial District of Pennsylvania

President Judge, Court of Common Pleas Pamela P. Dembe

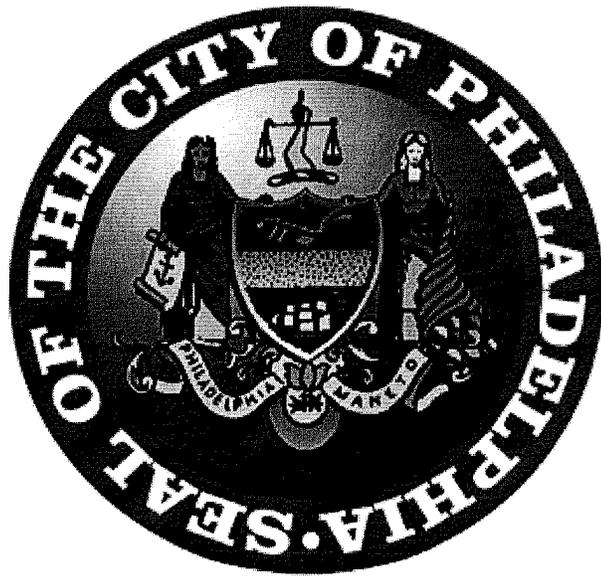
President Judge, Municipal Court Marsha H. Neifield

President Judge, Traffic Court Thomasine Tynes



Appointed Officials

Managing Director	Richard Negrin
Director of Finance	Rob Dubow
City Solicitor	Shelley R. Smith
City Representative	Melanie Johnson
Chief of Staff	Suzanne Biemiller
Deputy Mayor for Public Safety	Everett A. Gillison
Deputy Mayor for Health & Opportunity/Health Commissioner	Donald R. Schwarz, MD
Deputy Mayor for Planning & Economic Development/Commerce Director	Alan Greenberger
Chief Integrity Officer	Joan L. Markman
Inspector General	Amy L. Kurland
Chief Education Advisor to the Mayor	Lori A. Shorr, Ph.D.
Chief Information Officer	Tommy Jones
Deputy Mayor for Economic Development	Alan Greenberger
City Treasurer	Nancy Winkler
Revenue Commissioner	Keith Richardson
Procurement Commissioner	Hugh Ortman
Police Commissioner	Charles Ramsey
Prisons Commissioner	Louis Giorla
Streets Commissioner	Clarena Tolson
Fire Commissioner	Lloyd Ayers
Commissioner of Parks and Recreation	Michael DiBerardinis
Public Property Commissioner	Joan Schlotterbeck
Director of the Office of Behavioral Health	Arthur C. Evans, MD
Department of Human Services Commissioner	Anne Marie Ambrose
Licenses and Inspections Commissioner	Fran Burns
Water Commissioner	Howard Neukrug
Records Commissioner	Joan T. Decker
Human Resources Director	Albert L. D'Attilio
Executive Director of the Board of Pensions & Retirement	Francis X. Bielli
Executive Director of the Sinking Fund Commission	Charles Jones
Director of Aviation	Mark Gale
Director of the Office of Labor Relations	Joseph Tolan





CITY OF PHILADELPHIA

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ALAN BUTKOVITZ
City Controller

GERALD V. MICCIULLA
Deputy City Controller

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Honorable Members
of the Council of the City of Philadelphia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Philadelphia, Pennsylvania, as of and for the year ended June 30, 2011, which collectively comprise the City of Philadelphia, Pennsylvania's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Philadelphia, Pennsylvania's management. Our responsibility is to express opinions on these financial statements based on our audit. With the exception of the School District of Philadelphia, we did not audit the financial statements of the blended component units and the discretely presented component units listed in Note I.1, as well as the Municipal Pension Fund, the Gas Works Retirement Reserve Fund, and the Departmental and Permanent Funds. Those financial statements representing 33% and 18% of the total assets and revenues, respectively, were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those component units and funds, are based on the reports of the other auditors. As discussed in Note IV.9 to the financial statements, the School District of Philadelphia, a component unit of the City of Philadelphia, Pennsylvania, disclosed concern about its ability to continue as a going concern. The independent auditor's report for the School District of Philadelphia included an explanatory paragraph expressing substantial doubt about the ability of the School District of Philadelphia to continue as a going concern.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Philadelphia, Pennsylvania, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

C I T Y O F P H I L A D E L P H I A
O F F I C E O F T H E C O N T R O L L E R

As discussed in Note III.10 to the financial statements, in 2011 the City of Philadelphia adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Also, as discussed in Note III.13.B to the financial statements, in 2011 the City of Philadelphia reevaluated its relationship with the Pennsylvania Convention Center Authority (PCCA), which had been reported as a discretely presented component unit in 2010, and determined that PCCA no longer meets the criteria for inclusion as a component unit. Accordingly, net assets at July 1, 2010 have been adjusted to exclude PCCA.

The management's discussion and analysis on pages 13 through 26, and the major funds budgetary comparison schedules, the pension plans and other post employment benefits-schedule of funding progress, and the related notes to required supplementary information, on pages 120 through 124, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Philadelphia, Pennsylvania's basic financial statements. The accompanying Introductory Section, Other Supplementary Information, and the Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 2011 financial information listed as Other Supplementary Information in the table of contents, has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2011 taken as a whole. We also have previously audited, in accordance with auditing standards generally accepted in the United States, the City of Philadelphia, Pennsylvania's basic financial statements for the year ended June 30, 2010, which are not presented with the accompanying financial statements. In our report dated February 22, 2011, we expressed unqualified opinions on the respective 2010 financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information. In our opinion, the 2010 amounts included in the individual fund schedules of Budgetary Actual and Estimated Revenues and Obligations, on pages 149 through 153, are fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2010, taken as a whole. The Introductory Section and Statistical Section as listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

February 21, 2012


GERALD V. MICCIULLA, CPA
Deputy City Controller

City of Philadelphia

P E N N S Y L V A N I A

Management's Discussion & Analysis

This narrative overview and analysis of the financial statements of the City of Philadelphia, Pennsylvania for the fiscal year ended June 30, 2011 has been prepared by the city's management. The information presented here should be read in conjunction with additional information contained in our letter of transmittal, which can be found beginning on page 1, and the city's financial statements immediately following this discussion and analysis.

Financial Highlights

- At the end of the current fiscal year, the City of Philadelphia's *net liabilities* were \$123.4 million resulting from an excess of its liabilities over its assets. Its *unrestricted net assets* showed a deficit of \$2,261.2 million. This deficiency will have to be funded from resources generated in future years.
- During the current fiscal year the city's total net assets increased by \$74.2 million. The governmental activities of the city experienced an increase of \$22.6 million, while the business type activities had an increase of \$51.6 million.
- For the current fiscal year, the city's governmental funds reported a combined ending fund balance of \$747.8 million, an increase of \$205.9 million from last year. Primarily, this was due to a \$106.4 million increase in the General Fund and a \$36.6 increase in the Health Choices Behavioral Health fund. The *unassigned fund balance* of the governmental funds ended the fiscal year with a deficit of \$84.0 million, a decrease of \$39.3 million from last year.
- The overall unassigned fund balance of the city's General fund ended the fiscal year with a deficit of \$45.7 million, an increase from last year of \$206.2 million. This is due to an increase in revenue of \$179.1 million, a 5.3% increase over the previous year.
- On the legally enacted budgetary basis, the city's general fund ended the fiscal year with a surplus fund balance of \$0.1 million, as compared to a deficit of \$114.0 million last year. This increase of \$114.1 million was due to an increase in revenues that resulted in an operating surplus of \$75.0 million and the cancellations of prior year obligations further increased the fund balance.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction and overview of the City of Philadelphia's basic financial statements. The city's basic financial statements are comprised of:

- Government-wide financial statements which provide both long-term and short-term information about the city's overall financial condition.
- Fund financial statements which provide a more detailed look at major individual portions, or funds, of the city.
- Notes to the financial statements which explain some of the information contained in the financial statements and provide more detailed data.
- Other supplementary information which further explains and supports the information in the financial statements.

Government-wide financial statements. The government-wide financial statements report information about the city as a whole using accounting methods similar to those used by a private-sector business. The two statements presented are:

The statement of net assets which includes all of the city's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets are an indicator of whether the city's financial position is improving or deteriorating.

The statement of activities presents revenues and expenses and their effect on the change in the city's net assets during the current fiscal year. These changes in net assets are recorded as soon as the underlying event giving rise to the change occurs, regardless of when cash is received or paid.

The government-wide financial statements of the city are reflected in three distinct categories:

▪ *Governmental activities* are primarily supported by taxes and state and federal grants. The governmental activities include general government; economic and neighborhood development; public health, welfare and safety; cultural and recreational; streets, highways and sanitation; and the financing activities of the city's two blended component units - the Pennsylvania Intergovernmental Cooperation Authority and Philadelphia Municipal Authority.

▪ *Business-type activities* are supported by user fees and charges which are intended to recover all or a significant portion of their costs. The city's water and waste water systems, airport and industrial land bank are all included as business type activities.

These two activities comprise the primary government of Philadelphia.

▪ *Component units* are legally separate entities for which the City of Philadelphia is financially accountable or has oversight responsibility. Financial information for these component units is reported separately from the financial information presented for the primary government. The city's government-wide financial statements contain eight distinct component units; the Philadelphia School District, Community College of Philadelphia, Community Behavioral Health, Gas Works, Parking Authority, Delaware River Waterfront Corporation, Philadelphia Authority for Industrial Development and the Redevelopment Authority.

Fund financial statements. The fund financial statements provide detailed information about the city's most significant funds, not the city as a whole. Funds are groupings of activities that enable the city to maintain control over resources that have been segregated for particular purposes or objectives. All of the funds of the City of Philadelphia can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

• **Governmental funds.** The governmental funds are used to account for the financial activity of the city's basic services, similar to those described for the governmental activities in the government-wide financial statements. However, unlike the government-wide statements which provide a long-term focus of the city, the fund financial statements focus on a short term view of the inflows and outflows of expendable resources, as well as on the balances of expendable resources available at the end of the fiscal year. The financial information presented for the governmental funds are useful in evaluating the city's short term financing requirements.

To help the readers of the financial statements better understand the relationships and differences between the long term view of the government-wide financial statements from the short term view of the fund financial statements, reconciliations are presented between the fund financial statements and the government-wide statements.

The city maintains twenty-two individual governmental funds. Financial information is presented separately for the general fund, grants revenue fund and health choices behavioral health fund, which are considered to be major funds. Data for the remaining nineteen are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is presented in the form of combining statements in the supplementary information section of this financial report.

• **Proprietary funds.** The proprietary funds are used to account for the financial activity of the city's operations for which customers are charged a user fee; they provide both a long and short term view of financial information. The city maintains three enterprise funds which are a type of proprietary funds - the airport, water and waste water operations, and industrial land bank. These enterprise funds are the same as the business-type activities in the government-wide financial statements, but they provide more detail and additional information, such as cash flows.

• **Fiduciary funds.** The City of Philadelphia is the trustee, or fiduciary, for its employees' pension plans. It is also responsible for the Gas Works' employees' retirement reserve assets. Both of these fiduciary activities are reported in separate *statements of fiduciary net assets* and *changes in fiduciary net assets*. They are not reflected in the government-wide financial statements because the assets are not available to support the city's operations.

The following chart summarizes the various components of the city's government-wide and fund financial statements, including the portion of the city government they cover, and the type of information they contain.

Summary of the City of Philadelphia's Government-wide and Fund Financial Statements

	Fund Statements			
	Government-wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire city government (except fiduciary funds) and city's component units	Activities of the city that are not proprietary or fiduciary in nature, such as fire, police, refuse collection	Activities the city operates similar to private businesses. Airports, water/waste water system & the land bank.	Activities for which the city is trustee for someone else's assets, such as the employees' pension plan
Required Financial Statements	Statement of Net Assets Statement of Activities	Balance Sheet Statement of Revenues, Expenditures and Changes in Fund Balances	Statement of Net Assets Statement of Revenues, Expenses and Changes in Net Assets Statement of Cash Flows	Statement of Fiduciary Net Assets Statement of Changes in Fiduciary Net Assets
Accounting basis/ measurement focus	Accrual accounting Economic resources	Modified accrual accounting Current financial resources	Accrual accounting Economic resources	Accrual accounting Economic resources
Type of asset and liability information	All assets and liabilities, financial and capital, short and long term	Only assets expected to be used up and liabilities that come due during the current year or soon thereafter; no capital assets are included	All assets and liabilities, financial and capital, short and long term	All assets and liabilities, both short and long term; there are currently no capital assets, although there could be in the future
Type of inflow and outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Only revenues for which cash is received during the year or soon after the end of the year; only expenditures when goods or services are received and payment is due during the year or soon thereafter.	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data presented in the government-wide and fund financial statements. The notes can be found immediately following the basic financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents additional information in three separate sections: *required supplementary information, supplementary information and statistical information.*

- **Required supplementary information.** Certain information regarding pension plan funding progress for the city and its component units, as well as budgeted and actual revenues, expenditures and encumbrances for the city's major governmental funds is presented in this section. This required supplementary information can be found immediately following the notes to the financial statements.

- **Supplementary information.** Combining statements for non-major governmental and fiduciary funds, as well as additional budgetary schedules for the city's governmental and proprietary funds are presented in this section. This supplementary information can be found immediately following the required supplementary information.

- **Statistical information.** Long term trend tables of financial, economic, demographic and operating data are presented in the statistical section. This information is located immediately after the supplementary information.

Government-wide Financial Analysis

Net assets. As noted earlier, net assets are useful indicators of a government's financial position. At the close of the current fiscal year, the City of Philadelphia's liabilities exceeded its assets by \$123.4 million.

Capital assets (land, buildings, roads, bridges and equipment), less any outstanding debt issued to acquire these assets, comprise a large portion of the City of Philadelphia's net assets, \$797.6 million. Although these capital assets assist the city in providing services to its citizens, they are generally not available to fund the operations of future periods.

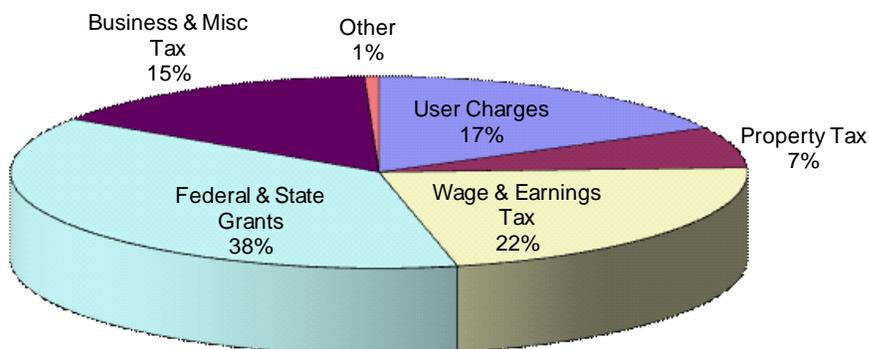
A portion of the city's net assets, \$1,340.2 million, are subject to external restrictions as to how they may be used. The remaining component of net assets is unrestricted. Unrestricted net assets ended the fiscal year with a deficit of \$2,261.2 million. The governmental activities reported negative *unrestricted net assets* of \$2,495.5 million. Any deficits will have to be funded from future revenues. The business type activities reported an unrestricted net assets surplus of \$234.3 million.

Following is a comparative summary of the city's assets, liabilities and net assets:

City of Philadelphia's Net Assets
(millions of USD)

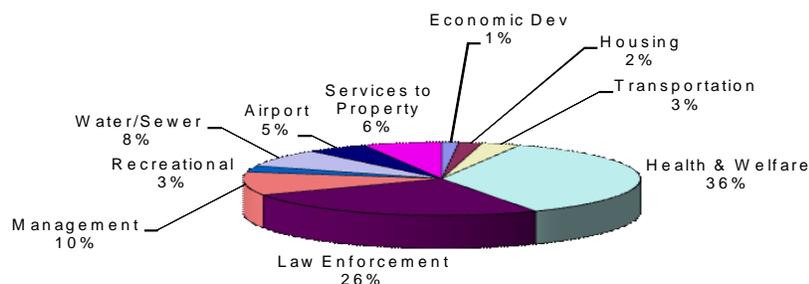
	Governmental Activities			Business-type Activities			Total Primary Government		
	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change
Current and other assets	2,022.7	1,914.9	5.63%	1,475.8	1,181.4	24.92%	3,498.5	3,096.3	12.99%
Capital assets	2,147.2	2,151.3	-0.19%	3,612.6	3,493.5	3.41%	5,759.8	5,644.8	2.04%
Total assets	4,169.9	4,066.2	2.55%	5,088.4	4,674.9	8.85%	9,258.3	8,741.1	5.92%
Long-term liabilities	5,007.4	4,891.1	2.38%	3,246.8	2,832.6	14.62%	8,254.2	7,723.7	6.87%
Other liabilities	915.9	951.2	-3.71%	211.6	263.9	-19.82%	1,127.5	1,215.1	-7.21%
Total liabilities	5,923.3	5,842.3	1.39%	3,458.4	3,096.5	11.69%	9,381.7	8,938.8	4.95%
Net assets:									
Invested in capital assets, net of related debt	(47.5)	(59.3)	19.90%	845.1	831.8	1.60%	797.6	772.5	3.25%
Restricted	789.6	705.1	11.98%	550.6	489.3	12.53%	1,340.2	1,194.4	12.21%
Unrestricted	(2,495.5)	(2,421.9)	-3.04%	234.3	257.3	-8.94%	(2,261.2)	(2,164.6)	-4.46%
Total net assets	(1,753.4)	(1,776.1)	1.28%	1,630.0	1,578.4	3.27%	(123.4)	(197.7)	37.58%

Changes in net assets. The city's total revenues this year, \$6,770.7 million, exceeded total costs of \$6,696.5 million by \$74.2 million. Approximately 29% of all revenue came from property and wage and earnings taxes. State, Federal and local grants account for another 38%, with the remainder of the revenue coming from user charges, fines, fees and various other sources. The City's expenses cover a wide range of services, of which approximately 68% are related to the health, welfare and safety of the general public.



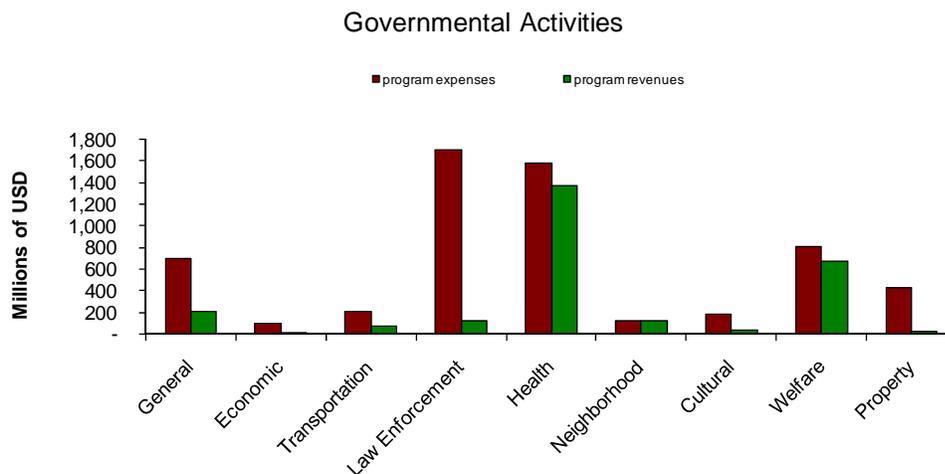
Overall, net assets for the city increased by \$74.2 million. Total revenues increased by \$440.8 million, total expenses decreased by \$33.8 million over last year. This resulted in the Change in Net Assets being \$474.6 million higher than in the previous year. Net assets were increased by \$173.9 million from Operating grants and contributions, \$56.1 million from Wage and Earning taxes, \$105.8 million due to an increase in the Real Estate Tax Assessment Rate, and \$46.6 million from Other taxes.

Expense decreases included \$52.7 million for Economic Development, \$122.4 million for General Management and Support, and \$38.7 for Interest on Long Term Debt.



Governmental Activities

The governmental activities of the City resulted in a \$22.6 million increase in net assets. The following chart reflects program expenses and program revenue. The difference (net cost) must be funded by Taxes, Grants & Contributions and Other revenues.



The following table summarizes the city's most significant governmental programs. Costs, program revenues and net cost are shown in the table. The net cost shows the financial burden that was placed on the city's taxpayers by each of these functions.

(millions of USD)	Program Costs			Program Revenues			Net Cost		
	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change
	General Welfare	812.5	807.6	0.6%	668.4	572.8	16.7%	144.1	234.8
Judiciary & Law Enforcement	1,703.5	1,646.3	3.5%	122.6	139.6	-12.2%	1,580.9	1,506.7	4.9%
Public Health	1,577.9	1,494.5	5.6%	1,371.6	1,314.1	4.4%	206.3	180.4	14.4%
General Governmental	697.4	858.2	-18.7%	198.9	166.1	19.7%	498.5	692.1	-28.0%
Services to Property	429.0	408.7	5.0%	15.5	6.5	138.5%	413.5	402.2	2.8%
Housing, Economic & Cultural	618.1	682.3	-9.4%	228.2	224.3	1.7%	389.9	458.0	-14.9%
	5,838.4	5,897.6	-1.0%	2,605.2	2,423.4	7.5%	3,233.2	3,474.2	-6.9%

The cost of all governmental activities this year was \$5,838.4 million; the amount that taxpayers paid for these programs through tax payments was \$3,021.2 million. The federal and state governments and other charitable organizations subsidized certain programs with grants and contributions in the amount of \$2,255.5 million while those who benefited from the programs paid \$349.7 million through fees and charges. Unrestricted grants and contributions and other general types of revenues accounted for the balance of revenues in the amount of \$234.6 million. The difference of \$22.6 million is available to fund future commitments.

The following table shows a more detailed breakdown of program costs and related revenues for both the governmental and business-type activities of the city:

City of Philadelphia-Net Assets

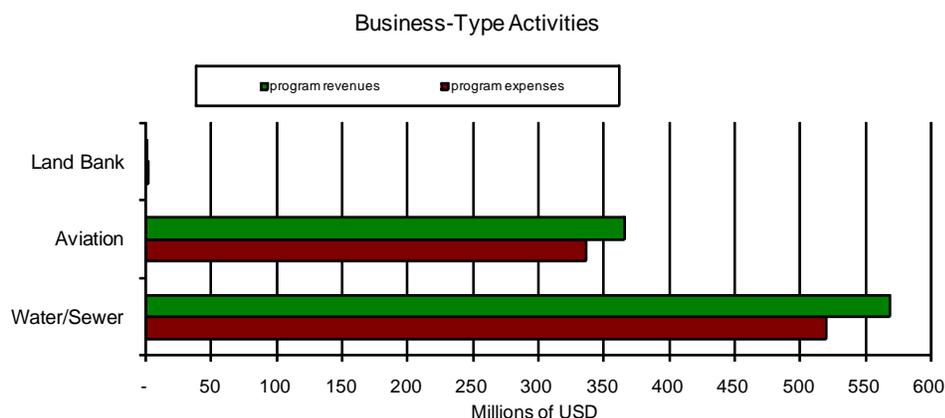
(millions of USD)

	Governmental Activities		Business-type Activities		Total		% Change
	2011	2010	2011	2010	2011	2010	
Revenues:							
Program revenues:							
Charges for services	349.7	326.1	817.1	792.6	1,166.8	1,118.7	4.3%
Operating grants and contributions	2,223.5	2,050.4	6.9	6.1	2,230.4	2,056.5	8.5%
Capital grants and contributions	32.0	46.9	103.7	90.5	135.7	137.4	-1.2%
General revenues:							
Wage and earnings taxes	1,504.6	1,448.5	-	-	1,504.6	1,448.5	3.9%
Property taxes	506.6	400.8	-	-	506.6	400.8	26.4%
Other taxes	1,010.0	963.4	-	-	1,010.0	963.4	4.8%
Unrestricted grants and contributions	173.8	171.4	-	-	173.8	171.4	1.4%
Unrestricted Interest	35.9	25.5	6.9	7.7	42.8	33.2	28.9%
Total revenues	5,836.1	5,433.0	934.6	896.9	6,770.7	6,329.9	7.0%
Expenses:							
Economic development	92.3	145.0	-	-	92.3	145.0	-36.3%
Transportation	211.5	212.1	-	-	211.5	212.1	-0.3%
Judiciary & law enforcement	1,703.5	1,646.3	-	-	1,703.5	1,646.3	3.5%
Conservation of health	1,577.9	1,494.5	-	-	1,577.9	1,494.5	5.6%
Housing & neighborhood development	126.1	131.3	-	-	126.1	131.3	-4.0%
Cultural & recreational	188.3	193.9	-	-	188.3	193.9	-2.9%
Improvement of the general welfare	812.5	807.6	-	-	812.5	807.6	0.6%
Services to taxpayer property	429.0	408.7	-	-	429.0	408.7	5.0%
General management	561.0	683.4	-	-	561.0	683.4	-17.9%
Interest on long term debt	136.3	174.9	-	-	136.3	174.9	-22.1%
Water & waste water	-	-	520.2	502.4	520.2	502.4	3.5%
Airport	-	-	336.0	330.1	336.0	330.1	1.8%
Industrial land bank	-	-	1.9	0.1	1.9	0.1	1800.0%
Total expenses	5,838.4	5,897.7	858.1	832.6	6,696.5	6,730.3	-0.5%
Increase (decrease) in net assets before transfers & special items	(2.3)	(464.7)	76.5	64.3	74.2	(400.4)	
Transfers	24.9	28.3	(24.9)	(28.3)	-	-	
Increase (decrease) in Net Assets	22.6	(436.3)	51.6	36.0	74.2	(400.4)	
Net Assets - Beginning	(1,776.0)	(1,292.6)	1,578.4	1,531.5	(197.6)	238.9	-182.7%
Adjustment	-	(47.2)	-	10.8	-	(36.4)	
Net Assets - End	(1,753.4)	(1,776.1)	1,630.0	1,578.3	(123.4)	(197.9)	-37.6%

Business-type Activities

Business-type activities caused the city's net assets to increase by \$51.6 million. This increase was comprised of an increase in net assets for water/wastewater of \$22.8 million, an increase to aviation of \$30.2 million and a decrease for industrial & commercial development operations of \$1.3 million. Some of the key reasons for these changes are:

- Increased airport rental concession income and an increase in passenger facility charges resulting from an increase in airline passenger traffic.
- Increased employee benefits costs in the Water Fund.

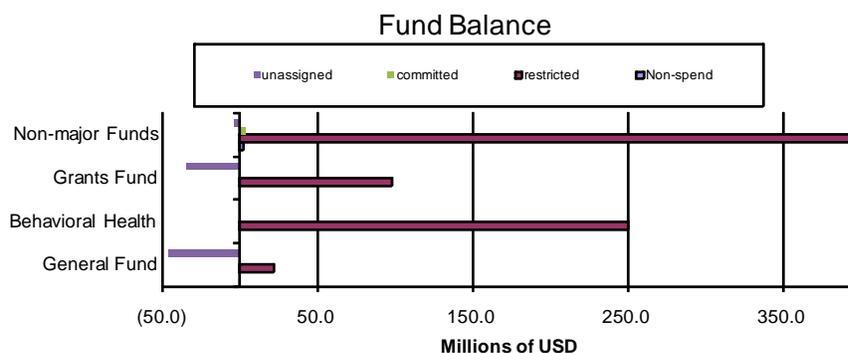


Financial Analysis of the Government's Funds

Governmental funds. The purpose of the city's governmental funds is to provide financial information on the *short term inflow, outflow and balance* of resources. This information is useful in assessing the city's ability to meet its near-term financing requirements. *Unreserved fund balance* serves as a useful measure of the city's net resources available for spending at the end of the fiscal year.

At the end of the fiscal year the city's governmental funds reported a *combined fund balance* of \$747.8 million an increase of \$205.9 million over last year. Of the total fund balance, \$2.6 million represents *nonspendable fund balance* for amounts that cannot be spent. In addition, \$825.1 million represents *restricted fund balance* due to externally imposed constraints by outside parties, or law, to: revitalize neighborhoods (\$61.3 million); pay debt service (\$82.8 million); support programs funded by independent agencies (\$45.6 million); fund a portion of the city's managed care programs (\$250.1 million); fund a portion of new sports stadiums (\$6.5 million); fund the 9-1-1 emergency phone system (\$36.9 million); fund a portion of the central library renovation project (\$2.3million), cultural and commercial corridor project (\$19.2million); and trusts (\$8.0 million); fund economic development programs (\$6.6 million); improve streets and highways (\$18.3 million); fund housing and neighborhood development (\$10.5 million); provide health services (\$8.8 million); preserve parks, libraries and museums (\$.5 million); and support capital projects (\$267.7 million). The fund balance is further broken down as to committed fund balance for Prisons (\$3.6 million) and Parks and Recreation (\$.5 million). The difference between the non-spendable, restricted, committed and combined fund balance is a deficit of \$84.0 million which constitutes *unassigned fund balance*, this deficit must be funded by future budgets.

The general fund, the primary operating fund of the city, reported an *unassigned fund balance deficit* of \$45.7 million at the end of the fiscal year. Ratios of the general fund's unreserved fund balance and total fund balance to its total expenditures can be useful indicators of the general fund's liquidity. These ratios for the year just ended were -1.3% and -0.7%, respectively.



Overall, the total fund balance of the general fund increased by \$106.4 million during the current fiscal year. This increase was due to an excess of expenditures over revenues and other financing uses for the fiscal year. Some of the key factors contributing to this change are:

Revenue:

- An increase in Tax Revenue of \$130.8 million
- An increase in Locally Generated Non Tax Revenue of \$51.1 million

Expenditures:

- An increase in expenditures for Police of \$75.3 million.

The Health Choices Behavioral Health fund ended the fiscal year with a total fund balance of \$250.1 million of which \$203.9 million is reserved for a contractually required equity reserve and reinvestment initiatives. The total fund balance increased during the fiscal year by \$36.6 million.

The Grants Revenue fund has a total fund balance in the amount of \$63.9 million which is comprised of a positive restricted fund balance of \$98.2 million (earmarked for neighborhood revitalization and emergency telephone system programs) and a deficit unreserved fund balance of \$34.3 million. Because most programs accounted for in the grants revenue fund are reimbursement based, it is not unusual for the grants revenue fund to end the fiscal year with a deficit unreserved fund balance. The overall fund balance of the grants revenue fund experienced a decrease of \$18.5 million during the current fiscal year due primarily to increased transfers out of \$15.1 million for the 911 Emergency Phone System.

Proprietary funds. The city's proprietary funds provide the same type of financial information found in the government-wide financial statements, but in slightly more detail. The *total net assets* of the proprietary funds increased by \$51.6 million during the current fiscal year. This overall increase is attributable to the water/wastewater system which had an increase of \$22.8 million, airport operations which experienced an increase of \$30.1 million, while industrial & commercial development operations experienced a decrease of \$1.3 million.

The proprietary funds reported an *unrestricted nets assets* surplus of \$234.3 million, comprised of \$147.8 million for the water and waste water operations, \$69.8 million for the airport and \$16.7 million for the industrial & commercial development activities. These unrestricted net assets represent an overall decrease of \$22.9 million over the previous year, comprised of a decrease of \$20.7 million for the water and waste water operations, a decrease of \$0.9 million for the airport and a decrease of \$1.3 million for the Land Bank. The change in the water fund unrestricted is the result of an increase in Employee Benefits of \$19.4 million.

General Fund Budgetary Highlights

The following table shows the General Fund's year end fund balance for the five most recent years:

(millions of USD)		
General Fund at June 30....	Fund Balance Available for Appropriation	Increase (Decrease)
2011	0.1	114.1
2010	(114.0)	23.2
2009	(137.2)	(256.7)
2008	119.5	(178.4)
2007	297.9	43.4

Differences between the original budget and the final amended budget resulted primarily from decreases in revenue estimates and increases to appropriations. These increases were required to support the following activities:

- \$5.7 million for First Judicial District contracted services
- \$1.8 million for Public Property for Water and Aviation interfund charges
- \$1.4 million for Fire Department contracted services

The general fund's budgetary fund balance surplus of \$0.1 million differs from the general fund's fund financial statement deficit of \$45.7 million by \$45.8 million, which represents the difference between the business privilege tax receipts of \$149.6 million and the reserve for encumbrances of \$103.8 million. Business privilege tax receipts are received prior to being earned but have no effect on budgeted cash receipts. The positive committed fund balance for encumbrances was offset against the negative unassigned fund balance, in accordance with GASB Statement No. 54.

Capital Asset and Debt Administration

Capital assets. The City of Philadelphia's investment in capital assets for its governmental and business-type activities amounts to \$5.8 billion, net of accumulated depreciation, at the end of the current fiscal year. These capital assets include items such as roads, runways, bridges, water and sewer mains, streets and street lighting, land, buildings, improvements, sports stadiums, vehicles, commuter trains, machinery, computers and general office equipment. Major capital asset events for which capital expenditures have been incurred during the current fiscal year include the following:

- Infrastructure improvements: \$22.1 million for streets, highways and bridges; and \$138.2 million for the water and waste water systems, and \$3.0 million for the Market Frankford Elevated.
- Airport terminal and airfield improvements in the amount of \$119.8 million.
- City Hall exterior renovations in the amount of \$12.0 million.
- Surveillance camera video system \$8.8 million.

- President's House Commemoration \$3.6 million.
- Robin Hood Dell East improvements totaling \$3.0 million.

The following table shows the capital assets by category.

City of Philadelphia's Capital Assets-Net of Depreciation

(millions of USD)

	Governmental activities		Inc (Dec)	Business-type activities		Inc (Dec)	Total		Inc (Dec)
	2011	2010		2011	2010		2011	2010	
Land	762.0	757.0	5.0	105.0	107.0	(2.0)	867.0	864.0	3.0
Fine Arts	1.0	0.0	1.0	0.0	0.0	-	1.0	0.0	1.0
Buildings	704.0	725.0	(21.0)	1,673.0	1,672.0	1.0	2,377.0	2,397.0	(20.0)
Improvements other than buildings	96.0	97.3	(1.3)	125.0	124.0	1.0	221.0	221.3	(0.3)
Machinery & equipment	92.0	97.0	(5.0)	24.0	25.0	(1.0)	116.0	122.0	(6.0)
Infrastructure	364.0	450.0	(86.0)	1,270.5	1,242.5	28.0	1,634.5	1,692.5	(58.0)
Construction in progress	47.0	25.0	22.0	406.0	323.0	83.0	453.0	348.0	105.0
Transit	81.2	0.0	81.2	0.0	0.0	-	81.2	0.0	81.2
Intangible Assets	0.0	0.0	-	9.1	0.0	9.1	9.1	0.0	9.1
Total	2,147.2	2,151.3	(4.1)	3,612.6	3,493.5	119.1	5,759.8	5,644.8	115.0

The city's governmental activities experienced an overall decrease in capital assets of \$4.1 million (net of accumulated depreciation) during the current fiscal year. The decreases are a result of normal depreciation costs for the fiscal year.

More detailed information about the city's capital assets can be found in notes I.6 & III.5 to the financial statements.

Long-term debt. At year end the city had \$8.3 billion in long term debt outstanding. Of this amount, \$5.3 billion represents bonds outstanding (comprised of \$2.1 billion of debt backed by the full faith and credit of the city, and \$3.2 billion of debt secured solely by specific revenue sources) while \$2.9 billion represents other long term obligations. The following schedule shows a summary of all long term debt outstanding.

City of Philadelphia's Long Term Debt Outstanding

<i>(millions of USD)</i>	Governmental activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
<u>Bonds Outstanding:</u>						
General obligation bonds	2,121.7	2,071.0	1.0	2.2	2,122.7	2,073.2
Revenue bonds	-	-	3,189.0	2,788.8	3,189.0	2,788.8
Total Bonds Outstanding	2,121.7	2,071.0	3,190.0	2,791.0	5,311.7	4,862.0
<u>Other Long Term Obligations:</u>						
Service agreements	2,161.3	2,200.1	-	-	2,161.3	2,200.1
Employee related obligations	625.4	540.0	46.3	34.2	671.7	574.2
Indemnities	47.3	47.7	10.2	4.7	57.5	52.4
Leases	51.7	31.1	-	-	51.7	31.1
Other	-	1.2	0.3	2.7	0.3	3.9
Total Other Long Term Obligations	2,885.7	2,820.1	56.8	41.6	2,942.5	2,861.7
Total Long Term Debt Outstanding	5,007.4	4,891.1	3,246.8	2,832.6	8,254.2	7,723.7

Significant events related to borrowing during the current fiscal year include the following:

- The City has statutory authorizations to negotiate temporary loans for periods not to extend beyond the fiscal year. The City borrows funds to pay debt service and required pension contributions due before the receipt of the real estate taxes. The City borrowed and repaid \$285.0 million in Tax and Revenue Anticipation Notes by June 2011 plus interest. In accordance with statute there are no temporary loans outstanding at year end.
- In April 2011, the City issued \$253.7 million of general obligation bonds series 2011. There were serial bonds issued in the amount of \$156.4 million with interest rates ranging from 2.0% to 5.375% maturing in 2026. Term bonds were issued in amounts of: \$23.2 million at 5.875% interest due on August 31, 2031; \$31.3 million at 6.0% interest due on August 1, 2036; and \$42.8 million at 6.5% interest due on August 1, 2041. The bonds were issued for the purpose of refunding the 1998 Refunded Bonds (\$85.9 million), the 2001 Refunded Bonds (\$31.6 million) and financing capital projects (\$139.1 million)
- As of June 30, 2011, **PMA's** Statement of Net Assets disclosed \$19.9 million of accretion to its bond principal payments for fiscal years 2012 through 2015. Capitalized interest relates entirely to MSB 1990 Series Capital Appreciation Bonds. Accretion value represents the cumulative compounded interest due and payable at bond maturity.
- In August 2010, the City issued Water & Wastewater Revenue Bonds Series 2010 C in the amount of \$185.0 million. Serial bonds were issued in the amount of \$116.6 million with interest rates ranging from 3.0% to 5.0%, and have a maturity date of 2030. Term bonds were issued in the following amounts (1) \$5.2 million with an interest rate of 4.750% and mature in 2035; (2) \$24.8 million with an interest rate of 5.0% and mature in 2035; (3) \$38.4 million with an interest rate of 5.0% and mature in 2040. The proceeds of the bonds together with other available funds of the water department will be used to fund capital improvements to the City's water & wastewater system, fund payments to terminate a portion of the 2007 swap agreement (\$15.0 million), fund the required deposit into the Debt Reserve account of the Sinking Fund and pay various bond issuance costs.
- In July 2010, the City of Philadelphia Water Department received approval from the Pennsylvania State Infrastructure Financing Authority ("PENNVEST") for the Green Infrastructure Project (Series 2010B), bringing the total financing from PENNVEST to \$214.9 million. During

fiscal year 2011, PENNVEST's drawdowns totaled \$73.8 million, which represents an increase in bond issuances. The funding is through low interest loans of 1.193% during the construction period and for the first five years of amortization (interest only payment are due during the construction period up to three years) and 2.107% for the remaining fifteen years.

- In November 2010, the City issued Airport Revenue Bond Series 2010 in the amount of \$624.7 million. The Series 2010 A bonds (Non-AMT) were issued as serial and term bonds. Insured serial bonds were issued in the amount of \$16.5 million with interest rates ranging from 3% to 4.5% and mature in 2035 and uninsured serial bonds were issued in the amount of \$113.0 million, with interest rates ranging from 2% to 5.250% and mature in 2030. Insured term bonds were issued in the amounts of \$25 million, and \$48 million with an interest rate of 5% and mature in 2035 and 2040 respectively. Uninsured term bonds were issued in amounts of \$37.8 million and 32.8 million with an interest rate of 5% and mature in 2035 and 2040 respectively. Series 2010B (Non-AMT) for \$24.4 million and 2010C (AMT) for \$54.7 million were uninsured and issued as serial bonds and will mature in 2015 and 2018 respectively. The series 2010B and 2010C bonds have interest rates ranging from 2% to 5%. The insured 2010D (AMT) serial bonds were issued in the amount of \$1.9 million with interest rates ranging from 4% to 4.5% and mature in 2024. The uninsured 2010D serial bonds were issued in the amount of \$270.7 million with interest rates ranging from 2% to 5.25% and mature in 2028. The proceeds from the bonds together with other available funds will be used to (1) pay or reimburse for the costs of the 2010 Project, (2) provide for capitalized interest on the 2010A bonds during construction of the 2010 Project, (3) currently refund all of the City's outstanding Airport Revenue Refunding Bonds, Series 1997A; (4) currently refund a portion of the City's outstanding Airport Revenue Refunding Bonds, Series 1998A; (5) currently refund a portion of the City's outstanding Airport Revenue Bonds Series 1998B; (6) fund a deposit to the Parity Sinking Fund Reserve Account; and (7) pay the costs of issuance of the 2010 bonds. Any prepayment of the 1998B bond shall be in an amount that is sufficient and used to pay a like amount of the Philadelphia Authority for Industrial Development (PAID) Airport Revenue Bonds, Series 1998A and together with the 1998B bond sometimes hereinafter referred to, collectively as the International Terminal Bonds.

Currently the city's bonds as rated by Moody's, Standard & Poor's and Fitch are as follows:

Bond Type	Moody's Investor Service	Standard & Poor's Corporation	Fitch IBCA
General Obligation Bonds	A1	BBB	A-
Water Revenue Bonds	A1	A	A+
Aviation Revenue Bonds	A2	A+	A

The City is subject to a statutory limitation established by the Commonwealth of Pennsylvania as to the amount of tax supported general obligation debt it may issue. The limitation is equal to 13% of the average assessed valuations of properties over the past ten years. As of July 1, 2011 the legal debt limit was \$1,571.9 million. There is \$1,474.6 million of outstanding tax supported debt leaving a legal debt margin of \$97.3 million.

More detailed information about the city's debt activity can be found in note III.7 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The following factors have been considered in preparing the City of Philadelphia's budget for the 2012 fiscal year:

- Philadelphia entered FY12 with a fund balance of \$0.1 million. For FY 2012 Wage and Earnings Tax revenue are projected to grow 2.4%, Sale Tax revenue are projected to grow by 1.6% and Real Estate transfer tax is projected to grow by 3.6%, while the Business privilege tax is projected to decline by 2%.
- The current five year plan (FY 2012 to 2016) includes a resumption of the wage and business tax cuts in FY 2014, previously suspended in the FY 2010 plan.
- Workforce reductions were implemented throughout FY10 through the use of layoffs and by not replacing vacant positions. Spending on supplies and equipment was curtailed in FY 10.
- Union contracts for three of the City's four major bargaining units are still outstanding, despite having expired in July 2009. Any awarded or negotiated wage or benefit increases will increase costs for the City.
- To control rising pension plan costs the city introduced a new hybrid pension plan that contains both a defined benefit and a voluntary defined contribution component. Uniformed employees not electing to participate in the hybrid plan must increase their pension contribution percentage.
- The country entered its most recent recession in December 2007. It is the longest recession in the post-WWII period.
- Economists expect a slow and long recovery from the current recession. Philadelphia's recovery, like that of other local governments, is expected to take longer than the nation due to high urban unemployment and lagging tax revenue collections.

Requests for information

The Comprehensive Annual Financial Report is designed to provide a general overview of the City of Philadelphia's finances for all interested parties. The City also publishes the *Supplemental Report of Revenues & Obligations* that provides a detailed look at budgetary activity at the legal level of compliance, the *Annual Report of Bonded Indebtedness* that details outstanding long term debt and the *Schedule of Financial Assistance* that reports on grant activity. All four reports are available on the City's website, www.phila.gov/finance. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of the Director of Finance
Suite 1340 MSB
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102

City of Philadelphia
PENNSYLVANIA

**Basic
Financial
Statements**

City of Philadelphia
Statement of Net Assets
June 30, 2011

Exhibit I

Amounts in thousands of USD

	Primary Government			Component Units
	Governmental Activities	Business Type Activities	Total	
Assets				
Cash on Deposit and on Hand	88,334	30	88,364	288,399
Equity in Pooled Cash and Investments	-	-	-	51,675
Equity in Treasurer's Account	917,858	184,304	1,102,162	-
Investments	151,229	-	151,229	122,594
Due from Component Units	15,257	-	15,257	-
Due from Primary Government	-	-	-	64,723
Amounts Held by Fiscal Agent	70,479	-	70,479	94,812
Notes Receivable - Net	-	-	-	39,151
Accounts Receivable - Net	286,166	149,021	435,187	320,539
Interest and Dividends Receivable	1,795	-	1,795	19,159
Due from Other Governments - Net	427,940	3,893	431,833	192,237
Inventories	17,064	27,655	44,719	128,171
Other Assets	3,163	-	3,163	391,538
Deferred Outflow - Derivative Instruments	43,387	38,576	81,963	33
Restricted Assets:				
Cash and Cash Equivalents	-	247,484	247,484	126,161
Other Assets	-	824,828	824,828	375,607
Capital Assets:				
Land and Other Non-Depreciated Assets	810,714	513,826	1,324,540	447,777
Other Capital Assets (Net of Depreciation)	1,336,504	3,098,817	4,435,321	3,126,334
Total Capital Assets, Net	<u>2,147,218</u>	<u>3,612,643</u>	<u>5,759,861</u>	<u>3,574,111</u>
Total Assets	<u>4,169,890</u>	<u>5,088,434</u>	<u>9,258,324</u>	<u>5,788,910</u>
Liabilities				
Notes Payable	-	-	-	135,851
Vouchers Payable	106,421	10,739	117,160	71,105
Accounts Payable	179,963	74,550	254,513	130,077
Salaries and Wages Payable	92,863	7,298	100,161	71,382
Accrued Expenses	43,251	31,863	75,114	281,920
Due to Agency Funds	866	-	866	-
Due to Primary Government	-	-	-	51,726
Due to Component Units	65,476	-	65,476	-
Funds Held in Escrow	12,726	1,906	14,632	12,716
Due to Other Governments	-	-	-	41,374
Deferred Revenue	256,555	46,641	303,196	246,769
Overpayment of Taxes	108,325	-	108,325	9,987
Other Current Liabilities	-	-	-	72,554
Derivative Instrument Liability	49,466	38,576	88,042	26,290
Net Pension Liability	69,366	10,645	80,011	-
Non-Current Liabilities:				
Due within one year	241,792	170,752	412,544	342,635
Due in more than one year	4,696,260	3,065,475	7,761,735	5,041,627
Total Liabilities	<u>5,923,330</u>	<u>3,458,445</u>	<u>9,381,775</u>	<u>6,536,013</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	(47,508)	845,062	797,554	47,402
Restricted For:				
Capital Projects	267,720	133,023	400,743	6,959
Debt Service	82,205	260,506	342,711	217,563
Behavioral Health	250,117	-	250,117	18,375
Neighborhood Revitalization	61,296	-	61,296	-
Stadium Financing	284	-	284	-
Central Library Project	2,330	-	2,330	-
Cultural & Commercial Corridor Project	19,171	-	19,171	-
Grant Programs	60,254	-	60,254	30,389
Rate Stabilization	-	157,050	157,050	-
Libraries & Parks:				
Expendable	3,090	-	3,090	-
Non-Expendable	2,404	-	2,404	-
Educational Programs	-	-	-	11,898
Other	40,660	-	40,660	3,646
Unrestricted(Deficit)	<u>(2,495,463)</u>	<u>234,348</u>	<u>(2,261,115)</u>	<u>(1,083,335)</u>
Total Net Assets	<u>(1,753,440)</u>	<u>1,629,989</u>	<u>(123,451)</u>	<u>(747,103)</u>

The notes to the financial statements are an integral part of this statement.

City of Philadelphia
Statement of Activities
For the Fiscal Year Ended June 30, 2011

Exhibit II

Amounts in thousands of USD

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business Type Activities	Total	
Primary Government:								
Governmental Activities:								
Economic Development	92,256	38	5,385	2,088	(84,745)		(84,745)	
Transportation:								
Streets & Highways	136,302	5,055	36,763	25,925	(68,559)		(68,559)	
Mass Transit	75,170	623	396	-	(74,151)		(74,151)	
Judiciary and Law Enforcement:								
Police	1,048,131	3,507	11,653	-	(1,032,971)		(1,032,971)	
Prisons	340,373	513	1,633	274	(337,953)		(337,953)	
Courts	315,004	45,569	59,472	-	(209,963)		(209,963)	
Conservation of Health:								
Emergency Medical Services	53,282	34,729	973	-	(17,580)		(17,580)	
Health Services	1,524,629	16,660	1,319,228	-	(188,741)		(188,741)	
Housing and Neighborhood Development:								
Development	126,075	23,061	94,033	-	(8,981)		(8,981)	
Cultural and Recreational:								
Recreation	98,670	2,822	8,682	1,949	(85,217)		(85,217)	
Parks	14,008	4,997	1,041	1,669	(6,301)		(6,301)	
Libraries and Museums	75,650	1,844	11,870	-	(61,936)		(61,936)	
Improvements to General Welfare:								
Social Services	718,366	6,808	615,850	-	(95,708)		(95,708)	
Education	64,009	-	-	-	(64,009)		(64,009)	
Inspections and Demolitions	30,095	45,526	255	-	15,686		15,686	
Service to Property:								
Sanitation	143,055	11,639	2,761	-	(128,655)		(128,655)	
Fire	285,907	468	654	-	(284,785)		(284,785)	
General Management and Support	561,037	136,602	52,888	139	(371,408)		(371,408)	
Interest on Long Term Debt	136,332	9,233	-	-	(127,099)		(127,099)	
Total Governmental Activities	<u>5,838,351</u>	<u>349,694</u>	<u>2,223,537</u>	<u>32,044</u>	<u>(3,233,076)</u>		<u>(3,233,076)</u>	
Business Type Activities:								
Water and Sewer	520,186	558,483	2,726	2,038	-	43,061	43,061	
Aviation	336,019	258,055	4,215	101,681	-	27,932	27,932	
Industrial and Commercial Development:								
Commercial Development	1,875	531	-	-	-	(1,344)	(1,344)	
Total Business Type Activities	<u>858,080</u>	<u>817,069</u>	<u>6,941</u>	<u>103,719</u>	<u>-</u>	<u>69,649</u>	<u>69,649</u>	
Total Primary Government	<u>6,696,431</u>	<u>1,166,763</u>	<u>2,230,478</u>	<u>135,763</u>	<u>(3,233,076)</u>	<u>69,649</u>	<u>(3,163,427)</u>	
Component Units:								
Gas Operations	733,717	751,301	13,232	-				30,816
Housing	64,831	1,209	57,000	-				(6,622)
Parking	220,515	222,665	-	-				2,150
Education	3,359,820	38,379	1,192,696	1,200				(2,127,545)
Health	774,336	-	774,336	-				-
Economic Development	158,254	35,818	115,294	-				(7,142)
Total Component Units	<u>5,311,473</u>	<u>1,049,372</u>	<u>2,152,558</u>	<u>1,200</u>				<u>(2,108,343)</u>
General Revenues:								
Taxes:								
Property Taxes					506,569	-	506,569	605,249
Wage & Earnings Taxes					1,504,598	-	1,504,598	-
Business Taxes					364,184	-	364,184	-
Other Taxes					645,811	-	645,811	185,284
Grants & Contributions Not Restricted to Specific Programs					173,814	-	173,814	1,220,575
Unrestricted Interest & Investment Earnings					35,793	6,904	42,697	19,247
Miscellaneous					-	-	-	1,339
Special Items					-	-	-	108
Transfers					24,930	(24,930)	-	-
Total General Revenues, Special Items and Transfers					<u>3,255,699</u>	<u>(18,026)</u>	<u>3,237,673</u>	<u>2,031,802</u>
Change in Net Assets					22,623	51,623	74,246	(76,541)
Net Assets - July 1, 2010					(1,776,063)	1,578,366	(197,697)	16,814
Adjustment					-	-	-	(687,376)
Net Assets Adjusted - July 1, 2010					<u>(1,776,063)</u>	<u>1,578,366</u>	<u>(197,697)</u>	<u>(670,562)</u>
Net Assets - June 30, 2011					<u>(1,753,440)</u>	<u>1,629,989</u>	<u>(123,451)</u>	<u>(747,103)</u>

The notes to the financial statements are an integral part of this statement.

**City of Philadelphia
Balance Sheet
Governmental Funds
June 30, 2011**

Exhibit III

Amounts in thousands of USD

	General Fund	HealthChoices Behavioral Health Fund	Grants Revenue Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>					
Cash on Deposit and on Hand	10,066	-	98	78,170	88,334
Equity in Treasurer's Account	148,682	333,786	142,285	293,105	917,858
Investments	-	-	-	151,228	151,228
Due from Other Funds	11,866	-	-	478	12,344
Due from Component Units	15,257	-	-	-	15,257
Amounts Held by Fiscal Agent	21,784	-	47,984	711	70,479
Taxes Receivable	579,471	-	-	8,080	587,551
Accounts Receivable	387,122	-	978	5,825	393,925
Due from Other Governmental Units	317,942	-	80,809	29,189	427,940
Allowance for Doubtful Accounts	(697,016)	-	-	(735)	(697,751)
Interest and Dividends Receivable	406	1,270	-	120	1,796
Other Assets	-	-	-	562	562
Total Assets	<u>795,580</u>	<u>335,056</u>	<u>272,154</u>	<u>566,733</u>	<u>1,969,523</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Vouchers Payable	51,771	15,330	12,981	26,339	106,421
Accounts Payable	68,417	9,449	58,683	43,294	179,843
Salaries and Wages Payable	89,452	-	2,963	569	92,984
Due to Other Funds	846	-	-	12,364	13,210
Due to Component Units	-	60,160	2,575	2,741	65,476
Funds Held in Escrow	11,574	-	-	1,152	12,726
Deferred Revenue	489,095	-	131,042	22,585	642,722
Overpayment of Taxes	108,325	-	-	-	108,325
Total Liabilities	<u>819,480</u>	<u>84,939</u>	<u>208,244</u>	<u>109,044</u>	<u>1,221,707</u>
Fund Balances:					
Nonspendable	-	-	-	2,604	2,604
Restricted	21,785	250,117	98,180	455,026	825,108
Committed	-	-	-	4,104	4,104
Unassigned	(45,685)	-	(34,270)	(4,045)	(84,000)
Total Fund Balances	<u>(23,900)</u>	<u>250,117</u>	<u>63,910</u>	<u>457,689</u>	<u>747,816</u>
Total Liabilities and Fund Balances	<u>795,580</u>	<u>335,056</u>	<u>272,154</u>	<u>566,733</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

a. Capital Assets used in governmental activities are not reported in the funds	2,147,218
b. Unearned Receivables are deferred in the funds	386,167
c. Long Term Liabilities, including bonds payable are not reported in the funds	(4,938,052)
d. Net Pension Liability is not reported in the funds	(69,366)
e. Derivatives are not reported in the funds	(6,079)
f. Other	(21,144)

Net Assets of Governmental Activities (1,753,440)

The notes to the financial statements are an integral part of this statement.

City of Philadelphia
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2011

Exhibit IV

Amounts in thousands of USD

	General Fund	HealthChoices Behavioral Health Fund	Grants Revenue Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Tax Revenue	2,447,035	-	-	547,943	2,994,978
Locally Generated Non-Tax Revenue	280,694	1,237	56,057	32,653	370,641
Revenue from Other Governments	784,332	880,413	583,554	118,124	2,366,423
Other Revenues	15,243	-	-	10,593	25,836
Total Revenues	3,527,304	881,650	639,611	709,313	5,757,878
Expenditures					
Current Operating:					
Economic Development	35,295	-	5,474	41,859	82,628
Transportation:					
Streets & Highways	56,511	-	3,161	27,721	87,393
Mass Transit	66,709	-	397	-	67,106
Judiciary and Law Enforcement:					
Police	944,824	-	11,028	-	955,852
Prisons	313,270	-	1,402	1,207	315,879
Courts	242,344	-	52,511	-	294,855
Conservation of Health:					
Emergency Medical Services	49,676	-	974	-	50,650
Health Services	144,248	845,002	388,332	137,251	1,514,833
Housing and Neighborhood Development	1,790	-	43,178	81,098	126,066
Cultural and Recreational:					
Recreation	74,210	-	8,690	-	82,900
Parks	860	-	1,041	3,990	5,891
Libraries and Museums	58,650	-	9,964	124	68,738
Improvements to General Welfare:					
Social Services	641,631	-	60,189	-	701,820
Education	64,009	-	-	-	64,009
Inspections and Demolitions	24,286	-	10,516	-	34,802
Service to Property:					
Sanitation	131,089	-	2,761	-	133,850
Fire	257,549	-	517	-	258,066
General Management and Support	504,652	-	19,058	44,810	568,520
Capital Outlay	-	-	-	134,933	134,933
Debt Service:					
Principal	-	-	-	91,377	91,377
Interest	-	-	-	105,732	105,732
Bond Issuance Cost	-	-	-	2,167	2,167
Total Expenditures	3,611,603	845,002	619,193	672,269	5,748,067
Excess (Deficiency) of Revenues Over (Under) Expenditures	(84,299)	36,648	20,418	37,044	9,811
Other Financing Sources (Uses)					
Issuance of Debt	-	-	-	139,150	139,150
Issuance of Refunding Bonds	-	-	-	114,570	114,570
Bond Issuance Premium	-	-	-	5,046	5,046
Proceeds from Lease & Service Agreements	-	-	-	28,070	28,070
Bond Defeasance	-	-	-	(117,605)	(117,605)
Transfers In	335,084	-	471	247,501	583,056
Transfers Out	(144,435)	-	(39,392)	(374,299)	(558,126)
Total Other Financing Sources (Uses)	190,649	-	(38,921)	42,433	194,161
Net Change in Fund Balance	106,350	36,648	(18,503)	79,477	203,972
Fund Balance - July 1, 2010	(130,250)	213,469	82,413	376,242	541,874
Adjustment	-	-	-	1,970	1,970
Fund Balance Adjusted - July 1, 2010	(130,250)	213,469	82,413	378,212	543,844
Fund Balance - June 30, 2011	(23,900)	250,117	63,910	457,689	747,816

The notes to the financial statements are an integral part of this statement.

City of Philadelphia
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2011

Exhibit V

Amounts in thousands of USD

Net Change in Fund Balances - Total Governmental Funds.....	203,972
 Amounts reported for governmental activities in the statement of activities are different because:	
a. Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (135,195) exceeded capital outlay (131,988) in the current period.....	(3,207)
b. Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.....	46,513
c. Proceeds from debt obligations provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments (196,844) exceeded proceeds (123,813).....	73,031
d. The increase in the Net Pension Obligation reported in the statement of activities does not require the use of current financial resources and therefore is not reported as an expenditure in governmental funds.....	(225,170)
e. Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.....	(72,516)
 Change in Net Assets of governmental activities.....	 <u>22,623</u>

The notes to the financial statements are an integral part of this statement.

City of Philadelphia
Statement of Fund Net Assets
Proprietary Funds
June 30, 2011

Exhibit VI

Amounts in thousands of USD

	Business Type Activities - Enterprise Funds			
	Water and Sewer	Aviation	Other Non-Major Industrial & Commercial Development	Total
Assets				
Current Assets:				
Cash on Deposit and on Hand	30	-	-	30
Equity in Treasurer's Account	60,964	119,979	3,361	184,304
Due from Other Governments	230	3,663	-	3,893
Accounts Receivable	236,642	16,565	1,972	255,179
Allowance for Doubtful Accounts	(105,138)	(1,020)	-	(106,158)
Inventories	13,192	3,065	11,398	27,655
Total Current Assets	205,920	142,252	16,731	364,903
Deferred Outflow - Derivative Instruments	12,519	26,057	-	38,576
Non-Current Assets:				
Restricted Assets:				
Equity in Treasurer's Account	406,402	418,426	-	824,828
Amounts Held by Fiscal Agent	-	23,885	-	23,885
Sinking Funds and Reserves	130,299	73,917	-	204,216
Grants for Capital Purposes	-	11,596	-	11,596
Receivables	952	6,835	-	7,787
Total Restricted Assets	537,653	534,659	-	1,072,312
Capital Assets:				
Land	5,919	101,571	-	107,490
Infrastructure	2,055,254	625,432	-	2,680,686
Construction in Progress	270,769	135,567	-	406,336
Buildings and Equipment	1,514,322	2,100,557	-	3,614,879
Less: Accumulated Depreciation	(1,959,538)	(1,237,210)	-	(3,196,748)
Total Capital Assets, Net	1,886,726	1,725,917	-	3,612,643
Total Non-Current Assets	2,424,379	2,260,576	-	4,684,955
Total Assets	2,642,818	2,428,885	16,731	5,088,434
Liabilities				
Current Liabilities:				
Vouchers Payable	7,529	3,210	-	10,739
Accounts Payable	8,080	10,957	-	19,037
Salaries and Wages Payable	4,044	3,254	-	7,298
Construction Contracts Payable	23,096	32,417	-	55,513
Accrued Expenses	22,465	9,398	-	31,863
Funds Held in Escrow	1,906	-	-	1,906
Deferred Revenue	9,764	36,877	-	46,641
Bonds Payable-Current	109,942	60,810	-	170,752
Total Current Liabilities	186,826	156,923	-	343,749
Derivative Instrument Liability	12,519	26,057	-	38,576
Net Pension Liability	542	10,103	-	10,645
Non-Current Liabilities:				
Bonds Payable	1,704,443	1,380,120	-	3,084,563
Unamortized Premium/(Discount and Loss)	(75,206)	9,906	-	(65,300)
Other Non-Current Liabilities	35,710	10,502	-	46,212
Total Non-Current Liabilities	1,664,947	1,400,528	-	3,065,475
Total Liabilities	1,864,834	1,593,611	-	3,458,445
Net Assets				
Invested in Capital Assets, Net of Related Debt	254,798	590,264	-	845,062
Restricted For:				
Capital Projects	88,011	45,012	-	133,023
Debt Service	130,298	130,208	-	260,506
Rate Stabilization	157,050	-	-	157,050
Unrestricted	147,827	69,790	16,731	234,348
Total Net Assets	777,984	835,274	16,731	1,629,989

The notes to the financial statements are an integral part of this statement.

City of Philadelphia
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2011

Exhibit VII

Amounts in thousands of USD

	Business-Type Activities - Enterprise Funds			Totals
	Water and Sewer	Aviation	Other Non-Major Industrial & Commercial Development	
Operating Revenues:				
Charges for Goods and Services	553,169	81,161	-	634,330
Rentals and Concessions	-	170,667	-	170,667
Miscellaneous Operating Revenues	5,314	6,227	531	12,072
Total Operating Revenues	558,483	258,055	531	817,069
Operating Expenses:				
Personal Services	104,323	59,258	-	163,581
Purchase of Services	70,964	78,491	1,875	151,330
Materials and Supplies	35,147	4,459	-	39,606
Employee Benefits	91,046	36,342	-	127,388
Indemnities and Taxes	10,831	2,219	-	13,050
Depreciation	86,924	100,894	-	187,818
Total Operating Expenses	399,235	281,663	1,875	682,773
Operating Income (Loss)	159,248	(23,608)	(1,344)	134,296
Non-Operating Revenues (Expenses):				
Operating Grants	2,726	4,215	-	6,941
Passenger Facility Charges	-	62,042	-	62,042
Interest Income	4,659	2,235	10	6,904
Net Pension Obligation	(17,913)	(8,503)	-	(26,416)
Debt Service - Interest	(95,728)	(45,848)	-	(141,576)
Other Revenue (Expenses)	(7,310)	(5)	-	(7,315)
Total Non-Operating Revenues (Expenses)	(113,566)	14,136	10	(99,420)
Income (Loss) Before Contributions & Transfers	45,682	(9,472)	(1,334)	34,876
Transfers In/(Out)	(24,930)	-	-	(24,930)
Capital Contributions	2,038	39,639	-	41,677
Change in Net Assets	22,790	30,167	(1,334)	51,623
Net Assets - July 1, 2010	755,194	805,107	18,065	1,578,366
Net Assets - June 30, 2011	777,984	835,274	16,731	1,629,989

The notes to the financial statements are an integral part of this statement.

City of Philadelphia
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2011

Exhibit VIII

Amounts in thousands of USD

	Business Type Activities - Enterprise Funds			Totals
	Water and Sewer	Aviation	Other Non-Major Industrial & Commercial Development	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	564,965	263,477	-	828,442
Payments to Suppliers	(125,583)	(84,633)	(1,875)	(212,091)
Payments to Employees	(190,006)	(96,297)	-	(286,303)
Internal Activity-Payments to Other Funds	-	(4,849)	-	(4,849)
Claims Paid	(5,384)	-	-	(5,384)
Other Receipts (Payments)	-	862	531	1,393
Net Cash Provided (Used)	<u>243,992</u>	<u>78,560</u>	<u>(1,344)</u>	<u>321,208</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating Grants Received	2,726	4,215	-	6,941
Operating Subsidies and Transfers from Other Funds	(24,930)	-	-	(24,930)
Net Cash Provided (Used)	<u>(22,204)</u>	<u>4,215</u>	<u>-</u>	<u>(17,989)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from Debt Issuance	268,329	654,320	-	922,649
Contributions Received	2,038	39,334	-	41,372
Acquisition and Construction of Capital Assets	(174,208)	(131,140)	-	(305,348)
Interest Paid on Debt Instruments	(82,753)	(76,804)	-	(159,557)
Principal Paid on Debt Instruments	(102,790)	(416,435)	-	(519,225)
Swap Termination Payments	(15,015)	-	-	(15,015)
Passenger Facility Charges	-	62,337	-	62,337
Other Receipts (Payments)	(9,022)	-	-	(9,022)
Net Cash Provided (Used)	<u>(113,421)</u>	<u>131,612</u>	<u>-</u>	<u>18,191</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sale and Maturities of Investments	-	(38,879)	-	(38,879)
Interest and Dividends on Investments	(1,078)	1,796	13	731
Net Cash Provided (Used)	<u>(1,078)</u>	<u>(37,083)</u>	<u>13</u>	<u>(38,148)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	107,289	177,304	(1,331)	283,262
Cash and Cash Equivalents, July 1 (including \$290.3 mil for Water & Sewer and \$266.6 mil for Aviation reported in restricted accounts)	<u>360,107</u>	<u>384,986</u>	<u>4,692</u>	<u>749,785</u>
Cash and Cash Equivalents, June 30 (including \$406.4 mil for Water & Sewer and \$442.3 mil for Aviation reported in restricted accounts)	<u>467,396</u>	<u>562,290</u>	<u>3,361</u>	<u>1,033,047</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	159,248	(23,608)	(1,344)	134,296
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	86,924	100,894	-	187,818
Changes in Assets and Liabilities:				
Receivables, Net	4,734	(1,547)	-	3,187
Deferred Revenue	1,748	8,111	-	9,859
Inventories	(279)	20	-	(259)
Accounts and Other Payables	(18,836)	(5,310)	-	(24,146)
Accrued Expenses	10,453	-	-	10,453
Net Cash Provided by Operating Activities	<u>243,992</u>	<u>78,560</u>	<u>(1,344)</u>	<u>321,208</u>

The notes to the financial statements are an integral part of this statement.

City of Philadelphia
Statement of Net Assets
Fiduciary Funds
June 30, 2011

Exhibit IX

Amounts in thousands of USD

	Pension Trust <u>Funds</u>	Agency <u>Funds</u>
<u>Assets</u>		
Cash on Deposit and on Hand	-	136,099
Equity in Treasurer's Account	4,502,745	45,665
Investments	-	11,910
Securities Lending Collective Investment Pool	509,520	-
Allowance for Unrealized Loss	(1,895)	-
Accounts Receivable	4,430	-
Due from Brokers for Securities Sold	621,301	-
Interest and Dividends Receivable	15,985	-
Due from Other Governmental Units	3,613	-
Due from Other Funds	-	866
	<hr/>	<hr/>
Total Assets	5,655,699	194,540
	<hr/>	<hr/>
<u>Liabilities</u>		
Vouchers Payable	107	606
Accounts Payable	4,167	246
Salaries and Wages Payable	189	-
Payroll Taxes Payable	-	3,234
Funds Held in Escrow	11	190,454
Due on Return of Securities Loaned	509,520	-
Due to Brokers for Securities Purchased	661,846	-
Accrued Expenses	9,772	-
Deferred Revenue	2,048	-
Other Liabilities	381	-
	<hr/>	<hr/>
Total Liabilities	1,188,041	194,540
	<hr/>	<hr/>
Net Assets Held in Trust for Pension Benefits	4,467,658	-
	<hr/> <hr/>	<hr/> <hr/>

The notes to the financial statements are an integral part of this statement.

City of Philadelphia
Statement of Changes in Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2011

Exhibit X

Amounts in thousands of USD

	Pension Trust Funds
<u>Additions:</u>	
Contributions:	
Employers' Contributions	493,091
Employees' Contributions	<u>52,706</u>
Total Contributions	<u>545,797</u>
Investment Income:	
Interest and Dividends	90,217
Net Gain in Fair Value of Investments	711,117
(Less) Investments Expenses	(17,095)
Securities Lending Revenue	2,294
Securities Lending Unrealized Loss	(1,895)
(Less) Securities Lending Expenses	<u>(740)</u>
Net Investment Gain	<u>783,898</u>
Miscellaneous Operating Revenues	1,377
Total Additions	<u>1,331,072</u>
<u>Deductions</u>	
Personal Services	3,675
Purchase of Services	1,793
Materials and Supplies	81
Employee Benefits	40,283
Pension Benefits	681,909
Refunds of Members' Contributions	5,125
Administrative Expenses Paid	355
Other Operating Expenses	<u>119</u>
Total Deductions	<u>733,340</u>
Change in Net Assets	597,732
Net Assets - July 1, 2010	<u>3,869,926</u>
Net Assets - June 30, 2011	<u><u>4,467,658</u></u>

The notes to the financial statements are an integral part of this statement.

City of Philadelphia
Statement of Net Assets
Component Units
June 30, 2011

Exhibit XI

Amounts in thousands of USD

	Philadelphia Gas Works*	Philadelphia Redevelopment Authority	Philadelphia Parking Authority*	School District of Philadelphia	Community College of Philadelphia	Community Behavioral Health*	Delaware River Waterfront Corporation	Philadelphia Authority for Industrial Development*	Total
Assets									
Cash on Deposit and on Hand	79,052	74,818	76,917	578	13,860	29,451	5,497	8,226	288,399
Equity in Pooled Cash and Investments	-	-	-	51,675	-	-	-	-	51,675
Investments	-	-	90,457	-	32,137	-	-	-	122,594
Due from Primary Government	-	9,261	-	94,812	-	55,462	-	-	64,723
Amounts Held by Fiscal Agent	-	-	-	-	-	-	-	-	94,812
Notes Receivable	-	39,143	-	-	8	-	-	-	39,151
Taxes Receivable	-	-	-	163,941	-	-	-	-	163,941
Accounts Receivable-Net	92,173	686	974	5,231	5,571	128	6,759	45,076	156,598
Interest and Dividends Receivable	-	18,518	274	316	51	-	-	-	19,159
Due from Other Governments	-	164	3,306	143,595	2,031	-	-	43,141	192,237
Inventories	103,133	22,298	-	2,740	-	-	-	-	128,171
Other Assets	177,307	410	-	212,146	1,077	332	266	-	391,538
Deferred Outflow - Derivative Instruments	-	-	-	33	-	-	-	-	33
Restricted Assets:									
Cash and Cash Equivalents	-	10,568	-	97,742	-	-	-	17,851	126,161
Other Assets	284,813	26,038	-	18,375	18,320	-	-	28,061	375,607
Capital Assets:									
Land and Other Non-Depreciated Assets	51,934	-	16,569	289,446	62,240	-	4,907	22,681	447,777
Other Capital Assets (Net of Depreciation)	1,042,075	894	190,849	1,709,946	104,748	690	5,223	71,909	3,126,334
Total Capital Assets	1,094,009	894	207,418	1,999,392	166,988	690	10,130	94,590	3,574,111
Total Assets	1,830,487	202,798	379,346	2,790,576	240,043	86,063	22,652	236,945	5,788,910
Liabilities									
Notes Payable	-	21,894	16,884	-	97,073	-	-	-	135,851
Vouchers Payable	59,303	-	-	-	11,802	-	-	-	71,105
Accounts Payable	-	8,018	15,375	96,631	-	635	4,201	5,217	130,077
Salaries and Wages Payable	4,411	-	-	58,716	3,045	5,210	-	-	71,382
Accrued Expenses	208,851	4,458	807	-	1,420	65,808	576	-	281,920
Funds Held in Escrow	-	11,859	-	-	114	-	-	743	12,716
Due to Other Governments	-	-	9,912	4,154	1,112	-	-	26,196	41,374
Due to Primary Government	-	1,500	42,367	-	-	-	-	7,859	51,726
Deferred Revenue	12,639	46,475	2,643	100,479	2,553	7,900	6,315	67,765	246,769
Overpayment of Taxes	-	-	-	9,987	-	-	-	-	9,987
Other Current Liabilities	-	-	-	66,009	-	6,510	35	-	72,554
Derivative Instrument Liability	-	-	-	26,290	-	-	-	-	26,290
Non-Current Liabilities:									
Invested in Capital Assets,	40,459	3,934	7,985	288,461	1,796	-	-	-	342,635
Net of Related Debt	1,230,389	34,306	185,673	3,493,733	26,447	-	2,423	68,656	5,041,627
Due within one year	-	132,444	281,646	4,144,460	145,362	86,063	13,550	176,436	6,536,013
Due in more than one year	(2,706)	26	58,144	(123,072)	80,137	-	-	34,873	47,402
Net Assets									
Invested in Capital Assets,	-	-	-	-	-	-	-	-	-
Net of Related Debt	114,004	8,658	4,326	94,901	2,633	-	-	-	6,959
Restricted For:									
Capital Projects	-	-	-	18,375	-	-	-	-	18,375
Debt Service	-	-	-	6,386	5,512	-	-	-	11,898
Behavioral Health	-	-	-	-	-	-	-	-	-
Educational Programs	-	-	-	-	-	-	-	-	-
Grant Programs	-	-	-	-	-	-	-	30,389	30,389
Other	-	-	-	3,646	-	-	-	-	3,646
Unrestricted	163,137	61,670	35,230	(1,354,120)	6,399	-	9,102	(4,753)	(1,083,335)
Total Net Assets	274,435	70,354	97,700	(1,353,884)	94,681	-	9,102	60,509	(747,103)

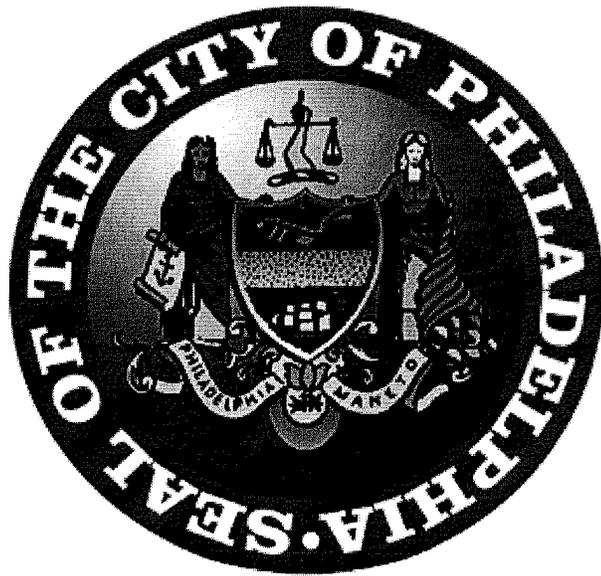
* The Philadelphia Gas Works is presented as of the close of their fiscal year, August 31, 2010. Community Behavioral Health and the Philadelphia Authority for Industrial Development are presented as of the close of their fiscal year, December 31, 2010. The Philadelphia Parking Authority is presented as of the close of their fiscal year, March 31, 2011.

The notes to the financial statements are an integral part of this statement.

Functions	Net (Expense) Revenue and Changes in Net Assets												
	Program Revenues			Changes in Net Assets							Total		
	Expenses	Changes for Services	Operating Grants and Contributions	Capital Grants and Contributions	Philadelphia Gas Works*	Philadelphia Redevelopment Authority	Philadelphia Parking Authority	School District of Philadelphia	Community College of Philadelphia	Community Behavioral Health**		Philadelphia Convention Center Authority	Delaware River Waterfront Corporation
Gas Operations													
Gas Works	733,717	751,301	13,232	-	30,816	-	-	-	-	-	-	-	30,816
Housing													
Housing Redevelopment Authority	64,831	1,209	57,000	-	-	(6,622)	-	-	-	-	-	-	(6,622)
Parking													
Parking Authority	220,515	222,665	-	-	-	-	2,150	-	-	-	-	-	2,150
Education													
School District	3,202,330	8,513	1,126,420	1,200	-	-	-	-	-	-	-	-	-
Community College	157,490	29,866	66,276	-	-	-	-	-	-	-	-	-	-
Total	3,359,820	38,379	1,192,696	1,200	-	-	-	(2,066,197)	(61,348)	-	-	-	(2,066,197) (61,348)
Health													
Community Behavioral Health	774,336	-	774,336	-	-	-	-	-	-	-	-	-	-
Economic Development													
Delaware River Waterfront Corp. Authority for Ind. Development	19,332	7,299	11,700	-	-	-	-	-	-	-	(333)	-	(333)
Total	138,922	28,519	103,594	-	-	-	-	-	-	-	-	(6,809)	(6,809)
	158,254	35,818	115,294	-	-	-	-	-	-	-	-	-	-
Total Component Units	5,311,473	1,049,372	2,152,558	1,200	-	-	-	(2,108,343)	-	-	-	-	(2,108,343)
General Revenues:													
Property Taxes	-	-	-	-	-	-	-	605,249	-	-	-	-	-
Other Taxes	-	-	-	-	-	-	-	185,284	-	-	-	-	-
Grants & Contributions Not Restricted to Specific Programs	-	-	-	-	-	-	-	1,159,870	61,015	-	-	-	(310)
Unrestricted Interest & Investment Earnings	-	-	-	-	-	2,098	1,986	13,348	1,757	-	58	-	-
Miscellaneous	-	-	-	-	-	-	-	-	1,339	-	-	-	1,339
Special Item-Gain (Loss) on Sale of Capital Assets	-	-	-	-	-	-	-	-	-	-	-	-	108
Total General Revenue and Special Items	-	-	-	-	-	-	-	1,963,751	64,111	-	58	-	108
Net Assets - July 1, 2010	-	-	-	-	-	-	-	(102,446)	2,763	-	(275)	-	(7,011)
Adjustment	-	-	-	-	-	-	-	(1,250,925)	91,918	-	9,377	-	16,814
Net Assets Adjusted - July 1, 2010	-	-	-	-	-	-	-	(1,251,436)	94,681	(686,863)	-	-	(687,376)
Net Assets - June 30, 2011	243,619	74,878	93,564	-	243,619	74,878	93,564	(1,251,436)	91,918	-	9,377	-	(670,562)
	274,435	70,354	97,700	-	274,435	70,354	97,700	(1,353,884)	94,681	-	9,102	-	(747,103)

* The Philadelphia Gas Works is presented as of the close of their fiscal year, August 31, 2010. Community Behavioral Health and the Philadelphia Authority for Industrial Development are presented as of the close of their fiscal year, December 31, 2010. The Philadelphia Parking Authority is presented as of the close of their fiscal year, March 31, 2011.

The notes to the financial statements are an integral part of this statement.



Notes to the Financial Statements
FYE 06/30/2011

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Philadelphia have been prepared in conformity with generally accepted accounting principles (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 more significant of the City's accounting policies are described below.

1. REPORTING ENTITY

The City of Philadelphia was founded in 1682 and was merged with the county in 1854. Since 1951 the City has been governed largely under the Philadelphia Home Rule Charter. However, in some matters, including the issuance of short-term and long-term debt, the City is governed by the laws of the Commonwealth of Pennsylvania.

As required by GAAP, the financial statements of the City of Philadelphia include those of the primary government and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The financial statements of these component units have been included in the City's reporting entity either as blended component units or as discretely presented component units. Based on the criteria established by Governmental Accounting Standards Board Statement (GASBS) #14 as amended by GASBS #39, certain other organizations also did meet the criteria for inclusion, however they are not included in the City's financial statements because they are not significant to a fair representation of the City's reporting entity. **Individual financial statements can be obtained directly from their administrative offices by writing to the addresses provided.**

As used both on the face of the financial statements and in the footnotes, the term "Primary Government" includes both City funds and Blended Component Units while the term "Component Units" includes only Discretely Presented Component Units.

A. BLENDED COMPONENT UNITS

Pennsylvania Intergovernmental Cooperation Authority (PICA) – 1500 Walnut St., Philadelphia, PA 19102

PICA was established by act of the Commonwealth of Pennsylvania to provide financial assistance to cities of the first class and is governed by a five member board appointed by the Commonwealth. Currently, the City of Philadelphia is the only city of the first class. The activities of PICA are reflected in two of the governmental fund types (Special Revenue and Debt Service).

Philadelphia Municipal Authority (PMA) – 1515 Arch St., Philadelphia, PA 19102

PMA is governed by a five member board appointed by the City and was established to issue tax exempt bonds for the acquisition and use of certain equipment and facilities for the City. The activities of PMA are reflected in three of the governmental fund types (Special Revenue, Debt Service and Capital Improvement).

B. DISCRETELY PRESENTED COMPONENT UNITS

The component unit columns in the applicable combined financial statements include the combined financial data for the organizations discussed below. They are reported in a separate column to emphasize that they are legally separate from the City. However, in order to retain their identity, applicable combining statements have been included as part of this report.

Effective April 20, 2010 the Lease and Service Agreement between the City and the Pennsylvania Convention Center Authority (PCCA) was terminated and the Commonwealth, City and PCCA entered into a new Operating Agreement. Under the new agreement, beginning with fiscal year 2011, the PCCA is now a component unit of the Commonwealth for reporting purposes.

Community College of Philadelphia (CCP) – 1700 Spring Garden St., Philadelphia, PA 19130

CCP was established by the City to provide two year post-secondary education programs for its residents. It is governed by a Board appointed by the City, receives substantial subsidies from the City, and its budgets must be submitted to the City for review and approval.

Delaware River Waterfront Corp. (DRWC) – 121 N. Columbus Blvd., Philadelphia, PA 19106

The 16 member board, is headed by the Mayors' Deputy Director for Economic Development and Planning, and is comprised of appointed City officials and private sector experts in design, finance, and real estate development. The group will focus on the development of the seven-mile stretch of water front property between Allegheny and Oregon Avenues.

Philadelphia Parking Authority (PPA) – 3101 Market St., Philadelphia, PA 19104

PPA was established by the City to coordinate a system of parking facilities and on-street parking on behalf of the City. Its fiscal year ends on March 31. The City has guaranteed debt payments for PPA. A voting majority of PPA's governing board is not appointed by the City however, the significance of the City's relationship with PPA is such that exclusion from the City's financial report would be misleading.

Redevelopment Authority of the City of Philadelphia (RDA) – 1234 Market St., Philadelphia, PA 19107

RDA was established to rehabilitate blighted sections of the City. It is governed by a five-member board appointed by the City and must submit its budgets to the City for review and approval.

School District of Philadelphia (SDP) – 440 N. Broad St., Philadelphia, PA 19130

SDP was established by the Educational Supplement to the Philadelphia Home Rule Charter to provide free public education for the City's residents. A voting majority of the SDP governing board is not appointed by the City, however, the significance of the City's relationship with SDP is such that exclusion from the City's financial report would be misleading.

Community Behavioral Health (CBH) – 801 Market St., Philadelphia, PA 19107

CBH is a not-for-profit organization established by the City's Department of Public Health to provide for and administer all behavioral health services required by the Commonwealth of Pennsylvania. Its board is made up of City officials and City appointees. Any change in funding would present a financial burden to the City.

Philadelphia Authority for Industrial Development (PAID) – 2600 Centre Sq. West, Philadelphia, PA 19102

PAID was formed under the Industrial Development Authority Law to issue debt to finance eligible industrial and commercial development projects. PAID is the delegate agency responsible for administration of certain state grants and acts in the City's behalf on major development projects in the City. The City appoints a voting majority of PAID's board and is responsible for funding PAID's debt service.

Philadelphia Gas Works (PGW) – 800 W. Montgomery Ave., Philadelphia, PA 19122

PGW was established by the City to provide gas service to residential and commercial customers within the City of Philadelphia. The City appoints a voting majority of PGW's board and has the ability to modify or approve their budget.

2. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The City's *government wide* financial statements (i.e. the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities* which are normally supported by taxes and intergovernmental revenues are reported separately from *business type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. Interfund activity and balances have been eliminated from the statements to avoid duplication.

The Statement of Activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific program. *Program revenues* include: (1) charges to customers or applicants who purchase, use or directly benefit from services or privileges provided by a given program and (2) grants and contributions that are restricted to meeting operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate *fund* financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the *government wide* financial statements. Major individual govern-

mental funds and major individual enterprise funds are reported as separate columns in the *fund* financial statements.

3. BASIS OF ACCOUNTING, MEASUREMENT FOCUS AND FINANCIAL STATEMENTS

A. PRIMARY GOVERNMENT

The *government wide* financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund (except agency funds which only report assets and liabilities and cannot be said to have a measurement focus) financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows. Real estate taxes are recognized as revenues in the year for which they are levied. Derived tax revenues such as wage, business privilege, and net profits and earnings taxes are recognized when the underlying exchange transaction has taken place. Grant and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred as under accrual accounting. Debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. However, those expenditures may be accrued if they are to be liquidated with available resources.

Imposed non-exchange revenues such as real estate taxes are recognized when the enforceable legal claim arises and the resources are available. Derived tax revenues, such as wage, business privilege, net profits and earnings taxes, are recognized when the underlying exchange transaction has occurred and the resources are available. Grant revenues are recognized when all the applicable eligibility requirements have been met and the resources are available. All other revenue items are considered to be measurable and available only when cash is received by the City.

As a general rule, the effect of interfund activity has been eliminated from the *government wide* financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other programs of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various programs concerned.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Amounts reported as *program revenue* include: (1) charges to customers or applicants for goods received, services rendered or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program specific revenues. Accordingly general revenues include all taxes.

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in other funds.
- The Health Choices Behavioral Health Fund accounts for resources received from the Commonwealth of Pennsylvania. These resources are restricted to providing managed behavioral health care to Philadelphia residents.
- The Grants Revenue Fund accounts for the resources received from various federal, state and private grantor agencies. The resources are restricted to accomplishing the various objectives of the grantor agencies.

Additionally, the City reports on Permanent funds, which are used to account for resources legally held in trust for use by the park and library systems of the City. There are legal restrictions on the resources of the funds that hold that the principal remain intact and only the earnings are allowed to be used for the program.

The City reports on the following fiduciary funds:

- The Municipal Pension Fund accumulates resources to provide pension benefit payments to qualified employees of the City and certain other quasi-governmental organizations.
- The Philadelphia Gas Works Retirement Reserve Fund accumulates resources to provide pension benefit payments to qualified employees of the Philadelphia Gas Works.
- The Escrow Fund accounts for funds held in escrow for various purposes.
- The Employees Health & Welfare Fund accounts for funds deducted from employees' salaries for payment to various organizations.
- The Departmental Custodial Accounts account for funds held in custody by various City Departments.

The City reports the following major proprietary funds:

- The Water Fund accounts for the activities related to the operation of the City's water delivery and sewage systems.
- The Aviation Fund accounts for the activities of the City's airports.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government wide and the proprietary fund financial statements to the extent that they do not conflict or contradict guidance of the GASB. Governments also have the option of following subsequent private sector guidance for their business type activities and enterprise funds. The City has elected not to follow subsequent private sector guidelines.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's ongoing operations. The principal operating revenues of the Water Fund are charges for water and sewer service. The principal operating revenue of the Aviation fund is charges for the use of the airport. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

B. COMPONENT UNITS

The **SDP** prepares their financial statements in a manner similar to the City and utilizes the full range of governmental and proprietary fund types.

The financial statements of the Community College of Philadelphia have been prepared in accordance with GASBS #35 - Basic Financial Statements - and Management's Discussion and Analysis - For Public Colleges and Universities. The remaining component units prepare their financial statements in a manner similar to that of proprietary funds.

4. DEPOSITS AND INVESTMENTS

The City utilizes a pooled Cash and Investments Account to provide efficient management of the cash of most City funds. In addition, separate cash accounts are maintained by various funds due to either legal requirements or operational needs. For Proprietary and Permanent Funds, all highly liquid investments (except for Repurchase Agreements) with a maturity of three months or less when purchased are considered to be cash equivalents.

The City reports investments at fair value. Short-term investments are reported at cost which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price. The fair value of real estate investments is based on independent appraisals. Investments which do not have an established market are reported at estimated fair value.

Statutes authorize the City to invest in obligations of the Treasury, agencies, and instruments of the United States, repurchase agreements, collateralized certificates of deposit, bank acceptance or mortgage obligations, certain corporate bonds, and money market funds. The Pension Trust Fund is also authorized to invest in corporate bonds rated AA or better by Moody's Bond Ratings, common stocks and real estate.

From February to early June, deposits of the City significantly exceeded the amounts reported at year end. This was due to cyclical tax collections (billings for taxes are mailed in January and payable in March).

5. INVENTORIES

A. PRIMARY GOVERNMENT

Supplies of governmental funds are recorded as expenditures when purchased rather than capitalized as inventory. Accordingly, inventories for governmental funds are shown on the Statement of Net Assets but not on the Governmental Funds Balance Sheet. Inventories of proprietary funds are valued at moving average cost except for the following:

- **Industrial and Commercial Development Fund** inventory represents real estate held for resale and is valued at cost.

B. COMPONENT UNITS

All inventories are valued at moving average cost except for the following:

- **PGW** inventory consists primarily of fuel stock and gases which are stated at average cost.
- The **SDP** Food Services Fund inventories include food donated by the Federal Government which was valued at government cost or estimated value. All other food or supply inventories were valued at last unit cost and will be expensed when used.
- **RDA** inventory represents real estate held for resale and is recorded based on the estimated appraisal of values and cost basis of land inventories acquired.

6. CAPITAL ASSETS

A. PRIMARY GOVERNMENT

Capital Assets, which include property, plant, equipment and infrastructure assets (e.g. bridges, curbs and gutters, streets and sidewalks and lighting systems), are reported in the applicable governmental or business-type activities columns in the *government wide* financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of three years. Capital assets are recorded at cost. Costs recorded do not include interest incurred as a result of financing asset acquisition or construction. Assets acquired by gift or bequest are recorded at their fair market value at the date of gift. Upon sale or retirement, the cost of the assets and the related accumulated depreciation, if any, are removed from the accounts. Maintenance and repair costs are charged to operations.

The City transfers Construction In Process to one or more of the major asset classes: (1) when project expenditures are equal to or have exceeded 90% of the estimated cost on new facilities (except for the Aviation Fund which uses 80% as the determining percentage), (2) when the expenditures are for existing facilities or (3) when they relate to specific identifiable items completed during the year which were part of a larger project.

Cost of construction for proprietary fund capital assets includes all direct contract costs plus overhead costs. Overhead costs include direct and indirect engineering costs and interest incurred during the construction period for projects financed with bond proceeds. Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest on invested proceeds over the same period.

Depreciation on the capital assets for all City funds is provided on the straight-line method over their estimated useful lives: buildings - 20 to 50 years; equipment and storage facilities - 3 to 25 years; and transmission and distribution lines - 50 years.

Collections of art and historical treasures meet the definition of a capital asset and normally should be reported in the financial statements. However, the requirement for capitalization is waived for collections that meet certain criteria. The City has collections of art, historical treasures and statuary that are not capitalized as they meet all of the waiver requirements which are: (1) the collections are held solely for public exhibition, (2) the collections are protected, preserved and cared for and (3) should any items be sold, the proceeds are

used only to acquire other items for the collections. Among the City's collections are historical artifacts at the Ryers Museum & Library, Loudoun Mansion, Fort Mifflin, Atwater Kent Museum and the Betsy Ross House. The city also has sculptures, paintings, murals and other works of art on display on public property and buildings throughout the City.

B. COMPONENT UNITS

Depreciation on the capital assets for component units is provided on the straight-line method over their estimated useful lives: buildings - 15 to 50 years; equipment and storage facilities - 3 to 25 years; and transmission and distribution lines - 50 years.

7. BONDS AND RELATED PREMIUMS, DISCOUNTS & ISSUANCE COSTS

In the *government-wide* financial statements and in the proprietary fund statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the life of the related debt.

In *governmental fund* financial statements, bond premiums, discounts and issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt issuance expenditures.

8. INSURANCE

The City, except for the Airport and certain other properties, is self-insured for most fire and casualty losses to its structures and equipment and provides statutory worker's compensation, unemployment benefits, and health and welfare to its employees through a self-insured plan.

9. RECEIVABLE AND PAYABLES

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the *governmental-wide* financial statements as "internal balances".

All trade and property receivables in the *governmental wide* financial statements are shown net of allowance for uncollectibles. The real estate tax receivable allowance is equal to 29.72% of outstanding real estate taxes at June 30. Property taxes are levied on a calendar year basis. The City's property taxes, levied on assessed valuation as of January 1, are due and payable on or before March 31. Taxes levied are intended to finance the fiscal year in which they become due. Current real estate rates are \$9.082 on each \$100 assessment; \$4.959 for the SDP and \$4.123 for the City. Delinquent charges are assessed at 1.5% per month on all unpaid balances as of April 1. Real estate tax delinquents are subject to lien as of the following January 1. The City has established real estate improvement programs that abate, for limited periods, tax increases that result from higher assessments for improved properties. Certain incremental tax assessments are earmarked to repay loans from the City to developers who improve properties under Tax Increment Financing agreements.

10. DEFERRED REVENUES

A. PRIMARY GOVERNMENT

Deferred revenues as reported in the *fund* financial statements represent receivables which will be collected and included in revenues of future fiscal years or funds received in advance of being earned. In the General Fund, deferred revenues relate to property tax levies and self-assessed taxes receivable which are not available to pay liabilities of the current period and grants receivable for which the eligibility criteria has been met, but the resources are not available. Also included are business-privilege taxes which were received in advance of being earned. The deferred revenue in the Special Revenue and Capital Improvement Funds is primarily related to grants receivable and funds received in advance of being earned. In the Water and Aviation Funds, deferred revenues relate to overpayments from water/sewer customers and airlines, respectively.

B. COMPONENT UNITS

Deferred revenue of the **RDA** generally represents cash received in advance from various sources to fund appropriate program expenditures. These advances are subject to various terms, including the obligation to return any unexpended funds upon completion or termination of the related project. Recognition of grants as revenues is deferred until funds have been expended or awarded as grants or loans.

Community College of Philadelphia student tuition and fees received prior to June 30 which are applicable to the Summer II and Fall terms have been deferred and will be included in revenue in the subsequent year.

11. COMPENSATED ABSENCES

It is the City's policy to allow employees to accumulate earned but unused vacation benefits. Vacation pay is accrued when earned in the *government-wide* financial statements and in the proprietary and fiduciary-*fund* financial statements. Sick leave balances are not accrued in the financial statements because sick leave rights are non-vesting.

12. CLAIMS AND JUDGMENTS

Pending claims and judgments are recorded as expenses in the *government wide* financial statements and in the proprietary and fiduciary fund financial statements when the City solicitor has deemed that a probable loss to the City has occurred. Claims and judgments are recorded as expenditures in the government fund financial statements when paid or when judgments have been rendered against the City.

II. LEGAL COMPLIANCE

1. BUDGETARY INFORMATION

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). In accordance with the Philadelphia Home Rule Charter, the City has formally established budgetary accounting control for its operating and capital improvement funds.

The operating funds of the City, consisting of the General Fund, nine Special Revenue Funds (County Liquid Fuels Tax, Special Gasoline Tax, HealthChoices Behavioral Health, Hotel Room Rental Tax, Grants Revenue, Community Development, Car Rental Tax, Housing Trust, and Acute Care Hospital Assessment Funds) and two Enterprise Funds (Water and Aviation Funds), are subject to annual operating budgets adopted by City Council. Included with the Water Fund is the Water Residual Fund. These budgets appropriate funds for all City departments, boards and commissions by major class of expenditure within each department. Major classes are defined as: personal services; purchase of services; materials and supplies; equipment; contributions, indemnities and taxes; debt service; payments to other funds; and advances and other miscellaneous payments. The appropriation amounts for each fund are supported by revenue estimates and take into account the elimination of accumulated deficits and the re-appropriation of accumulated surpluses to the extent necessary. All transfers between major classes (except for materials and supplies and equipment, which are appropriated together) must have council approval. Appropriations that are not expended or encumbered at year end are lapsed. Comparisons of budget to actual activity at the legal level of compliance are located in the City's *Supplemental Report of Revenues and Obligations*, a separately published report.

The City Capital Improvement Fund budget is adopted annually by the City Council. The Capital Improvement budget is appropriated by project for each department. All transfers between projects exceeding twenty percent of each project's original appropriation must be approved by City Council. Any funds that are not committed or expended at year end are lapsed. Comparisons of departmental project actual activity to budget are located in the City's *Supplemental Report of Revenues and Obligations*.

The budgetary comparison schedules presented differ from the modified accrual basis of accounting. These schedules differ from the GAAP basis statements in that both expenditures and encumbrances are applied against the current budget, adjustments affecting activity budgeted in prior years are accounted for through fund balance or as reduction of expenditures and certain interfund transfers and reimbursements are budgeted as revenues and expenditures.

During the year, classification adjustments and supplementary appropriations were necessary for City funds. Therefore, budgeted appropriation amounts presented are as originally passed and as amended by the City Council. As part of the amendment process, budget estimates of City related revenues are adjusted and submit-

ted to City Council for review. Changes in revenue estimates do not need City Council approval, but are submitted in support of testimony with regard to the appropriation adjustments. Revenue estimates are presented as originally passed and as amended.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS

1. DEPOSITS AND INVESTMENTS

Deposits

State statutes require banks to collateralize City deposits at amounts equal to or in excess of the City's balance. Such collateral is to be held by the Federal Reserve Bank or the trust department of a commercial bank other than the pledging bank. At year-end, the carrying amount (book balance) of deposits for the City and the bank balances were \$415.6 million and \$415.6 million respectively. All of the collateralized securities were held in the City's name except for \$93.6 million which was collateralized but held in the pledging institutions name.

Investments

The City has established a comprehensive investment policy that covers all funds other than the Municipal Pension Fund and the Philadelphia Gas Works Retirement Reserve. Both of those funds have separate investment policies designed to meet the long-term goals of the fund. To minimize custodial credit risk, the city's policy is to select custodian banks that are members of the Federal Reserve System to hold its investments. Delivery of the applicable investment documents to the City's custodian is required for all investments.

As of June 30, 2011 the City's Investments consisted of:

	(amount in thousands of USD)	
<u>Classifications</u>	<u>Fair Value</u>	<u>% of Total</u>
Corporate Equity	2,856,309	39.52%
U.S. Government Securities	1,158,198	16.03%
Corporate Bonds	1,149,705	15.91%
U.S. Government Agency Securities	758,116	10.49%
Other Bonds and Investments	539,493	7.47%
Commerical Papers	295,450	4.09%
Short Term Investment Pool	236,451	3.27%
Financial Agreements	145,221	2.01%
Collateral Mortgage Obligations	61,661	0.85%
Real Estate	14,567	0.20%
Certificate of Deposit	11,703	0.16%
Total	<u>7,226,874</u>	

City excluding Pension Trust Funds

Interest Rate Risk: The City's investment portfolio is managed to accomplish preservation of principal, maintenance of liquidity and maximize the return on the investments. To limit its exposure to fair value losses from rising interest rates, the city's investment policy limits investments to maturities of no longer than 2 years, except in Sinking Fund Reserve Portfolios.

(amount in thousands of USD)

<u>Classifications</u>	<u>Less than</u>		<u>More than</u>
	<u>1 Year</u>	<u>1 - 3 Years</u>	<u>3 Years</u>
U.S. Government Securities	2,759	782,260	6
Corporate Bonds	827	683,951	0
U.S. Government Agency Securities	502	669,887	0
Commerical Papers	0	295,450	0
Short Term Investment Pool	148,602	0	0
Certificate of Deposit	0	11,703	0
Corporate Equity	0	328	0
Total	152,690	2,443,579	6

Credit Risk: The City's policy to limit credit risks is to invest in US Government securities (16.03%) or US Government Agency obligations (10.49%). The US Government Agency obligations must be rated AAA by Standard & Poor's Corp or Aaa by Moody's Investor Services. All US Government Securities meet the criteria. The City's investment in Commercial paper (4.09%) must be rated A1 by Standard & Poor's Corp. (S&P) and/or M1G1 by Moody's Investor's Services, Inc (Moody's) and the senior long-term debt of the issuer must not be rated lower than A by S&P and/or Moody's. Commercial Paper is also limited to 25% of the portfolio. All commercial paper investments meet the criteria. Of the corporate bonds held by the City, 33% had a Standard & Poor's rating of AAA to AA. Cash accounts are swept nightly and idle cash invested in money market funds (short term investment pools). Short Term Investment Pools are rated AAA by Standard & Poor's Corp and Aaa by Moody's Investor Services. The Short Term Investment Pools' Fair Value is the same as the value of the pool shares. The City limits its foreign currency risk by investing in certificates of deposit and bankers acceptances issued or endorsed by non-domestic banks that are denominated in US dollars providing that the banking institution has assets of not less than \$100 million and has a Thompson's Bank Watch Service "Peer Group Rating" not lower than II. At the end of the fiscal year, the City did not have any investments of that nature.

Municipal Pension Fund

Credit Risk: Currently, the Municipal Pension Fund owns approximately 54.8% of all investments and is invested primarily in equity securities (33.6%). The fund's resources are put in the hands of investment managers with different investment styles who invest according to specific objectives developed for each manager. The Chief Investment Officer of the Municipal Pension Fund is charged with reviewing the portfolios for compliance with those objectives and guidelines. Of the fixed income type investments held by the pension fund, 34% had Standard & Poor ratings of AAA to A; 61% had ratings of BBB+ to B; and, 5% had ratings of CCC+ to C. Moody's ratings for the same issues were: 47% had ratings of Aaa to A1; 46% had ratings of Baa3 to B1; and, 7% had ratings of CAA3 to CA.

The investments are held by the managers in the Pension Fund's name. The investments are diversified with only the investment in the Lehman Aggregated Pooled Index Fund exceeding 5% of the total investment (6.1%). The fair value of the investment in the Lehman Aggregated Pooled Index Fund was \$246.6 million at fiscal year end. The fund's exposure to foreign currency risk derives from its position in foreign currency-denominated equity securities and fixed income investments. The foreign currency investment in equity securities is 51.5% of the total investment in equities.

Municipal Pension Fund

Equity Securities subject to Foreign Currency Risk

(thousands of USD)		
<u>Currency</u>	<u>Fair Value</u>	
Euro Currency	146,046	20.81%
Pound Sterling	97,619	13.91%
Japanese Yen	89,450	12.74%
Australian Dollar	28,956	4.13%
All others	339,782	48.41%
	<u>701,854</u>	

Fixed Income Securities and Other Investments subject to Foreign Currency Risk

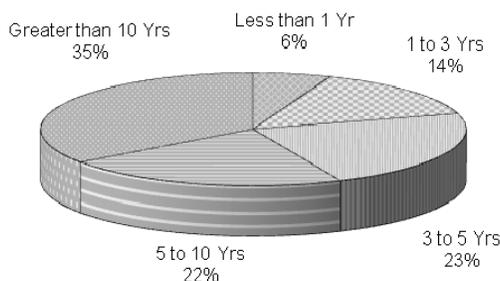
(thousands of USD)			
	<u>Currency</u>	<u>Fair Value</u>	<u>Maturities</u>
Currency	Euro	26,940	
Currency	Japanese Yen	877	
Government Issues	All others	42,017	
Government Issues	Euro	43,584	
Government Issues	Pound Sterling	34,116	11/22/2055
Government Issues	Mexican Pessso	19,313	
Limited Partnership Units	All others	141,102	
Real Estate Investment Trusts	Euro	34,304	
Real Estate Trusts	Euro	1,500	
Real Estate Investment Trusts	Pound Sterling	2,535	
Real Estate Investment Trusts	All others	1,182	
		<u>347,471</u>	

Statutes permit the Municipal Pension Fund to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Pension Fund has contracted with a third-party securities lending agent to lend the Pension fund's securities portfolio. The agent lends securities of the type on loan at June 30 for collateral in the form of cash or other securities at 102% of the leaned securities market value plus accrued interest. The collateral for the loans is maintained at greater than 100%. Securities on loan as of June 30 are unclassified with regards to custodial credit risk.

At June 30, the Pension Fund has no credit risk exposure to borrowers because the amounts the Pension Fund owes the borrowers exceed the amounts the borrowers owe to the Pension Fund. The agent provides indemnification if the borrowers fail to return the underlying securities (and if the collateral is inadequate to replace the securities lent), or fail to pay income distributions on them. All open securities loans can be terminated on demand by either the Pension Fund or the borrower. All term securities loans can be terminated with five days notice by either the Pension Fund or the borrower. Cash collateral is invested in accordance with the investment guidelines of the Pension Fund. The Pension Fund cannot pledge or sell collateral securities received unless the borrower defaults.

This chart details the exposure to interest rate changes based on maturity dates of the fixed income securities:

Municipal Pension Fund Exposure to Credit Risk



Philadelphia Gas Works Retirement Reserve (PGWRR)

Credit Risk: Currently, the **PGWRR** owns approximately 6.5% of all investments and is primarily invested in equity securities (57.19%). The long-term goals of the fund are to manage the assets to produce investment results which meet the Fund’s actuarially assumed rate of return and protect the assets from any erosion of inflation adjusted value. The fund’s resources are put in the hands of investment managers with different investment styles who invest according to specific objectives developed for each manager. The Chief Investment Officer of the **PGWRR** is charged with reviewing the portfolios for compliance with those objectives and guidelines. To protect against credit risk, the fund requires that all domestic bonds must be rated investment grade by at least two ratings agencies (Standard & Poor’s, Moody’s or Fitch). The portfolio managers’ Average Credit Quality ranges from AAA to AA.

The **PGWRR’s** fixed income investments are as follows:

Investment Type	Maturity Length				
	Less than 1 yr.	1-3 yrs	3-5 yrs	5-10 yrs	More than 10 yrs
Short-Term Investment Pools	14,156	-	-	-	-
U.S. Government Agency Securities	-	1,812	1,945	953	412
U.S. Government Securities	5,761	7,012	6,006	8,467	2,816
MTG Pass Thrus	-	185	-	328	3,555
Municipal Securities	-	-	-	-	558
Asset Backed Securities	-	-	-	3,035	34,185
Corporate bonds	1,288	9,696	9,079	36,498	8,075
	<u>21,205</u>	<u>18,705</u>	<u>17,030</u>	<u>49,281</u>	<u>49,601</u>

Blended Component Units

A. PICA

The Authority may deposit funds in any bank that is insured by federal deposit insurance. To the extent that the deposits exceed federal insurance, the depositories must deposit (with their trust department or other custodian) obligations of the US Government, the Commonwealth of Pennsylvania or any political subdivision of the Commonwealth. Investments must be made in accordance with a trust indenture that restricts investments to obligations of the City of Philadelphia, government obligations, repurchase agreements collateralized by direct obligations of or obligations the payments of principal and interest on which are unconditionally guaranteed as to full and timely payment by the United States of America, money market mutual fund shares issued by a fund having assets not less than \$100,000,000 or guaranteed investment contracts (GIC) with a bank insurance company or other financial institution that is rated in one of the three highest rating categories by the rating agencies and which GICs are either insured by municipal bond insurance or fully collateralized at all times.

At June 30, 2011 the carrying amount of PICA's deposits with financial institutions (including certificates of deposit and shares in US government money market funds) and other short-term investments was \$100.3 million. Statement balances were insured or collateralized as follows:

(thousands of USD)	
Insured	750
Uninsured and uncollateralized	99,558
Total:	100,308

PICA's deposits include bank certificates of deposit with a remaining maturity of one year or less and shares in US government money market funds.

Investment Derivative Instruments

As of June 30, 2011, PICA's basis caps did not meet the criteria for effectiveness as a hedging instrument. Therefore, they are reported as investment derivative instruments.

(amounts in thousands)					
<u>Governmental Activities</u>	<u>Changes in Fair Value</u>		<u>Fair Value at June 30, 2011</u>		<u>Notional</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
Investment Derivatives:					
Basis Caps	Investment Revenue	3,364	Investment	(394)	490,050

a. PICA Series of 2003 and 1999 Basis Cap Agreements

In June 2003 and 2004, the Authority entered into basis cap transactions with the counterparty as follows:

2003 Basis Cap

Beginning July 15, 2003, the counterparty pays the Authority a fixed rate each month of .40% per year and the Authority will pay the counterparty a variable rate based on the greater of (a) the average of BMA for the month divided by one-month LIBOR less 70%, multiplied by the one-month LIBOR, times the notional amount times the day count fraction or (b) zero. The notional amount and term of the agreement equals the notional amount and term of the 2003 interest rate swap noted above.

1999 Basis Cap

Beginning July 15, 2009, the counterparty pays the Authority a fixed-rate each month of .46% per year and the Authority will pay the counterparty a variable rate based on the greater of (a) the average of BMA for the month divided by one-month LIBOR, less 70%, multiplied by one-month LIBOR, times the notional amount times the

day count fraction or (b) zero. The notional amount and term of this agreement equals the notional amount and term of the 1999 interest rate swaption noted above.

Fair value: As of June 30, 2011, the 2003 Basis Cap had a negative fair value of (\$486,167). This means that **PICA** would have to pay this amount to terminate the 2003 basis cap. As of June 30, 2011, the 1999 Basis Cap had a positive fair value of \$91,989. This means that **PICA** would receive this amount if the 1999 basis cap were terminated.

B. PHILADELPHIA MUNICIPAL AUTHORITY

The authority does not have a formally adopted investment policy; however, the terms of their bond indentures limit the investments in which the trustee can deposit funds. These limited investments include US government obligations, repurchase agreements for government obligations, certificates of deposits and other time deposit arrangements with financial institutions. Investments at June 30 are summarized as follows:

	(thousands of USD)	
	<u>Fair Value</u>	<u>Cost</u>
Money Market Funds	67,367	67,363
U.S. Government Securities	14,104	14,085
Certificates of Deposit	100	100
Corporate Debt	4,639	4,627
Foreign Debt	519	517
	<u>86,730</u>	<u>86,693</u>

All investments were uninsured and collateralized with securities held by the pledging financial institution's trust department but not in the Authority's name at June 30, 2011.

The Authority does not have a formally adopted investment policy related to credit risk, but generally follows the practices of the City. As of June 30, 2011 the Authority's investments in U.S. Government Securities were rated AAA, and investments in corporate and foreign debt were rated AA+ or AAA, by Standard & Poor's. Investments in money market funds and certificates of deposit were not rated. Depository cash accounts consisted of \$360,516 on deposit with two local banks. Amounts are insured by the FDIC up to \$250,000. Deposits in excess of the FDIC limit are collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name.

Discretely Presented Component Units

a. Philadelphia Authority for Industrial Development Basis Swap

As of June 30, 2011, **PAID's** basis swap did not meet the criteria for effectiveness as a hedging instrument. Therefore, it is reported as an investment derivative instrument.

(amounts in thousands)

	<u>Changes in Fair Value</u>		<u>Fair Value at June 30, 2011</u>		<u>Notional</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
Governmental Activities					
Investment Derivatives:					
Basis Swap	Investment Revenue	3,415	Investment	(5,685)	193,520

Objective: **PAID** entered into a basis swap that became effective on July 1, 2004, that provides **PAID** with ten equal payments of \$1.2 million with the first payment due on July 1, 2004. **PAID** executed the basis swap to create a benefit similar to entering into a synthetic refunding, using a swap based on a percentage of LIBOR, without having to issue bonds or eliminate future advance refunding opportunities. In July, 2006, a portion of the existing basis swap was restructured such that the variable rate received by **PAID** was converted from a percentage of one month LIBOR to a percentage of the five year LIBOR swap rate, on a forward starting basis. This

provides for potentially significant long-term savings while also providing for a diversification of the City's variable rate index on its entire swap portfolio.

Terms: The original swap was executed with Merrill Lynch Capital Service Inc. ("MLCS") with payments based on an amortization schedule and an initial notional amount of \$298.5 million. The swap commenced on July 1, 2004 and matures on October 1, 2030. Under the swap, PAID pays a variable rate equal to the SIFMA Municipal Swap Index and receives a variable rate computed as 67% of one-month LIBOR + 20 basis points. PAID, also receives ten equal payments of \$1.2 million from MLCS starting on July 1, 2004. Payments under this swap are a lease rental obligation of the City.

The transaction was amended to \$105.0 million of the original notional amount with payments based on an amortization schedule. Under the amended portion of the swap, the variable payments received by PAID are computed as 62.89% of five year LIBOR + 20 basis points (replacing 67% of one month LIBOR + 20 basis points). The amended effective date was October 1, 2006, with variable payments made (as described above) through October 1, 2020. On December 1, 2009, PAID terminated that portion of the swap that was subject to the amendment and received a termination payment of \$3,049,000.

As of June 30, 2011, the notional amount on the portion of the swap that was not amended was \$193.5 million.

Fair Value: As of June 30, 2011, the swap had a negative fair value of (\$5.7 million). This means that PAID would have to pay this amount to terminate the swap.

Risks: As of June 30, 2011, PAID is not exposed to credit risk because the swap had a negative fair value. Should interest rates change and the fair value of the swap become positive, PAID would be exposed to credit risk in the amount of the swaps' fair value. The swap includes an additional termination event based on credit ratings. The swap may be terminated by PAID if the ratings of MLCS's guarantor (Merrill Lynch & Co.) falls below Baa3 or BBB- or the swap may be terminated by MLCS if the City's rating falls below Baa3 or BBB-. There is a 3-day cure period to these termination events.

The swap exposes PAID to basis risk. The swap exposes PAID to the risk that the relationship between one month LIBOR and the SIFMA index may change from the historic pattern that existed when the swap was entered into. If SIFMA averages higher than 67% of one month LIBOR plus 20 bps, the anticipated savings of the swap will be reduced and may not materialize. This risk would be magnified in a flat or inverted yield curve environment.

b. School District of Philadelphia Basis Swaps

The School District on November 21, 2006 entered into two qualified interest rate management agreement basis swaps initially related to its 2003 Bonds and subsequently its General Obligation Refunding Bonds, Series B of 2004 and Series C of 2004 for the purpose of managing interest costs. The School District refunded the Series B and C of 2004 Bonds through the issuance of General Obligation Refunding Bonds, Series A, B, C and D of 2008 (the "Series 2008 Bonds"). Simultaneously with the issuance of the Series 2008 Bonds, the School District related the existing qualified interest rate management agreements to the Series 2008 Bonds. This did not have an impact or cause a change of any kind to the existing swap documents, other than as described above, and only adjusted the related subseries.

In connection with the basis swap agreements, the School District received an upfront cash payment of \$10 million.

As of June 30, 2011, the School District's basis swaps are considered to be investment derivative instruments with the following maturities (amounts in thousands):

Investment Type	Fair Value	Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More Than 10
Investment Derivative Instruments	\$ (26,257)				\$ (26,257)

Interest rate risk - The School District's two pay variable interest rate basis swaps have a total notional amount of \$500,000,000. The School District makes payments to the counterparty based on the SIFMA swap index and receives 67% of LIBOR plus .2788%. The basis swaps were executed November 30, 2006 and mature May 15, 2033. At June 30, 2011, the fair value of the swaps is \$(26,256,997). The swap agreements contain varying collateral agreements with the counterparties. The swaps require collateralization of the fair value of the swap

should the counterparty's credit rating fall below the applicable thresholds.

Credit risk - As of June 30, 2011, the School District was not exposed to credit risk on any of its outstanding basis swaps because the swaps had negative fair values of \$26,256,997. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps.

The notional amounts and credit ratings of the bank counterparties on the outstanding swaps as of June 30, 2011 are as follows (amounts in thousands):

<u>Initial Notional</u>	<u>Bank Counterparty</u>	<u>Credit Rating</u>		
		<u>Moody's</u>	<u>S&P</u>	<u>Fitch</u>
\$150,000	Wachovia Bank	Aa2	AA	AA-
\$350,000	JP Morgan Chase Bank	Aa1	AA-	AA-

Basis risk - The basis risk on the basis swaps is the risk that benchmark tax-exempt interest rates paid by the School District on each basis swap differ from the variable swap rate received from the applicable counterparty on the related swap. The School District bears basis risk on each of its basis swaps since the School District receives a percentage of LIBOR and pays the tax-exempt benchmark SIFMA. The School District is exposed to basis risk should the floating rate that it receives on a swap plus the spread is less than SIFMA the School District pays on the swaps. Depending on the magnitude and duration of any basis risk shortfall, the expected cost savings from the basis swap may not be realized.

Termination risk - The School District can terminate a swap at any time at the fair market value; the counterparty to a swap may, as provided therein, only terminate the swap upon certain termination events under the terms thereof. If a basis swap is terminated, the associated expected savings on the fixed-rate bonds would no longer be recognized. If at the time of termination, the swap has a negative fair value, the School District would be liable to the counterparty for a payment equal to the swap's fair value.

2. SECURITIES LENDING

The Board of Directors of the Municipal Pension Fund (Pension Fund) and the Sinking Fund Commission (on behalf of the Philadelphia Gas Works Retirement Reserve Fund (PGWRR)) have each authorized management of the respective funds to participate in securities lending transactions. Each fund has entered into a Securities Lending Agreement with its custodian bank to lend its securities to broker-dealers.

- **The Pension Fund** lends US Government and US Government Agency securities, domestic and international equity securities and international fixed income securities and receives cash and securities issued or guaranteed by the federal government as collateral for these loans. Securities received as collateral can not be pledged or sold except in the case of a borrower default. The market value of collateral must be at least 102% (in some cases 105%) of the underlying value of loaned securities. The Pension fund has no restriction on the amount of securities that can be lent. The Pension Fund's custodian bank indemnifies the Fund by agreeing to purchase replacement securities or return cash collateral if a borrower fails to return securities or pay distributions thereon. The maturity of investments made with cash collateral generally did not match the maturity of securities loaned during the year or at year-end. The Pension Fund experienced \$1.9 million in unrealized losses from securities transactions during the year and had no credit risk exposure at June 30.

- The **PGWRR** lends US Treasury, federal agency, and DTC-eligible corporate debt and equity securities and receives cash, US Treasury and federal agency securities and letters of credit as collateral for these loans. Securities received as collateral can not be pledged or sold except in the case of a borrower default. The market value of collateral must be 102% of the total of the market value of loaned securities plus any accrued interest. The **PGWRR** placed no restrictions on the amount of securities that could be lent. The **PGWRR's** custodian bank does not indemnify the **PGWRR** in the event of a borrower default except in cases involving gross negligence or willful misconduct on the custodian's part. Maturity of investments made with cash collateral is generally matched with maturity of loans. The **PGWRR** experienced no losses and had no credit risk exposure at June 30.

3. AMOUNTS HELD BY FISCAL AGENT

Two of the City's component units (**PAID** and **RDA**) have issued debt that, in accordance with GASB Interpretation #2, is considered conduit debt. Therefore, no asset related to the bond proceeds or liability related to the bonds is shown on their respective financial statements. However, since the City, through various agreements is responsible for the debt, the proceeds of the issuance are shown as assets of the City.

A. GOVERNMENTAL FUNDS

General Fund - Consists of cash and investment balances related to the net proceeds of **PAID's** Sports Stadium Financing Lease Revenue Bonds Series A & B of 2007, **PAID's** Central Library Project Financing Lease Revenue Bonds Series 2005 and **PAID's** Cultural and Commercial Corridor Lease Revenue Bonds Series 2006.

Grants Revenue Fund - Consists of cash and investment balances related to the net proceeds of the **RDA's** City of Philadelphia Neighborhood Transformation Initiative Bonds.

B. PROPRIETARY FUNDS

Aviation Fund consists of cash and investment balances related to the net proceeds of **PAID's** Airport Revenue Bonds, Series 1998A and 2001A. The proceeds are held by a fiscal agent and disbursed at the City's direction to pay for airport related capital improvements.

4. INTERFUND RECEIVABLES AND PAYABLES

A. PRIMARY GOVERNMENT

Interfund receivable and payable balances among Primary Government funds at year-end are the result of the time lag between the dates that interfund goods and services are provided, the date the transactions are recorded in the accounting system and the date payments between funds are made. All balances are expected to be settled during the subsequent year. Interfund receivable and payable balances within the Primary Government at year-end are as follows:

(Amounts in Thousands of USD)

	Interfund Receivables Due to:				Total
	Non major				
	Governmental				
General	Special Revenue	Debt Service	Other Funds		
Interfund Payables Due From:					
General	-	-	-	846	846
Non major Special Revenue Funds	11,866	-	-	498	12,364
Non major Debt Service Funds	-	-	-	-	-
Total	11,866	-	-	1,344	13,210

B. COMPONENT UNITS

Interfund receivables and payables between the Primary Government and its Component Units at year-end are the result of the time lag between the dates that interfund goods and services are provided, the date the transactions are recorded in the accounting system and the date payments between funds are made. All interfund balances are expected to be settled during the subsequent year. Interfund receivable and payable balances among the Primary Government and Component Units at year-end are as follows:

(Amounts in Thousands of USD)	Receivables Due to:					Total
	General	Aviation	CBH	RDA	Timing Difference	
Payables Due From:						
Behavioral Health	-	-	60,160	-	-	60,160
Grants Revenue	-	-	-	2,575	-	2,575
Non-major Funds	-	-	-	2,741	-	2,741
PPA	15,257	24,598	-	-	2,512	42,367
PAID	7,859	-	-	-	-	7,859
RDA	-	-	-	-	1,500	1,500
Timing Difference	(7,859)	(24,598)	(4,698)	3,945	-	(33,210)
Total	15,257	-	55,462	9,261	4,012	83,992

5. CAPITAL ASSET ACTIVITY

A. PRIMARY GOVERNMENT

Capital Asset activity for the year ended June 30 was as follows:

Governmental Activities:	(Amounts In Millions of USD)			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land	756	6	-	762
Fine Arts	1	-	-	1
Construction In Process	25	27	(5)	47
Total capital assets not being depreciated	782	33	(5)	810
<u>Capital assets being depreciated:</u>				
Buildings	1,811	37	-	1,848
Other Improvements	296	8	-	304
Equipment	464	20	(22)	462
Infrastructure	1,303	39	-	1,342
Transit	292	-	-	292
Total capital assets being depreciated	4,166	104	(22)	4,248
<u>Less accumulated depreciation for:</u>				
Buildings	(1,086)	(58)	-	(1,144)
Other Improvements	(199)	(9)	-	(208)
Equipment	(367)	(25)	22	(370)
Infrastructure	(942)	(36)	-	(978)
Transit	(203)	(8)	-	(211)
Total accumulated depreciation	(2,797)	(136)	22	(2,911)
Total capital assets being depreciated, net	1,369	(32)	-	1,337
Governmental activities capital assets, net	2,151	1	(5)	2,147

	(Amounts In Millions of USD)			
Business-type activities:	<u>Beginning</u>			<u>Ending</u>
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
<u>Capital assets not being depreciated:</u>				
Land	105			105
Intangible Assets	2			2
Construction In Process	322	283	(199)	406
Total capital assets not being depreciated	<u>429</u>	<u>283</u>	<u>(199)</u>	<u>513</u>
<u>Capital assets being depreciated:</u>				
Buildings	3,135	109	(18)	3,226
Other Improvements	261	11	-	272
Equipment	115	21	(19)	117
Intangible Assets	10	1	-	11
Infrastructure	2,561	121	(12)	2,670
Total capital assets being depreciated	<u>6,082</u>	<u>263</u>	<u>(49)</u>	<u>6,296</u>
<u>Less accumulated depreciation for:</u>				
Buildings	(1,463)	(101)	11	(1,553)
Other Improvements	(137)	(10)	-	(147)
Equipment	(90)	(6)	3	(93)
Intangible Assets	(3)	(1)	-	(4)
Infrastructure	(1,324)	(69)	(6)	(1,399)
Total accumulated depreciation	<u>(3,017)</u>	<u>(187)</u>	<u>8</u>	<u>(3,196)</u>
Total capital assets being depreciated, net	<u>3,065</u>	<u>76</u>	<u>(41)</u>	<u>3,100</u>
Business-type activities capital assets, net	<u>3,494</u>	<u>359</u>	<u>(240)</u>	<u>3,613</u>

Depreciation expense was charged to the programs of the primary government as follows:

	(Amounts in Millions of USD)
<u>Governmental Activities:</u>	
Economic Development	3
Transportation:	
Streets & Highways	36
Mass Transit	8
Judiciary and Law Enforcement:	
Police	9
Prisons	6
Conservation of Health:	
Health Services	3
Cultural and Recreational:	
Recreation	11
Parks	10
Libraries and Museums	10
Improvements to General Welfare:	
Social Services	2
Service to Property:	
Fire	6
General Management & Support	<u>32</u>
Total Governmental Activities	<u>136</u>
<u>Business Type Activities:</u>	
Water and Sewer	86
Aviation	<u>101</u>
Total Business Type Activities	<u>187</u>

B. DISCRETELY PRESENTED COMPONENT UNITS

The following schedule reflects the combined activity in capital assets for the discretely presented component units for the year ended June 30.

	(Amounts In Millions of USD)			
Governmental Activities:	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land	119	14	(1)	132
Art	8	-		8
Construction In Process	326	(176)		150
Total capital assets not being depreciated	<u>453</u>	<u>(162)</u>	<u>(1)</u>	<u>290</u>
<u>Capital assets being depreciated:</u>				
Buildings	1,509	173	(9)	1,673
Other Improvements	1,045	130	(16)	1,159
Equipment	283	25	(15)	293
Infrastructure	1	-	-	1
Total capital assets being depreciated	<u>2,838</u>	<u>328</u>	<u>(40)</u>	<u>3,126</u>
<u>Less accumulated depreciation for:</u>				
Buildings	(557)	(29)	9	(577)
Other Improvements	(600)	(53)	12	(641)
Equipment	(184)	(28)	14	(198)
Infrastructure	(1)	-	-	(1)
Total accumulated depreciation	<u>(1,342)</u>	<u>(110)</u>	<u>35</u>	<u>(1,417)</u>
Total capital assets being depreciated, net	<u>1,496</u>	<u>218</u>	<u>(5)</u>	<u>1,709</u>
Capital assets, net	<u>1,949</u>	<u>56</u>	<u>(6)</u>	<u>1,999</u>
 Business-type Activities:				
<u>Capital assets not being depreciated:</u>				
Land	34	3	(1)	36
Fine Arts	5	-	(2)	3
Construction In Process	532	98	(532)	98
Total capital assets not being depreciated	<u>571</u>	<u>102</u>	<u>(535)</u>	<u>137</u>
<u>Capital assets being depreciated:</u>				
Buildings	905	39	(334)	610
Other Improvements	39	1	(2)	38
Equipment	399	17	(13)	403
Infrastructure	1,408	38	(3)	1,443
Total capital assets being depreciated	<u>2,751</u>	<u>94</u>	<u>(353)</u>	<u>2,493</u>
<u>Less accumulated depreciation for:</u>				
Buildings	(372)	(16)	136	(252)
Other Improvements	(35)	(2)	2	(34)
Equipment	(119)	(20)	14	(124)
Infrastructure	(614)	(34)	2	(645)
Total accumulated depreciation	<u>(1,140)</u>	<u>(70)</u>	<u>155</u>	<u>(1,056)</u>
Total capital assets being depreciated, net	<u>1,611</u>	<u>24</u>	<u>(198)</u>	<u>1,437</u>
Capital assets, net	<u>2,182</u>	<u>125</u>	<u>(733)</u>	<u>1,574</u>

6. NOTES PAYABLE

PGW, pursuant to the provisions of certain ordinances and resolutions, may sell short-term notes in a principal amount which, together with the interest thereon, will not exceed \$150 million outstanding at any one time. These notes are intended to provide additional working capital. They are supported by an irrevocable letter of credit and a subordinated security interest in the **PGW's** revenues. There were no notes outstanding at year-end (August 31, 2010).

In prior years, **CCP** has entered into various loan agreements with the State Public School Building Authority and the Hospitals & Higher Education Facilities Authority for loans totaling approximately \$97.1 million. The loans have interest rates ranging from 2.50% to 6.25%, mature through 2028 and will be used for various capital projects, the upgrading of network infrastructures and various deferred maintenance cost.

The combined principal balance outstanding at year-end is as follows:

<u>Period</u>	<u>Amount</u>
2012	\$ 7,718,734
2013	8,066,215
2014	7,633,038
2015	5,355,033
2016	5,310,000
2017-2021	26,685,000
2022-2026	25,700,000
2027-2028	10,605,000
Total	<u>\$ 97,073,020</u>

7. DEBT PAYABLE

A. PRIMARY GOVERNMENT LONG-TERM DEBT PAYABLE

(1) Governmental Debt Payable

The City is subject to a statutory limitation established by the Commonwealth of Pennsylvania for bonded indebtedness (General Obligation Bonds) payable principally from property taxes. As of June 30, 2011 the statutory limit for the City is \$1.6 billion, the General Obligation Debt net of deductions authorized by law is \$1.5 billion, leaving a legal debt borrowing capacity of \$97.3 million. Termination Compensation costs and Worker's Compensation claims are paid by whichever governmental fund incurs them. Indemnity claims are typically paid by the General Fund.

The following schedule reflects the changes in long-term liabilities for the fiscal year:

(Amounts In Millions of USD)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activity					
Bonds Payable					
Term Bonds	786.1	97.3	(39.2)	844.2	41.8
Refunding Bonds	819.3	114.6	(102.3)	831.6	20.4
Serial Bonds	453.1	61.7	(67.3)	447.5	37.4
Add: Bond Premium	104.6	5.0	(8.8)	100.8	-
Less: Deferred Amounts					
Unamortized Issuance Expenses	(41.2)	(17.5)	3.5	(55.2)	-
Unamortized Discount and Loss	(50.9)	(0.1)	3.8	(47.2)	-
Total Bonds Payable	2,071.0	261.0	(210.3)	2,121.7	99.6
Obligations Under Lease & Service Agreements					
Pension Service Agreement	1,428.3	59.2	(80.2)	1,407.3	39.4
Neighborhood Transformation	252.8	-	(6.8)	246.0	7.2
One Parkway	46.7	-	(1.6)	45.1	1.6
Sports Stadia	337.1	-	(5.6)	331.5	5.9
Library	9.1	-	(0.5)	8.6	0.5
Cultural Corridor Bonds	126.1	-	(3.3)	122.8	3.4
Arbitrage	1.2	-	(1.2)	-	-
Indemnity Claims	47.7	34.1	(34.5)	47.3	15.8
Worker's Compensation Claims	299.8	28.7	(53.2)	275.3	34.5
Termination Compensation Payable	196.9	22.7	(18.4)	201.2	22.7
Net Pension Obligation	-	69.4	-	69.4	-
OPEB Obligation	43.3	36.2	-	79.5	-
Leases	31.1	28.0	(7.4)	51.7	11.1
Governmental Activity Long-term Liabilities	4,891.1	539.3	(423.0)	5,007.4	241.7

In addition, both blended component units have debt that is classified on their respective balance sheets as General Obligation debt payable. The following schedule summarizes the General Obligation Bonds outstanding for the City, the **PMA** and **PICA**:

(Amounts In Millions of USD)

Governmental Funds:	Interest				Principal		Due Dates		
	Rates								
City	2.00 %	to	7.125 %	1,369.8	Fiscal	2012	to	2042	
PMA	2.00 %	to	7.50 %	258.8	Fiscal	2012	to	2039	
PICA	3.00 %	to	5.00 %	494.7	Fiscal	2012	to	2023	
				<u>2,123.3</u>					

- In April 2011, the City issued \$253.7 million of general obligation bonds series 2011. There were serial bonds issued in the amount of \$156.4 million with interest rates ranging from 2.0% to 5.375% maturing in 2026. Term bonds were issued in amounts of: \$23.2 million at 5.875% interest due on August 31, 2031; \$31.3 million at 6.0% interest due on August 1, 2036; and \$42.8 million at 6.5% interest due on August 1, 2041. The bonds were issued for the purpose of refunding the 1998 Refunded Bonds (\$85.9 million), the 2001 Refunded Bonds (\$31.6 million) and financing capital projects (\$139.1 million).
- As of June 30, 2011, **PMA's** Statement of Net Assets disclosed \$19.9 million of accretion to its bond principal payments for fiscal years 2012 through 2015. Capitalized interest relates entirely to MSB 1990 Series Capital Appreciation Bonds. Accretion value represents the cumulative compounded interest due and payable at bond maturity.
- In May 2011 **PAID** remarketed the Multi-Modal Lease Revenue Refunding Bonds 2007, Series B (\$234.3 million), and entered into irrevocable, direct-pay letters of credit (LOC) with three separate banks. Each LOC will be issued and secured pursuant to a Reimbursement Agreement dated May 1, 2011 between **PAID** and the issuing

bank. The Trustee will be entitled to draw up to an amount equal to the principal of and 57 days' accrued interest to be used to pay the principal or redemption price of and interest on the 2007B Bonds. J.P. Morgan Securities LLC's LOC, in the amount of \$117.3 million, funds the 2007 Series B-1 bonds and will expire on May 24, 2013. Merrill, Lynch, Pierce, Fenner & Smith Incorporated's LOC, in the amount of \$72.4 million, funds the 2007 Series B-2 bonds and will expire on May 24, 2013. PNC Bank, National Association's LOC, in the amount of \$44.6 million, funds the 2007 Series B-3 bonds and will expire on May 23, 2014.

The City has General Obligation Bonds authorized and un-issued at year-end of \$155.7 million for Governmental Funds. The debt service through maturity for the Governmental GO Debt is as follows:

(Amounts In Millions of USD)

Fiscal Year	City Fund		Blended Component Units			
	General Fund		PMA		PICA	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	40.8	67.4	21.2	14.6	41.8	24.6
2013	48.5	68.4	22.7	13.7	43.6	22.5
2014	50.7	66.2	24.4	11.9	45.6	20.4
2015	53.5	63.5	25.9	10.5	47.7	18.1
2016	52.0	60.9	20.0	9.1	49.9	15.8
2017-2021	288.8	261.8	65.0	31.3	209.7	43.2
2022-2026	312.3	185.5	14.1	24.0	56.4	3.9
2027-2031	298.2	105.3	19.1	18.9	-	-
2032-2036	139.9	43.9	26.2	11.9	-	-
2037-2041	75.4	13.9	20.2	2.7	-	-
2042-2046	9.7	0.3	-	-	-	-
Totals	<u>1,369.8</u>	<u>937.1</u>	<u>258.8</u>	<u>148.6</u>	<u>494.7</u>	<u>148.5</u>

The debt service through maturity for Lease and Service Agreements is as follows:

(Amounts In Millions of USD)

Fiscal Year	Lease & Service Agreements											
	Pension Service Agreement		Neighborhood Transformation		One Parkway		Sports Stadium		Central Library		Cultural Corridors	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	85.6	34.1	7.2	12.7	1.6	2.1	5.9	13.4	0.5	0.4	3.4	5.8
2013	84.8	40.0	7.6	12.3	2.1	2.0	11.5	13.0	0.5	0.3	3.6	5.6
2014	80.5	45.5	8.0	11.9	2.1	2.0	12.0	12.4	0.5	0.3	3.8	5.4
2015	79.3	51.7	8.4	11.5	2.3	1.8	12.4	11.8	0.5	0.3	3.9	5.3
2016	76.9	57.8	8.9	11.0	2.4	1.7	13.0	11.2	0.6	0.3	4.2	5.1
2017-2021	316.9	356.7	52.0	47.7	13.6	6.9	73.8	47.9	3.1	1.0	24.2	21.9
2022-2026	237.3	436.3	67.4	32.4	17.1	3.4	90.9	31.5	3.0	0.3	31.1	15.1
2027-2031	446.0	58.1	86.4	13.4	3.9	0.2	112.0	11.5	-	-	39.6	6.6
2032-2036	-	-	-	-	-	-	-	-	-	-	9.0	0.2
Totals	<u>1,407.3</u>	<u>1,080.2</u>	<u>245.9</u>	<u>152.9</u>	<u>45.1</u>	<u>20.1</u>	<u>331.5</u>	<u>152.7</u>	<u>8.7</u>	<u>2.9</u>	<u>122.8</u>	<u>71.0</u>

(2) Business Type Debt Payable

The following schedule reflects changes in long-term liabilities for Business-Type Activities for the fiscal year:

(Amounts In Millions of USD)

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Business-Type Activity					
Bonds Payable					
General Obligation Bonds	2.2	-	(1.2)	1.0	1.0
Revenue Bonds	2,888.9	883.5	(518.1)	3,254.3	169.7
Add: Bond Premium	-	9.9	-	9.9	-
Less: Deferred Amounts					
Unamortized Discounts and Loss	(100.1)	-	24.9	(75.2)	-
Total Bonds Payable	2,791.0	893.4	(494.4)	3,190.0	170.7
Indemnity Claims	4.7	12.5	(7.0)	10.2	-
Worker's Compensation Claims	19.1	8.6	(7.0)	20.7	-
Termination Compensation Payable	15.1	-	(0.1)	15.0	-
Net Pension Obligation	1.6	9.0	-	10.6	-
Arbitrage	1.1	-	(0.8)	0.3	-
Business-type Activity Long-term Liabilities	2,832.6	923.5	(509.3)	3,246.8	170.7

In addition, the Enterprise Funds have debt that is classified on their respective balance sheets as General Obligation debt payable which is summarized in the following schedule:

(Amounts In Millions of USD)

Enterprise Funds	Interest	Principal	Due Dates
	<u>Rates</u>		
Water Fund	1.00 %	1.0	Fiscal 2012
		1.0	

Also, the City has General Obligation Bonds authorized and un-issued at year end of \$303.6 million for the Enterprise Funds.

The debt service through maturity for Business-type General Obligation Debt is as follows:

(Amounts In Millions of USD)

Fiscal Year	Water Fund	
	<u>Principal</u>	<u>Interest</u>
2012	1.0	-
Totals	1.0	-

Several of the City's Enterprise Funds have issued debt payable from the revenues of the particular entity. The following schedule summarizes the Revenue Bonds outstanding at year end:

(Amounts In Millions of USD)

	<u>Interest Rates</u>		<u>Principal</u>	<u>Due Dates</u>		
Water Fund	0.11 %	to 6.25 %	1,813.4	Fiscal	2012 to	2041
Aviation Fund	2.00 %	to 5.50 %	1,440.9	Fiscal	2012 to	2040
Total Revenue Debt Payable			3,254.3			

- In August 2010, the City issued Water & Wastewater Revenue Bonds Series 2010 C in the amount of \$185.0 million. Serial bonds were issued in the amount of \$116.6 million with interest rates ranging from 3.0% to 5.0%, and have a maturity date of 2030. Term bonds were issued in the following amounts (1) \$5.2 million with an interest rate of 4.750% and mature in 2035; (2) \$24.8 million with an interest rate of 5.0% and mature in 2035; (3) \$38.4 million with an interest rate of 5.0% and mature in 2040. The proceeds of the bonds together with other available funds of the water department will be used to fund capital improvements to the City's water & wastewater system, fund payments to terminate a portion of the 2007 swap agreement (\$15.0 million), fund the required deposit into the Debt Reserve account of the Sinking Fund and pay various bond issuance costs.
- In July 2010, the City of Philadelphia Water Department received approval from the Pennsylvania State Infrastructure Financing Authority ("PENNVEST") for the Green Infrastructure Project (Series 2010B), bringing the total financing from PENNVEST to \$214.9 million. During fiscal year 2011, PENNVEST's drawdowns totaled \$73.8 million, which represents an increase in bond issuances. The funding is through low interest loans of 1.193% during the construction period and for the first five years of amortization (interest only payment are due during the construction period up to three years) and 2.107% for the remaining fifteen years. Individual loan information is as follows:

<u>Date</u>	<u>Series</u>	<u>Maximum Loan Amount</u>	<u>Estimated Project Costs</u>	<u>Amt Requested thru 6/30/2011</u>	<u>Amt Rec'd Yes/No</u>	<u>Purpose</u>
Oct. 2009	2009B	42,886,030	42,339,199	16,530,733	No	Water Plant Improvements
Oct. 2009	2009C	57,268,193	56,264,382	35,666,542	No	Water Main Replacements
Mar. 2010	2009D	84,759,263	84,404,754	48,583,956	Yes	Sewer Projects
Jul. 2010	2010B	30,000,000	31,376,846	0	No	Green Infrastructure Project
	Totals:	214,913,486	214,385,181	100,781,231		

- In November 2010, the City issued Airport Revenue Bond Series 2010 in the amount of \$624.7 million. The Series 2010 A bonds (Non-AMT) were issued as serial and term bonds. Insured serial bonds were issued in the amount of \$16.5 million with interest rates ranging from 3% to 4.5% and mature in 2035 and uninsured serial bonds were issued in the amount of \$113.0 million, with interest rates ranging from 2% to 5.250% and mature in 2030. Insured term bonds were issued in the amounts of \$25 million, and \$48 million with an interest rate of 5% and mature in 2035 and 2040 respectively. Uninsured term bonds were issued in amounts of \$37.8 million and 32.8 million with an interest rate of 5% and mature in 2035 and 2040 respectively. Series 2010B (Non-AMT) for \$24.4 million and 2010C (AMT) for \$54.7 million were uninsured and issued as serial bonds and will mature in 2015 and 2018 respectively. The series 2010B and 2010C bonds have interest rates ranging from 2% to 5%. The insured 2010D (AMT) serial bonds were issued in the amount of \$1.9 million with interest rates ranging from 4% to 4.5% and mature in 2024. The uninsured 2010D serial bonds were issued in the amount of \$270.7 million with interest rates ranging from 2% to 5.25% and mature in 2028. The proceeds from the bonds together with other available funds will be used to (1) pay or reimburse for the costs of the 2010 Project, (2) provide for capitalized interest on the 2010A bonds during construction of the 2010 Project, (3) currently refund all of the City's outstanding Airport Revenue Refunding Bonds, Series 1997A; (4) currently refund a portion of the City's outstanding Airport Revenue Refunding Bonds, Series 1998A; (5) currently refund a portion of the City's outstanding Airport Revenue Bonds Series 1998B; (6) fund a deposit to the Parity Sinking Fund Reserve Account; and (7) pay the costs of issuance of the 2010 bonds. Any prepayment of the 1998B bond shall be in an amount that is sufficient and used to pay a like amount of the Philadelphia Authority for Industrial Development (PAID) Airport Revenue Bonds, Series 1998A and together with the 1998B bond sometimes hereinafter referred to, collectively as the International Terminal Bonds.

The debt service through maturity for the Revenue Debt Payable is as follows:

(Amounts In Millions of USD)

Fiscal Year	Water Fund		Aviation Fund	
	Principal	Interest	Principal	Interest
2012	108.9	80.4	60.8	72.3
2013	117.3	75.2	51.0	69.3
2014	127.1	69.3	58.9	66.6
2015	133.5	63.2	62.0	63.5
2016	139.1	58.0	59.9	60.0
2017-2021	397.1	212.1	318.1	250.3
2022-2026	250.7	151.6	341.3	167.4
2027-2031	301.1	94.7	266.8	85.7
2032-2036	200.2	31.8	144.7	40.8
2037-2041	38.4	5.0	77.4	9.0
Totals	<u>1,813.4</u>	<u>841.3</u>	<u>1,440.9</u>	<u>884.9</u>

(3) Defeased Debt

As of the current fiscal year-end, the City had defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At year end, bonds outstanding pertaining to the following funds are considered defeased.

(Amounts In Millions of USD)

Enterprise Funds:

Water Fund Revenue Bonds	171.0
	<u>171.0</u>

(4) Short -Term Borrowings

The City has statutory authorizations to negotiate temporary loans for periods not to extend beyond the fiscal year. The City borrows funds to pay debt service and required pension contributions due before the receipt of the real estate taxes. The city borrowed and repaid \$285.0 million in Tax Revenue Anticipation Notes by June 2011 plus interest. In accordance with statute, there are no temporary loans outstanding at year-end.

(Amounts In Millions of USD)

Tax Revenue Anticipation Notes:

Balance July 1, 2010	-
Additions	285.0
Deletions	<u>(285.0)</u>
Balance June 30, 2011	<u>-</u>

(5) Arbitrage Liability

The City has several series of General Obligation and Revenue Bonds subject to federal arbitrage requirements. Federal tax legislation requires that the accumulated net excess of interest income on the proceeds of these issues over interest expense paid on the bonds be paid to the federal government at the end of a five-year period. At June 30, 2011, the Aviation Fund and the Water Fund had recorded liabilities of \$0.2 million and \$0.1 million, respectively.

(6) Derivative Instruments

Beginning in FY 2010, the City of Philadelphia adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2011, classified by type, and the changes in fair value of such derivatives are as follows:

(amounts in thousands)

	<u>Changes in Fair Value</u>		<u>Fair Value at June 30, 2011</u>		<u>Notional</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
<u>Governmental Activities</u>					
Cash Flow Hedges:					
Pay fixed interest rate swaps	Deferred Outflow	1,136	Debt	(9,464)	100,000
	Deferred Outflow	1,656	Debt	(25,444)	217,275
	Deferred Outflow	522	Debt	(8,478)	72,400
<u>Business Type Activities:</u>					
Cash Flow Hedges:					
Pay fixed interest rate swaps	Deferred Outflow	5,538	Debt	(26,056)	162,600
	Deferred Outflow	1,614	Debt	(12,519)	82,870

The following table displays the objective and terms of the City's hedging derivative instruments outstanding at June 30, 2011, along with the credit rating of the associated counterparty.

(amounts in thousands)

<u>Agency</u>	<u>Type</u>	<u>Objective</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Terms</u>	<u>Counterparty Credit Rating</u>
City GO (a)	Pay Fixed Interest Rate Swap	Hedge changes in cash flow on the 2009 Series B bonds	100,000	12/20/2007	8/1/2031	City pays 3.829%; receives SIFMA Municipal Swap Index	Aa1/AA-
City Lease PAID (b)	Pay Fixed Interest Rate Swap	Hedge changes in cash flow on the 2007 Series B bonds	217,275	10/25/2007	10/1/2030	City pays 3.9713%; receives SIFMA Municipal Swap Index	Aa1/AA-
City Lease PAID (b)	Pay Fixed Interest Rate Swap	Hedge changes in cash flow on the 2007 Series B bonds	72,400	10/25/2007	10/1/2030	City pays 3.9713%; receives SIFMA Municipal Swap Index	A2/A
Airport (c)	Pay Fixed Interest Rate Swap	Hedge changes in cash flow on the 2005 Series C bonds	162,600	6/15/2005	6/15/2025	Airport pays multiple fixed swap rates; receives SIFMA Municipal Swap Index	Aa1/AA-
Water (d)	Pay Fixed Interest Rate Swap	Hedge changes in cash flow on the 2005 Series bonds	82,870	5/4/2005	8/1/2018	City pays 4.53%; receives bond rate/68.5% 1 Month LIBOR	A3/A

a. City of Philadelphia 2009B General Obligation Bond Swap

Objective In December, 2007, the City entered into a swap to synthetically refund all or a portion of several series of outstanding bonds. The swap structure was used as a means to increase the City's savings when compared with fixed-rate bonds at the time of issuance. The intention of the swap was to create a synthetic fixed-rate structure. On July 23, 2009, the City terminated approximately \$213.5 million of the swap, fixed out the bonds related to that portion and kept the remaining portion of the swap, as well as, the related bonds as variable rate bonds backed with a letter of credit. The City paid a swap termination payment of \$15.5 million to RBC.

Terms: The swap, was originally executed with Royal Bank of Canada (RBC), commenced on December 20, 2007, and will terminate on August 1, 2031. Under the swap, the City pays a fixed rate of 3.829% and receives

the SIFMA Municipal Swap Index. The payments are based on an amortizing notional schedule (with an original notional amount of \$ 313.5 million). The swap confirmation was amended and restated as of August 13, 2009 to reflect the principal amount of the 2009B bonds, with all other terms remaining the same. As of June 30, 2011, the swap had a notional amount of \$100 million and the associated variable rate bonds had a \$100 million principal amount. The bonds mature in August, 2031.

Fair Value: As of June 30, 2011, the swap had a negative fair value of (\$9.46 million). This means that the City would have to pay this amount to terminate the swap.

Risk: As of June 30, 2011, the City was not exposed to credit risk because the swap has a negative fair value. Should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. The City is exposed to traditional basis risk should the relationship between SIFMA and the bonds change; if SIFMA resets at a rate below the variable rate bond coupon payments, the synthetic interest rate on the bonds will increase.

The swap includes an additional termination event based on credit ratings. The swap may be terminated by the City if the rating of RBC falls below Baa3 or BBB- or by RBC if the rating of the City falls below Baa3 or BBB-. There are 30-day cure periods to these termination events. However, because the City's swap payments are insured by Assured Guaranty Municipal Corp. (formerly FSA), no termination event based on the City's ratings can occur as long as Assured is rated at least A3 and A-.

As of June 30, 2011, the rates were:

<u>Terms</u>	<u>Rates</u>	
Interest Rate Swap		
Fixed payment to RBC under swap	Fixed	3.82900 %
Variable rate payment from RBC under swap	SIFMA	(0.09000) %
Net interest rate swap payments		3.73900 %
Variable rate bond coupon payments	Weekly reset	0.06000 %
Synthetic interest rate on bonds		3.79900

Swap payments and associated debt: As of June 30, 2011, debt service requirements of the variable-rate debt and net swap payments for their term, assuming current interest rates remain the same, were as follows:

Fiscal Year Ending	<u>Variable Rate Bonds</u>		<u>Interest Rate</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Swaps Net</u>	<u>Total Interest</u>
June 30				
2012	\$ -	60,000	3,739,000	3,799,000
2013	-	60,000	3,739,000	3,799,000
2014	-	60,000	3,739,000	3,799,000
2015	-	60,000	3,739,000	3,799,000
2016	-	60,000	3,739,000	3,799,000
2017-2021	-	300,000	18,695,000	18,995,000
2022-2026	-	300,000	18,695,000	18,995,000
2027-2031	81,585,000	215,223	13,411,980	13,627,203
2032	18,415,000	11,049	688,537	699,586
Total:	<u>100,000,000</u>	<u>1,126,272</u>	<u>70,185,517</u>	<u>71,311,789</u>

b. Philadelphia Authority for Industrial Development (PAID) 2007B Swaps

Objective: In December, 2007, **PAID** entered into two swaps to synthetically refund **PAID**'s outstanding Series 2001B bonds. The swap structure was used as a means to increase **PAID**'s savings when compared with fixed-rate bonds at the time of issuance. The intention of the swaps was to create a synthetic fixed-rate structure.

Terms: The total original notional amount of the two swaps was \$289.7 million which matched the principal amount of the 2007B bonds issued (\$289.7 million). One swap, with a notional amount of \$217.3 million, was executed with JP Morgan Chase Bank. The other swap, with a notional amount of \$72.4 million was executed with Merrill Lynch Capital Services, Inc. Both swaps commenced on October 25, 2007 and will terminate on October 1, 2030. Under the swaps, **PAID** pays a fixed rate of 3.9713% and receives the SIFMA Municipal Swap Index. The payments are based on an amortizing notional schedule. As of June 30, 2011, the swaps together had a notional amount of \$289.7 million which matched the principal amount of the associated variable rate bond deal. Payments under these swaps are lease rental obligations of the City.

Fair Value: As of June 30, 2011, the swap with JP Morgan Chase Bank had a negative fair value of (\$25.4 million) and the swap with Merrill Lynch Capital Services, Inc. has a negative fair value of (\$8.5 million). This means that **PAID** would have to pay these amounts to terminate the swaps.

Risks: As of June 30, 2011, **PAID** was not exposed to credit risk because the swap had a negative fair value. Should interest rates change and the fair value of the swaps become positive, **PAID** would be exposed to credit risk in the amount of the swaps' fair value. The City is subject to traditional basis risk should the relationship between SIFMA and the bonds change; if SIFMA resets at a rate below the variable rate bond coupon payments, the synthetic interest rate on the bonds will increase.

The swaps include an additional termination event based on credit ratings. The swaps may be terminated by **PAID** if the rating of the respective counterparty on the swaps falls below Baa3 or BBB- or by the respective counterparties if the underlying rating on the associated bonds falls below Baa3 or BBB-. There are 30-day cure periods to these termination events. The City's swap payments are insured by FGIC.

As of June 30, 2011, the rates for the \$217.3 million notional swap with JP Morgan Chase Bank were:

<u>Terms</u>	<u>Rates</u>	
Interest Rate Swap		
Fixed payment to JP Morgan under swap	Fixed	3.97130 %
Variable rate payment from JP Morgan under swap	SIFMA	(0.09000) %
Net interest rate swap payments		3.88130 %
Variable rate bond coupon payments	Weighted Average Weekly resets	0.46693 %
Synthetic interest rate on bonds		4.34823 %

As of June 30, 2011, the rates for the \$72.4 million notional swap with Merrill Lynch Capital Services, Inc. were:

<u>Terms</u>	<u>Rates</u>	
Interest Rate Swap		
Fixed payment to Merrill Lynch under swap	Fixed	3.97130 %
Variable rate payment from Merrill Lynch under swap	SIFMA	(0.09000) %
Net interest rate swap payments		3.88130 %
Variable rate bond coupon payments	Weekly resets	0.08000 %
Synthetic interest rate on bonds		3.96130 %

Swap payments and associated debt. As of June 30, 2011, debt service requirements of the variable-rate debt and net swap payments for their term, assuming the current interest rates remain the same, were as follows:

Fiscal Year Ending June 30	Variable Rate Bonds		Interest Rate	Total Interest
	Principal	Interest	Swaps Net	
2012	\$ -	1,014,689	8,443,574	9,458,263
2013	-	1,014,689	8,443,574	9,458,263
2014	-	1,014,689	8,443,574	9,458,263
2015	-	1,014,689	8,443,574	9,458,263
2016	12,990,000	1,014,689	8,443,574	9,458,263
2017-2021	64,355,000	1,934,179	34,382,884	36,317,063
2022-2026	62,825,000	380,347	22,534,052	22,914,399
2027-2031	77,375,000	156,304	9,260,200	9,416,504
Total:	217,545,000	7,544,275	108,395,006	115,939,281

Swap payments and associated debt. As of June 30, 2011, debt service requirements of the variable-rate debt and net swap payments for their term, assuming the current interest rates remain the same, were as follows:

Fiscal Year Ending June 30	Variable Rate Bonds		Interest Rate	Total Interest
	Principal	Interest	Swaps Net	
2012	\$ -	57,704	2,799,582	2,857,286
2013	-	57,704	2,799,582	2,857,286
2014	-	57,704	2,799,582	2,857,286
2015	-	57,704	2,799,582	2,857,286
2016	-	57,704	2,799,582	2,857,286
2017-2021	9,420,000	284,940	13,824,220	14,109,160
2022-2026	28,080,000	207,800	10,081,677	10,289,477
2027-2031	34,630,000	85,424	4,144,452	4,229,876
Total:	72,130,000	866,684	42,048,258	42,914,942

c. Philadelphia Airport Swap

Objective: In April 2002, the City entered into a swaption that provided the City's Aviation Department (the Philadelphia Airport) with an up-front payment of \$6.5 million. As a synthetic refunding of its 1995 Bonds, this payment approximated the present-value savings as of April, 2002, of refunding on June 15, 2005, based upon interest rates in effect at the time. The swaption gave JP Morgan Chase Bank the option to enter into an interest rate swap with the Airport whereby JP Morgan would receive fixed amounts and pay variable amounts.

Terms: JP Morgan exercised its option to enter into a swap on June 15, 2005, and the swap commenced on that date. Under the swap, the Airport pays multiple fixed swap rates (starting at 6.466% and decreasing over the life of the swap to 1.654%). The payments are based on an amortizing notional schedule (with an initial notional amount of \$189.5 million) and when added to an assumption for remarketing, liquidity costs and cost of issuance were expected to approximate the debt service of the refunded bonds at the time the swaption was entered into. The swap's variable payments are based on the SIFMA Municipal Swap Index. If the rolling 180-day average of the SIFMA Municipal Swap Index exceeds 7.00%, JP Morgan Chase has the option to terminate the swap.

As of June 30, 2011, the swap had a notional amount of \$162.6 million and the associated variable-rate bonds had a \$162.6 million principal amount. The bonds' variable-rate coupons are not based on an index but on remarketing performance. The bonds mature on June 15, 2025. The swap will terminate on June 15, 2025 if not previously terminated by JP Morgan Chase.

Fair Value: As of June 30, 2011, the swap had a negative fair value of (\$26.1 million). This means that if the swap terminated today, the Airport would have to pay this amount to JP Morgan Chase.

Risk: As of June 30, 2011, the Airport was not exposed to credit risk because the swap had a negative fair value. Should interest rates change and the fair value of the swap become positive, the Airport would be exposed

to credit risk in the amount of the swap's fair value. In addition, the Airport is subject to basis risk should the relationship between SIFMA and the bonds change; if SIFMA resets at a rate below the variable bond rate, the synthetic interest rate will be greater than anticipated. The swap includes an additional termination event based on downgrades in credit ratings. The swap may be terminated by the Airport if JP Morgan's ratings fall below A- or A3, or by JP Morgan Chase if the Airport's ratings fall below BBB or Baa2. No termination event based on the Airport's ratings can occur as long as National Public Finance Guarantee Corporation (formerly MBIA) is rated at least A- or A3.

As of June 30, 2011, the rates were:

<u>Terms</u>	<u>Rates</u>	
Interest Rate Swap		
Fixed payment to JP Morgan under swap	Fixed	5.44088 %
Variable rate payment from JP Morgan under swap	SIFMA	(0.09000) %
Net interest rate swap payments		5.35088 %
Variable rate bond coupon payments	Weekly resets	0.08000 %
Synthetic interest rate on bonds		5.43088 %

Swap payments and associated debt: As of June 30, 2011, debt service requirements of the variable-rate debt and net swap payments for their term, assuming current interest rates remain the same, were as follows.

Fiscal Year Ending	<u>Variable Rate Bonds</u>		Interest Rate	
	Principal	Interest	Swaps Net	Total Interest
June 30				
2012	\$ 6,700,000	130,080	8,700,531	8,830,611
2013	7,500,000	124,720	8,342,022	8,466,742
2014	8,200,000	118,720	7,940,706	8,059,426
2015	9,000,000	112,160	7,501,934	7,614,094
2016	9,800,000	104,960	7,020,355	7,125,315
2017-2021	61,000,000	394,080	26,358,435	26,752,515
2022-2025	60,400,000	122,800	8,213,601	8,336,401
Total:	162,600,000	1,107,520	74,077,583	75,185,103

d. City of Philadelphia, 2005 Water & Sewer Swap

Objective: In December, 2002, the City entered into a swaption that provided the City with an up-front payment of \$4.0 million. As a synthetic refunding of all or a portion of its 1995 Bonds, this payment approximated the present value savings, as of December 2002, of a refunding on May 4, 2005. The swaption gave Citigroup (formerly of Salomon Brothers Holding Company, Inc), the option to enter into an interest rate swap to receive fixed amounts and pay variable amounts.

Terms: Citigroup exercised its option to enter into a swap May 4, 2005, and the swap commenced on that date. Under the terms of the swap, the City pays a fixed rate of 4.53% and receives a variable payment computed as the actual bond rate or alternatively, 68.5% of one month LIBOR, in the event the average rate on the Bonds as a percentage of the average of one month LIBOR has exceeded 68.5% for a period of more than 180 days. Citigroup exercised its option during this fiscal year to pay 68.5% of one month LIBOR under the swap. The payments are based on an amortizing notional schedule (with an initial notional amount of \$86.1 million), and when added to an assumption for remarketing, liquidity costs and cost of issuance were expected to approximate the debt service of the refunded bonds at the time the swaption was entered into.

As of June 30, 2011, the swap had a notional amount of \$82.9 million and the associated variable-rate bond had an \$82.9 million principal amount. The bonds' variable-rate coupons are not based on an index but on remarketing performance. The bonds mature on August 1, 2018 and the related swap agreement terminates on August 1, 2018.

Fair value: As of June 30, 2011, the swap had a negative fair value of (\$12.5 million). This means that the Water Department would have to pay this amount if the swap terminated.

Risk: As of June 30, 2011 the City is not exposed to credit risk because the swap had a negative fair value. Should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. Since the City is now receiving 68.5% of one month LIBOR, the City is exposed to (i) basis risk, as reflected by the relationship between the variable-rate bond coupon payments and 68.5% of one month LIBOR received on the swap, and (ii) tax risk, a form of basis risk, where the City is exposed to a potential additional interest cost in the event that changes in the federal tax system or in marginal tax rates cause the rate paid on the outstanding bonds to be greater than the 68.5% of LIBOR received on the swap. The swap includes an additional termination event based on credit ratings. The swap may be terminated by the City if the ratings of Citigroup or its Credit Support Provider fall below A3 and A-, or by Citigroup if the rating of the City's water and wastewater revenue bonds falls below A3 or A-. There are 30-day cure periods to these termination events. However, because the City's swap payments are insured by Assured Guaranty Municipal Corporation (formerly FSA), no termination event based on the City's water and wastewater revenue bond ratings can occur as long as Assured is rated at least A or A2.

As of June 30, 2011, the rates were:

<u>Terms</u>	<u>Rates</u>	
Interest Rate Swap		
Fixed payment to Citi under swap	Fixed	4.53000 %
Variable rate payment from Citi under swap	68.5% of 1-month Libor	(0.12710) %
Net interest rate swap payments		4.40290 %
Variable rate bond coupon payments	Weekly resets	0.06000 %
Synthetic interest rate on bonds		4.46290 %

Swap payments and associated debt: As of June 30, 2011, debt service requirements of the variable-rate debt and net swap payments for their term, assuming current interest rates remain the same, were as follows:

Fiscal Year Ending	<u>Variable Rate Bonds</u>		Interest Rate	
June 30	Principal	Interest	Swaps Net	Total Interest
2012	\$ 425,000	49,722	3,648,682	3,698,404
2013	450,000	49,467	3,629,969	3,679,436
2014	14,820,000	49,197	3,610,156	3,659,353
2015	15,535,000	40,305	2,957,647	2,997,952
2016	16,315,000	30,984	2,273,657	2,304,641
2017-2019	35,325,000	32,202	2,363,035	2,395,237
Total:	82,870,000	251,877	18,483,147	18,735,024

e. City of Philadelphia 2007 Water & Wastewater Swap

In February, 2007, the City entered into two forward starting fixed payer swaps to take advantage of the current low interest rate environment in advance of the issuance of water and wastewater revenue bonds expected to be issued by the City in 2008. The \$180 million notional amount was split evenly between two counterparties, Merrill Lynch Capital Services, Inc and Wachovia Bank, NA. The Merrill Lynch Capital Services swap had an initial notional value of \$90 million, with a fixed rate of 4.52275% and a floating rate equal to the SIFMA Index. On

June 30, 2010 the swap between the City and Merrill Lynch Capital Services was terminated. The City paid a swap termination payment of \$15.2 million to Merrill Lynch Capital Services, Inc. In addition, \$15.0 million of the proceeds from the Water and Wastewater Revenue Bonds Series 2010C were used to terminate the swap with Wachovia Bank on July 27, 2010.

(7) Pension Service Agreement

In Fiscal 1999, the Philadelphia Authority for Industrial Development issued \$1.3 billion in Pension Funding Bonds. These bonds were issued pursuant to the provisions of the Pennsylvania Economic Development Financing Law and the Municipal Pension Plan Funding Standard and Recovery Act (Act 205). The bonds are special and limited obligations of **PAID**. The City entered into a Service Agreement with **PAID** agreeing to make yearly payments equal to the debt service on the bonds. **PAID** assigned its interest in the service agreement to the parties providing the financing and in accordance with GASB Interpretation #2, **PAID** treats this as conduit debt and does not include conduit debt transactions in its financial statements. The Pension Service Agreement of \$1.4 billion is reflected in the City's financial statements in Other Long Term Obligations. The net proceeds of the bond sale of \$1.3 billion were deposited with the Municipal Pension Fund. The deposit of the proceeds reduced the Unfunded Actuarial Accrued Liability by that same amount. The deposit resulted in reductions to the City's actuarially determined pension plan payments.

(8) Neighborhood Transformation Initiative Service Agreement

In Fiscal 2002, **RDA** issued \$142.6 million in City of Philadelphia Neighborhood Transformation Initiative (NTI) Bonds. These bonds were issued to finance a portion of the initiative undertaken by the Authority and the City to revitalize, renew and redevelop blighted areas of the City. The bonds are obligations of **RDA**. The City entered into a service agreement with **RDA**, agreeing to make yearly payments equal to the debt service on the bonds. **RDA** assigned its interest in the service agreement to the parties providing the financing and in accordance with GASB Interpretation #2; **RDA** treats this as conduit debt and therefore does not include these transactions on its financial statements.

In Fiscal 2004, **RDA** issued a \$30.0 million City of Philadelphia NTI Taxable Revenue Bond. The **RDA** and the City plan to borrow a taxable bank line of credit (the 2003 Bond) to fund certain costs of the NTI related to the acquisition of property. The line of credit is being issued in anticipation of future long term financing. This will allow the City and **RDA** to better manage the carrying costs of unspent loan proceeds and to possibly issue a portion of the take out financing as tax exempt bonds after obtaining certain state approvals.

In March, 2005, **RDA** issued additional City of Philadelphia Neighborhood Transformation Initiative (NTI) bonds to finance a portion of the initiative previously undertaken by the Authority and the City. Taxable Revenue Bonds Series 2005A issued in the amount of \$25.5 million are term bonds with interest rates ranging from 4.150% to 4.680% maturing through 2016. Qualified Revenue Bonds Series 2005B were issued in the amount of \$ 44.0 million, with interest rates ranging from 4.75 through 5% and mature through 2027. Revenue Bonds Series 2005C with an interest rate of 5% were issued for \$81.3 million and mature through 2031. The fiscal year 2011 NTI Service Agreement liability of \$246.0 million is reflected in the City's financial statements as another Long Term Obligation.

(9) Sports Stadium Financing Agreement

In FY 2002, **PAID** issued \$346.8 million in Lease Revenue Bonds Series A and B of 2001 to be used to help finance the construction of two new sports stadiums. The bonds are special limited obligations of **PAID**. The City entered into a series of lease agreements as lessee to the Authority. The lease agreements are known as (1) the Veterans Stadium Sublease, (2) the Phillies' Prime Lease and (3) the Eagles Prime Lease. **PAID** assigned its interest in the lease agreements to the parties providing the financing and in accordance with GASB Interpretation #2, **PAID** treats this as conduit debt and therefore does not include these transactions on its financial statements.

In October, 2007 **PAID** issued Lease Revenue Refunding Bonds Series A and B of 2007. The proceeds from the bonds were used to refund the Series 2001B Stadium Bonds. **PAID** assigned its interest in the lease agreements to the parties providing the financing and in accordance with GASB Interpretation #2, **PAID** treats this as conduit debt and therefore does not include these transactions on its financial statements. In fiscal 2011, the Sports Stadium Financing Agreement liability of \$331.5 million is reflected in the City's financial statements as Other Long Term Liabilities.

(10) Cultural and Commercial Corridors Program Financing Agreement

In December, 2006, **PAID** issued \$135.5 million in Revenue Bonds, Series A and B. The proceeds from the bonds will be used to finance a portion of the cost of various commercial and cultural infrastructure programs and administrative and bond issuance cost. The City and **PAID** signed a service agreement, whereby **PAID** manages a portion of the funds and the City makes payments equal to the yearly debt service. **PAID** will distribute some of the proceeds and some will flow through the City's capital project fund. In accordance with GASB Interpretation #2, **PAID** treats this as conduit debt, and therefore, does not include these transactions in its statements. In fiscal 2011 the liability of \$122.8 million is reflected in the City's financial statements as Other Long Term Liabilities.

(11) Forward Purchase Agreements

On June 6, 2000, **PICA** entered into two debt service reserve forward delivery agreements, one of which began on August 1, 2003 and expired on June 15, 2010 whereby **PICA** received a premium of \$4,450,000 on December 1, 2002 and one of which began on June 15, 2010 and expires on June 15, 2023, whereby **PICA** received a premium of \$1,970,000 on June 6, 2000 for the debt service reserve fund in exchange for the future earnings from the debt service reserve fund investments. The premium amounts were deferred and are being recognized ratably as revenue over the term of the respective agreements.

(12) Net Pension Liability

Historically, the GASB 27 Disclosures have reported Net Pension Assets at year end. The Net Pension Asset at June 30, 2010 was \$155.8 million and \$15.8 million for the Governmental and Business Type Activities, respectively. However, the increase in the Governmental Activities' Net Pension Obligations (NPO) during fiscal year 2011 of \$225.2 million resulted in Net Pension Liabilities of \$69.4 million. Likewise, during FY 2011, the Business Type Activities' NPO increased by \$26.4 million resulting in a Net Pension Liability of \$10.6 million.

(13) Other Long Term Debt

On December 16, 2010 the Council of the City of Philadelphia enacted an ordinance authorizing the acquisition and financing of certain equipment through the **PMA**. On March 24, 2011 **PMA** entered into a Lease Purchase Agreement with PNC Equipment Finance, LLC. whereby \$28.1 million would be deposited into an Equipment Acquisition Fund to pay the costs of issuance and to purchase certain equipment. Any obligations of **PMA** under this agreement are payable solely from payments received from the City under a sub-lease agreement.

B. COMPONENT UNIT LONG-TERM DEBT PAYABLE

(1) Governmental Debt Payable

The **SDP** has debt that is classified as General Obligation debt payable. The General Obligation Bonds outstanding at year end total \$2,866.3 million in principal, with interest rates from 2.0% to 6.765% and have due dates from 2012 to 2040. The following schedule reflects the changes in long-term liabilities for the **SDP**:

(Amounts in Millions of USD)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds Payable	2,994.4	425.9	(439.4)	2,980.9	91.1
Add: Bond Premium	109.1	7.7	(8.8)	108.0	8.3
Less: Bond Refunding Losses	-	(220.1)	37.8	(182.3)	(13.9)
Less: Bond Issue Expenses	-	(32.9)	3.2	(29.7)	(1.9)
Less: Bond Discounts	(11.0)	-	0.4	(10.6)	(0.5)
Total Bonds Payable	<u>3,092.5</u>	<u>180.6</u>	<u>(406.8)</u>	<u>2,866.3</u>	<u>83.1</u>
Termination Compensation Payable	291.5	31.5	(16.0)	307.0	62.5
Severance Payable	184.7	20.5	(16.7)	188.5	11.2
Interfund Loan	-	10.6	(1.5)	9.1	-
Other Liabilities	137.4	20.8	(40.9)	117.3	36.3
Incurred But Not Reported (IBNR) Payable	-	13.5	-	13.5	13.5
Deferred Reimbursement	50.7	-	(5.4)	45.3	45.3
Arbitrage Liability	4.1	-	(0.4)	3.7	3.6
Early Retirement Incentive	0.2	28.6	(0.2)	28.6	17.2
Total	<u>3,761.1</u>	<u>306.1</u>	<u>(487.9)</u>	<u>3,579.3</u>	<u>272.7</u>

Debt service to maturity on the **SDP's** general obligation bonds and lease rental debt at year end is summarized as follows:

(Amounts In Millions of USD)

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2012	89.0	146.3
2013	98.6	141.0
2014	99.7	136.8
2015	88.8	133.2
2016	95.0	128.7
2017-2021	543.7	569.1
2022-2026	637.6	428.0
2027-2031	693.0	263.0
2032-2036	524.5	97.7
2037-2041	108.8	14.4
Totals	<u>2,978.8</u>	<u>2,058.1</u>

Refunding Bonds:

The School District of Philadelphia (**SDP**) successfully implemented a restructuring plan to achieve debt service savings for fiscal year 2011. The transaction included terminating almost \$363 million of swaps and obtaining new three-year lines of credits for \$300 million, converting \$56.7 million of its variable rate debt to fixed rate debt and refunding \$13.3 million of debt.

On January 3, 2011, the SDP issued Series E of 2010 fixed rate general obligation bonds (GOB) in the aggregate principal amount of \$125.9 million to advance refund Series D of 2005 and Series A of 2010 and to current refund Series A of 2002, Series B of 2005 and the remaining maturities of the outstanding sub-Series A1 of 2008 in order to terminate the related Swap Agreements, and pay the associated \$63.0 million swap termination payments. Bond proceeds of \$0.9 million were utilized for underwriting fees and other issuance costs.

The net proceeds were used by the escrow agent to purchase State Local Government Securities (SLGS) of \$13.6 million which were used to retire the Series A of 2002, Series B of 2005, D of 2005, and A of 2010 during FY2011.

- On January 3, 2011, the SDP issued the Series F and G of 2010 general obligation bonds (GOB) in the variable rate mode in the aggregate principal amount of \$300 million (150.0 million, for each series), to refund the remain-

ing maturities of the outstanding Series A and B of 2008. Bond proceeds of \$1.3 million were utilized for underwriting fees and other issuance costs.

- Securities for the issue were deposited in a separate irrevocable trust with an escrow agent to provide for all future debt service payments for the refunded bonds.
- The cash flow required to service the refunding debt is \$60.4 million less than the cash flow required to service the refunded debt. In addition, there was an economic gain (difference between the present value of the debt service payments on the refunded and refunding debt) of \$52.7 million to the SDP.
- For accounting purposes, the current refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$27.8 million. This difference and the swap termination payment of \$63.0 million are being amortized through the operations in the District-wide statements through September of 2030.

(2) Business Type Debt Payable

Several of the City's Proprietary Type Component Units have issued debt payable from the revenues of the particular entity. The following schedule summarizes the Revenue Bonds outstanding at year end:

(Amounts In Millions of USD)

	<u>Interest Rates</u>				<u>Principal</u>	<u>Due Dates</u>			
PGW	2.00 %	to	6.80 %	1,243.7	Fiscal	2012	to	2040	
PPA	3.00 %	to	5.25 %	185.6	Fiscal	2012	to	2029	
RDA	4.55 %	to	4.75 %	17.2	Fiscal	2012	to	2028	
Total Revenue Debt Payable					<u>1,446.5</u>				

- On August 26, 2010 **PGW** issued Gas Works Revenue Bonds, Ninth Series, in the amount of \$150.0 million for the purpose of financing capital projects, and paying the costs of issuing the bonds and any required deposits to the Sinking Fund Reserve established under the 1998 General Ordinance. The Ninth Series Bonds consist of \$53.0 million of serial bonds with interest rates that range from 2.0% to 5.0% and have maturity dates through 2025. The bonds also included \$97.0 million of term bonds with interest rates of 5.0% and 5.25% and have maturities through 2040.

The debt service through maturity for the Revenue Debt Payable of Component Units is as follows:

(Amounts in Millions of USD)

<u>Fiscal Year</u>	<u>Philadelphia Gas Works †</u>		<u>Philadelphia Parking Authority</u>		<u>Philadelphia Redevelopment Authority</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	49.2	56.2	-	-	-	-
2012	47.3	55.0	8.0	9.1	-	0.8
2013	48.0	53.3	10.5	8.6	-	0.8
2014	50.0	50.9	11.0	8.1	-	0.8
2015-2016	51.3	48.3	23.4	14.5	0.2	1.6
2017-2021	250.7	203.4	67.9	25.3	1.8	4.0
2022-2026	268.4	142.8	53.5	9.0	4.0	3.7
2027-2031	240.0	83.7	11.3	1.3	11.2	1.8
2032-2036	160.2	37.2	-	-	-	-
2037-2041	78.6	9.7	-	-	-	-
Totals	<u>1,243.7</u>	<u>740.5</u>	<u>185.6</u>	<u>75.9</u>	<u>17.2</u>	<u>13.5</u>

(3) Defeased Debt

At year end, defeased bonds are outstanding from the following Component Units of the City as shown below:

(Amounts In Millions of USD)	
Philadelphia Gas Works †	172.5
School District of Philadelphia	1,011.0
Total	1,183.5

† - Gas Works amounts are presented as of August 31, 2010

The investments held by the trustee and the defeased bonds are not recognized on **PGW's** balance sheets in accordance with the terms of the Indentures of Defeasance. The investments pledged for the redemption of the defeased debt have maturities and interest payments scheduled to coincide with the trustee cash requirements for debt service.

The assets pledged, primarily noncallable U.S. Government securities, had a market value of \$182,284,000 at August 31, 2010, bearing interest on face value from 0.0% to 7.7%.

As in prior years, the **SDP** defeased certain general obligation bonds by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded debt. As such, the trust account assets and liability for the defeased bonds are not included in the **SDP's** financial statements. As of June 30, 2011, \$1.0 billion of bonds outstanding are considered to be defeased and the liability has been removed from long-term liabilities.

In addition, the QZAB Bond Series 2004E of \$19.3 million, issued September 2004, and due September 1, 2018 is considered partially defeased in substance for accounting and financial reporting purposes. The **SDP** irrevocably places \$1.4 million in trust with its fiscal agent each September 1st. These amounts are invested in a forward purchase agreement to be used solely for satisfying a scheduled payment of the defeased debt in 2018. As of June 30, 2011, \$8.3 million is considered partially defeased in substance for accounting and financial reporting purposes.

The QZABs Bond Series 2007C and 2007D of \$13.5 million and \$28.2 million, respectively, were issued December 28, 2007, and are due December 28, 2022 and are considered partially defeased in substance for accounting and financial reporting purposes. The **SDP** irrevocably places \$0.9 million in trust with its fiscal agent each December 15th. These amounts are invested in a forward purchase agreement to be used solely for satisfying a scheduled payment of the defeased debt in 2022. As of June 30, 2011, \$2.7 million is considered partially defeased in substance for accounting and financial reporting purposes.

(4) Arbitrage

Federal arbitrage regulations are applicable to any issuer of tax-exempt bonds. It is necessary to rebate arbitrage earnings when the investment earnings on the bond proceeds from the sale of tax-exempt securities exceed the bond yield paid to investors. As of June 30, 2011, the arbitrage rebate calculation indicates a liability totaling \$3,6 million related to the Series A and B Bonds of 2006 issued through the State Public School Building Authority. The **SDP** has restricted this amount under the fund balance of the Capital Projects Fund. In addition, a contingent liability has been accounted for in the governmental activities column of the government-wide statement of net assets. This amount is required to be paid 60 days after December 28, 2011 which is the fifth anniversary of issuance. The actual amount payable may be less than the amount recorded as a liability as of June 30, 2011.

(5) Derivative Instruments

a. PGW Interest Rate Swap Agreement

Objective – In January 2006, the City entered into a fixed rate payer, floating rate receiver swap to create a synthetic fixed rate for the Sixth Series Bonds. The variable rate/swap structure was used as a means to increase the City's savings, when compared with fixed-rate refunding bonds at the time of issuance. The swaps are hedging interest rate risk.

Terms – The swap was originally executed with the counterparty on January 26, 2006 and will mature on August 1, 2031. Under the swap, the City pays a fixed rate of 3.6745% and receives a variable rate computed as the lesser of (i) the actual bond rate and (ii) the SIFMA Municipal Swap Index until September 1, 2011 on which date the variable interest rate received will switch to 70.0% of one month LIBOR until maturity.

In August 2009, the City terminated approximately \$54,800,000 of the notional amount of the swap, issued fixed rate refunding bonds related to that portion and kept the remaining portion of the swap to hedge the Eight Series variable rate refunding bonds backed with letters of credit. The Company paid a swap termination payment of \$3,791,000 to the counterparty to partially terminate the swap.

The original swap confirmation was amended and restated on August 12, 2009 to reflect the principal amount of the Eighth Series B Bonds, with all other terms remaining the same. The remainder of the notional amount was divided among separate trade confirmations with the same terms as the original swap that was executed with the counterparty for the Eighth Series C through E.

As of August 31, 2010, the swaps had a notional amount of \$255,000,000 and the associated variable rate debt had a \$255,000,000 principal amount, broken down by series as follows:

- The Series B swap had a notional amount of \$105,000,000 and the associated variable rate bonds had a \$105,000,000 principal amount.
- The Series C swap had a notional amount of \$50,000,000 and the associated variable rate bonds had a \$50,000,000 principal amount.
- The Series D swap had a notional amount of \$50,000,000 and the associated variable rate bonds had a \$50,000,000 principal amount.
- The Series E swap had a notional amount of \$50,000,000 and the associated variable rate bonds had a \$50,000,000 principal amount.

The final maturity date for all swaps is on August 1, 2031.

Fair value – As of August 31, 2010, the swaps had a combined negative fair value for all series of \$52,217,000. The fair values of the interest rate swaps were estimated using the zero coupon method. That method calculates the future net settlement payments required by the swap, assuming current forward rates are implied by the current yield curve for hypothetical zero coupon bonds due on the date of each future net settlement on the swaps.

Risks – As of August 31, 2010, the City is not exposed to credit risk because the swaps had a negative fair value. Should interest rates change and the fair value of the swaps become positive, the City would be exposed to credit risk in the amount of the swaps' fair value. The swaps include a termination event additional to those in the standard ISDA master agreement based on credit ratings. The swaps may be terminated by the City if the rating of the counterparty falls below A3 or A- (Moody's/S&P), unless the counterparty has: (i) assigned or transferred the swap to a party acceptable to the City; (ii) provided a credit support provider acceptable to the City whose obligations are pursuant to a credit support document acceptable to the City; or (iii) executed a credit support annex, in form and substance acceptable to the City, providing for the collateralization by the counterparty of its obligations under the swaps.

The swaps may be terminated by the counterparty if the rating on the Company's bonds falls below Baa2 or BBB (Moody's/S&P). However, because the City's swap payments are insured by Assured Guaranty Municipal Corporation, as long as Assured Guaranty Municipal Corporation is rated at or above A2 or A (Moody's/S&P), the termination event based on the City's ratings is stayed. At the present time, the rating for Assured Guaranty Municipal Corporation is at Aa3/AA+ (Moody's/S&P).

The City is subject to traditional basis risk should the relationship between SIFMA and the bonds change; if SIFMA resets at a rate below the variable rate bond coupon payments, the synthetic interest rate on the bonds will increase. In addition, after September 1, 2011, the City will be exposed to (i) basis risk, as reflected by the relationship between the rate payable on the bonds and 70.0% of one month LIBOR received on the swap, and (ii) tax risk, a form of basis risk, where the City is exposed to a potential additional interest cost in the event that changes in the federal tax system or in marginal tax rates cause the rate paid on the outstanding bonds to be greater than the 70.0% of one month LIBOR received on the swap.

The impact of the interest rate swaps on the financial statements for the year ended August 31, 2010 and 2009 is as follows (thousands of dollars):

	<u>Interest rate swap liability</u>	<u>Deferred outflow of resources</u>
Balance August 31, 2009	\$ 27,555	1,244
Change in fair value through August 31, 2010	24,662	24,662
Balance August 31, 2010	<u>\$ 52,217</u>	<u>25,906</u>

	<u>Interest rate swap liability</u>	<u>Deferred outflow of resources</u>
Balance August 31, 2008	\$ 13,790	13,790
Change in fair value through August 20, 2009 (refunding of Sixth Series Bonds)	16,771	16,771
Termination of a portion of swap	(4,250)	(4,250)
Termination of hedge upon refunding Sixth Series Bonds	—	(26,311)
Change in fair value from initiation of hedge related To Eighth Series Bonds to year end	1,244	1,244
Balance August 31, 2009	<u>\$ 27,555</u>	<u>1,244</u>

The interest rate swap liability is included in other liabilities and deferred credits, and the deferred outflow of resources is included in other assets, deferred debits, and deferred outflows of resources on the balance sheet. There are no collateral posting requirements associated with the swap agreements.

b. School District of Philadelphia Swap Agreements

The SDP adopted, in Fiscal Year 2010, the provisions of Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2011, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2011 financial statements are as follows (amounts in thousands; debit (credit)):

<u>Classification</u>	<u>Change in Fair Value</u>		<u>Fair Value at June 30, 2011</u>		
	<u>Amount</u>		<u>Classification</u>	<u>Amount</u>	<u>Notional</u>
<u>Governmental Activities</u>					
<u>Cash flow hedges:</u>					
Pay-fixed interest rate Swaps	Deferred outflow	\$ 175	Debt	\$ (33)	\$ 2,150
				<u>\$ (33)</u>	

Hedging Derivatives

Objectives and Terms

The following table displays the objective and terms of the SDP's hedging derivative instruments outstanding at June 30, 2011, along with the credit rating of the associated counterparty (amounts in thousands).

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Credit Rating Moody's/S&P/Fitch
Pay-fixed interest rate swap	Hedge of cash flows on 2008 Series D-2 Bonds	\$ 2,150	6/29/2004	9/1/2011	Pay 3.24%, receive 58.5% of LIBOR + .27%	A2/A/A+

Discussion of Risks:

Credit Risk - In compliance with the applicable requirements of the Local Government Unit Debt Act (53 Pa. Cons. Stat. §8281) (the "Debt Act"), amended in September of 2003, the **SDP** adopted a written interest rate management plan pursuant to a resolution of the School Reform Commission, authorized on February 2, 2004, to monitor the credit rating of each counterparty and credit enhancer, if any, insuring qualified interest rate management agreement payments. The **SDP** entered into the fixed-to-floating swaps with counterparties having at least one rating of "AA" or higher from Standard & Poor's or "Aa" or higher from Moody's at the time of execution.

As of June 30, 2011, the **SDP** was not exposed to credit risk on any of its outstanding swaps because the swaps had negative fair values of \$0.03 million. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps.

The swap agreements contain varying collateral agreements with the counterparties. The swaps require collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds.

Interest rate risk - The **SDP** is exposed to interest rate risk on its interest rate swaps. Should the LIBOR interest rates fall, the **SDP's** net payment increases. As the fair values of the swaps become positive, the **SDP** would be exposed to interest rate risk in the amount of the derivatives' fair value.

Basis risk - The basis risk on the fixed-to-floating swaps is the risk that the interest rate paid by the **SDP** on a series of related variable rate bonds to bondholders differs from the variable swap rate received from the applicable counterparty on the related swap. The **SDP** bears basis risk on each of its fixed-to-floating swaps since the **SDP** receives a percentage of LIBOR to offset the actual variable bond rate the **SDP** pays on its bonds. The **SDP** is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the **SDP** pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost savings from the swap may not be realized.

Termination risk - The **SDP** can terminate a swap at any time at the fair market value; the counterparty to a swap may, as provided therein, only terminate the swap upon certain termination events under the terms thereof. If a fixed-to-floating swap is terminated, the related variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination, the swap has a negative fair value, the **SDP** would be liable to the counterparty for a payment equal to the swap's fair value.

Other Risks - The **SDP** is not exposed to any rollover risk, market-access risk, or foreign currency risk.

Terminated Hedges

In addition to the interest rate swaps listed above, the **SDP** had also previously entered into similar agreements related to its Series A-1, A-2, B-1, B-2, and B-3 2008 Bonds. On December 8, 2010, the **SDP** executed five confirmations, each effective on January 3, 2011, providing for the termination of the Tax-Exempt Advance Refunding Agreements with (1) Morgan Stanley Capital Services Inc. ("Morgan Stanley") relating to the 2008 Bonds Sub-series A-1 in the current notional amount of \$95,000,000 and (2) Goldman Sachs Bank USA ("Goldman") relating to the 2008 Bonds Sub-series A-2 in the current notional amount of \$78,475,000, and (3) Wachovia Bank ("Wachovia") relating to the 2008 Bonds Sub-series B-1 in the current notional amount of \$60,000,000, the 2008 Bonds Sub-series B-2 in the current notional amount of \$54,200,000 and the 2008 Bonds Sub-series B-3 in the current notional amount of \$64,900,000 (collectively, the "Terminated 2008 Swap Agreements"). On January 3, 2011, the **SDP** made termination payments to the counterparties of the Terminated 2008 Swap Agreements in the aggregate amount of \$63,022,000. Such termination payments were funded with a portion of the proceeds of the **SDP's** General Obligation Refunding Bonds, Series E of 2010, which were issued to refund the 2008 Bonds related to the Terminated 2008 Swap Agreements.

Swap payments and associated debt

Using rates as of June 30, 2011, debt service requirements on the **SDP's** swap-related variable rate debt and net swap payments are as follows. As rates vary, variable rate bond interest payments and net swap payments will vary (dollars in thousands).

<u>Year Ending June 30</u>	<u>Variable Rate Bonds</u>		<u>Interest</u>	
	<u>Principle</u>	<u>Interest(1)</u>	<u>Swap, Net(2)</u>	<u>Total</u>
2012	2,150	24	33	2,207

(1) Based on assumed interest rate of 4.5% at year end June 30th.

(2) Variable rate receipts based on LIBOR rate plus basis point at year end June 30th.

8. LEASE COMMITMENTS AND LEASED ASSETS

A. CITY AS LESSOR

The City's operating leases consist of leases of airport facilities, recreation facilities, certain transit facilities and various other real estate and building sites. Rental income for all operating leases for the year was:

(Amounts In Thousands of USD)	<u>Primary Government</u>		<u>Component Units</u>
	<u>Governmental Funds</u>	<u>Proprietary Funds</u>	
Minimum Rentals	6,005	26,416	4,038
Additional Rentals	-	155,082	175
Sublease	12,328	-	822
Total Rental Income	<u>18,333</u>	<u>181,498</u>	<u>5,035</u>

Future minimum rentals receivable under non-cancelable operating leases are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Primary Government</u>		<u>Component Units</u>
	<u>Governmental Funds</u>	<u>Proprietary Funds</u>	
2012	4,145	14,269	4,599
2013	4,200	14,071	3,310
2014	4,253	7,237	2,514
2015	4,319	7,154	2,371
2016	4,386	6,431	2,525
2017-2021	22,800	27,032	3,642
2022-2026	24,854	15,124	2,154
2027-2031	26,925	11,664	1,451
2032-2036	29,210	6,015	874
2037-2041	-	-	808
2042-2046	-	-	808
2047-2051	-	-	808
2052-2056	-	-	808
2057-2061	-	-	808
2062-2066	-	-	808
2067-2071	-	-	808
2072-2076	-	-	808
2077-2081	-	-	808
2082-2086	-	-	743
2087-2091	-	-	446
Total	<u>125,092</u>	<u>108,997</u>	<u>31,901</u>

B. CITY AS LESSEE

1) OPERATING LEASES

The City's operating leases consist principally of leases for office space, data processing equipment, duplicating equipment and various other items of property and equipment to fulfill temporary needs. Rental expense for all operating leases for the year was as follows:

(Amounts In Thousands of USD)	<u>Primary Government</u>		<u>Component Units</u>
	Governmental Funds	Proprietary Funds	
Minimum Rentals	163,392	37,733	15,027
Additional	-	-	52
Sublease	476	-	-
Total Rental Expense	<u>163,868</u>	<u>37,733</u>	<u>15,079</u>

At year end, the future minimum rental commitments for operating leases having an initial or remaining non-cancelable lease term in excess of one year are as follows:

Fiscal Year Ending <u>June 30</u>	<u>Primary Government</u>		<u>Component Units</u>
	Governmental Funds	Proprietary Funds	
2012	32,548	800	12,988
2013	29,984	506	8,533
2014	26,192	95	8,486
2015	25,091	47	4,365
2016	24,663	-	4,407
2017-2021	93,633	-	3,981
2022-2026	65,916	-	-
2027-2031	18,508	-	-
2032-2036	18,275	-	-
Total	<u>334,810</u>	<u>1,448</u>	<u>42,760</u>

2) CAPITAL LEASES

Capital leases consist of leased real estate and equipment from various component units. Future minimum rental commitments are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Component Units</u>
2012	1,756
2013	1,437
2014	1,281
2015	972
2016	642
2017 -2021	2,689
2022 -2026	748
Future Minimum Rental Payments	<u>9,524</u>
Interest Portion of Payments	<u>(1,358)</u>
Obligation Under Capital Leases	<u>8,167</u>

9. DEFERRED COMPENSATION PLANS

A. PRIMARY GOVERNMENT

The City offers its employees a deferred compensation plan in accordance with Internal Revenue Code section 457. As required by the Code and Pennsylvania laws in effect at June 30, 2011, the assets of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries. In accordance with GASB Statement No.32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the City does not include the assets or activity of the plan in its financial statements.

B. COMPONENT UNITS

PGW offers its employees a deferred compensation plan in accordance with Internal Revenue Code section 457. As of the Gas Works' fiscal year ended August 31, 1999 the Plan was amended to comply with subsection (g) of the code through the creation of a trust in which all assets and income of the Plan are to be held for the exclusive benefit of participants and their beneficiaries. As a result, the company no longer owns the assets of the Plan nor has a contractual liability to Plan participants.

10. FUND BALANCE PRESENTATION

The City adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54)*, which became effective during the fiscal year. GASB 54 provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purpose for which resources can be used:

1. Non-Spendable Fund Balance — Includes amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The Departmental Funds (\$2M) and Permanent Funds (\$2.4M) were non-spendable.
2. Restricted Fund Balance — Includes amounts for which constraints have been placed on the use of resources which are either (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The General Fund had a restricted fund balance of \$21.8M at June 30, 2011. The fund balances in the following Special Revenue Funds were restricted: HealthChoices Behavioral Health (\$250.1M); Grants Revenue (\$98.2M); County Liquid Fuels (\$2.1M); Special Gasoline Tax (\$16.1M); Hotel Room Rental Tax (\$6.6M); Car Rental Tax (\$6.3M); Housing Trust (\$10.5M); Acute Care Hospital Assessment (\$8.8M); Departmental (\$5.5M); Municipal Authority Administrative (\$.2M); PICA Administrative (\$45.4M). The entire fund balances of the Debt Service (\$82.8M) and Capital Improvement (\$267.7M) funds were restricted. The Permanent Fund had a restricted fund balance of \$3.1M at June 30, 2011.
3. Committed Fund Balance — Includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of Philadelphia's City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same course of action that was employed when the funds were initially committed. The fund balances in the following Special Revenue Funds were committed: Philadelphia Prisons (\$3.6M) and Departmental (\$.5M).
4. Assigned Fund Balance — Includes amounts that are constrained by management's intent to be used for a specific purpose but are neither restricted nor committed. The intent may be expressed by the Director of Finance, or other authorized department heads. There were no assigned fund balances at June 30, 2011, however, the General Fund did have total encumbrances of \$103.8 million.
5. Unassigned Fund Balance — This classification is the residual fund balance for the General Fund. It also represents fund balance that has not been classified as assigned, committed or restricted or non-spendable. The General fund had a negative unassigned fund balance of \$45.7 at June 30, 2011. Within the Special Revenue Funds the Grants Revenue fund had a negative fund balance of \$34.3M and the Community Development fund had a negative fund balance of \$4.0M at June 30, 2011.

To the extent that funds are available for expenditure in both the restricted and the other fund balance categories, except for the nonspendable category, funds shall be expended first from restricted amounts and then from the other fund balance categories amounts excluding nonspendable. To the extent that funds are available for expenditure in these other categories, except for the nonspendable fund balance, the order of use shall be: committed balances, assigned amounts, and lastly, unassigned amounts.

Table below presents a more detailed breakdown of the City's fund balances at June 30, 2011:

(Amounts In Thousands of USD)

	HealthChoices		Grants	Other	Total
	Behavioral	Health	Revenue	Governmental	Governmental
	Health	Health	Revenue	Governmental	Governmental
	Fund	Fund	Fund	Funds	Funds
<u>Nonspendable:</u>					
Permanent Fund (Principal)	0	0	0	2,604	2,604
Subtotal Nonspendable:	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,604</u>	<u>2,604</u>
<u>Restricted for:</u>					
Neighborhood Revitalization	0	0	61,296	0	61,296
Economic Development	0	0	0	6,562	6,562
Public Safety Emergency Phone System	0	0	36,884	0	36,884
Streets & Highways	0	0	0	18,276	18,276
Housing & Neighborhood Dev	0	0	0	10,457	10,457
Health Services	0	0	0	8,770	8,770
Behavioral Health	0	250,117	0	0	250,117
Parks & Recreation	0	0	0	341	341
Libraries & Museums	0	0	0	131	131
Intergovernmental Financing (PICA)	0	0	0	21,147	21,147
Intergovernmentally Financed Programs	0	0	0	24,474	24,474
Central Library Project	2,330	0	0	0	2,330
Stadium Financing	284	0	0	6,263	6,547
Cultural & Commercial Corridor Project	19,171	0	0	0	19,171
Debt Service Reserve	0	0	0	82,804	82,804
Capital Projects	0	0	0	267,719	267,719
Trust Purposes	0	0	0	8,082	8,082
Subtotal Restricted	<u>21,785</u>	<u>250,117</u>	<u>98,180</u>	<u>455,026</u>	<u>825,108</u>
<u>Committed, reported in:</u>					
Social Services	0	0	0	38	38
Prisons	0	0	0	3,574	3,574
Parks & Recreation	0	0	0	492	492
Subtotal Committed	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,104</u>	<u>4,104</u>
<u>Unassigned Fund Balance:</u>	<u>(45,685)</u>	<u>0</u>	<u>(34,270)</u>	<u>(4,045)</u>	<u>(84,000)</u>
Total Fund Balances	<u><u>(23,900)</u></u>	<u><u>250,117</u></u>	<u><u>63,910</u></u>	<u><u>457,689</u></u>	<u><u>747,816</u></u>

11. INTERFUND TRANSACTIONS

During the course of normal operations the City has numerous transactions between funds. These transactions are recorded as operating transfers and are reported as other financial sources (uses) in the Governmental Funds and as transfers in the Proprietary Funds. Some of the more significant transfers are: the PICA administrative fund collects a portion of the wage tax paid by City residents and transfers funds that are not needed for debt service and administrative costs to the general fund. Also, the general fund and the PICA administrative fund make transfers to the debt service funds for principal and interest payments.

Transfers between fund types during the year were:

<i>(Amounts in Thousands of USD)</i>	Transfers To:				
	Governmental	Non major Governmental			Total
		General	Special Revenue	Debt Service	
Transfers From:					
General	-	41,170	101,556	3,029	145,755
Grants	38,147	1,077	-	168	39,392
Non major Special Revenue Funds	295,707	64,273	-	13,000	372,980
Water Fund	1,230	23,699	-	-	24,929
Total	<u>335,084</u>	<u>130,219</u>	<u>101,556</u>	<u>16,197</u>	<u>583,056</u>

12. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet (Exhibit III) includes a reconciliation to the Net Assets of Governmental Activities. One element of that reconciliation states that "Long Term Liabilities, including bonds payable, are not reported in the funds". The details of this difference are as follows:

(Amounts in Millions of USD)

Bonds Payable	2,121.7
Service Agreements	2,161.3
Employee Related Obligations	556.0
Indemnities	47.3
Arbitrage	-
Leases	51.7
Net Pension Obligation	69.4
Total Adjustment	<u>5,007.4</u>

13. PRIOR PERIOD ADJUSTMENTS

A. PRIMARY GOVERNMENT

- **PICA** received a premium of \$1.97 million on June 6, 2000, in exchange for the future earnings from the debt service reserve fund investments. The agreement expires on June 15, 2023 and \$1.8 million is deferred at June 30, 2011. Under the modified accrual basis of accounting used in the governmental fund financial statements, the premiums are recognized when received. The fund balance of the Debt Service Reserve Fund at July 1, 2010 in the governmental fund financial statements has been increased by \$1.97 million to eliminate a prior-year deferral of the aforementioned premium.

B. COMPONENT UNITS

- Upon re-evaluation of the City's relationship with the Pennsylvania Convention Center Authority (**PCCA**), which had been reported as a discretely presented component unit of the City, it was determined that PCCA no longer meets the criteria for inclusion as a component unit. Therefore, Net Assets -July 1, 2010 were restated to exclude PCCA's \$686.9 million share of Net Assets.
- The **SDP's** district-wide net assets beginning balances were decreased by \$0.5 million. This adjustment involved a correction to an understatement to Land in the amount of \$0.2 million, as well as a correction to reduce Work-in-Progress in the amount of \$0.7 million.

14. NET ASSETS RESTRICTED BY ENABLING LEGISLATION

The government-wide statement of net assets reports \$1,340.1 million of restricted net assets, of which \$50.3 million is restricted by enabling legislation as follows:

(Amounts in Thousands of USD)	<u>Restricted Net Assets</u>	<u>Restricted by Enabling Legislation</u>
Capital Projects	400,743	-
Debt Service	342,711	-
Behavioral Health	250,117	-
Neighborhood Revitalization	61,296	-
Stadium Financing	284	-
Central Library Project	2,330	-
CCC Project	19,171	-
Grant Programs	60,254	10,457
Rate Stabilization	157,050	-
Libraries & Parks:		
Expendable	3,090	-
Non-Expendable	2,404	-
Other	40,660	39,871
Total	<u>1,340,110</u>	<u>50,328</u>

15. FUND DEFICITS

- The General Fund has a Fund Balance Deficit at year end of \$23.9 million
- The Community Development Fund, which is a Special Revenue fund, has a Fund Balance Deficit at year end of \$4.0 million.

16. ADVANCE SERVICE CHARGE

The City's Water Fund Regulations provide for the assessment of an "Advance Service Charge" (ASC) at the time a property is initially connected to the system. The initial charge is calculated to be the equivalent of three (3) monthly service charges. This long-standing practice of assessing an initial charge equivalent to the average of three monthly service charges has been consistent whether the billing period was semi-annually (through 1979), quarterly (1979-1994) or monthly (1994-current). The Fund includes these charges in current revenues at the time they are received. Fund regulations also provide for a refund of any advance service charges upon payment of a \$100 fee and permanent disconnection from the system.

During the current fiscal year 262 disconnection permits were issued resulting in a refund or final credit of approximately \$331,640 and 1,034 new connection permits were issued resulting in additional advance service charges of approximately \$380,680.

IV. OTHER INFORMATION

1. PENSION PLANS

The City maintains two single employer defined benefit plans for its employees and several of its component units. The City is required by the Philadelphia Home Rule Charter to maintain an actuarially sound pension and retirement system (PERS). The fund covers all officers and employees of the city and the officers and employees of certain other governmental and quasi-governmental organizations.

A. SINGLE EMPLOYER PLANS

The two plans maintained by the City are the Municipal Pension Plan (City Plan) and the Gas Works Plan (PGW Plan). Financial statements for the City and PGW pension plans are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues when due, pursuant to formal commitments, as well as statutory or contractual requirements.

Required Supplementary Information calculated in accordance with GASB Statement No. 25 is presented in audited financial statements of the respective pension plans. Copies of these financial statements may be obtained by contacting the Director of Finance of the City of Philadelphia.

(1) City Plan

a. Plan Description

The Philadelphia Home Rule Charter (the Charter) mandates that the City maintain an actuarially sound pension and retirement system. To satisfy that mandate, the City's Board of Pensions and Retirement maintains the single-employer Municipal Pension Plan (the Plan). The plan covers all officers and employees of the City and officers and employees of five other governmental and quasi-governmental organizations. By authority of two Ordinances and related amendments passed by City Council, the Plan provides retirement benefits as well as death and disability benefits. Benefits vary by the class of employee. The plan has two major classes of members - those covered under the 1967 Plan and those covered under the 1987 Plan. Each of these two plans has multiple divisions. In addition to the two major classes of members, a third class of members was enacted in fiscal year 2011 that features a defined benefit and a defined contribution component.

Retirement Benefits

An employee who meets the age and service requirements of the particular division in which he participates is entitled to an annual benefit, payable monthly for life, equal to the employee's average final compensation multiplied by a percentage that is determined by the employee's years of credited service. The formula for determining the percentage is different for each division. If fund earnings exceed the actuarial assumed rate by a sufficient amount, an enhanced benefit distribution to retirees, their beneficiaries, and their survivors shall be considered. A deferred vested benefit is available to an employee who has 10 years of credited service, has not withdrawn contributions to the system and has attained the appropriate service retirement age. Members of both plans 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 (4) years and continue to be employed by the City of Philadelphia.

Death Benefits

If an employee dies from the performance of duties, his/her spouse, children or dependent parents may be eligible for an annual benefit ranging from 15% to 80% of the employee's final average compensation. Depending on age and years of service, the beneficiary of an employee who dies other than from the performance of duties will be eligible for either a lump sum benefit only or a choice between a lump sum or an annual pension.

Disability Benefits

Employees disabled during the performance of duties are eligible for an immediate benefit equal to contributions plus a yearly benefit. If the employee subsequently becomes employed, the benefit is reduced by a percentage of the amount earned. Certain employees who are disabled other than during the performance of duties are eligible for an ordinary disability payment if they apply for the benefit within one year of termination. If the employee subsequently becomes employed, the benefit is reduced by a percentage of the amount earned.

Membership

Membership in the plan as of July 1, 2010 was as follows:

Retirees and beneficiaries currently receiving benefits	35,110
Terminated members entitled to benefits but not yet receiving them	2,018
Active members	27,928
Total Members	65,056

The Municipal Pension Fund issues a separate annual financial report. To obtain a copy, contact the Director of Finance of the City of Philadelphia.

b. Funding Policy

Employee contributions are required by City Ordinance. For Plan 67 members, employees contribute 3% of their total compensation that is subject to FICA and 6% of compensation not subject to FICA. Plan 87 contribution rates are defined for the membership as a whole by Council ordinance. Rates for individuals are then determined annually by the actuary so that total individual contributions satisfy the overall rate set by Council.

The City is required to contribute the remaining amounts necessary to fund the Plan, using an acceptable actuarial basis as specified by the Home Rule Charter, City Ordinance and State Statute. Court decisions require that the City's annual employer contributions are sufficient to fund:

- The accrued actuarially determined normal costs
- Amortization in level dollar payments of the changes to the July 1, 1985 liability due to the following causes over the stated period:
 - non active member's benefit modifications (10 years)
 - experience gains and losses (15 years)
 - changes in actuarial assumptions (20 years)
 - active members' benefit modifications (20 years)

Under the City's current funding policy, the total required employer contribution for the current year amounted to \$701.3 million or 50.0% of the covered payroll of \$1,410.2 million. The City's actual contribution was \$455.9 million. The City's contribution did not meet the Minimum Municipal Obligation (MMO) as required by the Commonwealth of Pennsylvania's Acts 205 and 189.

In Fiscal Year 2010 the City made several changes to the pension plan based on Act 44, which provided a new method of determining municipal distress levels and alternative funding relief in response to the 2008/2009 market decline. The City adopted fresh start amortization, alternating to 30 years and lowered the assumed rate of interest from 8.25% to 8.15% assuming a partial deferral of the pension payments in fiscal years 2010 and 2011 of \$150 million and \$80 million respectively, which must be repaid by fiscal year 2014. The change in amortization period and the partial deferral were approved by the Commonwealth of Pennsylvania General Assembly's Act 44. Act 44 also allowed the City to temporarily impose an additional local sales tax of 1.0% to fund future MMO Payments.

The Annual Pension Cost and related percentage contributed for the three most recent fiscal years are as follows:

(Millions of USD)			
Fiscal Year Ended <u>June 30</u>	Annual Pension <u>Cost</u>	Percentage <u>Contributed</u>	Net Pension <u>Obligation</u>
2009	559.0	81.47%	(456.0)
2010	597.0	52.36%	(171.6)
2011	721.7	65.14%	80.0

The actuarial valuation used to compute the current year's required contribution was performed as of July 1, 2010. Methods and assumptions used for that valuation include:

- the individual entry age actuarial cost method
- a ten-year smoothed market value method for valuing investments
- a level percentage closed method for amortizing the unfunded liability
- an annual investment rate of return of 8.15%
- projected annual salary increases based on new age based scale
- payroll growth rate is 3.5%
- no post-retirement benefit increases

Administrative costs of the Plan are paid out of the Plan's assets.

c. Funding Status

The following schedule shows the funding status based on the latest actuary report. The schedule of funding progress, which presents multiyear trend information about whether the actuarial value of plan assets is decreasing over time relative to the actuarial accrued liability for benefits, can be found in the Required Supplementary Information section immediately following the Notes to the Financial Statements.

<i>(Millions of USD)</i>						UAAL as a
Actuarial Valuation <u>Date</u>	Actuarial Value of <u>Assets</u> (a)	Actuarial Accrued <u>Liability (AAL)</u> (b)	Unfunded AAL <u>(UAAL)</u> (b - a)	Funded <u>Ratio</u> (a / b)	Covered <u>Payroll</u> (c)	Percent of Covered <u>Payroll</u> (b - a) / c
07/01/2008	4,623.6	8,402.2	3,778.6	55.03%	1,456.5	259.43%
07/01/2009	4,042.1	8,975.0	4,932.9	45.04%	1,463.3	337.11%
07/01/2010	4,380.9	9,317.0	4,936.1	47.02%	1,421.2	347.32%

d. Net Pension Obligation

The City and other employers' annual pension cost and net pension obligation (NPO) for the Municipal Pension Plan for the current year were as follows:

<i>(Thousands of USD)</i>	
Annual Required Contribution (ARC)	715,544
Interest on Net Pension Obligation (NPO)	(14,155)
Adjustment to ARC	20,353
Annual Pension Cost	<u>721,742</u>
Contributions Made	<u>(470,155)</u>
Increase in NPO	251,587
NPO at beginning of year	<u>(171,576)</u>
NPO at end of year	<u><u>80,011</u></u>
Interest Rate	8.25%
15 Year amortization Factor (EOY)	8.43%

e. Derivative Instruments

In 2010 the City of Philadelphia adopted GASB Statement No. 53 which addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments such as swaps, options, futures and forwards are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities.

The City of Philadelphia Municipal Pension Fund (Pension Fund) enters into a variety of financial contracts which include options, futures, forwards and swap agreements to gain exposure to certain sectors of the equity and fixed income markets; collateralized mortgage obligations (CMO's); other forward contracts, and U.S. Treasury strips. The contracts are used primarily to enhance performance and reduce volatility of the portfolio. The Pension Fund is exposed to credit risk in the event of non performance by counterparties to financial instruments. The Pension Fund generally enters into transactions only with

high quality institutions. Legal risk is mitigated through selection of executing brokers and review of all documentation. The Pension Fund is exposed to market risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed in accordance with risk limits set by Board approved guidelines, through buying or selling instruments or entering into offsetting positions. The notional or contractual amounts of derivatives indicate the extent of the Pension Fund's involvement in the various types and used of derivative financial instruments and do not measure the Pension Fund's exposure to credit or market risks and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives. The following table summarizes the aggregate notional or contractual amounts for the Pension Fund's derivative financial instruments at June 30, 2011:

Derivative Instruments

List of Derivatives Aggregated by Investment Type

	<u>Changes in Fair Value</u>		<u>Fair Value at June 30, 2011</u>		
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Notional</u>
	Investment				
Credit Default Swaps Bought	Revenue	\$ (15,142)	Swaps	\$ 19,447	\$ 288,000
	Investment				
Credit Default Swaps Written	Revenue	62,463	Swaps	39,095	1,141,666
	Investment				
Fixed Income Futures Long	Revenue	(20,758)	Futures	0	4,494,532
	Investment				
Fixed Income Futures Short	Revenue	(486,166)	Futures	0	(10,989,811)
	Investment				
Foreign Currency Options Bought	Revenue	(141,316)	Options	0	0
	Investment				
Futures Options Bought	Revenue	(168,376)	Options	0	0
	Investment				
Future Options Written	Revenue	87,306	Options	0	0
	Investment		Long Term		
FX Forwards	Revenue	(4,813,171)	Instruments	155,264	578,835,757
	Investment				
Index Futures Long	Revenue	20,118,776	Futures	0	113,645
	Investment				
Pay Fixed Interest Rate Swaps	Revenue	71,238	Swaps	(200,696)	2,707,000
	Investment				
Rights	Revenue	256,276	Common Stock	9,625	78,247
	Investment				
Total Return Swaps Bond	Revenue	13,702	Swaps	(1,431)	410,000
	Investment				
Warrants	Revenue	291,943	Common Stock	22,124,111	13,645,243
Grand Totals		\$ <u>15,256,775</u>		\$ <u>22,145,415</u>	

A Derivatives Policy Statement identifies and allows common derivative investments and strategies, which are consistent with the Investment Policy Statement of the Pension Fund. The guidelines identify transaction-level and portfolio-level risk control procedures and documentation requirements. Managers are required to measure and monitor exposure to counterparty credit risk. All counterparties must have credit ratings available from nationally recognized rating institutions such as Moody, Fitch and S&P. The following tables show the details of counter parties and their rating information as follows:

<u>Counterparty Name</u>	<u>Percentage of Net Exposure</u>	<u>S&P Rating</u>	<u>Fitch Rating</u>	<u>Moody's Rating</u>
Citibank N.A.	40%	A+	A+	A1
UBS AG	22%	A+	A+	Aa3
Royal Bank of Scotland PLC	12%	A+	AA-	Aa3
Deutsche Bank AG London	5%	A+	AA-	Aa3
Barclays Bank PLC Wholesale	4%	AA-	AA-	Aa3
JPMorgan Chase Bank N.A.	4%	AA-	AA-	Aa1
HSBC Bank USA	3%	AA	AA	Aa3
Credit Suisse London Branch (GFX)	3%	A+	AA-	Aa1
UBS Securities LLC	2%	A+	A+	Aa3
UBS AG London	1%	A+	A+	Aa3
Bank of America Securities LLC	1%	A	A+	A2
Morgan Stanley & Co. International PLC	1%	A	A	A2
Goldman Sachs + Co.	0%	A	A+	A1
Royal Bank of Canada (UK)	0%	AA-	AA	Aa1
HSBC Bank PLC	0%	AA	AA	Aa3
Westpac Banking Corporation	0%	AA	AA	Aa2
JPMorgan Securities Inc.	0%	A+	AA-	Aa3
BNP Paribas SA	0%	AA	AA-	Aa2

The details of other risks and financial instruments in which the municipal pension fund of Philadelphia is involved are described below:

Credit Risk: The Pension Fund is exposed to credit risk on hedging derivative instruments that are in asset positions. To minimize its exposure to loss related to credit risk, it is the Pension Fund's policy to require counterparty collateral posting provisions in its non-exchange-traded hedging derivative instruments. These terms require full collateralization of the fair value of hedging derivative instruments in asset positions (net of the effect of applicable netting arrangements) should the counterparty's credit rating fall below AA as issued by Fitch Ratings and Standard & Poor's or Aa as issued by Moody's Investors Service. Collateral posted is to be in the form of U.S. Treasury securities held by a third-party custodian. The city has never failed to access collateral when required.

It is the Pension Fund's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

The aggregate fair value of hedging derivative instruments in the asset position at June 30, 2011 was \$22,145,415. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. This maximum exposure is reduced by \$16,803,823 of collateral or liabilities included in netting arrangements with those counterparties, resulting in a net exposure to credit risk of \$5,342,592.

Interest Rate Swap agreements provide for periodic payments at predetermined future dates between parties based on the change in value of underlying securities, indexes or interest rates. During the year ended June 30, 2011 the Pension Fund entered into interest rate swaps. Under the receive fixed interest rate type swap agreements, the Pension Fund receives the fixed interest rate on certain equity or debt securities or indexes in exchange for a fixed charge. There were no fixed interest rate Swaps received as of June 30, 2011. On its pay-variable, received-fixed interest rate swap, as LIBOR increases, the Pension Fund's net payment on the swap increases. Alternatively, on its pay-fixed, receive-variable interest rate swap, as LIBOR or the SIFMA swap index decreases, the Pension Fund's net payment on the swap increases. The pay fixed interest rate Swaps were (\$200,696).

The following table show the interest rate swaps including reference rates and interest rate risk disclosure for June 30, 2011.

<u>Asset ID</u>	<u>Asset Description</u>	<u>Fair Value</u>	<u>Notional</u>
Pay Fixed Interest Rate Swaps			
99S05ILT2/99S05ILU9	OWP158397 IRS USD R V 03MLIBOR/ OWP158397 IRS USD P F .00000	\$ (33,256)	\$ 460,000
99S05IP27/99S05IP35	OWP158470 IRS USD R V 03MLIBOR/ OWP158470 IRS USD P F .00000	(45,677)	590,000
99S05IXN2/99S05IXO0	OWP158611 IRS USD R V 03MLIBOR/ OWP158611 IRS USD P F .00000	(86,357)	1,197,000
99S05J1K1/99S05J1L9	OWP159155 IRS USD R V 03MLIBOR/ OWP159155 IRS USD P F .00000	(35,406)	460,000
Total Pay Fixed Interest Rate Swaps:		\$ <u>(200,696)</u>	<u>2,707,000</u>

Future Contracts are types of contracts in which the buyer agrees to purchase and the seller agrees to make a delivery of a specific financial instrument at a predetermined date and price. Gains and losses on future contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that counterparty will not pay and generally requires margin payments to minimize such risk. In addition, the Pension Fund enters into short sales, sales of securities it does not presently own, to neutralize the market risk of certain equity positions. Initial margin requirements on futures contracts and collateral for short sales are provided by investment securities pledged as collateral and by cash held by various brokers. Although the Pension Fund has the right to access individual pledged securities, it must maintain the amount pledged by substituting other securities for those accessed. The value of securities pledged and the amount of cash held at June 30, 2011 of (\$6,495,280) represent a restriction on the amount of assets available as of year-end for other purposes.

Forward contracts: The Pension Fund is exposed to basis risk on its forward contract because the expected funds purchase being hedged will price based on a pricing point different than the pricing point at which the forward contract is expected to settle. At June 30, 2011, the FX Forwards had a fair value of \$155,264.

Termination risk: The Pension Fund or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, the Pension Fund is exposed to termination risk on its receive-fixed interest rate swap. The Pension Fund is exposed to termination risk on its rate cap because the counterparty has the option to terminate the contract if the SIFMA swap index exceeds 12 percent. If at the time of termination, a hedging derivative instrument is in a liability position, the City would be liable to the counterparty for a payment equal to the liability subject to netting arrangements. The total credit default swaps bought at fair market value were \$288,000 and the total credit default swaps written were \$1,141,666.

Rollover Risk: The Pension Fund is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, or in the case of a termination option, if the counterparty exercises its option, the Pension Fund will be re-exposed to the risks being hedged by the hedging derivative instrument.

In addition, the Pension Fund also was involved in other financial instruments such as rights that were worth \$9,625 and warrants that were \$22,124,111.

f. **Summary of Significant Accounting Policies**

Financial statements of the Plan are prepared using the accrual basis of accounting. Contributions are recognized as revenues when due, pursuant to formal commitments, as well as statutory or contractual requirements. Benefits and refunds paid are recognized when due and payable in accordance with the terms of the plan. Investments are valued as described in Footnote I.4.

(2) Gas Works Plan

a. **Plan Description**

PGW sponsors a public employee retirement system (PERS), a single-employer defined benefit plan to provide benefits for all its employees. The **PGW** Pension Plan provides retirement benefits as well as death and disability benefits. Retirement benefits vest after 5 years of credited service. Employees who retire at or after age 65 are entitled to receive an annual retirement benefit, payable monthly, in an amount equal to the greater of:

- 1.25% of the first \$6,600 of Final Average Earnings plus 1.75% of the excess of Final Average Earnings over \$6,600, times years of credited service, with a maximum of 60% of the highest annual earnings during the last 10 years of credited service, applicable to all participants, or
- 2% of total earnings received during the period of credited service plus 22.5% of the first \$1,200 of such amount, applicable only to participants who were employees on or prior to March 24, 1967.

Final-average earnings is the employees' average pay, over the highest 5 years of the last 10 years of credited service. Employees with 15 years of credited service may retire at or after age 55 and receive a reduced retirement benefit. Employees with 30 years of service may retire without penalty for reduced age.

At September 1, 2009 the beginning of the Plan Year of the last actuarial valuation, the Pension Plan membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated members entitled to benefits but not yet receiving them	2,232
Current Employees	<u>1,653</u>
Total Members	<u><u>3,885</u></u>

b. **Funding Policy**

Benefit and contribution provisions are established by City ordinance and may be amended only as allowed by City ordinance. Covered employees are not required to contribute to the PGW Pension Plan. The Gas Works is required by statute to contribute the amounts necessary to finance the Plan.

The funding policy of the **PGW** Plan provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. Level percentage of employer contribution rates are based on the actuarial accrued liability as determined by using the Projected Unit Credit actuarial funding method. The actuarial asset value is equal to the value of fund assets. The unfunded actuarial accrued liability is being amortized using the open method. Contributions of \$24.6 million (approximately 2.0% of covered payroll) were made to the PGW Plan during the year.

Beneficiary payments in FY 2010 were made from operating funds. Instead, the Company set up a receivable to draw the FY 2010 funds of \$11.1 million in FY 2011, which is recorded in other current assets and deferred debits on the balance sheet. The withdrawals from the pension assets in FY 2009 of \$18.5 million were utilized to meet beneficiary payment obligations.

c. **Funding Status**

The funded status of the **PGW** plan as of September 1, 2010 the most recent actuarial valuation is as follows (amounts in thousands):

(Amounts In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Entry Age (b)	Unfunded/ (Over Funded) AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll (b - a) / c
09/01/2009	\$355,499	\$519,773	\$164,274	68.4%	\$106,003	155.0%
09/01/2008	\$430,390	\$495,155	\$64,765	86.9%	\$107,918	60.0%
09/01/2007	\$416,183	\$482,380	\$66,197	86.3%	\$105,596	62.7%

The analysis of pension funding progress presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Amortization Method	Level percent open
Remaining Amortization Period	20 years

d. Annual Pension Cost

PGW's annual pension cost for the current year of \$24.6 million is equal to its required contribution. The annual required contribution for the current year was determined based on an actuarial study or updates thereto, using the projected unit credit method. Significant actuarial assumptions used include an annual rate of return on investments of 8.25%, compounded annually, projected salary increases of 3.00% of the salary at the beginning of the next three years, then 4.25% of the salary at the beginning of the fourth and subsequent year, and retirements that are assumed to occur prior to age 62, at a rate of 10% at 55 to 61 and 100% at age 62. The assumptions did not include post retirement benefit increases.

The Annual Pension Cost and related percentage contributed for the three most recent fiscal years is as follows:

(Amounts in Millions of USD)

Fiscal Year Ended August 31	Annual Required Contribution	Percentage Contributed
2010	24.6	100%
2009	15.4	100%
2008	14.3	100%

e. Summary of Significant Accounting Policies

The financial statements of the Plan are prepared on the accrual basis of accounting. Employer contributions are recognized as revenues when due, pursuant to formal commitments, as well as statutory or contractual requirements. Investment income is recognized as earned. Gains and losses on sales and exchanges are recognized on the transaction date. Plan investments are reported at fair value based on quoted market price for those similar investments.

2. ACCUMULATED UNPAID SICK LEAVE

City and certain component unit employees are credited with varying amounts of sick leave according to type of employee and/or length of service. City employees may accumulate unused sick leave to predetermined balances. SDP employees have an unlimited maximum accumulation, and Gas Works' employees' sick leave is non-cumulative. Non-uniformed employees (upon retirement only) and uniformed employees (upon retirement or in case of death while on active duty) are paid varying amounts ranging from 25% to 50% of unused sick time, not to exceed predetermined amounts. Employees, who separate for any reason other than indicated above, forfeit their entire sick leave. The City budgets for and charges the cost of sick leave as it is taken.

3. OTHER POST EMPLOYMENT BENEFITS (OPEB)

A. PRIMARY GOVERNMENT

Plan description: The City of Philadelphia self-administers a single employer, defined benefit plan and provides health care for five years subsequent to separation for eligible retirees. Certain union represented employees may defer their coverage until a later date but the amount that the City pays for their health care is limited to the amount that the City would have paid at the date of their retirement. The City also provides lifetime insurance coverage for all eligible retirees. Firefighters are entitled to \$7,500 coverage and all other employees receive \$6,000 in coverage. The plan does not issue stand alone financial statements, and the accounting for the plan is reported within the financial statements of the City of Philadelphia.

Funding Policy: The City funds its retiree benefits on a pay-as-you-go basis. To provide health care coverage, the City pays a negotiated monthly premium for retirees covered by union contracts and is self insured for non-union employees. For fiscal year 2011, the City paid \$65.5 million for retiree healthcare.

Annual OPEB Cost and Net OPEB Obligation: The City's annual other post employment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding, which if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty (30) years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the net OPEB obligation (dollar amount in thousands)

City of Philadelphia OPEB

	(Amounts in Thousands)
Annual required contribution	101,216
Interest on net OPEB obligation	2,165
Adjustment to ARC	(1,668)
Annual OPEB cost	<u>101,713</u>
Payments made	<u>(65,533)</u>
Increase/(Decrease) in net OPEB Obligation	36,180
Net OPEB obligation - beginning of year	<u>43,301</u>
Net OPEB obligation - end of year	<u><u>79,481</u></u>

The City of Philadelphia's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal year ended June 30, 2011 was as follows:

amounts in thousands USD

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Contributed	Net OPEB Obligation
6/30/2011	\$ 101,713	64%	\$ 79,481
6/30/2010	\$ 93,844	76%	\$ 43,301
6/30/2009	\$ 98,733	82%	\$ 21,150

Funded Status and Funding Progress: As of July 1, 2010, the most recent actuarial valuation date, the City is funding OPEB on a pay as you go basis and accordingly, the unfunded actuarial accrued liability for benefits was \$1.2 billion. The covered annual payroll was \$ 1.419 billion and the ratio of the UAAL to the covered payroll was 82.4 percent.

The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The projections of future benefit payments for an ongoing plan obligation involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the obligation and the contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions: Projections of costs for financial reporting purposes are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing costs between the employer and plan members to that point.

Costs were determined according to the individual entry age actuarial cost method with the attribution period ending at each decrement age. This is consistent with the cost method used for the City of Philadelphia Municipal Retirement System. The city uses a level percent open approach as its method of amortization. Unfunded liabilities are funded over a 30 year period as a level percentage of payroll, which is assumed to increase at a compound annual rate of 4% per year. The actuarial assumption included a 5.0% compound annual interest rate on the City's general investments. The current plan incorporates the following assumptions: no post-retirement benefit increases since last year; a 5% Investment Rate of Return, a 4% Rate of Salary increases; and, a 5% Ultimate Rate of Medical Inflation.

B. COMPONENT UNITS

School District of Philadelphia (SDP) OPEB

From an accrual accounting perspective, the cost of postemployment life insurance benefits, like the cost of pension benefits, generally should be associated with the periods in which the costs occur, rather than in the future when they will be paid. In adopting the requirements of GASB Statement No. 45 during the year ended June 30, 2008, the **SDP** recognizes the costs of postemployment life insurance in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the **SDP's** future cash flows. Recognition of the liability accumulated from prior years is amortized over no more than 30 years.

Plan Description:

The **SDP** provides up to \$2,000 of life insurance coverage for retired and disabled employees in a single-employer plan. A retired employee is eligible for this benefit if covered for ten years as an active employee and retired at age 60 with 30 years of service or age 62 with ten years of service or 35 years of service regardless of age. A disabled employee's eligibility is determined by the insurance company providing the coverage. An unaudited copy of the life insurance benefit plan can be obtained by writing to The **SDP** of Philadelphia, 440 North Broad Street, Philadelphia, PA 19130; Attention: Employee Benefits Management.

Funding Policy:

The **SDP** is not required by law or contractual agreement to provide funding for the life insurance benefits other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible disabled employees. The number of eligible participants enrolled to receive such benefits as of June 30, 2010, the effective date of the most recent biennial OPEB valuation, is below. There have been no significant changes in the number covered or the type of coverage since that date.

	Number of Employees	Average Age
Active:		
Represented	16,308	45.5
Non-represented	1,223	48.6
Retirees	8,918	76.2
Disabled	135	58.2
Total	26,584	56.0

Annual OPEB Cost and Net OPEB Obligation:

The **SDP's** annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), and amount that was actuarially determined by the Entry Age Normal Actuarial Cost Method (one of the actuarial cost methods in accordance with the parameters of GASB Statement No. 45). Under this method, a contribution is determined that consists of the normal cost and the unfunded actuarial liability payment. The normal cost for each employee is derived as a level contribution from entry age to assumed retirement age. The accumulation of normal costs for service already completed is the actuarial accrued liability (AAL), which under GASB Statement No. 45, may be amortized over no more than 30 years. The District has elected to amortize the OPEB obligation as an open amortization period, which is recalculated at each bi-annual actuarial valuation date, up to 30 years, using the level percentage of payroll method. The following table shows the elements of the **SDP's** annual OPEB cost for the year, the amount paid on behalf of the plan, and changes in the **SDP's** net OPEB obligation to the plan:

Year Ended June 30	Annual OPEB Cost (APC)	Percentage of APC Contributed	Net OPEB Obligation
2009	\$640,650	100%	\$0
2010	659,317	100%	0
2011	673,167	100%	0

Basis of Accounting:

As defined by GASB Statement No. 45, if the amount of expenditures recognized during the current year is not equal to the annual OPEB cost, the difference is added or subtracted to the net obligation. The **SDP's** policy is to recognize an expense equal to what is contributed as long as it satisfies the requirement for GASB Statement No. 45.

Funded Status and Funding Progress:

As of June 30, 2010, the most recent actuarial valuation date, the plan was 0.0% funded. The actuarial accrued liability of \$14.5 million, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$14.5 million.

Active	\$3,411,000
Inactive	11,122,000
Total	\$14,533,000

Actuarial Methods and Assumptions:

The actuarial assumptions used in the June 30, 2010 OPEB actuarial valuations are those specific to the OPEB valuations.

- Investment return (discount rate) not fully funded: 4.00%
- Mortality for healthy and disabled participants: The Uninsured Pensioner 1994 Mortality Table (UP94) projected for ten years, with an age set back one year for males and females.
- Payroll increases: Payroll is assumed to increase at an average rate of 4.00% per year. Because the life insurance amounts are \$1,000 or \$2,000 except for disabilities, inflation has very little impact on the benefits. There is a Consumer Price Index assumption of 3%, but that rate is not applied to future life insurance amounts. The 4% payroll increase assumption is a combination of 3% inflation and 1% productivity. It is meant to be a very long term assumption.
- No actuarial liability is included for non-vested participants who terminated prior to the valuation date.
- Withdrawal: During the first five years of service, withdrawal rates were assumed as follows:

Service	Rate
Less than one year	24.49%
1 – 2 years	25.23%
2 – 3 years	16.54%
3 – 4 years	14.07%
4 – 5 years	10.88%
After five years, see table of sample rates	

- Disability incidence: See table of sample rates.
- Retirement age: The following retirement rates are used:

Age	Rate of Retirement
55	11.31%
56	13.41%
57	17.98%
58	19.52%
59	20.73%
60	29.37%
61	32.59%
62	30.28%

Age	Rate of Retirement
63	20.56%
64	18.43%
65	33.22%
66	19.27%
67	19.55%
68	18.91%
69	17.03%
70+	100.00%

- Accelerated death benefit: This benefit was assumed to have an immaterial value.
- Table of Sample Rates:

Attained Age	Withdrawal	Percentage Disability Incidence	
		Male	Female
25	24.75%	0.016%	0.027%
30	18.01%	0.016%	0.027%
35	10.98%	0.067%	0.053%
40	7.91%	0.120%	0.087%
45	6.71%	0.120%	0.120%
50	4.03%	0.187%	0.167%
55	3.81%	0.287%	0.320%
60	6.40%	0.387%	0.320%
65	13.63%	0.067%	0.107%

Philadelphia Gas Works (PGW) OPEB

Plan description: PGW provides certain health care and life insurance benefits for approximately 1,963 retired employees and their dependents. PGW recognizes the cost of providing these benefits by charging the annual insurance premiums to expense.

Funding Policy: PGW pays 100% of premiums for basic medical, hospitalization, and prescription drugs incurred by retirees and their dependents. The company also pays a portion of the premium for life insurance for each eligible retiree. PGW currently provides for the cost of healthcare and life insurance benefits for retirees and their beneficiaries on a pay-as-you-go basis. Total expenses incurred for health care amounted to \$42.1 million, of which approximately 48.9% relates to retirees and their dependents. Total premiums for group life insurance amounted to \$1.9 million of which approximately 76.5% relates to retirees.

Actuarial Valuation and Assumptions: PGW engaged an actuarial consulting firm to provide an actuarial valuation of its OPEB obligations as of August 31, 2010. The actuarial valuations involve estimates of the value reported amounts and the assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision, as actual results are compared to past expectations, and new estimates are made about the future. The calculations were based on the types of benefits provided under the terms of the substantive plan at the time of the valuation.

PGW's annual other post employment benefit (OPEB) expense is calculated based on the projected unit cost method. Under this method of calculation the present value of benefits is allocated uniformly over the employee's expected working lifetime. The actuarial accrued liability is that portion of the present value of projected benefits, which has been accrued during the employees' working lifetime from hire to valuation date. The normal cost represents the amount charged for services earned during the current reporting period. The normal cost is calculated by dividing the present value of projected benefits for an employee by the total service.

The valuation was prepared utilizing certain assumptions, including the following:

- Economic Assumptions – the discount rate and healthcare cost trends rates

The report utilized a 5.0% discount rate for purposes of developing the liabilities and ARC on the basis that the Plan would not be funded. This rate is based on the investment return expected on the Company's general investments. Because the Company has not funded the Plan for FY 2010.

Healthcare costs trend rates

<u>Year</u>	<u>Medical</u>	<u>Prescription</u>	<u>Dental</u>
1	9.0%	9.0%	4.5%
2	8.0%	8.0%	4.5%
3	7.0%	7.0%	4.5%
4	6.0%	6.0%	4.5%
5	5.0%	5.0%	4.5%
6	4.5%	4.5%	4.5%
7	4.5%	4.5%	4.5%
8	4.5%	4.5%	4.5%
9	4.5%	4.5%	4.5%
10 & beyond	4.5%	4.5%	4.5%

- Benefit Assumption – the initial per capita rates for medical coverage, and the face amount of PGW paid life insurance.
- Demographic Assumptions – including the probabilities of retiring, dying, terminating (without a benefit), becoming disabled, recovery from disability, election (participation rates), and coverage levels.

Annual OPEB Cost and Net OPEB Obligation: In FY2010 PGW paid retiree benefits in the amount of \$21.7 million, which consisted of \$20.6 million in healthcare expenses and \$1.1 million in life insurance expenses. The difference between the ARC and the expenses paid resulted in an increase in the OPEB liability of \$27.3 million. As of August 2010, the actuarial accrued liability for benefits was \$654.1 million, all of which was unfunded and the ratio of the unfunded actuarial accrued liability to the covered payroll was 617.1%

The following table shows the calculation of PGW's OPEB liability for FY2010. The difference between the annual OPEB cost and contributions made is recorded as other postemployment benefits expense on the statement of revenues and expenses. Contributions made are allocated to operating expense line items along with salaries and other employee benefit costs.

	(Amounts in Thousands)
Annual required contribution	50,152
Interest on net OPEB obligation	3,910
Adj to annual required contribution	(5,087)
Annual OPEB cost	48,975
Payments made	(21,706)
Increase/(Decrease) in net OPEB obligation	27,269
Net OPEB obligation - beginning of year	78,207
Net OPEB obligation - end of year	105,476

PGW's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for FY2010 and the preceding years is as follows:

(Amounts in Thousands)				
<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Contributed</u>	<u>Net OPEB Obligation</u>	
6/30/2010	48,975	44.32%	105,476	
6/30/2009	\$ 46,009	43.59%	\$ 78,207	
6/30/2008	44,114	41.44%	52,255	

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

4. PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

PICA, a body corporate and politic, was organized in June 1991 and exists under and by virtue of the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (the Act). Pursuant to the Act, **PICA** was established to provide financial assistance to cities of the first class. The City currently is the only city of the first class in the Commonwealth of Pennsylvania. Under the Act, **PICA** is administered by a governing Board consisting of five voting members and two ex officio non voting members. The Governor of Pennsylvania, the President Pro Tempore of the Pennsylvania Senate, the Minority Leader of the Pennsylvania Senate, the Speaker of the Pennsylvania House of Representatives and the Minority Leader of the Pennsylvania House of Representatives each appoints one voting member to the Board.

The Act provides that, upon **PICA's** approval of a request of the City to **PICA** for financial assistance, **PICA** shall have certain financial and oversight functions. First, **PICA** shall have the power to issue bonds and grant or lend the proceeds thereof to the City. Second, **PICA** also shall have the power, in its oversight capacity, to exercise certain advisory and review powers with respect to the City's financial affairs, including the power to review and approve five-year financial plans prepared at least annually by the City and to certify noncompliance by the City with its current five-year financial plan (which certification would require the Secretary of the Budget of the Commonwealth of Pennsylvania to cause certain Commonwealth payments due to the City to be withheld).

PICA bonds are payable from the proceeds of a **PICA** tax on the wages and income earned by City residents. The City has reduced the amount of wage and earnings tax that it levies on City residents by an amount equal to the **PICA** tax so that the total tax remains the same. **PICA** returns to the City any portion of the tax not required to meet their debt service and operating expenses. In Fiscal 2011 this transfer amounted to \$297.0 million.

5. RELATED PARTY TRANSACTIONS

The City is associated, through representation on the respective Board of Directors, with several local governmental organizations and certain quasi-governmental organizations created under the laws of the Commonwealth of Pennsylvania. These organizations are separate legal entities having governmental character and sufficient autonomy in the management of their own affairs to distinguish them as separate independent governmental entities. A list of such related party organizations and a description of significant transactions with the City, where applicable, is as follows:

A. SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY (SEPTA)

During the year the City provided an operating subsidy of \$65.9 million to SEPTA.

B. OTHER ORGANIZATIONS

The City provides varying levels of subsidy and other support payments (which totaled \$144.1 million during the year) to the following organizations:

- Philadelphia Commercial Development Corporation
- Philadelphia Health Management Corporation
- Philadelphia Industrial Development Corporation
- Fund For Philadelphia Incorporated
- Philadelphia Housing Authority

6. RISK MANAGEMENT

A. PRIMARY GOVERNMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City (except for Aviation Fund operations, the Municipal Authority and PICA) is self-insured for fire damage, casualty losses, public liability, Worker's Compensation and Unemployment Compensation. The Aviation Fund is self-insured for Workers' Compensation and Unemployment Compensation and insured through insurance carriers for other coverage.

The City covers all claim settlements and judgments, except for those discussed above, out of the resources of the fund associated with the claim. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include: an estimate of claims that have been incurred but not reported; the effects of specific, incremental claims adjustment expenditures, salvage, and subrogation; and unallocated claims adjustment expenditures.

At June 30, the amount of these liabilities was \$353.5 million for the Primary Government. This liability is the City's best estimate based on available information. Changes in the reported liability since June 30, 2009 resulted from the following:

(Amounts in Millions of USD)

	Beginning Liability	Current Year Claims and Changes In Estimates	Claim Payments	Ending Liability
Fiscal 2009	261.1	144.4	(96.2)	309.3
Fiscal 2010	309.3	156.5	(94.5)	371.3
Fiscal 2011	371.3	82.0	(99.8)	353.5

The City's Unemployment Compensation and Workers' Compensation coverages are provided through its General Fund. Unemployment Compensation and Workers' Compensation coverages are funded by a pro rata charge to the various funds. Payments for the year were \$5.4 million for Unemployment Compensation claims and \$58.3 million for Workers' Compensation claims.

The City's estimated outstanding workers' compensation liabilities are \$296.0 million discounted at 3.5%. On an undiscounted basis, these liabilities total \$401.5 million. These liabilities include provisions for indemnity, medical and allocated loss adjustment expense (ALAE). Excluding the ALAE, the respective liabilities for indemnity and medical payments relating to workers' compensation total \$270.0 million (discounted) and \$365.9 million (undiscounted).

During the last three (3) fiscal years, no claim settlements have exceeded the level of insurance coverage for operations using third party carriers. None of the City's insured losses have been settled with the purchase of annuity contracts.

B. COMPONENT UNITS

The City's Component Units are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The SDP is self-insured for most of its risks including casualty losses, public liability, unemployment and weekly indemnity. Workers' Compensation is covered by excess insurance over a \$5.0 million self-insured retention. SDP does purchase certain other insurance. Most Component Units are principally insured through insurance carriers. Each entity has coverage considered by management to be sufficient to satisfy loss claims. These losses include: an estimate of claims that have been incurred but not reported; the effects of specific, incremental claims adjustment expenditures, salvage, and subrogation; and unallocated claims adjustment expenditures.

At June 30, the combined amount of these liabilities was \$184.8 million for the City's Component Units. This liability is the best estimate based on available information. Changes in the reported liability since June 30, 2010 resulted from the following:

(Amounts in Millions of USD)

	<u>Beginning Liability</u>	<u>Current Year Claims and Changes In Estimates</u>	<u>Claim Payments</u>	<u>Ending Liability</u>
Fiscal 2010	165.6	34.1	(42.7)	157.0
Fiscal 2011	157.0	253.6	(225.8)	184.8

The **SDP** is exposed to various risks related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. As previously noted, the SDP is self-insured for casualty losses, public liability, Workers' Compensation, Unemployment Compensation, Weekly Indemnity (salary continuation during employee illness) and employee medical benefits.

The **SDP** maintains additional property (real and personal, valuable papers and records, fine arts, vehicles on premises and property under construction) insurance to cover losses between \$5.0 million and \$250.0 million. Also, certain insurance coverages including employee performance bonds and fire insurance are obtained.

7. COMMITMENTS

COMPONENT UNITS

- The **SDP's** outstanding contractual commitments at year end for construction of new facilities, purchase of new equipment, and various alterations and improvements to facilities totaled \$45.5 million.
- SDP** is also an Intermediate Unit (IU) established by the Commonwealth to provide programs for special education and certain non-public school services. Conceptually, the cost of operating an IU for a fiscal year is partially financed by Commonwealth appropriation. In certain instances (transportation) **SDP** reimburses the Commonwealth for the funds advanced in the previous year. The amount advanced for transportation of special education students is reimbursed in full less the Commonwealth's share of such cost as determined by a formula based on the number of students transported, route distances, and efficiency of vehicle utilization. **SDP** owes the Commonwealth \$56.0 million. Of that amount, the Commonwealth has agreed to continue to defer amounts due from prior years totaling \$45.3 million for reimbursement of advanced funds provided for special education transportation costs.

8. CONTINGENCIES

A. PRIMARY GOVERNMENT

1) Claims and Litigation

Generally, claims against the City are payable out of the General Fund, except claims against the City Water Department, City Aviation Division, or Component Units which are paid out of their respective funds and only secondarily out of the General Fund which is then reimbursed for the expenditure. Unless specifically noted otherwise, all claims hereinafter discussed are payable out of the General Fund or the individual Enterprise Fund. The Act of October 5, 1980, P.L. 693, No. 142, known as the "Political Subdivision Tort Claims Act", established a \$500,000 aggregate limitation on damages arising from the same cause of action or transaction or occurrence or series of causes of action, transactions or occurrences with respect to governmental units in the Commonwealth such as the City. The constitutionality of that aggregate limitation has been upheld by the United States Supreme Court. There is no such limitation under federal law.

Various claims have been asserted against the City and in some cases lawsuits have been instituted. Many of these claims are reduced to judgment or otherwise settled in a manner requiring payment by the City. The aggregate estimate of loss deemed to be probable is approximately \$351.0 million. Of this amount, \$30.9 million is charged to current operations of the Enterprise Funds. The remaining \$320.1 million pertaining to the General Fund is reflected in the Government Wide Statements.

In addition to the above, there are certain lawsuits against the City for which an additional loss is reasonably possible. These lawsuits relate to General Fund and Enterprise Fund operations. The aggregate estimates

of the loss which could result if unfavorable legal determinations were rendered against the City with respect to those lawsuits is approximately \$56.2 million to the General Fund and \$4.1 million to the Enterprise Funds.

Significant cases included in the current litigation against the City are as follows:

- **Mandel v. Philadelphia, CCP Phila. No. 1101-03848**

A total of 18 taxpayers have brought suit against the City in the Court of Common Pleas for the First Judicial District, challenging the City's system for the assessment of real estate taxes for itself and the **SDP** under the Uniformity Clause of the Pennsylvania Constitution, the First Class County Assessment Law, 72 P.S. §§ 5341.1-5341.21, and the Equal Protection Clause of the United States Constitution. In addition to injunctive relief, Plaintiffs also request refunds, and their claims could cost the City well over \$100 million dollars if successful, but we have strong defenses to these assertions. Plaintiffs case was dismissed and the time to appeal has run out.

- **Waterfront Renaissance Associates (WRA) v. City, et. al., E. D. Pa. No. 07 cv 1045**

WRA, proposed developer of a "World Trade Center" project at 400-456 Christopher Columbus Boulevard, sued the City, City Council, City Planning Commission, Brian Abernathy (then legislative aide to Councilman DiCicco), and certain civic associations and their officers. In short, WRA alleged that the zoning overlay amendment to the Old City Residential Area Special District Controls, through a 65 foot maximum height restriction, effectively prevented or rendered impossible completion of its project.

WRA further alleged a nearly 20 year history of support, encouragement, assistance, and other favorable representations for the project by the City, its officials and representatives, and others. WRA complained that it had spent nearly \$20 million in reliance upon City's "supportive" actions for site-acquisitions and pre-development, promotional, and other soft and hard costs.

WRA sought declaratory and injunctive relief and damages in excess of \$20 million. WRA claimed that the Ordinance facially violated its constitutional rights to procedural and substantive due process and equal protection of laws by depriving it of property through wholly arbitrary action and/or without reasonable notice and that the Court should enjoin and declare the Ordinance as unenforceable based on state law claims of promissory estoppel, detrimental reliance, or unjust enrichment.

City Defendants filed motions to dismiss. The Court dismissed all City defendants except the City. The Court also dismissed the procedural due process and as-applied substantive due process claims. The following claims against City survived: promissory estoppel, detrimental reliance; unjust enrichment; facial violation of equal protection; and facial violation of substantive due process.

In addition, Plaintiffs were granted leave (despite the City's opposition) to amend the Complaint. WRA added a count for violation of substantive due process seeking injunctive relief. WRA alleged that the Ordinance delegated land use and planning powers to neighborhood associations allowing for *ad hoc* changes and concessions regarding high-rise development through a compulsory variance process, contrary to the master planning concept of Pennsylvania zoning law and the Philadelphia zoning code. The Court denied the City's Motion to Dismiss Count XV of the Second Amended Complaint.

The City moved to dismiss WRA's constitutional claims on mootness grounds on the basis that adoption of an amendment to the City's zoning laws removed the challenged height restriction from WRA's property. WRA also moved to supplement its Complaint to add new claims concerning the Central Delaware Riverfront Ordinance. WRA requested another six months of fact discovery followed by new dates for completion of expert discovery, filing of dispositive motions, and ultimately scheduling of trial if necessary.

The Court granted the motion to dismiss and dismissed WRA's constitutional claims relating to the height restriction. As part of its ruling, the Court allowed WRA to file an amended claim to add a facial claim against the Central Delaware Riverfront Ordinance, and to supplement its existing state law claims to include allegations pertaining to the CDRO. WRA filed its Third Amended Complaint. The City filed a motion for summary judgment seeking dismissal of WRA's remaining claims, and WRA filed motion for summary judgment on its supplemental claim against CDRO.

The Court granted the City's motion and entered summary judgment for City on Plaintiff's remaining claims and Plaintiffs have appealed. Briefing is just commencing.-

- **In re: Condemnation of Tract of Land k/a Parcel C (within Eastwick Urban Renewal Area): CCP Phila. Co., Consolidated Case No. 091104734**

In November 2003, the City filed a declaration of taking condemning certain property known as Parcel C within the Eastwick Urban Renewal Area Plan of 1958 for the benefit of Philadelphia International Airport. The Redevelopment Authority of the City of Philadelphia ("RDA") was the record title holder of the property. The City deposited in Court in April 2006 estimated just compensation in the amount of \$7,714,000. November Term, 2003, No. 2285 (C.C.P. Phila.).

In 2007, Eastwick Development Joint Venture IX, L.P. and New Eastwick Corporation ("Eastwick Development") petitioned the Court for appointment of a Board of Viewers and the Court appointed a Board of View to ascertain and award just compensation. Eastwick Development alleged they owned or held equitable interests in and certain development rights to the condemned property and had not received just compensation.

After a view of the premises and a hearing in July 2009, the Board of View filed a report with the Court in October 2009. BV #3421. The Board made an award of just compensation for the property of \$13,500,500 (including attorney fee), subject to credit for the \$7,714,000 million already paid and distributed. In addition, the Board awarded delay damages from the date of taking (11/18/03) until July 31, 2009 in the amount of \$3,298,200, and accruing thereafter until payment. BV #3421.

The City filed its appeal to the Court of Common Pleas in November 2009, requesting a jury trial de novo. CCP Phila. Co., #0911-02397. The City objected, among other things, to the award of any compensation amount beyond that amount already paid into court, to evidentiary, procedural and substantive errors in the Board of View proceeding and award, and to the delay damage computation and award. Eastwick Development filed a separate appeal from the Board of View Report to the Court of Common Pleas in November 2009. CCP Phila. Co., #0911-04734. Eastwick Development sought a jury trial de novo and objected to the sufficiency of the amount of compensation awarded.

The parties completed discovery. At a final pretrial conference, the Court issued an order consolidating the two separate appeals from the Board of View report and scheduled the case for trial. Subsequently, at the request of the parties, the Court adjourned the start of trial until 2012 on the basis of a settlement in principle. The parties signed as of December 13, 2011 a binding settlement term sheet providing for, among other things, discontinuance of the lawsuit, payment by City in the total sum of \$9.6 million, an amended redevelopment agreement, and release or transfer of property interests to City, all upon certain terms and conditions, and to take effect or occur on or before an Effective Date. If the Effective Date does not occur on or before June 30, 2012, the settlement will expire and the parties will be restored to their previous litigation positions (with some modification to any accrual of delay damages). The Court, at a recent status conference, ordered the case to remain in deferred status through July 2012 to allow for implementation of the settlement.

The City intends to mount vigorous defenses to defeat the compensation claim if the settlement agreement expires or if the preconditions to its effectiveness do not occur. The City's lawyers reasonably believe that the Plaintiffs will not likely succeed on their claims or for the amount of just compensation (damages) sought and that the City's defenses have merit.

- **G&T Conveyor Co., Inc. v. Ernest Bock & Sons, Inc et al v. City et al., CCP Phila. No. 091103117**

G&T has commenced and pursued a civil action for declaratory and monetary relief against Bock, and Liberty Mutual Insurance Company ("Liberty") and Fidelity and Deposit Company of Maryland ("Fidelity"), issuers of a payment bond on behalf of Bock. G&T sued Bock for, among other things, about \$1.3 million in damages for work performed but unpaid by Bock; and for nearly \$7 million in additional costs incurred as a result of construction delays G&T attributed to Bock.

Bock had successfully bid to perform general contractor work on the Airport's Terminal D&E expansion and modernization project for baggage system (Bid #6851; Contract #084002). G&T subcontracted with Bock to supply all necessary labor, supervision, material and equipment to furnish the baggage handling equipment. Bock's Purchase Order (subcontract) with G&T required that G&T perform and complete work in strict accordance with the Plans and Specifications, and eleven addenda and other terms and conditions prepared by DDI, and in compliance with certain milestones and deadlines. G&T alleged that, by early 2010, the project was over 660 days behind schedule and its attempts to address and resolve delay and other problems with Bock had failed.

Bock answered the Complaint, denying responsibility, asserting affirmative defenses and counterclaiming against G&T for damages caused by G&T's alleged breach of its contract obligations. Bock also filed a "third party" complaint against City and others, particularly Chisom Electrical (reportedly a defunct entity).

Bock contended City was solely liable or liable with Bock to G&T on the "delay damages" claims made by G&T, pursuant to common law theories of indemnification and contribution. Bock also claimed City was liable to Bock for damages caused by City's material breaches of its contract with Bock.

City filed preliminary objections to the Third Party Complaint, challenging its propriety and sufficiency but the Court overruled the objections and ordered the filing of an Answer. The City filed an Answer to Bock's third party complaint, asserting its defenses, counterclaims against Bock for indemnity and breach of contract and the bonding companies for indemnity, and added a fourth party claim against the designer of the project, DDI. The City made a tolling agreement with DDI. The Court recently dismissed Daroff from the case pursuant to a voluntary discontinuance of claims against Daroff.

The parties have completed discovery and submitted expert reports. The Court denied City's petition to dismiss the claims against it for lack of subject matter jurisdiction (City claimed in essence the absence of a justifiable controversy due to the incomplete status of the project and the absence of required inspection, testing and approval of the system). City filed a motion to amend its Answer to add a more specific defense of release, that the Court granted. G&T filed a motion for partial summary judgment, that Bock and City opposed. After oral argument, the Court granted the motion solely as to legal interpretation of particular contract terms, and denied the balance.

City and Bock filed motions for summary judgment that were opposed by G&T and are pending decision. The attorneys anticipate the Court will schedule the final pretrial conference in the next month or so.

The City intends to mount vigorous defenses to defeat the claims. The City's lawyers reasonably believe that the third party plaintiffs will not likely succeed on their claims or for the amount of damages sought and that the City's defenses have merit.

- **Pingitore v. John Green et al, CCP Phila. Co., No. 1103-01141**
Virelli v. City et al., CCP Phila. Co., No. 1105-00387

Two plaintiffs, Michelle Pingitore and Marie Virelli, filed separate putative class actions on behalf of apparently similar or overlapping classes of former property owners whose property was subject to a sheriff's sale. They claim for themselves and their respective classes an entitlement to excess funds from Sheriff's sales of their properties.

In the Pingitore action, Plaintiff alleges she is owed \$4,670.65 in excess proceeds from the sheriff's sale of the property that were not paid to her. She asserts claims in restitution and unjust enrichment and seeks an award of damages to her and the class of the excess proceeds due them, interest, attorneys fees and costs and all such other relief that the Court deems proper.

In the Virelli action, the named plaintiff alleges she is a debtor on a judgment in the amount of \$11,838.22, a sheriff's sale of her property occurred in February 2006 for the sum of \$13,000, the Sheriff failed to inform her of excess sale proceeds and the Sheriff failed to distribute the proceeds to her. She claims that these failures violate her (and class members') rights to due process under Pa. Constitution, Art. I Sec. 1, violate a mandatory duty to prepare a distribution of proceeds and to distribute in accordance with the schedule under Pa. R.C.P. 3136, amount to "equitable conversion" of the proceeds and result in unjust enrichment. On each count, she seeks for relief: judgment in the amount of excess proceeds that should have been remitted to Plaintiff and to each class member upon a sheriff's sale of the real property in Philadelphia County for the time period of Jan. 5, 1988 through and including the present, together with interest, costs, attorney's fees, and such other relief as permitted by law and deemed appropriate by the Court.

The Court effectively consolidated the two cases by setting one scheduling order governing case management procedures in both. The Court granted the Treasurer's request to intervene in the consolidated lawsuit. The Court allowed for six months to complete class discovery in anticipation of a class certification hearing scheduled for July 2, 2012. The Court also denied preliminary objections filed by Treasurer and directed Defendants to file answers to the class action complaints. Defendants have filed answers and are conducting class discovery.

At this stage, it is unclear whether either of the classes will be certified, the number of class members entitled to relief, whether if certified the plaintiffs will succeed on the merits and the City will be found liable and finally whether plaintiffs will recover from City monetary damages in excess of \$8,000,000. The City intends

to contest class certification, liability and damages vigorously. The City's lawyers reasonably believe that the plaintiffs are not likely to succeed on their claims or for the amount of damages sought and that the City's defenses have merit.

- **Lower Darby Creek Area Superfund Site**

In 2001, the U.S. Environmental Protection Agency (EPA) added the Lower Darby Creek Area (Site) to the National Priority List, EPA's list of the most serious uncontrolled or abandoned hazardous waste sites. The Site includes two former municipal landfills: the Folcroft Landfill and the Clearview Landfill. In 2002, EPA sent the City a letter alleging that the City is a Potentially Responsible Party (PRP) at the Clearview Landfill site. Designation as a PRP means the City may be jointly and severally liable with other PRPs for the site's clean-up costs. EPA has concluded that the City owns the Recreational Property and streets adjacent to the Clearview Landfill and alleges that there is a reasonable basis to believe there may be or has been a release or threat of release of hazardous substances, pollutants or contaminants at or from the City's property. Additionally, EPA alleges that the City "arranged" for the disposal of hazardous substances at the Clearview Landfill. The City received and responded to two separate requests from EPA for additional information. EPA completed the Remedial Investigation for the Clearview Landfill in May 2011 and anticipates completing the Feasibility study in 2012. After completing the Feasibility Study, EPA will issue a Record of Decision.

EPA is currently conducting a Time Critical Removal Action in the southern portion of the Clearview Landfill site to address soils and wastes contaminated with high levels of several contaminants. EPA is excavating the contaminated soils and will remove them from the site or place them under a temporary cap until the final remedy for the landfill is complete. A portion of the area is located within the City of Philadelphia and includes property owned by the City. EPA estimates that the Time Critical Removal Action will cost over \$2.3 million.

Because of the broad liability scheme under the federal Superfund law, Superfund litigation generally focuses not on avoiding a finding of liability, but rather on ensuring that the remediation is cost-effective and the allocation of costs among all parties identified as bearing some degree of liability is fair and reasonable. Insufficient information is available to the City at this time to assess whether the potential loss or exposure to the City in the event of an unfavorable outcome would exceed the reporting threshold.

- **Appeals related to the State Tax Equalization Board assessment of real estate**

In July 2011, the State Tax Equalization Board (STEB) published a Common Level Ratio (CLR) of 18.1% for Philadelphia, significantly lower than the City's Established Predetermined Ratio (EPR) of 32% used to calculate assessed values for real estate tax purposes. If the CLR varies from the EPR by more than 15% (i.e., if it is not between 27.2% and 36.8%), then in any assessment appeals, the Office of Property Assessments (OPA) is directed by statute to calculate the assessed value using the CLR rather than the EPR as a percentage of the property's market value. The City and the **SDP** filed an informal joint appeal/objections with the STEB on October 3, 2011, and the City has been submitting additional data and arguments, under which STEB should determine that the CLR was actually between 27.2% and 36.8%.

Also, for tax year 2012, about 2,000 taxpayers with property collectively valued at about \$2 billion filed assessment appeals with the OPA. Application of the 18.1% CLR to those properties, if their appeals were all granted and the certified market values stayed the same, would cost the City about \$36 million and the **SDP** about an additional \$46 million. The **SDP** has cross-appealed, seeking higher market values in many of these cases. If sustained, the **SDP's** cross-appeals would have the effect of offsetting a substantial portion of the City's revenue loss.

In January 2012, an attorney purporting to represent owners of 173 of the 2,000 properties on appeal before the OPA filed a petition to intervene in the STEB proceedings, seeking to persuade STEB to maintain the CLR at 18.1%. The City and **SDP** have filed a brief opposing the intervention on procedural grounds and because of the intervention's potential to cause significant delay in STEB's decision, which in turn could reduce the amounts paid to the City and **SDP** in February and March 2012 up to the amounts set forth in the preceding paragraph. The City does not know how quickly STEB is likely to rule, but expects that it will be this month and that, on the merits, the City's arguments are strong.

Any party may appeal an adverse ruling on the CLR to Commonwealth Court, and the City expects to pursue or defend any appeal vigorously.

- **Building Conditions (FOP, Lodge No. 5 v. City of Philadelphia), AAA No. 14 390 1441 11**

The Law Department is representing the City of Philadelphia in an arbitration brought by the Fraternal Order of Police (FOP), the union representing City of Philadelphia police officers, contending that the City has violated the collective bargaining agreement by requiring police officers to work in "deplorable conditions" because of the conditions of the police station facilities.

The union claims that the City violated the collective bargaining agreement because the conditions of police facilities are "deplorable." The arbitration will take several days and the first three days have been scheduled for February 21, 22, and 29. The FOP has the burden of proof and will present its case on the first two days. The third day will consist of site visits for the arbitrator. After that, the City will present its case. The City will contest this claim vigorously, and does not anticipate settlement.

It is difficult to assess the City's potential liability because the FOP is not asking for monetary damages but, rather, that (1) inspections be conducted to identify health and safety risks, (2) repairs to redress those risks be made, and (3) the City commit to a long-term plan to fix/build facilities. If the FOP is successful, which the City believes is unlikely, the costs to Public Property (facilities and capital projects) would likely be well over \$100 million, although probably spread out over a number of years.

- **McKenna et al v. City of Philadelphia**

Plaintiffs, three former police officers alleged retaliation in violation of Title VII of the Civil Rights Act of 1964. They secured a jury verdict in May, 2008 in the aggregate amount of \$10 million, which was reduced to \$1.5 million by the district court, based primarily on a statutory damages cap. Plaintiffs also seek substantial attorneys' fees, as the prevailing parties. On August 18, 2011, the Third Circuit affirmed the reduction. The time for appealing to the U.S. Supreme Court has not yet run and Plaintiffs have indicated that they are considering an appeal.

2) Guaranteed Debt

The City has guaranteed certain debt payments of two of its component units. As such, the City's General Fund has a potential financial obligation toward the extinguishment of this debt, either by replacing the various reserve funds, if used, or the actual payment of principal or interest. At June 30, principal balances outstanding were as follows:

(Amounts In Thousands of USD)

Philadelphia Authority for Industrial Development	2,310
Philadelphia Parking Authority	15,365
Total:	<u>17,675</u>

3) Single Audit

The City receives significant financial assistance from numerous federal, state and local governmental agencies in the form of grants and entitlements. The disbursement of funds received under these programs generally requires compliance with terms and conditions as specified in the grant agreements, and is subject to audit. Any disallowed claims resulting from such audits and relating to the City or its component units could become a liability of the General Fund or other applicable funds. In the opinion of City officials the only significant contingent liabilities related to matters of compliance are the unresolved and questioned costs in the City's Schedule of Financial Assistance to be issued for the fiscal year ended June 30, 2011, which amounted to \$610.0 million for all open program years as of December 12, 2011. Of this amount, \$512.7 million represents unresolved cost due to the inability to obtain audit reports from sub-recipients for the year ended June 30, 2011 due to timing differences in audit requirements, \$85.2 million represents questioned costs due to the inability to obtain sub recipient audit reports for the fiscal years June 30, 2010 and prior and \$12.1 million represents questioned costs related to specific compliance requirements which have yet to be resolved.

4) HUD Section 108 Loans

As of the end of the fiscal year, the Federal Department of Housing and Urban Development (HUD) had disbursed \$212.1 million in loans to the Philadelphia Industrial Development Corporation (PIDC). The funds, which were used to establish a loan pool pursuant to a contract between the City and HUD, are being accounted for and administered by PIDC on behalf of the City. Pool funds are loaned to businesses for economic development purposes. Loan repayments and investment proceeds from un-loaned funds are used to repay HUD. Collateral for repayment of the funds includes future Community Development Block Grant entitlements due to the City from HUD. The total remaining principal to be repaid to HUD for all loans at the end of the year was \$117.6 million.

B. COMPONENT UNITS

1) Claims and Litigation

Special Education and Civil Rights Claims – There are two hundred ninety-five (295) various claims against the SDP, by or on behalf of students, which aggregate to a total potential liability of \$2.3 million.

Of those, two hundred eighty-seven (287) are administrative due process hearings and appeals to the state appeals panel pending against the SDP. These appeals are based on alleged violations by the SDP to provide a free, appropriate public education to students under federal and state civil rights, special education or the Rehabilitation Act and anti-discrimination laws. In the opinion of the General Counsel of the SDP, two hundred twelve (212) unfavorable outcomes are deemed probable and thirty-nine (39) are considered reasonably possible, in the aggregate of \$1.1 million and \$0.3 million respectively.

There are four (4) lawsuits pending against the SDP asserting claims in violation of §1983 of the Civil Rights Act. In the opinion of the General Counsel of the SDP, unfavorable outcomes of three (3) are deemed reasonably possible in the aggregate amounts of approximately \$0.4 million.

There are four (4) suits in federal court by parents of special education students for reimbursement for attorneys' fees and costs in administrative proceedings and appeals to court in which the parents were prevailing parties. In the opinion of the General Counsel of the SDP, unfavorable outcomes are deemed probable and reasonably possible in the aggregate amounts of approximately \$0.14 million and \$0.04 million respectively.

Other Matters - The SDP is a party to various claims, legal actions, arbitrations and complaints in the ordinary course of business, which aggregate to a total potential liability of \$19.7 million. In the opinion of the General Counsel of the SDP, it is unlikely that final judgments or compromised settlements will approach the total potential liability, however. Nevertheless, the SDP annually budgets an amount that management believes is adequate, based on past experience, to provide for these claims when they become fixed and determinable in amount. More particularly, compromised settlements or unfavorable outcomes are deemed probable or reasonably possible in the amounts of \$2.2 million and \$6.6 million, respectively, in connection with disputed contracts and labor and employment matters. Likewise, compromised settlements or unfavorable verdicts are deemed probable or reasonably possible in the aggregate amounts of \$2.0 million and \$2.6 million, respectively, arising from personal injury and property damage claims and lawsuits.

Education Audits - In the early 1990s, the SDP received basic education subsidies from the Commonwealth of Pennsylvania based primarily on student enrollment. In July of 1995, the Department of Education notified the SDP that an audit conducted by the Auditor General for fiscal years ending in 1991, 1992 and 1993 indicated over-reporting of student enrollment in fiscal year 1991, the year established by the Commonwealth as the base year calculation for all subsidies through fiscal year 1999. Consequently, a claim for reimbursement due was initially estimated at approximately \$40 million through fiscal year 1999, and subsequently reduced by half, to approximately \$20 million, as a result of additional reviews of SDP documentation. In May 1999, the SDP appealed the adverse determination to the Secretary of Education, as provided by law. The Secretary was to appoint a hearing officer to consider the matter further. During the pendency of the dispute over the adequacy of documentation to support 1991 student enrollment figures, an audit of reported enrollment in school years 1994-95 through 1996-97 was also undertaken. The Department of Education asserted a claim for an additional \$20 million for the alleged over-reporting of enrollment during those periods. The SDP has denied this additional claim and has produced supporting documentation to the Secretary of Education. As part of an agreement with the SDP, the Commonwealth postponed all potential collection actions in this category while both matters remain pending. Discussions with Commonwealth representatives regarding relief from this potential liability are ongoing.

The Commonwealth of Pennsylvania's Bureau of Audits conducted a performance audit of the SDP's pupil membership and attendance reporting procedures for the 2009-2010 school year and issued a draft report on October 26, 2011. The SDP's response to the draft report was filed on December 16, 2011 and as of January 31, 2012 the Final Audit Report has not been published. Therefore, no assurances can be given as to the final outcome of the audit. Because no final determination of forgiveness has been made, however, there remains a possible loss in this category in the amount of \$40 million.

Federal Audit - The SDP is the subject of an audit by the National Science Foundation ("NSF") Office of Inspector General ("OIG") of two grant awards from the NSF covering the period from July 1, 1999 through August 31, 2005. The NSF OIG auditors issued a final audit report in May 2008 questioning \$3,346,652 in costs incurred under the two awards. The NSF Cost Analysis and Audit Resolution branch requested additional information and documentation from the SDP to aid in its determination of whether to seek repayment of any funds from the SDP based upon the auditor's final conclusions. On April 14, 2009, NSF issued its decision eliminating \$834,406 from the recommended disallowance, leaving \$2,512,246 that NSF would seek to recover. The SDP intends to pursue litigation against NSF challenging at least \$1,754,950 of the disallowance. In our opinion, the likelihood of an adverse finding in the amount of \$757,296 is reasonably possible, and the remaining liability is remote. NSF has not initiated any proceedings to recover funds from the SDP.

The U.S. Department of Education Office of the Inspector General (OIG) conducted an audit of the SDP's controls over Federal expenditures for the period July 1, 2005 through June 30, 2006. A preliminary draft audit report was issued by the OIG in May, 2009. In accordance with applicable audit standards, the SDP responded to the draft audit findings in August, 2009, supporting the vast majority of the expenditures questioned. A final report was issued by the OIG on January 15, 2010. The final report questioned \$138.8 million of costs with \$121.1 million considered inadequately supported with documentation and \$17.7 million considered unallowable costs. On March 30, 2011, the Pennsylvania Department of Education (PDE) received a program determination letter (March PDL) from the U.S. Department of Education (USDE) seeking a recovery of approximately \$9.9 million based on finding 2 and portions of findings 4 and 5 of the OIG final audit report on the SDP. PDE filed an application for review of the PDL on May 20, 2011. The Office of Administrative Law Judges accepted jurisdiction of the case on August 10, 2011. On September 7, 2011 PDE and the Department filed a joint motion to stay the proceedings to pursue settlement negotiations. On September 29, 2011, USDE issued a second PDL (September PDL) seeking a recovery of approximately \$2.5 million based on finding 1.

With regard to the March PDL, on October 12, 2011, PDE and USDE met to review documentation related to the application of the statute of limitations to the March PDL. USDE is currently reviewing this information and was to inform PDE of the costs USDE agrees are barred by the statute of limitations in January 2012. To date, the SDP has not received the amount from USDE. Then, the parties will meet to discuss equitable offset to reduce, if not eliminate, any remaining liability. If the parties are unable to resolve the findings in the PDL through settlement, the unresolved issues will go to a hearing before the administrative law judge. PDE may appeal a decision by the administrative law judge to the Secretary of Education for final agency decision. The final agency decision can then be appealed to federal court.

With regard to the September PDL, PDE is working with the SDP to put together documentation demonstrating the application of the statute of limitations. PDE and the SDP expect to have the documentation ready for USDE by the end of February 2012. USDE will then review the documentation and indicate what costs USDE agrees are barred by the statute of limitations.

Therefore, no assurance can be given as to the final resolution of the audit, the amounts, if any, which may be required to be repaid by the SDP or whether such repayments could have a material adverse effect on the financial condition of the SDP. In our opinion, with regard to the March PDL and the September PDL, the likelihood of a recovery by the U.S. Government in the amount of \$12.4 million is remote.

Litigation by Outside Counsel – There is one suit against the SDP that is being handled by outside legal representation. This matter includes:

Sodexo Operations LLC v. SDP & Team Clean, Inc., U.S. District Court for the Eastern District of Pa., Civil Action No. 10-3149, is a suit in federal court by a former contractor which provided custodial services in 22 comprehensive high schools. The SDP withheld payment to Sodexo for the last two months' invoices in May and June 2010, totaling \$2,100,001, for the reason that Sodexo did not meet its minority participation commitment in the contract of 83.6%. On June 29, 2010, Sodexo filed suit against the SDP, the School Reform Commission and Team Clean, Inc., seeking, among other relief, money damages for the payments which were withheld plus interest. The SDP filed a compulsory counterclaim for liquidated damages against

Sodexo for its breach of the Anti-Discrimination Policy and minority participation requirement in the amount of \$1,266,021, which is 1% of the contract amount for each 1% of Sodexo's shortfall in minority participation. After offsetting this amount for liquidated damages from the payments due for May and June 2010, the remaining balance due from the SDP to Sodexo would be reduced to \$843,980.

The SDP paid the amount of \$843,980 to Sodexo on Nov. 30, 2011 and agreed to go to voluntary mediation regarding the remaining disputed balance claimed by Sodexo. Sodexo and the SDP after mediation agreed to settle the remaining balance for \$983,000, which was paid on Dec. 21, 2011. The overall settlement resulted in a saving to the SDP of \$460,524.85. There is no possibility of further liability. The suit will be dismissed with prejudice.

The School District of Philadelphia 403(b) Plan and 457(b) Deferred Compensation Plan

Pursuant to resolutions of the School Reform Commission, the SDP implemented a new 403(b) Plan and a 457(b) Deferred Compensation Plan (collectively, the "Plans") in fiscal years 2005 and 2006. The SDP obtained advice from outside legal counsel on the creation of the Plans and on the appropriate tax treatment of automatic and mandatory employer contributions of termination pay to the Plans for employees retiring during or after the calendar year in which they attain age 55. Termination pay is the accrued and unpaid amounts of vacation, personal and sick leave for a resigning or retiring employee. Prior to July 1, 2005, the SDP would pay termination pay owed to a resigning or retiring employee in cash or, at the direction of the employee, would deposit such termination pay into the retiring or resigning employee's 403(b) account up to the annual contribution limit for section 403(b) accounts. For employees retiring after June 1, 2005, the SDP eliminated payment of termination pay in cash and replaced it with an automatic and mandatory employer contribution of termination pay to the Plans up to the annual contribution limits for such Plans for employees who retire during or after the calendar year in which they attain age 55. Based on the advice of legal counsel, the SDP has treated its termination pay contributions to the 403(b) Plan as employer contributions to a retirement plan, which are not included in employee wages and are not subject to FICA, Pennsylvania Personal Income Tax or Philadelphia Wage Tax. Since employer contributions to a 457(b) Plan are considered wages for FICA purposes, the SDP has withheld those taxes from its termination payments made to the 457(b) Plan. Employer contributions to 457(b) Plan are not subject to Pennsylvania Personal Income Tax or Philadelphia Wage Tax. For that reason, the SDP has not withheld those taxes from its termination pay contributions to the 457(b) Plan. Outside legal counsel advised on the arrangement and has provided an opinion as to its proper tax treatment. In June 2008, the SDP submitted an initial request for a Private Letter Ruling ("PLR") from the Internal Revenue Service ("IRS") to further confirm the SDP's determination. The SDP sought this PLR without prejudice to the SDP's position that no such ruling is necessary under these circumstances. By letter dated October 31, 2011, the IRS informed the SDP that it could not rule on the PLR request because the request requires an initial determination that the SDP's form of 403(b) plan satisfies Section 403(b) of the IRS Code, and beginning in 2009 and continuing to date, the IRS has stated that it will not issue a letter ruling with respect to whether the form of plan satisfies the requirements of Section 403(b) of the IRS Code. The SDP management believes that if it were finally determined that any liability for state or Federal taxes (including interest and penalties) relating to these plans existed at June 30, 2011, such liability would not be material to the SDP's financial position or results of operations for the fiscal year ended June 30, 2011. In addition, the IRS informed the SDP that, since the District's requested rulings are under examination by the IRS and answers to the requested rulings are pertinent to the examination, the IRS anticipates that the rulings will be answered through the examination process.

9. MATTERS RELATED TO GOING CONCERN – SCHOOL DISTRICT OF PHILADELPHIA (SDP)

The SDP's financial statements have been presented on the basis of a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. For the Fiscal Years ended June 30, 2010 and 2011, the SDP's combined operating funds (General Fund, Intermediate Unit Fund, and Debt Service Fund) experienced operating losses of \$3.7 million and \$25.7 million, respectively (without regard to opening balances in these funds in each fiscal year). While the combined operating funds' available fund balance at June 30, 2011 was \$30.8 million (\$18.4 million of which has been set aside to pay Fiscal Year 2012 healthcare self-insurance claims), the SDP is facing significant budget shortfall for Fiscal Years 2012 and 2013 because of drastic reductions to federal and state revenues, mandatory cost increases, and non-recurring savings and expenditure deferrals expected to be used to close the Fiscal Year 2012 budget gap. The continued losses and significant projected budget shortfalls for fiscal years 2012 and 2013, combined with the uncertainty over the SDP's ability to achieve cost savings and obtain additional funding to overcome these budget shortfalls, raises concern about the ability of the SDP to continue as a going concern.

In the Spring of 2011, the SDP announced that absent corrective action, it was facing a projected \$629.0 million budget gap in Fiscal Year 2012 in both its Operating Budget and Categorical Budget due to the following factors: (1) the anticipated elimination of: (a) \$122.0 million of Federal State Fiscal Stabilization Funds provided to the

SDP through the State; (b) \$71.0 million of Federal Education Jobs Funds provided to the **SDP** through the State; and (c) \$116.0 million in directly-received Federal Stimulus funds; (2) a net reduction of \$100.0 million in State appropriations based on the Governor's proposed Fiscal Year 2012 Commonwealth budget, and (3) the need to replace one-time funds received in Fiscal Year 2011 through a \$19.4 million restructuring which lowered Fiscal Year 2011 debt service expenses and the release of a reserve of \$66.0 million. In addition, the **SDP** anticipated mandated expenditure increases in Fiscal Year 2012 due to: (1) projected mandated charter school increases of \$39.0 million based on per pupil cost increases and anticipated enrollment increases; (2) a net increase in expenses for "turnaround school" initiatives of \$13.6 million; (3) higher pension payments of \$17.0 million due to a forthcoming contribution rate increase from 5.64% to 8.65%; and (4) other mandated increases of \$86.0 million due to a variety of factors, including increases by mandated collective bargaining agreements for medical and prescription drug benefits, utilities, and debt service; offset by (5) an increase in the Commonwealth's pension reimbursement and all other revenues to the **SDP** of \$21.0 million. To address the \$629.0 million budget gap, the **SDP** identified various categories of expenditures to be considered for reduction ("Gap Closing Plan").

On May 31, 2011, the School Reform Commission adopted its Fiscal Year 2012 Operating Budget. In light of the initial projected budgetary shortfall for Fiscal Year 2012, the adopted budget included \$412 million in management initiated reductions to base expenditures and \$53 million in additional local revenues. The adopted budget also assumed \$209.2 million of further reductions to implement the Gap Closing Plan.

Events, including the adoption of a budget by the Commonwealth of Pennsylvania, the provision of additional moneys and additional taxing authority by the City of Philadelphia to the **SDP**, and the restoration of certain services by the **SDP** occurred subsequent to the adoption of the Fiscal Year 2012 Operating Budget. Such events affected the amount required to fully implement the Gap Closing Plan and the timing of planned reductions to expenditures. Certain portions of the Gap Closing Plan which have been implemented, in the amount of \$169 million, represent non-recurring savings and expenditure deferrals. The implementation and refinement of the Gap Closing Plan is ongoing.

As of February 3, 2012, the **SDP's** estimated budget gap for fiscal year 2012 was \$70.8 million. The **SDP** has identified and publicly announced areas where \$32.0 million of savings are in the process of being implemented. The remaining \$38.8 million budget gap needs to be addressed.

During the course of each fiscal year, the **SDP** monitors its cash flow on a monthly basis and compares it to the cash flow assumptions in the adopted operating budget. In light of the Gap Closing Plan and its implementation, the **SDP** has amended its cash flow projections to reflect the amounts of the Gap Closing Plan which have been implemented or will be implemented for the remainder of Fiscal Year 2012. Such cash flow projections estimate that sufficient cash will be available for the **SDP** to continue operations and meet its expenses in a timely manner through the remainder of Fiscal Year 2012; in particular, to pay salaries and debt service when due.

The effect of the events which have occurred in Fiscal Year 2012 will also significantly impact the **SDP's** adopted budget for Fiscal Year 2013. As of January 19, 2012, the **SDP** estimated its projected fiscal year 2013 starting operating funds budget gap to be \$269 million caused by (1) the loss of \$169 million of one-time, non-recurring savings and expenditure deferrals which were part of the fiscal year 2012 Gap Closing Plan and (2) anticipated increases (currently projected to be approximately \$100 million) in core expenditure areas such as wages, benefits, pensions, and debt service. The Fiscal Year 2013 starting budget gap could grow even significantly more if the Fiscal Year 2012 projected gap is not closed and there are additional unanticipated costs and/or lost revenues.

To address the challenges for Fiscal Year 2013, once the revenues available to the **SDP** are ascertained, the School Reform Commission is prepared to take actions, to balance the Fiscal Year 2013 budget, including:

- (1) Reducing facilities costs through implementation of the District's Facilities Master Plan;
- (2) Reducing administrative costs through reorganization of central office functions; while maintaining essential service levels for schools; and
- (3) Altering, amending or canceling contracts and other operational conditions to align costs to available revenues.

Inasmuch as revenues for Fiscal Year 2013 are not presently ascertainable, the **SDP** has prepared a baseline cash flow for the first quarter of Fiscal Year 2013, using updated Fiscal Year 2012 amounts, taking into account the implementation of the Gap Closing Plan discussed herein, utilizing revenue assumptions based upon publicly issued documents, using expenditure estimates based upon known or expected increases and the lack of the non-recurring items which existed in Fiscal Year 2012 and assuming the issuance, as has been the **SDP's** practice in 23 of the last 26 years, of tax and revenue anticipation notes (estimated at \$450 million) to provide cash flow to fund the timing differences between expenditures necessary to be paid and the receipt of revenues later

in the fiscal year. The **SDP** believes that even without action by the School Reform Commission as described herein, sufficient cash will be available for the **SDP** to continue operations.

As referred to elsewhere in the Notes to the Financial Statements, the **SDP** is a political subdivision of the Commonwealth carrying out a constitutionally mandated function for which the Commonwealth must provide funding. In addition to annually recurring state funding, the **SDP** levies taxes pursuant to City Council authorization and direct authorization of the General Assembly. In addition, Section 696 of the Pennsylvania Public School Code of 1949, as amended, (the "School Code"), requires the City to provide all tax payments to the **SDP** in each fiscal year at least equal to the highest amount in the three preceding fiscal years and all non-tax payments made during the prior year. Accordingly, the **SDP** has assurance of annual recurring revenue.

The School Reform Commission is prepared to exercise its statutory powers to maximize the revenues available to the **SDP**.

The School Reform Commission is legally authorized to take the steps enumerated above and any other steps required to continue the operation of the **SDP**, as the School Code grants to the School Reform Commission, among others, the following powers in addition to the powers and duties vested in the Board of Education to:

- (1) Suspend the requirements of the School Code and the regulations of the State Board of Education (except the **SDP** shall remain subject to the provisions of the School Code pertaining to charter schools);
- (2) Employ professional and senior management employees who do not hold state certification, if the School Reform Commission has approved the qualifications of the individual and at a salary established by it;
- (3) Enter into agreements with persons and for-profit or nonprofit organizations providing educational or other services to or for the **SDP**;
- (4) Notwithstanding any other provisions of the School Code, to close or reconstitute a school, including the reassignment, suspension or dismissal of professional employees;
- (5) Suspend professional employees without regard for specific provisions of the School Code relating, among other things, to seniority;
- (6) Appoint managers, administrators and for-profit or non-profit organizations to oversee the operations of a school or group of schools;
- (7) Reallocate resources, amend school procedures, develop achievement plans and implement testing or other evaluation procedures for educational purposes;
- (8) Supervise and direct principals, teachers and administrators;
- (9) Negotiate any memoranda of understanding under a collective bargaining agreement in existence on April 27, 1998;
- (10) Negotiate new collective bargaining agreements;
- (11) Delegate to a person, including an employee of the **SDP**, or a for-profit or non-profit organization, powers it deems necessary to carry out the purposes of Article VI (School Finances) of the School Code, subject to the supervision and direction of the School Reform Commission; and
- (12) Employ, contract with or assign persons and for-profit or non-profit organizations to review the financial and educational programs of school buildings and make recommendations to the School Reform Commission regarding improvements to the financial or educational programs of public schools.

Section 696 of the School Code also vests the School Reform Commission with the powers of a special board of control granted under Section 693 of the School Code. A special board of control has, among others, the power to cancel or to renegotiate any contract other than teacher contracts to which the board or the **SDP** is a party, if such cancellation or renegotiation of contracts will effect needed economies in the operation of public schools.

The ability of the **SDP** to continue as a going concern is dependent upon the success of implementing these cost saving measures or additional revenues. If the **SDP** is unable to adequately reduce spending and/or obtain additional funding, it may be unable to pay certain obligations, other than payroll and debt service, timely. There can be no assurance that the **SDP** will be successful in accomplishing its cost saving plans or in obtaining additional revenues. The financial statements do not include any adjustments that might be necessary should the **SDP** be unable to continue as a going concern.

10. SUBSEQUENT EVENTS

A. PRIMARY GOVERNMENT

- 1) In December 2011, the City issued \$173.0 million of Tax and Revenue Anticipation Notes (TRAN) to supplement the receipts of the General Fund of the City for the purpose of paying general expenses of

the City prior to the receipt of taxes and other revenues to be received in the current fiscal year. The proceeds will be invested until needed and repaid by June 30, 2012.

- 2) In November 2011, the City issued Water and Wastewater Revenue Bonds Series 2011A in the amount of \$135.0 million, and Water and Wastewater Revenue Refunding Bonds in the amount of \$49.9 million. Serial bonds were issued in the amount of \$49.9 million with interest rates ranging from 4.0% to 5.0%, and have a maturity date of 2026. Term bonds were issued in the following amounts (1) \$2.6 million with an interest rate of 4.5% and mature in 2036; (2) \$50.2 million with an interest rate of 5.0% and mature in 2036; (3) \$82.2 million with an interest rate of 5.0% and mature in 2041. The proceeds of the bonds together with other available funds of the water department will be used to fund capital improvements to the City's water and wastewater system, advance refunding of a portion of the 2001A and 2007A bonds, fund capitalized interest, the required deposit into the Debt Reserve account of the Sinking Fund and pay various bond issuance costs.
- 3) In December 2011, the City issued Airport Revenue Bond Series 2011 in the amount of \$233.8 million. The Series 2011A bonds (AMT) were issued as serial bonds in the amount of \$199.0 million with interest rates ranging from 2% to 5% and mature in 2028. The Series 2011B bonds were issued as serial bonds in the amount of \$34.8 million, with interest rates ranging from 2% to 5% and mature in 2031. The plan is to: (i) refund a portion of the International Terminal Bonds; (ii) refund all of the City's outstanding Airport Revenue Bonds, Series 2001B; and (iii) pay the issuance costs of the bonds. The proceeds from the 2011A bonds will be used to refund the entire principal amount of \$149.3 million for the Airport Revenue Bond, Series 2001A. In addition, the 2011B bonds will be used to refund a portion of the Airport Revenue Bond Series 1998B (currently outstanding aggregate principal amount of \$57.1 million).
- 4) Effective August 4, 2011 the city remarketed the General Obligation Multi-Modal Refunding Bonds, Series 2009B (\$100.0 million), and entered into a letter of credit substitution with the Royal Bank of Canada (RBC). The 2009B Bonds are also payable from the proceeds of funds drawn by the U.S. Bank National Association, as fiscal agent, under an irrevocable, direct-pay letter of credit, issued by RBC. The Letter of Credit (LOC) will permit the fiscal agent to draw up to \$101.8 million for principal and unpaid interest on the 2009B bonds and will expire on August 4, 2014, unless earlier cancelled, terminated or renewed. The LOC will constitute both a Credit Facility and Credit Provider and RBC a Liquidity Facility and Liquidity Provider for the 2009B bonds.
- 5) Effective September 1, 2011 the city remarketed the Water and Wastewater Revenue Bonds, Variable Rate Series 1997B (\$70.1 million), and entered into an irrevocable, direct-pay letter of credit (LOC) with TD Bank, N.A. The U.S. Bank National Association, as fiscal agent, will be entitled to draw up to an amount equal to the principal of and 48 day's accrued interest to pay the principal or redemption price of and interest on the 1997B bonds when due. The LOC will expire on September 1, 2015 unless earlier terminated or extended. Unless the LOC is extended or replaced, the 1997B bonds will be subject to mandatory tender for purchase prior to the termination of the LOC. The LOC will constitute both a Credit Facility and Liquidity Facility, and TD Bank a Credit Provider and Liquidity Provider for the 1997B bonds.
- 6) Effective December 23, 2011 the city delivered Letters of Credit (LOC) from TD Bank and the Royal Bank of Canada (RBC) to the U.S. Bank National Association (fiscal agent) to provide credit enhancement and liquidity support for the Airport Revenue Refunding Bonds, Series 2005C bonds. With the delivery of each LOC, the 2005C bonds will become subject to mandatory tender for purchase. Each LOC constitutes both a Credit Facility and Liquidity Facility and the banks will be both Credit Provider's and Liquidity Provider's under the agreement. TD Bank issued a LOC effective December 23 2011 with a stated expiration date of December 23, 2016 unless extended or terminated, to pay the principal of, interest on and purchase price of the 2005 C-1 bonds (currently outstanding principal of \$81.3 million) from the proceeds of an irrevocable direct pay letter of credit. In addition, the RBC issued a LOC effective December 23, 2011 with a stated expiration date of December 23, 2014 unless extended or terminated, to pay the principal of, interest on and purchase price of the 2005 C-2 bonds (currently outstanding principal of \$81.3 million) from the proceeds of an irrevocable direct pay letter of credit.
- 7) Subsequent to June 30, 2011, **PICA** received settlement payments aggregating \$7,481,000 in connection with a Complaint for Violations of the Federal Securities Laws filed by the Securities and Exchange Commission against J.P. Morgan Securities LLC in connection with certain of PICA's 1993 and 1996 bond issuances, and with a Consent Order for a Civil Money Penalty issued by the U.S. Comptroller of the Currency against JPMorgan Chase Bank, N.A. for violation of law and/or unsafe banking practices related to the sale of certain derivative financial products prior to 2006. The Board of Directors subsequently voted to transfer all proceeds to the City.

- 8) In September 2011, to reduce costs associated with the Deferred Option Retirement Plan (DROP), City Council amended the options for retirement benefits. Options include, but are not limited to: changing eligibility requirements and the interest credited to DROP accounts; adding a new option for retirees to take a lump sum benefit at retirement, in exchange for an actuarial reduction of their regular monthly pension; and making conforming amendments to other provisions; under certain terms and conditions.

B. COMPONENT UNITS

- 1) **OPEB Trust Fund** - On July 29, 2010, the PUC approved a settlement with **PGW**, which provided for the establishment of an irrevocable trust for the deposit of funds derived through a Rider from all customer classes to fund OPEBs. The funding contained in the Rider is \$16,000,000 annually. **PGW** is required under the settlement to fund annually \$15,000,000 of the UAAL in each of the fiscal years 2011 through 2015. Additionally, **PGW** must fund \$3,503,000 a year representing a 30 year amortization of the Net OPEB obligation of \$105,500,000 at August 31, 2010. **PGW** established the Trust in July 2010 and began funding the Trust in accordance with the settlement agreement in September 2010.
- 2) **Commercial Paper Program** - Effective October 29, 2010, **PGW** requested that each of the three banks reduce the stated amounts of their respective letters of credit for the commercial paper Series F-1, F-2, and F-3 from \$40,000,000 to \$30,000,000. As a result of the reduction of each of the letters of credit, **PGW's** commercial paper program was reduced from \$120,000,000 to \$90,000,000.
- 3) In September 2011, the underlying variable rate bonds were remarketed with new letters of credit. During the remarketing, **PGW** partially redeemed portions of the bonds, and re-allocated remaining principal amongst the bond subseries. At the same time, City terminated an aggregate notional amount of \$29,480,000 of the swaps, keeping the remaining portion of the swap to hedge the remaining variable rate bonds backed with letters of credit. The partial termination was competitively bid, with the swap counterparty providing the lowest cost of termination/assignment. **PGW** paid a swap termination payment of \$6,790,000 to partially terminate the swaps. The remaining notional amounts of each of the swaps were slightly reamortized to match the reamortizations of the underlying bonds.
- 4) On September 14, 2011 the City issued Gas Works Revenue Bonds, Twentieth Series (1975 General Ordinance) in the amount of \$16.2 million for the purpose of refunding the entire Sixteenth Series Bonds (1975 General Ordinance), and paying the costs of issuing the bonds. The Twentieth Series Bonds, with fixed interest rates that range from 2.0% to 5.0%, have maturity dates through 2015. The costs of issuance related to this transaction was approximately \$0.2 million.

Also, on September 14, 2011, the City issued Gas Works Revenue Bonds, Tenth Series (1998 General Ordinance) in the amount of \$72.6 million for the purpose of refunding the entire First Series A, First Series C, Seconds Series, and Third Series Bonds (1998 General Ordinance), and paying the costs of issuing the bonds. The Tenth Series Bonds, with fixed interest rates that range from 3.0% to 5.0%, have maturity dates through 2026. The cost of issuance related to this transaction was approximately \$1.3 million.

- 5) In September 2011 **PGW** secured four separate letters of credit (LOC) relating to its Gas Works Revenue Refunding Bonds, Eighth Series (1998 General Ordinance) in the amount of \$225.5 million. Each LOC will be issued and secured pursuant to the Amendment to Reimbursement Agreement dated as of September 1, 2011, between **PGW** and the issuing bank.

Eighth Series B Bonds (\$50,260,000)

While the Eight Series B Bonds are in the Weekly Mode, the principal of and up to fifty-two (52) days' interest on the Eighth Series B Bonds, and the Purchase Price of the Eight Series B Bonds that are tendered for payment and not remarketed, will be paid by the Fiscal Agent using funds drawn under an irrevocable, direct pay letter of credit issued by Wells Fargo Bank, National Association pursuant to the Reimbursement, Credit and Security Agreement dated as of August 20, 2009, as previously amended as amended by a Second Amendment to Reimbursement Agreement dated as of September 1, 2011 between the City and the Eight Series B Credit Provider. The Eighth Series B Credit Facility is also serving as the Liquidity Facility for the Eighth Series B Bonds and the Eighth Series B Credit Provider is also the Liquidity Provider for the Eighth Series B Bonds. The Eighth Series B Credit Facility will expire on August 30, 2013 unless extended at the option of the Eighth Series B Credit Provider. Under certain circumstances, the Eighth Series B Credit Facility may be terminated or replaced by an Alternate Credit Facility and/or Alternate Liquidity Facility. The Eighth Series B Credit Facility secures only the Eighth Series B Bonds while in the Weekly Mode.

Eighth Series C Bonds (\$50,000,000)

While the Eighth Series C Bonds are in the Weekly Mode, the principal of and up to fifty-two (52) days' interest on the Eighth Series C Bonds, and the Purchase Price of the Eighth Series C Bonds that are tendered for payment and not remarketed, will be paid by the Fiscal Agent using funds drawn under an irrevocable, direct pay letter of credit issued by the Bank of Nova Scotia, acting through its New York Agency pursuant to the Reimbursement, Credit and Security Agreement dated as of August 20, 2009, as previously amended as amended by a First Amendment to Reimbursement Agreement dated as of September 1, 2011 between the City and the Eighth Series C Credit Provider. The Eighth Series C Credit Facility is also serving as the Liquidity Facility for the Eighth Series C Bonds and the Eighth Series C Credit Provider is also the Liquidity Provider for the Eighth Series C Bonds. The Eighth Series C Credit Facility will expire on August 30, 2013 unless extended at the option of the Eighth Series C Credit Provider. Under certain circumstances, the Eighth Series C Credit Facility may be terminated or replaced by an Alternate Credit Facility and/or Alternate Liquidity Facility. The Eighth Series C Credit Facility secures only the Eighth Series C Bonds while in the Weekly Mode.

Eighth Series D Bonds (\$75,000,000)

While the Eighth Series D Bonds are in the Weekly Mode, the principal of and up to fifty-two (52) days' interest on the Eighth Series D Bonds, and the Purchase Price of the Eighth Series D Bonds that are tendered for payment and not remarketed, will be paid by the Fiscal Agent using funds drawn under an irrevocable, direct pay letter of credit issued by the Bank of America, N.A. pursuant to the Reimbursement, Credit and Security Agreement dated as of August 20, 2009, as previously amended as amended by a Second Amendment to Reimbursement Agreement dated as of September 1, 2011 between the City and the Eighth Series D Credit Provider. The Eighth Series D Credit Facility is also serving as the Liquidity Facility for the Eighth Series D Bonds and the Eighth Series D Credit Provider is also the Liquidity Provider for the Eighth Series D Bonds. The Eighth Series D Credit Facility will expire on August 30, 2013 unless extended at the option of the Eighth Series D Credit Provider. Under certain circumstances, the Eighth Series D Credit Facility may be terminated or replaced by an Alternate Credit Facility and/or Alternate Liquidity Facility. The Eighth Series D Credit Facility secures only the Eighth Series D Bonds while in the Weekly Mode.

Eighth Series E Bonds (\$50,260,000)

On and after September 1, 2011, the principal of and up to fifty-two (52) days' interest on the Eighth Series E Bonds, and the Purchase Price of the Eighth Series E Bonds that are tendered for payment and not remarketed, will be paid by the Fiscal Agent using funds drawn under an irrevocable, direct pay letter of credit issued by PNC Bank, National Association pursuant to the Reimbursement Agreement dated as of September 1, 2011 between the City and the Eighth Series E Credit Provider. The Eighth Series E Credit Facility is also serving as the Liquidity Facility for the Eighth Series E Bonds and the Eighth Series E Credit Provider is also the Liquidity Provider for the Eighth Series E Bonds. The Eighth Series E Credit Facility will expire on August 30, 2013 unless extended at the option of the Eighth Series E Credit Provider. Under certain circumstances, the Eighth Series E Credit Facility may be terminated or replaced by an Alternate Credit Facility and/or Alternate Liquidity Facility. The Eighth Series E Credit Facility secures only the Eighth Series E Bonds while in the Weekly Mode.

6) Tax and Revenue Anticipation Notes

On July 6, 2011 the **SDP** issued its annual tax and revenue anticipation notes for cyclical cash flow purposes in the aggregate principal amount of \$450.0 million (the "FY2012 Notes"). The notes will be paid off by June 29, 2012.

7) General Obligation Refunding Notes

On August 30, 2011 the **SDP** issued General Obligation Refunding Notes, Series A and B of 2011 in the principal amount of \$61.3 million. These notes refunded certain principal and interest payments due during Fiscal Year 2012 under GOB Series 1999B, 2002B, 2005D, 2006A, 2008E, 2010A, and 2010C in the amount of \$61.1 million. On December 20, 2011 the **SDP** repaid the General Obligation Refunding Notes, Series A and B of 2011 and issued General Obligation Refunding Bonds Series C of 2011 and D of 2011 in the aggregate principal amount of \$57.5 million.

8) General Obligation Bonds, Series of 2011

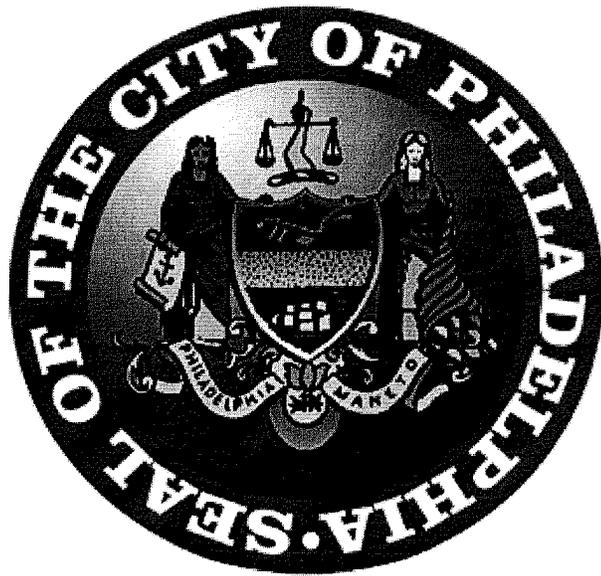
On December 20, 2011 the **SDP** issued General Obligation Bonds (GOB), Series A of 2011 and GOB Series B in the aggregate principal amount of \$161.6 million. Series A of 2011 was issued as Federally Taxable Qualified School Construction Bonds in the aggregate amount of \$144.6 million. The **SDP** will receive a federal interest subsidy for the Series A Bonds of 2011. The Series B Bonds of 2011 were issued as Tax-Exempt bonds in the aggregate principal amount of \$17.0 million. Both series of bonds will fund the Capital Improvement Program.

9) Loan agreement with Southeastern Pennsylvania Transportation Authority (SEPTA) To Provide Student Transpasses for school year 2011-12

On October 26, 2011, the SRC authorized (A-15) the First Amendment agreement with SEPTA to provide student transpasses to the **SDP** as an interest bearing loan up to the sum of \$36.5 million. Upon approval by the Philadelphia Common Pleas Court, the **SDP** intends to issue a General Obligation Note in the amount of \$36.5 million to fund this loan constituting an unfunded debt.

10) Reduction In Force

In the Spring of 2011, the **SDP** identified a projected budget gap for the Fiscal Year 2012 reporting period of over \$629 million. One of the actions taken to address this gap and balance the budget was a Reduction In Force (RIF) which was effective starting in July 1, 2011 and implemented in stages throughout the remaining months of Fiscal Year 2012. On December 31, 2011, the number of employees on current laid-off status with effective dates July 1, 2011 through December 31, 2011 was 998. This is point in time and will change as additional lay-offs occur and as employees who were laid-off are brought back to fill approved positions. In addition, some of the Reduction In Force was accomplished through the elimination of vacant positions, which is not reflected in the 998. The **SDP** continues to take strides to bridge the budget shortfall with a variety of strategies, trimming both non-personnel and personnel expenses.



City of Philadelphia
PENNSYLVANIA

**Required
Supplementary
Information**

(Other than Management's Discussion and Analysis)

City of Philadelphia
 Required Supplementary Information
 Budgetary Comparison Schedule
 General Fund
 For the Fiscal Year Ended June 30, 2011

Exhibit XIV

Amounts in thousands of USD

	<u>Budgeted Amounts</u>			Final Budget to Actual Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual*</u>	
<u>Revenues</u>				
Tax Revenue	2,471,918	2,489,042	2,459,146	(29,896)
Locally Generated Non-Tax Revenue	268,276	266,086	280,027	13,941
Revenue from Other Governments	1,115,628	1,076,562	1,066,501	(10,061)
Revenue from Other Funds	<u>53,321</u>	<u>64,224</u>	<u>54,620</u>	<u>(9,604)</u>
Total Revenues	3,909,143	3,895,914	3,860,294	(35,620)
<u>Expenditures and Encumbrances</u>				
Personal Services	1,369,164	1,382,663	1,360,362	22,301
Pension Contributions	479,978	492,657	485,208	7,449
Other Employee Benefits	<u>484,909</u>	<u>485,531</u>	<u>481,850</u>	<u>3,681</u>
Sub-Total Employee Compensation	2,334,051	2,360,851	2,327,420	33,431
Purchase of Services	1,153,831	1,176,378	1,127,817	48,561
Materials and Supplies	66,375	69,077	65,910	3,167
Equipment	13,723	15,876	12,371	3,505
Contributions, Indemnities and Taxes	135,765	131,988	111,070	20,918
Debt Service	121,395	114,000	110,414	3,586
Payments to Other Funds	<u>27,956</u>	<u>30,291</u>	<u>30,292</u>	<u>(1)</u>
Total Expenditures and Encumbrances	<u>3,853,096</u>	<u>3,898,461</u>	<u>3,785,294</u>	<u>113,167</u>
Operating Surplus (Deficit) for the Year	<u>56,047</u>	<u>(2,547)</u>	<u>75,000</u>	<u>77,547</u>
Fund Balance Available for Appropriation, July 1, 2010	(37,894)	(114,028)	(114,028)	-
<u>Operations in Respect to Prior Fiscal Years</u>				
Commitments Cancelled - Net	24,500	24,500	39,119	14,619
Prior Period Adjustments	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>
Adjusted Fund Balance, July 1, 2010	<u>(13,394)</u>	<u>(89,528)</u>	<u>(74,908)</u>	<u>14,620</u>
Fund Balance Available for Appropriation, June 30, 2011	<u>42,653</u>	<u>(92,075)</u>	<u>92</u>	<u>92,167</u>

* Refer to the notes to required supplementary information.

City of Philadelphia
Required Supplementary Information
Budgetary Comparison Schedule
HealthChoices Behavioral Health Fund
For the Fiscal Year Ended June 30, 2011

Exhibit XV

Amounts in thousands of USD

	<u>Budgeted Amounts</u>			<u>Final Budget to Actual Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual*</u>	
<u>Revenues</u>				
Locally Generated Non-Tax Revenue	7,500	3,500	1,237	(2,263)
Revenue from Other Governments	828,503	823,932	880,413	56,481
Total Revenues	836,003	827,432	881,650	54,218
<u>Other Sources</u>				
Increase in Unreimbursed Commitments	-	-	14,003	14,003
Increase in Financed Reserves	-	-	(32,870)	(32,870)
Total Revenues and Other Sources	836,003	827,432	862,783	35,351
<u>Expenditures and Encumbrances</u>				
Purchase of Services	883,323	883,323	864,554	18,769
Equipment	100	100	-	100
Payments to Other Funds	1,580	1,580	809	771
Total Expenditures and Encumbrances	885,003	885,003	865,363	19,640
Operating Surplus (Deficit) for the Year	(49,000)	(57,571)	(2,580)	54,991
Fund Balance Available for Appropriation, July 1, 2010	-	42,474	42,474	-
<u>Operations in Respect to Prior Fiscal Years</u>				
Commitments Cancelled - Net	-	-	6,358	6,358
Prior Period Adjustments	-	(42,474)	-	42,474
Other Adjustments	49,000	25,000	-	(25,000)
Adjusted Fund Balance, July 1, 2010	49,000	25,000	48,832	23,832
Fund Balance Available for Appropriation, June 30, 2011	-	(32,571)	46,252	78,823

* Refer to the notes to required supplementary information.

City of Philadelphia
Required Supplementary Information
Budgetary Comparison Schedule
Grants Revenue Fund
For the Fiscal Year Ended June 30, 2011

Exhibit XVI

Amounts in thousands of USD

	Budgeted Amounts		Actual*	Final Budget to Actual Positive (Negative)
	Original	Final		
Revenues				
Locally Generated Non-Tax Revenue	81,939	66,951	56,020	(10,931)
Revenue from Other Governments	1,109,678	766,751	522,141	(244,610)
Revenue from Other Funds	-	-	471	471
Total Revenues	1,191,617	833,702	578,632	(255,070)
Other Sources				
Increase in Unreimbursed Commitments	-	-	8,636	8,636
Decrease in Financed Reserves	-	-	23,243	23,243
Total Revenues and Other Sources	1,191,617	833,702	610,511	(223,191)
Expenditures and Encumbrances				
Personal Services	118,366	126,680	87,176	39,504
Pension Contributions	12,502	15,113	11,540	3,573
Other Employee Benefits	20,771	21,196	14,356	6,840
Sub-Total Employee Compensation	151,639	162,989	113,072	49,917
Purchase of Services	666,025	697,593	469,725	227,868
Materials and Supplies	20,201	21,581	13,437	8,144
Equipment	14,100	15,706	5,375	10,331
Payments to Other Funds	39,652	49,702	46,719	2,983
Advances, Subsidies, Miscellaneous	300,000	196,181	-	196,181
Total Expenditures and Encumbrances	1,191,617	1,143,752	648,328	495,424
Operating Surplus (Deficit) for the Year	-	(310,050)	(37,817)	272,233
Fund Balance Available for Appropriation, July 1, 2010	-	(39,010)	(39,010)	-
Operations in Respect to Prior Fiscal Years				
Commitments Cancelled - Net	-	-	45,974	45,974
Revenue Adjustments - Net	-	-	(3,417)	(3,417)
Prior Period Adjustments	-	39,010	-	(39,010)
Adjusted Fund Balance, July 1, 2010	-	-	3,547	3,547
Fund Balance Available for Appropriation, June 30, 2011	-	(310,050)	(34,270)	275,780

* Refer to the notes to required supplementary information.

City of Philadelphia
 Required Supplementary Information
 Pension Plans and Other Post Employment Benefits - Schedule of Funding Progress

Exhibit XVII

Amounts in millions of USD

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u> (a)	<u>Actuarial Accrued Liability (AAL)</u> (b)	<u>Unfunded AAL (UAAL)</u> (b - a)	<u>Funded Ratio</u> (a / b)	<u>Covered Payroll</u> (c)	<u>UAAL as a Percent of Covered Payroll</u> (b - a) / c
<u>City of Philadelphia Municipal Pension Plan</u>						
07/01/2005	4,159.5	7,851.5	3,692.0	52.98%	1,270.7	290.55%
07/01/2006	4,168.5	8,083.7	3,915.2	51.57%	1,319.4	296.74%
07/01/2007	4,421.7	8,197.2	3,775.5	53.94%	1,351.8	279.29%
07/01/2008	4,623.6	8,402.2	3,778.6	55.03%	1,456.5	259.43%
07/01/2009	4,042.1	8,975.0	4,932.9	45.04%	1,463.3	337.11%
07/01/2010	4,380.9	9,317.0	4,936.1	47.02%	1,421.2	347.32%
<u>City of Philadelphia Other Post Employment Benefits</u>						
07/01/2007	-	1,136.7	1,136.7	0.00%	1,351.8	84.09%
07/01/2008	-	1,156.0	1,156.0	0.00%	1,456.5	79.37%
07/01/2009	-	1,119.6	1,119.6	0.00%	1,461.7	76.60%
07/01/2010	-	1,169.5	1,169.5	0.00%	1,419.5	82.39%
<u>Philadelphia Gas Works Pension Plan</u>						
09/01/2004	366.8	436.3	69.5	84.07%	102.5	67.80%
09/01/2005	383.5	450.8	67.3	85.07%	102.5	65.66%
09/01/2006	411.9	474.3	62.4	86.84%	106.0	58.87%
09/01/2007	416.2	482.4	66.2	86.28%	105.6	62.69%
09/01/2008	430.4	495.2	64.8	86.92%	107.9	60.01%
09/01/2009	355.5	519.8	164.3	68.39%	106.0	155.00%

I. BASIS OF BUDGETING

The budgetary comparison schedules presented differ from the GAAP basis statements in that both expenditures and encumbrances are applied against the current budget, adjustments affecting activity budgeted in prior years are accounted for through fund balance or as reduction of expenditures and certain interfund transfers and reimbursements are budgeted as revenues and expenditures. In accordance with the Philadelphia Home Rule Charter, the City has formally established budgetary accounting control for its operating and capital improvement funds.

The major funds presented as Required Supplementary Information are subject to annual operating budgets adopted by City Council. These budgets appropriate funds by major class of expenditure within each department. Major classes are defined as: personal services; purchase of services; materials and supplies & equipment; contributions, indemnities & taxes; debt service; payments to other funds; and advances & other miscellaneous payments. The appropriation amounts for each fund are supported by revenue estimates and take into account the elimination of accumulated deficits and the re-appropriation of accumulated surpluses to the extent necessary. All transfers between major classes must have council approval.

Appropriations that are not expended or encumbered at year end are lapsed. Comparisons of budget to actual activity at the legal level of compliance are reported in the City's "Supplemental Report of Revenues & Obligations", a separately published report.

During the year, classification adjustments and supplementary appropriations were necessary for City funds. Therefore, budgeted appropriation amounts presented are as originally passed and as amended by the City Council. As part of the amendment process, budget estimates of City related revenues are adjusted and submitted to City Council for review. Changes in revenue estimates do not need City Council approval, but are submitted in support of testimony with regard to the appropriation adjustments. Revenue estimates are presented as originally passed and as amended.

II. BASIS OF BUDGETING TO GAAP BASIS RECONCILIATION

	General Fund	HealthChoices Behavioral Health Fund	Grants Revenue Fund
Revenues			
Budgetary Comparison Schedule	3,860,294	881,650	578,632
Transfers	(335,085)	-	471
Program Income	-	-	64,866
Adjustments applicable to Prior Years Activity	-	-	(892)
Change in Amount Held by Fiscal Agent	330	-	-
Change in BPT Adjustment	(11,773)	-	-
Return of Loan	-	-	-
Other	13,538	-	(3,466)
Statement of Revenues, Expenditures & Changes in Fund Balance	<u>3,527,304</u>	<u>881,650</u>	<u>639,611</u>
Expenditures and Encumbrances			
Budgetary Comparison Schedule	3,785,293	865,363	648,328
Transfers	(144,435)	-	(39,392)
Bond Issuance Costs	-	-	-
Expenditures applicable to Prior Years Budgets	23,965	(2,888)	39,046
Program Income	-	-	64,866
Other	13,537	-	-
Change in Amount Held by Fiscal Agent	12,250	-	-
Current Year Encumbrances	(79,007)	(17,473)	(93,655)
Statement of Revenues, Expenditures & Changes in Fund Balance	<u>3,611,603</u>	<u>845,002</u>	<u>619,193</u>

**Other
Supplementary
Information**

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

COUNTY LIQUID FUELS TAX - Established to account for funds made available by Public Law No. 149.

SPECIAL GASOLINE TAX - Established to account for funds made available by Public Law No. 588.

HOTEL ROOM RENTAL TAX - Established to account for the tax levied to promote tourism.

COMMUNITY DEVELOPMENT - Established to account for revenues received from the Department of Housing and Urban Development, restricted to accomplishing the objectives of the CDBG Program, within specific target areas.

CAR RENTAL TAX - Established to account for the tax levied to retire new municipal stadium debt.

HOUSING TRUST - Established to account for the funds to be used under Chapter 1600 of Title 21 of the Philadelphia Code to assist low income homeowners.

ACUTE CARE HOSPITAL ASSESSMENT - Established in FY 2009 to account for the assessment of certain net operating revenues of certain acute care hospitals.

RIVERVIEW RESIDENTS - Established to maintain a commissary and provide other benefits for the residents.

PHILADELPHIA PRISONS - Established to operate a workshop and to provide benefits for the prison inmates.

ARBITRATION APPEALS - Established to account for certain court fees and provide funds for the arbitration board.

DEPARTMENTAL - Established to account for various activities of the Free Library and Parks and Recreation.

MUNICIPAL AUTHORITY ADMINISTRATIVE - Established to account for all financial transactions of the Municipal Authority not accounted for in other funds.

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY ADMINISTRATIVE - Established to account for PICA revenues from taxes and deficit financing transactions.

NON-MAJOR GOVERNMENTAL FUNDS (Cont'd)

DEBT SERVICE FUNDS

Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

CITY - Established to account for the debt service activities of the City not reflected in proprietary funds operations.

MUNICIPAL AUTHORITY - Established to account for the debt service activities related to the equipment and facilities financed through the Philadelphia Municipal Authority.

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY DEBT SERVICE - Established to account for the debt service activities related to the deficit financing provided by PICA.

CAPITAL IMPROVEMENT FUNDS

Capital Improvement Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets .

CITY - Established to account for capital additions and improvements to the City's facilities and infrastructure and financed through general obligation bond issues and grants from federal, state and local agencies.

MUNICIPAL AUTHORITY - Established to account for the acquisition of vehicles and the construction of major facilities for the city.

PERMANENT FUNDS

Permanent Funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs.

LIBRARIES & PARKS - Established to account for trust of the Free Library and Parks and Recreation.

City of Philadelphia
 Combining Balance Sheet
 Non-Major Governmental Funds
 June 30, 2011

Schedule I

Amounts in thousands of USD

	Special Revenue													Total		
	County Liquid Fuels Tax	Special Gasoline Tax	Hotel Room Rental Tax	Community Development	Car Rental Tax	Housing Trust	Acute Care Hospital Assessment	Riverview Residents	Philadelphia Prisons	Arbitration Appeals	Departmental	Municipal Authority Administrative	PICA Administrative			
Assets																
Cash on Deposit and on Hand	2,577	22,464	6,685	-	5,779	11,296	27,737	38	4,140	-	4,869	361	41,041	46,271		
Equity in Treasurer's Account	-	-	-	-	-	-	-	-	-	-	1,136	-	-	81,852		
Investments	-	-	-	-	-	-	-	-	-	-	1,053	100	9,453	10,606		
Due from Other Funds	-	-	-	-	-	-	-	-	-	-	478	-	-	478		
Amounts Held by Fiscal Agent	-	-	-	-	-	-	711	-	-	-	-	-	-	711		
Taxes Receivable	-	-	5,079	-	494	-	-	-	-	-	-	-	2,507	8,080		
Accounts Receivable	-	-	-	3,176	-	-	-	-	-	-	-	2,648	-	5,824		
Due from Other Governmental Units	-	-	-	8,827	-	-	-	-	-	-	-	-	-	8,827		
Allowance for Doubtful Accounts	-	-	(721)	-	(14)	-	-	-	-	-	-	-	-	(735)		
Interest and Dividends Receivable	-	-	-	-	5	-	-	-	-	-	-	1	16	22		
Other Assets	-	-	-	-	-	-	-	-	-	-	525	-	37	562		
Total Assets	2,577	22,464	11,043	12,003	6,264	11,296	28,448	38	4,140	-	8,061	3,110	53,054	162,498		

Liabilities and Fund Balances

Liabilities:																
Vouchers Payable	21	194	-	1,429	-	443	18,744	-	98	-	248	-	-	21,177		
Accounts Payable	408	6,142	4,405	3,219	-	396	87	-	-	-	644	2,862	71	18,234		
Salaries and Wages Payable	-	-	-	238	-	-	136	-	-	-	-	-	121	495		
Due to Other Funds	-	-	-	4,377	-	-	-	-	20	-	324	-	7,489	12,210		
Due to Component Units	-	-	-	2,741	-	-	-	-	-	-	-	-	-	2,741		
Funds Held in Escrow	-	-	-	-	-	-	-	-	448	-	689	-	-	1,137		
Deferred Revenue	-	-	76	4,044	1	-	711	-	-	-	-	-	-	4,832		
Total Liabilities	429	6,336	4,481	16,048	1	839	19,678	-	566	-	1,905	2,862	7,681	60,826		
Fund Balances:																
Nonspendable	-	-	-	-	-	-	-	-	-	-	-	-	-	200		
Restricted	2,148	16,128	6,562	-	6,263	10,457	8,770	-	-	-	200	248	45,373	101,413		
Committed	-	-	-	-	-	-	-	38	3,574	-	5,464	-	-	4,104		
Unassigned	-	-	-	(4,045)	-	-	-	-	-	-	492	-	-	(4,045)		
Total Fund Balances	2,148	16,128	6,562	(4,045)	6,263	10,457	8,770	38	3,574	-	6,156	248	45,373	101,672		
Total Liabilities and Fund Balances	2,577	22,464	11,043	12,003	6,264	11,296	28,448	38	4,140	-	8,061	3,110	53,054	162,498		

City of Philadelphia
Combining Balance Sheet
Non-Major Governmental Funds(Continued)
June 30, 2011

	Debt Service				Capital Improvement			Permanant		Total
	City	Municipal Authority	PICA	Total	City	Municipal Authority	Total	Libraries & Parks	Non-Major Governmental Funds	
Assets										
Cash on Deposit and on Hand	-	-	31,804	31,804	-	-	-	95	-	78,170
Equity in Treasurer's Account	2,521	-	-	2,521	-	-	208,732	-	-	293,105
Investments	-	11	48,464	48,475	-	86,582	86,582	5,565	-	151,228
Due from Other Funds	-	-	-	-	-	-	-	-	-	478
Amounts Held by Fiscal Agent	-	-	-	-	-	-	-	-	-	711
Taxes Receivable	-	-	-	-	-	-	-	-	-	8,080
Accounts Receivable	-	-	-	-	-	-	-	1	-	5,825
Due from Other Governmental Units	-	-	-	-	20,362	-	20,362	-	-	29,189
Allowance for Doubtful Accounts	-	-	-	-	-	-	-	-	-	(735)
Interest and Dividends Receivable	-	-	4	4	20	74	94	-	-	120
Other Assets	-	-	-	-	-	-	-	-	-	562
Total Assets	2,521	11	80,272	82,804	229,114	86,656	315,770	5,661	-	566,733
Liabilities and Fund Balances										
Liabilities:										
Vouchers Payable	-	-	-	-	5,162	-	5,162	-	-	26,339
Accounts Payable	-	-	-	-	20,662	4,385	25,047	13	-	43,294
Salaries and Wages Payable	-	-	-	-	74	-	74	-	-	569
Due to Other Funds	-	-	-	-	-	-	-	154	-	12,364
Due to Component Units	-	-	-	-	-	-	-	-	-	2,741
Funds Held in Escrow	-	-	-	-	15	-	15	-	-	1,152
Deferred Revenue	-	-	-	-	17,753	-	17,753	-	-	22,585
Total Liabilities	-	-	-	-	43,666	4,385	48,051	167	-	109,044
Fund Balances:										
Nonspendable	-	-	-	-	-	-	-	2,404	-	2,604
Restricted	2,521	11	80,272	82,804	185,448	82,271	267,719	3,090	-	455,026
Committed	-	-	-	-	-	-	-	-	-	4,104
Unassigned	-	-	-	-	-	-	-	-	-	(4,045)
Total Fund Balances	2,521	11	80,272	82,804	185,448	82,271	267,719	5,494	-	457,689
Total Liabilities and Fund Balances	2,521	11	80,272	82,804	229,114	86,656	315,770	5,661	-	566,733

**City of Philadelphia
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds(Continued)
For the Fiscal Year Ended June 30, 2011**

Schedule II

	Debt Service				Capital Improvement			Permanent		Total
	Municipal Authority		PICA	Total	City	Municipal Authority	Total	Libraries & Parks	Non-Major Governmental Funds	
	City	Municipal Authority								
Revenues										
Tax Revenue	-	-	-	-	-	-	-	-	-	547,943
Locally Generated Non-Tax Revenue	-	-	3,024	3,024	-	-	-	897	-	32,653
Revenue from Other Governments	-	-	-	-	30,301	42	30,343	-	-	118,124
Other Revenues	-	-	-	-	4	-	4	-	-	10,593
Total Revenues	-	-	3,024	3,024	30,305	42	30,347	897	-	709,313
Expenditures										
Current Operating:										
Economic Development	-	-	-	-	-	-	-	-	-	41,859
Transportation:	-	-	-	-	-	-	-	-	-	27,721
Streets & Highways	-	-	-	-	-	-	-	-	-	-
Judiciary and Law Enforcement:	-	-	-	-	-	-	-	-	-	1,207
Prisons	-	-	-	-	-	-	-	-	-	-
Conservation of Health:	-	-	-	-	-	-	-	-	-	137,251
Health Services	-	-	-	-	-	-	-	-	-	-
Housing and Neighborhood Development	-	-	-	-	-	-	-	-	-	81,088
Cultural and Recreational:	-	-	-	-	-	-	-	-	-	3,990
Parks & Recreation	-	-	-	-	-	-	-	102	-	124
Libraries and Museums	-	-	-	-	-	-	-	-	-	-
Improvements to General Welfare:	-	-	-	-	-	-	-	-	-	-
Service to Property:	-	-	101	101	-	3	3	-	-	44,810
General Management and Support	-	-	-	-	112,088	22,845	134,933	-	-	134,933
Capital Outlay	-	-	-	-	-	-	-	-	-	-
Debt Service:	36,500	15,642	39,235	91,377	-	-	-	-	-	91,377
Principal	65,156	13,289	27,287	105,732	-	-	-	-	-	105,732
Interest	892	65	-	957	1,210	-	1,210	-	-	2,167
Bond Issuance Cost	-	-	-	-	-	-	-	-	-	-
Total Expenditures	102,548	28,996	66,623	198,167	113,298	22,848	136,146	102	-	672,269
Excess (Deficiency) of Revenues Over (Under) Expenditures	(102,548)	(28,996)	(63,599)	(195,143)	(82,993)	(22,806)	(105,799)	795	-	37,044
Other Financing Sources (Uses)										
Issuance of Debt	-	-	-	-	139,150	-	139,150	-	-	139,150
Issuance of Refunding Bonds	114,570	-	-	114,570	-	-	-	-	-	114,570
Bond Issuance Premium	5,046	-	-	5,046	-	-	-	-	-	5,046
Proceeds from Lease & Service Agreements	(117,605)	65	-	65	-	28,005	28,005	-	-	28,070
Bond Defeasance	101,556	28,931	64,272	194,759	16,196	-	16,196	-	-	(117,605)
Transfers In	-	-	-	-	-	-	-	-	-	247,501
Transfers Out	-	-	-	-	-	-	-	-	-	(374,299)
Total Other Financing Sources (Uses)	103,567	28,996	64,272	196,835	155,346	28,005	183,351	-	-	42,433
Net Change in Fund Balances	1,019	-	673	1,692	72,353	5,199	77,552	795	-	79,477
Fund Balance - July 1, 2010	1,502	11	77,629	79,142	113,095	77,072	190,167	4,699	-	376,242
Adjustment	-	-	1,970	1,970	-	-	-	-	-	1,970
Fund Balance Adjusted - July 1, 2010	1,502	11	79,599	81,112	113,095	77,072	190,167	4,699	-	378,212
Fund Balance - June 30, 2011	2,521	11	80,272	82,804	185,448	82,271	267,719	5,494	-	457,689

City of Philadelphia
Combining Statement of Fiduciary Net Assets
Pension Trust Funds
June 30, 2011

Schedule III

Amounts in thousands of USD

	Gas Works Retirement Reserve <u>Fund</u>	Municipal Pension <u>Fund</u>	<u>Total</u>
<u>Assets</u>			
Equity in Treasurer's Account	445,698	4,057,047	4,502,745
Securities Lending Collective Investment Pool	24,172	485,348	509,520
Allowance for Unrealized Loss	-	(1,895)	(1,895)
Accounts Receivable	-	4,430	4,430
Due from Brokers for Securities Sold	956	620,345	621,301
Interest and Dividends Receivable	1,551	14,434	15,985
Due from Other Governmental Units	-	3,613	3,613
	<u>472,377</u>	<u>5,183,322</u>	<u>5,655,699</u>
Total Assets			
<u>Liabilities</u>			
Vouchers Payable	-	107	107
Accounts Payable	541	3,626	4,167
Salaries and Wages Payable	-	189	189
Funds Held in Escrow	-	11	11
Due on Return of Securities Loaned	24,172	485,348	509,520
Due to Brokers for Securities Purchased	1,608	660,238	661,846
Accrued Expenses	8,614	1,158	9,772
Deferred Revenue	-	2,048	2,048
Other Liabilities	-	381	381
	<u>34,935</u>	<u>1,153,106</u>	<u>1,188,041</u>
Total Liabilities			
Net Assets Held in Trust for Pension Benefits	<u><u>437,442</u></u>	<u><u>4,030,216</u></u>	<u><u>4,467,658</u></u>

City of Philadelphia
Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Fiscal Year Ended June 30, 2011

Schedule IV

Amounts in thousands of USD

	Gas Works Retirement Reserve Fund	Municipal Pension Fund	Total
<u>Additions</u>			
Contributions:			
Employer's Contributions	22,936	470,155	493,091
Employees' Contributions	-	52,706	52,706
	<u>22,936</u>	<u>522,861</u>	<u>545,797</u>
Total Contributions			
Investment Income:			
Interest and Dividends	10,673	79,544	90,217
Net Gain in Fair Value of Investments	75,547	635,570	711,117
(Less) Investments Expenses	(1,829)	(15,266)	(17,095)
Securities Lending Revenue	74	2,220	2,294
Securities Lending Unrealized Loss	-	(1,895)	(1,895)
(Less) Securities Lending Expenses	(30)	(710)	(740)
	<u>84,435</u>	<u>699,463</u>	<u>783,898</u>
Net Investment Gain			
Miscellaneous Operating Revenues	-	1,377	1,377
	<u>107,371</u>	<u>1,223,701</u>	<u>1,331,072</u>
Total Additions			
<u>Deductions</u>			
Personal Services	-	3,675	3,675
Purchase of Services	-	1,793	1,793
Materials and Supplies	-	81	81
Employee Benefits	37,898	2,385	40,283
Pension Benefits	-	681,909	681,909
Refunds of Members' Contributions	-	5,125	5,125
Administrative Expenses Paid	355	-	355
Other Operating Expenses	-	119	119
	<u>38,253</u>	<u>695,087</u>	<u>733,340</u>
Total Deductions			
Change in Net Assets	69,118	528,614	597,732
Net Assets - July 1, 2010	<u>368,324</u>	<u>3,501,602</u>	<u>3,869,926</u>
Net Assets - June 30, 2011	<u>437,442</u>	<u>4,030,216</u>	<u>4,467,658</u>

City of Philadelphia
Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2011

Schedule V

Amounts in thousands of USD

	<u>Escrow Fund</u>	<u>Employee Health & Welfare Fund</u>	<u>Departmental Custodial Accounts</u>	<u>Total</u>
<u>Assets</u>				
Cash on Deposit and on Hand	-	-	136,099	136,099
Equity in Treasurer's Account	30,744	14,921	-	45,665
Investments	-	-	11,910	11,910
Due from Other Funds	-	-	866	866
	<u>30,744</u>	<u>14,921</u>	<u>148,875</u>	<u>194,540</u>
Total Assets	<u>30,744</u>	<u>14,921</u>	<u>148,875</u>	<u>194,540</u>
<u>Liabilities</u>				
Vouchers Payable	2	604	-	606
Accounts Payable	-	246	-	246
Payroll Taxes Payable	-	3,234	-	3,234
Funds Held in Escrow	30,742	10,837	148,875	190,454
	<u>30,744</u>	<u>14,921</u>	<u>148,875</u>	<u>194,540</u>
Total Liabilities	<u>30,744</u>	<u>14,921</u>	<u>148,875</u>	<u>194,540</u>
Net Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

City of Philadelphia
Statement of Changes in Fiduciary Net Assets
Agency Funds
For the Fiscal Year Ended June 30, 2011

Schedule VI

Amounts in thousands of USD

	Balance 7-1-2010	Additions	Deductions	Balance 6-30-2011
<u>Escrow Fund</u>				
<u>Assets</u>				
Equity in Treasurer's Account	34,032	376,291	379,579	30,744
<u>Liabilities</u>				
Funds Held in Escrow	33,995	376,291	379,544	30,742
Vouchers Payable	37	5,055	5,090	2
Total Liabilities	34,032	381,346	384,634	30,744
<u>Employee Health and Welfare Fund</u>				
<u>Assets</u>				
Equity in Treasurer's Account	14,270	853,771	853,120	14,921
<u>Liabilities</u>				
Vouchers Payable	1,190	8,518	9,104	604
Accounts Payable	-	246	-	246
Payroll Taxes Payable	3,147	751,778	751,691	3,234
Funds Held in Escrow	9,933	90,114	89,210	10,837
Total Liabilities	14,270	850,656	850,005	14,921
<u>Departmental Custodial Accounts</u>				
<u>Assets</u>				
Cash on Deposit and on Hand	136,315	153,155	153,371	136,099
Investments	8,780	3,130	-	11,910
Due from Other Funds	767	99	-	866
Total Assets	145,862	156,384	153,371	148,875
<u>Liabilities</u>				
Funds Held in Escrow	145,862	156,384	153,371	148,875
<u>Totals - Agency Funds</u>				
<u>Assets</u>				
Cash on Deposit and on Hand	136,315	153,155	153,371	136,099
Equity in Treasurer's Account	48,302	1,230,062	1,232,699	45,665
Investments	8,780	3,130	-	11,910
Due from Other Funds	767	99	-	866
Total Assets	194,164	1,386,446	1,386,070	194,540
<u>Liabilities</u>				
Vouchers Payable	1,227	13,573	14,194	606
Accounts Payable	-	246	-	246
Payroll Taxes Payable	3,147	751,778	751,691	3,234
Funds Held in Escrow	189,790	622,789	622,125	190,454
Total Liabilities	194,164	1,388,386	1,388,010	194,540

City of Philadelphia
City Related Schedule of Bonded Debt Outstanding
June 30, 2011

Schedule VII

Amounts in USD

	Original Authorization	Date of Issuance	Issued	Fiscal 2011 Outstanding	Maturities	Interest Rates	FY 2012 Debt Service Requirements	
							Interest	Principal
General Obligation Bonds:								
Term Bonds								
	97,493,541	07/27/2006	531,988	531,988	8/2030 to 8/2031	5	26,599	-
	7,222,518	07/27/2006	7,222,518	7,222,518	8/2030 to 8/2031	5	361,126	-
	11,024,437	07/27/2006	11,024,437	11,024,437	8/2030 to 8/2031	5	551,222	-
	10,131,057	07/27/2006	10,131,057	10,131,057	8/2030 to 8/2031	5	506,553	-
	113,608,890	01/06/2009	113,608,890	113,608,890	7/2013 to 7/2038	5.25 to 7.125	7,865,987	-
	30,926,110	01/06/2009	30,926,110	30,926,110	7/2013 to 7/2038	5.25 to 7.125	2,141,244	-
	13,834,573	04/19/2011	13,834,573	13,834,573	8/2027 to 8/2041	5.875 to 6.50	670,817	-
	37,647,372	04/19/2011	37,647,372	37,647,372	8/2027 to 8/2041	5.875 to 6.50	1,825,462	-
	45,818,055	04/19/2011	45,818,055	45,818,055	8/2027 to 8/2041	5.875 to 6.50	2,221,645	-
Total Term Bonds	367,706,553		270,745,000	270,745,000			16,170,655	-
Refunding Issues								
	178,240,000	12/01/1998	178,240,000	10,715,000	05/2012 to 05/2020	4.75	508,963	-
	188,910,000	12/20/2007	188,910,000	175,285,000	08/2011 to 08/2019	5.00 to 5.25	8,763,462	4,995,000
	195,170,000	5/01/2008	195,170,000	194,020,000	12/2011 to 12/2032	4.00 to 5.25	10,045,238	1,035,000
	237,025,000	8/13/2009	237,025,000	237,025,000	08/2019 to 08/2031	4.25 to 5.50	12,030,260	-
	100,000,000	8/13/2009	100,000,000	100,000,000	08/2027 to 08/2031	variable	3,829,000	-
	114,570,000	4/19/2011	114,570,000	114,570,000	08/2011 to 08/2020	2.00 to 5.25	3,542,617	14,365,000
Total Refunding Bonds	1,013,915,000		1,013,915,000	831,615,000			38,719,540	20,395,000
Serial Bonds								
	20,000,000	NA	20,000,000	1,017,815	07/2011 to 04/2012	1	4,671	1,017,815
	50,781,553	01/01/2001	50,781,553	6,214,865	09/2011 to 09/2021	4.3 to 5.25	246,361	2,353,722
	99,400,449	01/01/2001	95,928,447	11,740,135	09/2011 to 09/2021	4.3 to 5.25	465,386	4,446,278
		07/27/2006	3,472,002	3,114,367	8/2011 to 8/2029	4.50 to 5.125	151,705	101,116
	12,165,000	12/02/2003	12,165,000	5,313,671	02/2012 to 02/2015	5 to 5.25	275,428	1,416,006
	84,972,482	12/02/2003	37,835,000	16,526,329	02/2012 to 02/2015	5 to 5.25	856,622	4,403,994
		07/27/2006	47,137,482	42,282,081	8/2011 to 8/2029	4.50 to 5.125	2,059,617	1,372,803
	71,950,563	07/27/2006	71,950,563	64,539,290	8/2011 to 8/2029	4.50 to 5.125	3,143,795	2,095,444
	66,119,953	07/27/2006	66,119,953	59,309,262	8/2011 to 8/2029	4.50 to 5.125	2,889,033	1,925,637
	16,086,110	01/06/2009	16,086,110	12,993,081	7/2011 to 7/2018	4.00 to 6.00	637,756	1,756,775
	4,378,890	01/06/2009	4,378,890	3,536,919	7/2011 to 7/2018	4.00 to 6.00	173,607	478,222
	5,950,427	04/19/2011	5,950,427	5,950,427	8/2012 to 8/2026	4.00 to 5.375	233,553	-
	16,192,628	04/19/2011	16,192,628	16,192,628	8/2012 to 8/2026	4.00 to 5.375	635,558	-
	19,706,945	04/19/2011	19,706,945	19,706,945	8/2012 to 8/2026	4.00 to 5.375	773,495	-
Total Serial Bonds	467,705,000		467,705,000	288,437,815			12,546,587	21,367,812
Total General Obligation Bonds	1,849,326,553		1,752,365,000	1,370,797,815			67,436,782	41,762,812

**City of Philadelphia
City Related Schedule of Bonded Debt Outstanding
June 30, 2011**

Schedule VII

Amounts in USD

Revenue Bonds:	Original Authorization	Date of Issuance	Issued	Fiscal 2011 Outstanding	Maturities	Interest Rates	FY 2012 Debt Service Requirements	
							Interest	Principal
Water and Sewer Revenue Bonds:								
Series 1995	221,630,000	04/15/1995	221,630,000	26,280,000	08/2011 to 08/2018	6.25	1,244,688	12,730,000
Series 1997 B	100,000,000 ²	11/25/1997	100,000,000	73,000,000	08/2011 to 08/2027	Variable rates	78,838	2,900,000
Series 1998	135,185,000	12/25/1998	135,185,000	135,185,000	12/2011 to 12/2014	5.25	6,392,400	26,850,000
Series 1999 A	6,700,000	N.A.	6,700,000	638,779	07/2011 to 04/2019	2.73	16,509	74,156
Series 2001 A and B	285,920,000	11/15/2001	285,920,000	137,875,000	11/2011 to 11/2028	3.8 to 5.50	6,732,933	12,980,000
Series 2005 A	250,000,000	05/04/2005	250,000,000	230,390,000	07/2011 to 07/2035	3.30 to 5.25	11,480,300	4,795,000
Series 2005 B	86,105,000 ²	05/04/2005	86,105,000	82,870,000	08/2011 to 08/2018	Variable rates	3,744,385	425,000
Series 2007 A	191,440,000	05/09/2007	191,440,000	175,180,000	8/2011 to 8/2027	4.00 to 5.00	8,339,825	4,795,000
Series 2007 B	153,595,000	05/09/2007	153,595,000	152,900,000	11/2010 to 11/2031	4.00 to 5.00	6,950,775	220,000
Series 2009 A	325,000,000	05/21/2009	140,000,000	140,000,000	01/2017 to 01/2033	4.00 to 5.75	7,294,037	-
Series 2010A	396,460,000	08/05/2010	185,000,000	185,000,000	8/2016 to 8/2040	3.00 to 5.00	9,022,250	-
Pennvest Series 2009C	57,268,193	4/15/2010	396,460,000	386,800,000	06/2011 to 6/2019	2.50 to 5.00	18,094,485	43,155,000
Pennvest Series 2009D	84,759,263	06/16/2010	23,068,887	23,068,888	07/2013 to 07/2033	1.193	275,212	-
Pennvest Series 2009B	42,886,030	07/22/2010	48,583,956	48,583,956	07/2013 to 07/2033	1.193	579,606	-
		08/02/2010	15,595,211	15,595,211	07/2013 to 07/2033	1.193	186,051	-
Total Water Revenue Bonds	2,336,948,486		2,239,283,054	1,813,366,834			80,432,294	108,924,156
Aviation Revenue Bonds:								
Series 1998 B	443,700,000	07/01/1998	443,700,000	69,530,000	07/2011 to 07/2028	5.00 to 5.375	3,252,913	12,420,000
Series 2001 A	187,680,000	07/01/2001	187,680,000	154,555,000	07/2011 to 07/2028	5.125 to 5.50	8,105,208	5,210,000
Series 2001 B	40,120,000	07/01/2001	40,120,000	33,625,000	06/2012 to 06/2031	5.00 to 5.50	1,776,994	980,000
Series 2005 C	189,500,000 ²	06/02/2005	189,500,000	162,600,000	06/2012 to 06/2025	Variable rates	8,846,876	6,700,000
Series 2005 A	124,985,000	08/04/2005	124,985,000	117,605,000	06/2012 to 06/2035	4.20 to 5.50	5,610,705	2,705,000
Series 2007 A	172,470,000	08/16/2008	172,470,000	169,315,000	06/2012 to 06/2037	5	8,465,750	3,315,000
Series 2007 B	82,915,000	08/16/2008	82,915,000	70,085,000	06/2012 to 06/2027	5	3,504,250	3,425,000
Series 2009 A	45,715,000	04/14/2009	45,715,000	44,050,000	06/2012 to 06/2029	3.00 to 5.375	2,044,666	1,700,000
Series 2010A	273,065,000	11/15/2010	273,065,000	273,060,000	06/2012 to 06/2040	2.00 to 5.25	13,599,612	5,000
Series 2010B	24,395,000	11/15/2010	24,395,000	19,810,000	06/2012 to 06/2015	2.00 to 5.00	944,150	4,635,000
Series 2010C	54,730,000	11/15/2010	54,730,000	54,725,000	06/2012 to 06/2018	2.00 to 5.00	2,668,450	6,780,000
Series 2010D	272,475,000	11/15/2010	272,475,000	271,970,000	06/2012 to 06/2028	2.00 to 5.25	13,459,250	12,935,000
Total Aviation Revenue Bonds	1,911,750,000		1,911,750,000	1,440,930,000			72,278,824	60,810,000
Total Revenue Bonds	4,248,698,486		4,151,033,054	3,254,296,834			152,711,118	169,734,156
Total All Bonds	6,098,025,039		5,903,398,054	4,625,094,649 ⁴			220,147,900	211,496,968

NOTES:

¹ These General Obligation Authorizations were issued as both Term and Serial Bonds.

² Based on latest available estimated rates.

³ A summary of all Bonds Outstanding is as follows:

General Fund Types:	General Obligation Bonds	Revenue Bonds	Total
General Fund	1,369,780,000	-	1,369,780,000
Proprietary Fund Types:			
Water Fund	1,017,815	1,814,366,834	1,814,384,649
Aviation Fund	-	1,440,930,000	1,440,930,000
Total Proprietary Funds	1,017,815	3,254,296,834	3,255,314,649
Total All Funds	1,370,797,815	3,254,296,834	4,625,094,649

City of Philadelphia
 Budgetary Comparison Schedule
 Water Operating Fund
 For the Fiscal Year Ended June 30, 2011

Schedule VIII

Amounts in thousands of USD

	<u>Budgeted Amounts</u>			Final Budget to Actual Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<u>Revenues</u>				
Locally Generated Non-Tax Revenue	542,885	540,127	537,463	(2,664)
Revenue from Other Governments	3,300	3,300	2,869	(431)
Revenue from Other Funds	<u>64,726</u>	<u>49,044</u>	<u>27,138</u>	<u>(21,906)</u>
Total Revenues	610,911	592,471	567,470	(25,001)
<u>Expenditures and Encumbrances</u>				
Personal Services	112,175	111,725	100,839	10,886
Pension Contributions	40,300	38,487	42,169	(3,682)
Other Employee Benefits	<u>40,480</u>	<u>42,293</u>	<u>42,279</u>	<u>14</u>
Sub-Total Employee Compensation	192,955	192,505	185,287	7,218
Purchase of Services	128,864	128,864	116,625	12,239
Materials and Supplies	47,415	47,898	39,731	8,167
Equipment	5,693	5,660	2,862	2,798
Contributions, Indemnities and Taxes	6,603	6,603	5,384	1,219
Debt Service	195,044	195,044	185,543	9,501
Payments to Other Funds	<u>51,337</u>	<u>51,337</u>	<u>54,263</u>	<u>(2,926)</u>
Total Expenditures and Encumbrances	<u>627,911</u>	<u>627,911</u>	<u>589,695</u>	<u>38,216</u>
Operating Surplus (Deficit) for the Year	<u>(17,000)</u>	<u>(35,440)</u>	<u>(22,225)</u>	<u>13,215</u>
Fund Balance Available for Appropriation, July 1, 2010	-	-	-	-
<u>Operations in Respect to Prior Fiscal Years</u>				
Commitments Cancelled - Net	<u>17,000</u>	<u>17,000</u>	<u>22,225</u>	<u>5,225</u>
Adjusted Fund Balance, July 1, 2010	<u>17,000</u>	<u>17,000</u>	<u>22,225</u>	<u>5,225</u>
Fund Balance Available for Appropriation, June 30, 2011	<u>-</u>	<u>(18,440)</u>	<u>-</u>	<u>18,440</u>

City of Philadelphia
Budgetary Comparison Schedule
Water Residual Fund
For the Fiscal Year Ended June 30, 2011

Schedule IX

Amounts in thousands of USD

	<u>Budgeted Amounts</u>		<u>Actual</u>	Final Budget to Actual Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Locally Generated Non-Tax Revenue	500	-	178	178
Revenue from Other Funds	<u>22,927</u>	<u>21,234</u>	<u>18,752</u>	<u>(2,482)</u>
Total Revenues	23,427	21,234	18,930	(2,304)
<u>Expenditures and Encumbrances</u>				
Payments to Other Funds	<u>22,927</u>	<u>22,927</u>	<u>4,906</u>	<u>18,021</u>
Total Expenditures and Encumbrances	<u>22,927</u>	<u>22,927</u>	<u>4,906</u>	<u>18,021</u>
Operating Surplus (Deficit) for the Year	<u>500</u>	<u>(1,693)</u>	<u>14,024</u>	<u>15,717</u>
Fund Balance Available for Appropriation, July 1, 2010	20,084	20,889	20,889	-
Fund Balance Available for Appropriation, June 30, 2011	<u>20,584</u>	<u>19,196</u>	<u>34,913</u>	<u>15,717</u>

City of Philadelphia
Budgetary Comparison Schedule
County Liquid Fuels Tax Fund
For the Fiscal Year Ended June 30, 2011

Schedule X

Amounts in thousands of USD

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Final Budget to Actual Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Locally Generated Non-Tax Revenue	3	-	-	-
Revenue from Other Governments	4,715	4,950	4,845	(105)
Total Revenues	4,718	4,950	4,845	(105)
<u>Expenditures and Encumbrances</u>				
Personal Services	3,734	3,734	3,734	-
Purchase of Services	861	856	856	-
Materials and Supplies	260	345	344	1
Equipment	80	-	-	-
Payments to Other Funds	15	15	15	-
Total Expenditures and Encumbrances	4,950	4,950	4,949	1
Operating Surplus (Deficit) for the Year	(232)	-	(104)	(104)
Fund Balance Available for Appropriation, July 1, 2010	1,234	1,988	1,988	-
<u>Operations in Respect to Prior Fiscal Years</u>				
Commitments Cancelled - Net	50	25	151	126
Adjusted Fund Balance, July 1, 2010	1,284	2,013	2,139	126
Fund Balance Available for Appropriation, June 30, 2011	1,052	2,013	2,035	22

City of Philadelphia
 Budgetary Comparison Schedule
 Special Gasoline Tax Fund
 For the Fiscal Year Ended June 30, 2011

Schedule XI

Amounts in thousands of USD

	<u>Budgeted Amounts</u>			Final Budget to Actual Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<u>Revenues</u>				
Locally Generated Non-Tax Revenue	15	32	25	(7)
Revenue from Other Governments	<u>23,701</u>	<u>23,673</u>	<u>24,343</u>	<u>670</u>
Total Revenues	23,716	23,705	24,368	663
<u>Expenditures and Encumbrances</u>				
Personal Services	3,000	3,000	3,000	-
Pension Contributions	500	500	500	-
Other Employee Benefits	<u>500</u>	<u>500</u>	<u>500</u>	<u>-</u>
Sub-Total Employee Compensation	4,000	4,000	4,000	-
Purchase of Services	15,659	15,447	15,046	401
Materials and Supplies	3,601	4,301	3,942	359
Equipment	589	101	86	15
Payments to Other Funds	<u>15</u>	<u>15</u>	<u>15</u>	<u>-</u>
Total Expenditures and Encumbrances	<u>23,864</u>	<u>23,864</u>	<u>23,089</u>	<u>775</u>
Operating Surplus (Deficit) for the Year	<u>(148)</u>	<u>(159)</u>	<u>1,279</u>	<u>1,438</u>
Fund Balance Available for Appropriation, July 1, 2010	12,479	14,083	14,083	-
<u>Operations in Respect to Prior Fiscal Years</u>				
Commitments Cancelled - Net	<u>120</u>	<u>150</u>	<u>213</u>	<u>63</u>
Adjusted Fund Balance, July 1, 2010	<u>12,599</u>	<u>14,233</u>	<u>14,296</u>	<u>63</u>
Fund Balance Available for Appropriation, June 30, 2011	<u><u>12,451</u></u>	<u><u>14,074</u></u>	<u><u>15,575</u></u>	<u><u>1,501</u></u>

City of Philadelphia
 Budgetary Comparison Schedule
 Hotel Room Rental Tax Fund
 For the Fiscal Year Ended June 30, 2011

Schedule XII

Amounts in thousands of USD

	<u>Budgeted Amounts</u>		<u>Actual</u>	Final Budget to Actual Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Taxes	41,718	41,718	41,884	166
Locally Generated Non-Tax Revenue	<u>2</u>	<u>2</u>	<u>3</u>	<u>1</u>
Total Revenues	41,720	41,720	41,887	167
<u>Expenditures and Encumbrances</u>				
Contributions, Indemnities and Taxes	<u>41,720</u>	<u>41,720</u>	<u>41,859</u>	<u>(139)</u>
Total Expenditures and Encumbrances	<u>41,720</u>	<u>41,720</u>	<u>41,859</u>	<u>(139)</u>
Operating Surplus (Deficit) for the Year	<u>-</u>	<u>-</u>	<u>28</u>	<u>28</u>
Fund Balance Available for Appropriation, July 1, 2010	-	5,218	5,218	-
<u>Operations in Respect to Prior Fiscal Years</u>				
Commitments Cancelled - Net	<u>-</u>	<u>-</u>	<u>1,316</u>	<u>1,316</u>
Adjusted Fund Balance, July 1, 2010	<u>-</u>	<u>5,218</u>	<u>6,534</u>	<u>1,316</u>
Fund Balance Available for Appropriation, June 30, 2011	<u>-</u>	<u>5,218</u>	<u>6,562</u>	<u>1,344</u>

City of Philadelphia
 Budgetary Comparison Schedule
 Aviation Operating Fund
 For the Fiscal Year Ended June 30, 2011

Schedule XIII

Amounts in thousands of USD

	<u>Budgeted Amounts</u>			Final Budget to Actual Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<u>Revenues</u>				
Locally Generated Non-Tax Revenue	363,170	292,570	302,719	10,149
Revenue from Other Governments	5,000	2,602	1,435	(1,167)
Revenue from Other Funds	2,000	1,000	653	(347)
Total Revenues	370,170	296,172	304,807	8,635
<u>Expenditures and Encumbrances</u>				
Personal Services	64,366	64,366	57,035	7,331
Pension Contributions	20,900	21,684	21,683	1
Other Employee Benefits	19,264	18,480	17,979	501
Sub-Total Employee Compensation	104,530	104,530	96,697	7,833
Purchase of Services	109,863	109,863	83,883	25,980
Materials and Supplies	8,550	8,820	8,357	463
Equipment	12,585	12,315	1,599	10,716
Contributions, Indemnities and Taxes	6,062	6,062	2,219	3,843
Debt Service	121,218	121,218	102,448	18,770
Payments to Other Funds	22,673	22,673	11,849	10,824
Total Expenditures and Encumbrances	385,481	385,481	307,052	78,429
Operating Surplus (Deficit) for the Year	(15,311)	(89,309)	(2,245)	87,064
Fund Balance Available for Appropriation, July 1, 2010	29,879	73,622	73,622	-
<u>Operations in Respect to Prior Fiscal Years</u>				
Commitments Cancelled - Net	12,000	12,000	8,763	(3,237)
Adjusted Fund Balance, July 1, 2010	41,879	85,622	82,385	(3,237)
Fund Balance Available for Appropriation, June 30, 2011	26,568	(3,687)	80,140	83,827

City of Philadelphia
 Budgetary Comparison Schedule
 Community Development Fund
 For the Fiscal Year Ended June 30, 2011

Schedule XIV

Amounts in thousands of USD

	<u>Budgeted Amounts</u>		<u>Actual</u>	Final Budget to Actual Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Locally Generated Non-Tax Revenue	150	150	10,436	10,286
Revenue from Other Governments	117,006	97,006	53,530	(43,476)
Total Revenues	117,156	97,156	63,966	(33,190)
<u>Other Sources</u>				
Decrease in Financed Reserves	-	-	4,336	4,336
Total Revenues and Other Sources	117,156	97,156	68,302	(28,854)
<u>Expenditures and Encumbrances</u>				
Personal Services	7,767	7,767	5,237	2,530
Pension Contributions	2,729	2,819	1,793	1,026
Other Employee Benefits	2,392	2,302	838	1,464
Sub-Total Employee Compensation	12,888	12,888	7,868	5,020
Purchase of Services	83,427	83,393	69,251	14,142
Materials and Supplies	319	339	173	166
Equipment	492	506	84	422
Payments to Other Funds	30	30	-	30
Advances, Subsidies, Miscellaneous	20,000	20,000	-	20,000
Total Expenditures and Encumbrances	117,156	117,156	77,376	39,780
Operating Surplus (Deficit) for the Year	-	(20,000)	(9,074)	10,926
Fund Balance Available for Appropriation, July 1, 2010	-	(4,020)	(4,020)	-
<u>Operations in Respect to Prior Fiscal Years</u>				
Commitments Cancelled - Net	-	-	9,049	9,049
Prior Period Adjustments	-	4,020	-	(4,020)
Adjusted Fund Balance, July 1, 2010	-	-	5,029	5,029
Fund Balance Available for Appropriation, June 30, 2011	-	(20,000)	(4,045)	15,955

City of Philadelphia
Budgetary Comparison Schedule
Car Rental Tax Fund
For the Fiscal Year Ended June 30, 2011

Schedule XV

Amounts in thousands of USD

	<u>Budgeted Amounts</u>		<u>Actual</u>	Final Budget to Actual Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Taxes	5,000	4,900	4,935	35
Locally Generated Non-Tax Revenue	<u>25</u>	<u>5</u>	<u>8</u>	<u>3</u>
Total Revenues	5,025	4,905	4,943	38
<u>Expenditures and Encumbrances</u>				
Purchase of Services	<u>5,000</u>	<u>5,000</u>	<u>3,986</u>	<u>1,014</u>
Total Expenditures and Encumbrances	5,000	5,000	3,986	1,014
Operating Surplus (Deficit) for the Year	<u>25</u>	<u>(95)</u>	<u>957</u>	<u>1,052</u>
Fund Balance Available for Appropriation, July 1, 2010	<u>5,352</u>	<u>5,306</u>	<u>5,306</u>	<u>-</u>
Fund Balance Available for Appropriation, June 30, 2011	<u><u>5,377</u></u>	<u><u>5,211</u></u>	<u><u>6,263</u></u>	<u><u>1,052</u></u>

City of Philadelphia
Budgetary Comparison Schedule
Housing Trust Fund
For the Fiscal Year Ended June 30, 2011

Schedule XVI

Amounts in thousands of USD

	<u>Budgeted Amounts</u>		<u>Actual</u>	Final Budget to Actual Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Locally Generated Non-Tax Revenue	<u>9,300</u>	<u>7,530</u>	<u>7,259</u>	<u>(271)</u>
Total Revenues	<u>9,300</u>	<u>7,530</u>	<u>7,259</u>	<u>(271)</u>
<u>Expenditures and Encumbrances</u>				
Personal Services	<u>600</u>	<u>600</u>	<u>413</u>	<u>187</u>
Purchase of Services	<u>11,400</u>	<u>11,400</u>	<u>6,713</u>	<u>4,687</u>
Total Expenditures and Encumbrances	<u>12,000</u>	<u>12,000</u>	<u>7,126</u>	<u>4,874</u>
Operating Surplus (Deficit) for the Year	<u>(2,700)</u>	<u>(4,470)</u>	<u>133</u>	<u>4,603</u>
Fund Balance Available for Appropriation, July 1, 2010	<u>2,844</u>	<u>2,719</u>	<u>2,719</u>	<u>-</u>
<u>Operations in Respect to Prior Fiscal Years</u>				
Commitments Cancelled - Net	<u>3,500</u>	<u>6,000</u>	<u>4,247</u>	<u>(1,753)</u>
Adjusted Fund Balance, July 1, 2010	<u>6,344</u>	<u>8,719</u>	<u>6,966</u>	<u>(1,753)</u>
Fund Balance Available for Appropriation, June 30, 2011	<u><u>3,644</u></u>	<u><u>4,249</u></u>	<u><u>7,099</u></u>	<u><u>2,850</u></u>

City of Philadelphia
 Budgetary Comparison Schedule
 General Capital Improvement Funds
 For the Fiscal Year Ended June 30, 2011

Schedule XVII

Amounts in thousands of USD

	<u>Budgeted Amounts</u>		<u>Actual</u>	Final Budget to Actual Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Locally Generated Non-Tax Revenue	396,348	396,348	5	(396,343)
Revenue from Other Governments	227,500	227,500	36,400	(191,100)
Revenue from Other Funds	-	-	10,097	10,097
Total Revenues	623,848	623,848	46,502	(577,346)
<u>Other Sources (Uses)</u>				
Increase in Unreimbursed Commitments	-	-	28,168	28,168
Proceeds from Bond Sales	-	-	139,150	139,150
Total Revenues and Other Sources	623,848	623,848	213,820	(410,028)
<u>Expenditures and Encumbrances</u>				
Capital Outlay	623,848	623,848	166,178	457,670
Operating Surplus (Deficit) for the Year	-	-	47,642	47,642
Fund Balance Available for Appropriation, July 1, 2010	-	-	75,164	75,164
<u>Operations in Respect to Prior Fiscal Years</u>				
Commitments Cancelled - Net	-	-	5,174	5,174
Revenue Adjustments - Net	-	-	646	646
Adjusted Fund Balance, July 1, 2010	-	-	80,984	80,984
Fund Balance Available for Appropriation, June 30, 2011	-	-	128,626	128,626

City of Philadelphia
Budgetary Comparison Schedule
Acute Care Hospital Assessment Fund
For the Fiscal Year Ended June 30, 2011

Schedule XVIII

Amounts in thousands of USD

	<u>Budgeted Amounts</u>			<u>Final Budget to Actual Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<u>Revenues</u>				
Tax Revenue	<u>142,000</u>	<u>143,000</u>	<u>142,127</u>	<u>(873)</u>
Total Revenues	<u>142,000</u>	<u>143,000</u>	<u>142,127</u>	<u>(873)</u>
<u>Other Sources</u>				
Increase in Unreimbursed Commitments	<u>-</u>	<u>-</u>	<u>173</u>	<u>173</u>
Total Revenues and Other Sources	<u>142,000</u>	<u>143,000</u>	<u>142,300</u>	<u>(700)</u>
<u>Expenditures and Encumbrances</u>				
Personal Services	<u>4,796</u>	<u>4,796</u>	<u>2,894</u>	<u>1,902</u>
Pension Contributions	<u>100</u>	<u>145</u>	<u>145</u>	<u>-</u>
Other Employee Benefits	<u>134</u>	<u>89</u>	<u>89</u>	<u>-</u>
Sub-Total Employee Compensation	<u>5,030</u>	<u>5,030</u>	<u>3,128</u>	<u>1,902</u>
Purchase of Services	<u>134,634</u>	<u>137,134</u>	<u>134,469</u>	<u>2,665</u>
Materials and Supplies	<u>10</u>	<u>10</u>	<u>-</u>	<u>10</u>
Equipment	<u>5</u>	<u>5</u>	<u>-</u>	<u>5</u>
Payments to Other Funds	<u>6,900</u>	<u>6,900</u>	<u>6,900</u>	<u>-</u>
Total Expenditures and Encumbrances	<u>146,579</u>	<u>149,079</u>	<u>144,497</u>	<u>4,582</u>
Operating Surplus (Deficit) for the Year	<u>(4,579)</u>	<u>(6,079)</u>	<u>(2,197)</u>	<u>3,882</u>
Fund Balance Available for Appropriation, July 1, 2010	<u>10,764</u>	<u>10,794</u>	<u>10,794</u>	<u>-</u>
<u>Operations in Respect to Prior Fiscal Years</u>				
Commitments Cancelled - Net	<u>-</u>	<u>-</u>	<u>173</u>	<u>173</u>
Adjusted Fund Balance, July 1, 2010	<u>10,764</u>	<u>10,794</u>	<u>10,967</u>	<u>173</u>
Fund Balance Available for Appropriation, June 30, 2011	<u>6,185</u>	<u>4,715</u>	<u>8,770</u>	<u>4,055</u>

City of Philadelphia
 Schedule of Budgetary Actual and Estimated Revenues and Obligations
 General Fund

Schedule XIX

Amounts in thousands of USD

For the Fiscal Year Ended June 30, 2011 (with comparative actual amounts for the Fiscal Year Ended June 30, 2010)

	Budgeted Amounts		FY 2011 Actual	Final Budget	FY 2010 Actual	Increase (Decrease)
	Original	Final		to Actual Positive (Negative)		
Revenue						
Taxes						
Real Property Tax:						
Current	457,534	451,238	454,747	3,509	364,313	90,434
Prior Years	40,000	37,500	27,978	(9,522)	37,874	(9,896)
Total Real Property Tax	497,534	488,738	482,725	(6,013)	402,187	80,538
Wage and Earnings Taxes:						
Current	1,112,772	1,137,888	1,127,455	(10,433)	1,102,285	25,170
Prior Years	12,000	12,000	6,862	(5,138)	11,918	(5,056)
Total Wage and Earnings Taxes	1,124,772	1,149,888	1,134,317	(15,571)	1,114,203	20,114
Business Taxes:						
Business Privilege Taxes:						
Current	350,162	350,800	334,996	(15,804)	329,275	5,721
Prior Years	19,000	20,000	41,950	21,950	35,428	6,522
Total Business Privilege Tax	369,162	370,800	376,946	6,146	364,703	12,243
Net Profits Tax:						
Current	8,667	14,603	5,740	(8,863)	12,058	(6,318)
Prior Years	4,000	2,500	3,086	586	2,448	638
Total Net Profits Tax	12,667	17,103	8,826	(8,277)	14,506	(5,680)
Total Business Taxes	381,829	387,903	385,772	(2,131)	379,209	6,563
Other Taxes:						
Sales Tax	241,892	247,510	244,585	(2,925)	207,113	37,472
Amusement Tax	21,103	21,103	20,767	(336)	21,850	(1,083)
Real Property Transfer Tax	125,220	117,332	116,644	(688)	119,236	(2,592)
Parking Lot Tax	72,493	72,493	71,596	(897)	70,453	1,143
Smokeless Tobacco	4,000	1,000	286	(714)	-	286
Miscellaneous Taxes	3,075	3,075	2,454	(621)	2,390	64
Total Other Taxes	467,783	462,513	456,332	(6,181)	421,042	35,290
Total Taxes	2,471,918	2,489,042	2,459,146	(29,896)	2,316,641	142,505
Locally Generated Non-Tax Revenue						
Rentals from Leased City Properties	4,885	4,060	4,357	297	4,696	(339)
Licenses and Permits	42,487	45,727	46,295	568	43,346	2,949
Fines, Forfeits, Penalties, Confiscated Money and Property	20,997	29,872	25,790	(4,082)	17,727	8,063
Interest Income	15,776	7,376	5,300	(2,076)	8,264	(2,964)
Service Charges and Fees	136,242	121,684	124,553	2,869	113,972	10,581
Other	47,889	57,367	73,732	16,365	41,354	32,378
Total Locally Generated Non-Tax Revenue	268,276	266,086	280,027	13,941	229,359	50,668
Revenue from Other Governments						
United States Government:						
Grants and Reimbursements	166,501	165,149	170,094	4,945	140,347	29,747
Commonwealth of Pennsylvania:						
Grants and Other Payments	894,906	857,192	833,676	(23,516)	605,896	227,780
Other Governmental Units	54,221	54,221	62,731	8,510	330,138	(267,407)
Total Revenue from Other Governments	1,115,628	1,076,562	1,066,501	(10,061)	1,076,381	(9,880)
Revenue from Other Funds						
	53,321	64,224	54,620	(9,604)	31,945	22,675
Total Revenues	3,909,143	3,895,914	3,860,294	(35,620)	3,654,326	205,968

City of Philadelphia
Schedule of Budgetary Actual and Estimated Revenues and Obligations
General Fund

Schedule XIX

Amounts in thousands of USD

For the Fiscal Year Ended June 30, 2011 (with comparative actual amounts for the Fiscal Year Ended June 30, 2010)

	Budgeted Amounts		FY 2011 Actual	Final Budget	FY 2010 Actual	Increase (Decrease)
	Original	Final		to Actual Positive (Negative)		
Obligations						
General Government						
City Council	15,049	15,049	13,772	1,277	13,464	308
Mayor's Office:						
Mayor's Office	3,839	3,943	3,598	345	4,263	(665)
Scholarships	200	200	200	-	193	7
Mural Arts Program	1,000	1,000	961	39	973	(12)
Labor Relations	523	517	457	60	523	(66)
MDO Office of Technology	67,432	67,432	61,348	6,084	38,521	22,827
Office of Property Assessment	-	6,109	5,730	379	-	5,730
Mayor's Office of Community Services	-	-	-	-	30	(30)
Transportation	500	500	419	81	482	(63)
Law	18,665	18,817	17,114	1,703	17,965	(851)
Board of Ethics	810	810	681	129	706	(25)
Youth Commission	100	100	78	22	85	(7)
Inspector General	1,380	1,380	1,171	209	1,146	25
City Planning Commission	2,551	2,551	2,248	303	2,904	(656)
Commission on Human Relations	2,067	2,067	1,942	125	1,983	(41)
Zoning Code Commission	500	500	465	35	468	(3)
Arts & Culture	3,905	3,911	2,550	1,361	3,943	(1,393)
Board of Revision of Taxes	6,503	2,098	1,893	205	7,463	(5,570)
Total General Government	125,024	126,984	114,627	12,357	95,112	19,515
Operation of Service Departments						
Housing	2,800	2,800	2,251	549	2,800	(549)
Managing Director	17,984	18,034	15,954	2,080	16,576	(622)
Police	538,403	553,637	551,450	2,187	541,606	9,844
Streets	113,190	132,800	131,004	1,796	134,903	(3,899)
Fire	188,762	198,042	198,042	-	190,051	7,991
Public Health	113,962	114,037	108,923	5,114	111,198	(2,275)
Office-Behavioral Health/Mental Retardation	14,272	14,272	14,272	-	14,239	33
Parks and Recreation	49,829	51,373	47,084	4,289	47,050	34
Fairmount Park Commission	-	-	-	-	-	-
Atwater Kent Museum	249	269	267	2	298	(31)
Camp William Penn	-	-	-	-	-	-
Public Property	164,879	171,157	171,142	15	164,793	6,349
Department of Human Services	576,365	577,070	543,584	33,486	562,731	(19,147)
Philadelphia Prisons	234,140	235,195	232,219	2,976	240,571	(8,352)
Office of Supportive Housing	38,474	38,474	36,368	2,106	38,387	(2,019)
Office of Fleet Management	51,437	53,015	52,173	842	47,331	4,842
Licenses and Inspections	23,069	23,351	18,381	4,970	23,069	(4,688)
Board of L & I Review	156	156	136	20	127	9
Board of Building Standards	72	72	61	11	61	-
Zoning Board of Adjustment	378	378	330	48	311	19
Records	4,009	4,009	3,982	27	5,195	(1,213)
Philadelphia Historical Commission	404	404	377	27	387	(10)
Art Museum	2,300	2,350	2,350	-	2,343	7
Philadelphia Free Library	32,968	33,012	32,549	463	32,752	(203)
Total Operations of Service Departments	2,168,102	2,223,907	2,162,899	61,008	2,176,779	(13,880)
Financial Management						
Office of Director of Finance	7,800	9,500	10,431	(931)	11,176	(745)
Department of Revenue	15,050	15,542	14,160	1,382	16,420	(2,260)
Sinking Fund Commission	211,036	203,640	197,918	5,722	185,464	12,454
Procurement	4,238	4,581	4,819	(238)	4,397	422
City Treasurer	905	905	761	144	648	113
Audit of City Operations	7,292	8,004	7,840	164	7,408	432
Total Financial Management	246,321	242,172	235,929	6,243	225,513	10,416

City of Philadelphia
 Schedule of Budgetary Actual and Estimated Revenues and Obligations
 General Fund

Schedule XIX

Amounts in thousands of USD

For the Fiscal Year Ended June 30, 2011 (with comparative actual amounts for the Fiscal Year Ended June 30, 2010)

	Budgeted Amounts		FY 2011 Actual	Final Budget	FY 2010 Actual	Increase (Decrease)
	Original	Final		to Actual Positive (Negative)		
Obligations (Continued)						
City-Wide Appropriations Under the Director of Finance						
Fringe Benefits	966,020	982,800	968,957	13,843	831,698	137,259
PGW Rental Reimbursement	18,000	17,500	1,700	15,800	18,000	(16,300)
Community College of Philadelphia	26,468	26,468	25,409	1,059	26,468	(1,059)
Legal Services	35,941	36,616	36,616	-	35,941	675
Hero Award	25	37	35	2	43	(8)
Refunds	250	126	-	126	1	(1)
Indemnities	42,000	1,716	-	1,716	1	(1)
Office of Risk Management	3,239	3,175	4,079	(904)	2,891	1,188
Witness Fees	172	172	84	88	104	(20)
Contribution to School District	38,600	38,600	38,600	-	38,540	60
Total City-Wide Under Director of Finance	1,130,715	1,107,210	1,075,480	31,730	953,687	121,793
Promotion and Public Relations						
City Representative	946	946	904	42	906	(2)
Commerce	18,642	18,642	18,323	319	27,321	(8,998)
Total Promotion and Public Relations	19,588	19,588	19,227	361	28,227	(9,000)
Personnel						
Civic Service Commission	170	170	168	2	154	14
Personnel Director	5,186	5,190	4,591	599	4,052	539
Total Personnel	5,356	5,360	4,759	601	4,206	553
Administration of Justice						
Clerk of Quarter Sessions	4,549	-	-	-	4,510	(4,510)
Register of Wills	3,399	3,399	3,239	160	3,209	30
District Attorney	29,062	30,557	30,505	52	30,153	352
Sheriff	13,089	14,466	14,230	236	15,785	(1,555)
First Judicial District	97,755	113,955	115,412	(1,457)	105,746	9,666
Total Administration of Justice	147,854	162,377	163,386	(1,009)	159,403	3,983
City-Wide Appropriations Under the First Judicial District						
Juror Fees	1,342	1,459	-	1,459	1,599	(1,599)
Conduct of Elections						
City Commissioners	8,794	9,404	8,987	417	9,200	(213)
Total Obligations	3,853,096	3,898,461	3,785,294	113,167	3,653,726	131,568
Operating Surplus (Deficit) for the Year	56,047	(2,547)	75,000	77,547	600	74,400

City of Philadelphia
 Schedule of Budgetary Actual and Estimated Revenues and Obligations
 Water Operating Fund
 For the Fiscal Year Ended June 30, 2011 (with comparative actual amounts for the Fiscal Year Ended June 30, 2010)

Schedule XX

Amounts in thousands of USD

	Budgeted Amounts		FY 2011 Actual	Final Budget to Actual Positive (Negative)	FY 2010 Actual	Increase (Decrease)
	Original	Final				
Revenue						
Locally Generated Non-Tax Revenue						
Sales and Charges - Current	444,619	447,637	462,404	14,767	429,760	32,644
Sales and Charges - Prior Years	40,326	40,326	26,883	(13,443)	31,431	(4,548)
Fire Service Connections	1,009	1,743	1,846	103	1,593	253
Surcharges	5,169	5,297	5,481	184	4,576	905
Fines and Penalties	1,024	834	769	(65)	1,206	(437)
Miscellaneous Charges	1,026	1,113	1,101	(12)	1,645	(544)
Charges to Other Municipalities	34,200	34,000	32,020	(1,980)	37,357	(5,337)
Licenses and Permits	2,061	2,185	2,232	47	2,226	6
Interest Income	7,050	850	1,530	680	851	679
Fleet Management - Sale of Vehicles & Equipment	195	205	92	(113)	287	(195)
Contributions from Sinking Fund Reserve	2,927	2,740	-	(2,740)	2,648	(2,648)
Reimbursement of Expenditures	218	198	88	(110)	59	29
Repair Loan Program	2,340	2,278	2,237	(41)	2,116	121
Other	721	721	780	59	623	157
Total Locally Generated Non-Tax Revenue	542,885	540,127	537,463	(2,664)	516,378	21,085
Revenue from Other Governments						
State	500	500	27	(473)	726	(699)
Federal	2,800	2,800	2,842	42	1,905	937
Total Revenue from Other Governments	3,300	3,300	2,869	(431)	2,631	238
Revenue from Other Funds	64,726	49,044	27,138	(21,906)	27,734	(596)
Total Revenues	610,911	592,471	567,470	(25,001)	546,743	20,727
Obligations						
Mayor's Office of Information Services	16,855	16,855	10,910	5,945	1,907	9,003
Public Property	2,500	2,500	2,500	-	3,614	(1,114)
Office of Fleet Management	8,510	8,510	8,255	255	7,211	1,044
Water Department	299,257	300,959	281,214	19,745	271,671	9,543
City-Wide Appropriation Under the Director of Finance:						
Pension Contributions						
Other Employee Benefits	40,300	42,169	42,169	-	27,494	14,675
Contributions, Indemnities and Taxes	40,480	42,293	42,279	14	39,974	2,305
Department of Revenue	6,500	1,116	-	1,116	-	-
Sinking Fund Commission	15,144	15,144	13,579	1,565	17,678	(4,099)
Procurement Department	195,045	195,045	185,543	9,502	196,717	(11,174)
Law	69	69	69	-	69	-
	3,251	3,251	3,177	74	3,115	62
Total Obligations	627,911	627,911	589,695	38,216	569,450	20,245
Operating Surplus (Deficit) for the Year	(17,000)	(35,440)	(22,225)	13,215	(22,707)	482

City of Philadelphia
 Schedule of Budgetary Actual and Estimated Revenues and Obligations

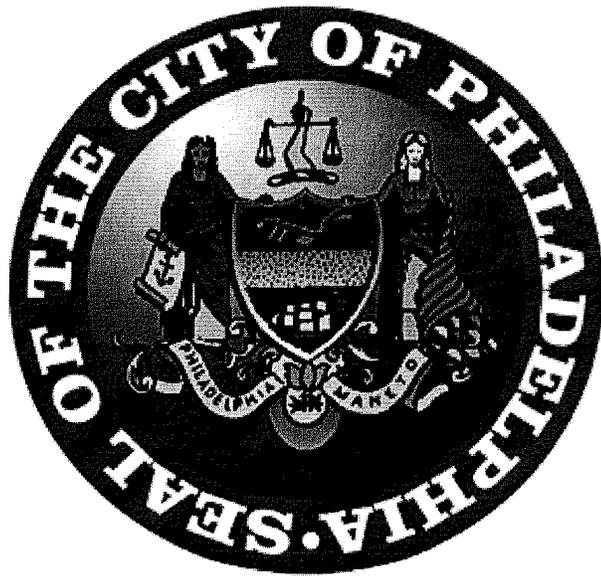
Schedule XXI

Aviation Operating Fund

Amounts in thousands of USD

For the Fiscal Year Ended June 30, 2011 (with comparative actual amounts for the Fiscal Year Ended June 30, 2010)

	Budgeted Amounts		FY 2011 Actual	Final Budget to Actual	FY 2010 Actual	Increase (Decrease)
	Original	Final		Positive (Negative)		
<u>Revenue</u>						
<u>Locally Generated Non-Tax Revenue</u>						
Concessions	22,000	20,000	32,010	12,010	27,442	4,568
Space Rentals	133,000	102,500	104,585	2,085	103,250	1,335
Landing Fees	75,000	53,000	60,421	7,421	50,218	10,203
Parking	28,000	26,000	28,009	2,009	23,733	4,276
Car Rentals	20,000	18,000	17,862	(138)	16,743	1,119
Interest Earnings	2,000	1,000	352	(648)	326	26
Sale of Utilities	5,000	4,000	3,365	(635)	3,850	(485)
Passenger Facility Charge	33,000	33,000	32,353	(647)	33,133	(780)
Overseas Terminal Facility Charges	-	-	8	8	10	(2)
International Terminal Charge	28,000	20,000	17,700	(2,300)	19,755	(2,055)
Other	17,170	15,070	6,054	(9,016)	6,557	(503)
Total Locally Generated Non-Tax Revenue	363,170	292,570	302,719	10,149	285,017	17,702
<u>Revenue from Other Governments</u>						
State	-	102	102	-	194	(92)
Federal	5,000	2,500	1,333	(1,167)	2,896	(1,563)
Total Revenue from Other Governments	5,000	2,602	1,435	(1,167)	3,090	(1,655)
<u>Revenue from Other Funds</u>						
	2,000	1,000	653	(347)	2,063	(1,410)
Total Revenue	370,170	296,172	304,807	8,635	290,170	14,637
<u>Obligations</u>						
Mayor's Office of Information Services	6,295	6,295	5,987	308	393	5,594
Police	13,533	13,533	13,218	315	13,029	189
Fire	6,203	6,203	5,437	766	5,109	328
Public Property	26,900	26,900	18,400	8,500	13,900	4,500
Office of Fleet Management	8,108	8,108	3,532	4,576	5,287	(1,755)
City-Wide Appropriation Under the Director of Finance:						
Pension Contributions	20,900	21,684	21,683	1	14,946	6,737
Other Employee Benefits	19,264	18,480	17,979	501	17,993	(14)
Purchase of Services	4,146	4,146	2,469	1,677	2,732	(263)
Contributions, Indemnities and Taxes	2,512	827	-	827	-	-
Sinking Fund Commission	121,218	121,218	102,448	18,770	95,343	7,105
Commerce	154,524	156,209	114,241	41,968	113,665	576
Law	1,878	1,878	1,658	220	1,560	98
Total Obligations	385,481	385,481	307,052	78,429	283,957	23,095
Operating Surplus (Deficit) for the Year	(15,311)	(89,309)	(2,245)	87,064	6,213	(8,458)



Statistical Section

Financial Trends

These tables contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

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Revenue Capacity

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Demographic & Economic Information

These tables offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

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Operating Information

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The City of Philadelphia implemented GASB Statement No. 34 in FY2002. Tables presenting government-wide information include information beginning in that year.

**City of Philadelphia
Net Assets by Component
For the Fiscal Years 2002 Through 2011**

Table 1

Amounts in millions of USD

(full accrual basis of accounting)

Governmental Activities

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Invested in Capital Assets, Net of Related Debt	280.9	286.4	175.0	241.3	248.6	161.4	206.4	(5.8)	(59.3)	(47.5)
Restricted	427.0	426.8	484.1	516.5	471.5	689.7	641.0	833.8	705.1	789.5
Unrestricted	(1,295.5)	(453.8)	(707.0)	(1,028.6)	(1,010.9)	(1,220.5)	(1,567.1)	(2,120.6)	(2,421.9)	(2,495.5)
Total Governmental Activities Net Assets	(587.6)	259.4	(47.9)	(270.8)	(290.8)	(369.4)	(719.7)	(1,292.6)	(1,776.1)	(1,753.5)

Business-Type Activities

Invested in Capital Assets, Net of Related Debt	199.1	478.6	541.0	548.4	537.4	544.0	591.8	750.6	831.8	845.1
Restricted	1,001.6	642.1	504.0	472.0	551.9	635.1	644.1	511.2	489.3	550.6
Unrestricted	(106.3)	(12.7)	91.3	269.7	273.9	257.3	266.2	269.8	257.3	234.3
Total Business-Type Activities Net Assets	1,094.4	1,108.0	1,136.3	1,290.1	1,363.2	1,436.4	1,502.1	1,531.6	1,578.4	1,630.0

Primary Government

Invested in Capital Assets, Net of Related Debt	480.0	765.0	716.0	789.7	786.0	705.4	798.2	744.8	772.5	797.6
Restricted	1,428.6	1,068.9	988.1	988.5	1,023.4	1,324.8	1,285.1	1,345.0	1,194.4	1,340.1
Unrestricted	(1,401.8)	(466.5)	(615.7)	(758.9)	(737.0)	(963.2)	(1,300.9)	(1,850.8)	(2,164.6)	(2,261.2)
Total Primary Government Net Assets	506.8	1,367.4	1,088.4	1,019.3	1,072.4	1,067.0	782.4	239.0	(197.7)	(123.5)

Table 2
City of Philadelphia
Changes in Net Assets
For the Fiscal Years 2002 Through 2011

(All accrual basis of accounting)
 Amounts in millions of USD

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Expenses										
Governmental Activities:										
Economic Development	97.3	127.9	127.4	89.5	89.8	92.6	116.4	116.0	145.0	92.2
Transportation:										
Streets & Highways	110.9	99.8	109.9	119.0	116.0	116.6	117.7	119.1	129.4	136.3
Mass Transit	85.2	85.9	81.3	84.9	84.5	85.1	88.3	90.5	82.7	75.2
Judiciary and Law Enforcement:										
Police	674.9	755.2	793.8	817.1	836.0	921.4	1,002.9	985.6	990.5	1,048.1
Prisons	201.0	223.4	237.1	250.2	268.7	293.2	311.4	339.1	343.8	340.4
Courts	265.8	253.8	277.2	284.9	287.1	304.1	321.6	318.7	312.0	315.0
Conservation of Health:										
Emergency Medical Services	25.7	29.0	30.6	34.2	35.6	36.0	37.2	36.9	47.8	53.3
Health Services	1,147.8	1,196.5	1,174.6	1,275.0	1,411.9	1,442.6	1,572.6	1,701.5	1,446.7	1,524.6
Housing and Neighborhood Development	124.8	125.2	119.0	123.0	149.5	111.2	142.1	149.1	131.3	126.1
Cultural and Recreational:										
Recreation	84.5	109.5	118.4	68.3	73.3	73.4	86.2	77.3	77.0	98.7
Parks	44.2	26.2	32.6	30.2	28.9	32.6	36.6	37.7	37.9	14.0
Libraries and Museums	66.9	63.0	67.5	80.7	68.6	90.3	87.0	92.8	79.0	75.7
Improvements to General Welfare:										
Social Services	580.4	641.5	691.2	697.6	702.0	765.5	794.1	756.3	718.8	718.4
Education	81.8	57.1	58.6	61.6	59.9	64.0	65.5	67.2	64.0	64.0
Inspections and Demolitions	50.5	44.3	81.3	79.0	55.3	64.3	47.3	27.8	23.4	30.1
Service to Property:										
Sanitation	109.1	114.8	121.0	126.0	128.8	134.4	138.0	137.8	142.7	143.0
Fire	173.0	190.2	215.4	229.6	236.1	285.3	284.8	278.6	266.0	285.9
General Management and Support	521.8	524.8	576.9	519.9	574.8	684.1	636.9	684.1	683.3	561.0
Interest on Long Term Debt	169.7	130.2	98.3	138.2	136.9	149.5	95.1	214.6	174.9	136.3
Total Governmental Activities Expenses	4,615.3	4,798.3	5,072.1	5,108.9	5,343.7	5,630.8	5,981.7	6,230.7	5,897.6	5,838.3
Business-Type Activities:										
Water and Sewer	427.7	412.9	416.9	442.3	455.4	476.2	504.3	530.8	502.5	520.2
Aviation	197.9	244.5	261.0	269.5	303.1	314.3	323.1	326.2	330.1	336.0
Industrial and Commercial Development	3.8	2.2	2.5	4.7	2.1	3.7	2.1	3.0	0.1	1.9
Total Business-Type Activities Expenses	629.4	659.6	680.4	716.5	760.6	794.2	829.5	860.0	832.7	858.1
Total Primary Government Expenses	5,244.7	5,457.9	5,692.5	5,825.4	6,104.3	6,425.0	6,811.2	7,090.7	6,730.3	6,696.4
Program Revenues										
Governmental Activities:										
Charges for Services:										
Economic Development	15.1	0.2	6.9	0.1	-	-	-	0.3	0.1	-
Transportation:										
Streets & Highways	1.3	1.1	1.5	1.9	2.2	3.5	3.9	2.8	4.4	5.1
Mass Transit	0.4	0.6	0.5	0.5	0.6	0.6	0.5	0.4	0.5	0.6
Judiciary and Law Enforcement:										
Police	1.4	2.2	2.4	2.2	7.2	1.7	4.3	5.0	3.3	3.5
Prisons	0.7	0.4	0.5	0.4	0.4	0.3	0.3	0.4	0.5	0.5
Courts	72.4	50.9	52.5	48.4	51.5	51.5	52.7	51.8	53.4	45.6
Conservation of Health:										
Emergency Medical Services	18.6	20.1	20.7	23.1	25.0	27.7	27.6	37.5	36.8	34.7
Health Services	10.0	10.2	11.6	13.5	14.0	12.6	15.3	14.4	16.2	16.7
Housing and Neighborhood Development	2.3	18.9	12.0	10.0	22.3	45.2	25.2	31.3	20.8	23.1
Cultural and Recreational:										
Recreation	14.5	14.3	13.0	0.8	0.4	0.2	0.3	3.2	(0.1)	2.8
Parks	1.6	1.9	1.7	0.9	0.4	0.5	1.5	0.6	0.9	5.0
Libraries and Museums	0.3	0.3	0.4	0.5	0.9	0.9	0.8	1.3	0.9	1.8
Improvements to General Welfare:										
Social Services	8.8	8.8	6.9	7.6	7.4	7.3	6.4	7.6	14.4	6.8
Education	-	-	-	-	-	-	-	1.1	-	-
Inspections and Demolitions	0.5	0.5	0.8	0.7	0.7	44.4	44.9	40.3	43.9	45.5
Service to Property:										
Sanitation	1.2	1.8	2.0	2.1	1.8	-	3.1	2.9	2.0	11.6
Fire	0.3	0.1	0.1	0.5	0.4	0.7	0.2	0.7	0.3	0.5
General Management and Support	127.0	150.7	138.2	130.8	179.1	107.5	110.6	131.9	127.9	136.6
Interest on Long Term Debt	-	-	-	-	-	-	-	-	-	9.2
Operating Grants and Contributions	1,834.2	1,907.2	1,968.7	2,067.2	2,142.1	2,204.9	2,339.9	2,438.1	2,050.4	2,223.5
Capital Grants and Contributions	19.9	17.3	19.6	9.1	21.4	15.8	10.0	35.0	46.9	32.1
Total Governmental Activities Program Revenues	2,130.5	2,207.5	2,250.0	2,320.3	2,477.8	2,525.3	2,647.5	2,806.6	2,423.5	2,605.2

Table 2
City of Philadelphia
Changes in Net Assets
For the Fiscal Years 2002 Through 2011
(All accrual basis of accounting)
Amounts in millions of USD

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Business-Type Activities:										
Charges for Services:										
Water and Sewer	350.9	385.4	401.6	450.6	470.8	493.6	503.3	499.7	552.4	558.5
Aviation	201.2	230.5	251.9	278.4	295.0	309.2	303.2	251.7	240.0	258.1
Industrial and Commercial Development	3.2	1.2	1.2	1.1	1.2	1.5	1.5	0.5	0.3	0.5
Operating Grants and Contributions	11.0	8.9	4.8	2.0	2.5	2.8	5.4	2.6	6.1	4.8
Capital Grants and Contributions	23.8	17.8	21.0	20.7	25.3	22.4	36.6	109.4	90.5	105.9
Total Business-Type Activities Program Revenues	590.1	643.8	680.5	752.8	794.8	829.5	850.0	863.9	889.3	927.8
Total Primary Government Revenues	2,720.6	2,851.3	2,980.5	3,073.1	3,272.6	3,354.8	3,497.5	3,670.5	3,312.8	3,533.0
Net (Expense)/Revenue										
Governmental Activities	(2,484.8)	(2,590.8)	(2,762.1)	(2,788.6)	(2,865.9)	(3,105.5)	(3,334.2)	(3,424.1)	(3,474.1)	(3,233.1)
Business-Type Activities	(39.3)	(15.8)	0.1	36.3	34.2	35.3	20.5	3.9	56.6	69.7
Total Primary Government Net Expense	(2,524.1)	(2,606.6)	(2,762.0)	(2,752.3)	(2,831.7)	(3,070.2)	(3,313.7)	(3,420.2)	(3,417.5)	(3,163.4)
General Revenues and Other Changes in Net Assets										
Governmental Activities:										
Taxes:										
Property Taxes	351.7	362.7	374.4	381.8	386.3	399.2	401.3	409.2	400.8	506.6
Wage & Earnings Taxes	1,271.2	1,301.9	1,345.9	1,373.0	1,424.9	1,498.5	1,524.5	1,465.5	1,448.5	1,504.6
Business Taxes	307.9	306.9	319.2	367.9	430.2	453.7	414.5	407.6	385.2	364.2
Other Taxes	286.1	294.7	342.1	406.4	457.7	460.3	460.3	435.0	578.3	645.8
Unrestricted Grants & Contributions	61.1	61.2	47.1	84.3	81.7	104.1	104.7	107.8	171.4	173.8
Interest & Investment Earnings	35.2	57.5	26.0	32.9	60.2	81.8	65.3	46.1	25.5	35.8
Special Items	-	(99.3)	-	-	-	81.8	-	-	-	-
Transfers	4.1	4.1	-	4.4	5.0	4.9	4.9	4.2	28.3	24.9
Total Governmental Activities	2,317.3	2,289.7	2,454.7	2,650.7	2,846.0	3,002.5	2,972.2	2,875.4	3,038.0	3,255.7
Business-Type Activities:										
Interest & Investment Earnings	45.4	33.5	6.6	15.8	43.8	45.7	48.7	22.9	7.7	6.9
Transfers	(6.9)	(4.1)	-	(4.4)	(4.9)	(4.9)	(4.9)	(4.2)	(28.3)	(24.9)
Total Business-Type Activities	38.5	29.4	6.6	11.4	38.9	40.8	43.8	18.7	(20.6)	(18.0)
Total Primary Government	2,355.8	2,319.1	2,461.3	2,662.1	2,884.9	3,043.3	3,016.0	2,894.1	3,017.4	3,237.7
Change in Net Assets										
Governmental Activities	(167.5)	(301.1)	(307.4)	(137.9)	(19.9)	(103.0)	(362.0)	(548.7)	(436.1)	22.6
Business-Type Activities	(0.8)	13.6	6.7	47.7	73.1	76.1	64.3	22.6	36.0	51.7
Total Primary Government	(168.3)	(287.5)	(300.7)	(90.2)	(53.2)	(26.9)	(297.7)	(526.1)	(400.1)	74.3

Table 3

**City of Philadelphia
Fund Balances
Governmental Funds
For the Fiscal Years 2002 Through 2011**

Amounts in millions of USD

(modified accrual basis of accounting)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Fund										
Non-spendable:	-	-	-	-	-	-	-	-	-	-
Restricted for:										
Central Library Project	-	-	-	-	10.0	4.8	4.9	4.7	2.3	2.3
Stadium Financing	186.9	102.8	18.7	4.3	6.0	6.4	0.1	1.7	0.6	0.3
Cultural & Commercial Corridor Project	-	-	-	-	-	143.3	122.5	89.8	30.8	19.2
Long Term Loan	45.0	45.0	45.0	45.0	45.0	45.0	22.5	-	-	-
Committed to:										
Encumbrances	105.6	93.1	88.5	141.5	132.4	135.6	108.8	102.8	-	-
General Fund	-	-	-	-	-	-	-	-	87.9	-
Assigned to:	-	-	-	-	-	-	-	-	-	-
Unassigned:	139.0	(7.9)	(148.1)	(36.4)	111.2	152.7	(24.3)	(274.6)	(251.8)	(45.7)
Total General Fund:	476.5	233.0	4.1	154.3	304.5	487.8	234.4	(75.6)	(130.2)	(23.9)
All Other Governmental Funds										
Non-spendable:	-	-	-	-	-	-	-	-	-	2.6
Permanent Fund (Principal)	-	-	-	-	-	-	-	-	-	-
Restricted for:										
Behavioral Health	27.7	30.8	36.9	61.5	196.0	192.9	177.8	188.7	171.0	250.1
Neighborhood Revitalization	144.1	139.1	87.4	173.6	130.1	99.9	77.8	74.6	73.1	61.3
Public Safety Emergency Phone System	6.7	6.3	8.4	6.8	16.7	21.7	28.7	38.8	40.4	36.9
Economic Development	-	-	-	-	-	-	-	-	-	6.6
Intergovernmental Financing	38.5	28.7	30.6	31.7	26.8	24.5	18.6	12.1	7.9	21.1
Intergovernmentally Financed Pgms	-	-	-	-	-	-	-	-	-	24.5
Streets & Highways	0.7	0.9	2.2	2.8	4.0	7.5	12.8	16.8	16.8	18.3
Housing & Neighborhood Development	-	-	-	-	-	-	-	-	-	10.5
Health Services	-	-	-	-	-	-	-	-	-	8.8
Debt Service	94.7	93.3	88.3	88.1	84.3	92.3	80.9	79.1	76.6	82.8
Capital Improvements	6.8	-	80.9	-	-	103.0	21.0	196.1	152.2	267.7
Trust Purposes	6.5	6.8	7.1	7.4	7.8	8.9	8.3	6.4	4.7	8.1
Parks & Recreation	-	-	-	-	-	-	-	-	-	0.3
Libraries & Museums	-	-	-	-	-	-	-	-	-	0.1
Stadium Financing	-	-	-	-	-	-	-	-	-	6.3
Committed to:										
Capital Improvements	121.0	101.5	77.8	76.5	76.0	56.7	61.7	62.5	37.9	-
Economic Development	-	-	-	-	-	-	-	-	6.5	-
Housing & Neighborhood Development	-	-	-	-	9.6	15.9	17.4	18.6	15.2	-
Debt Service	8.2	6.1	5.7	6.5	4.9	5.2	5.7	5.6	7.9	-
Trust Purposes	3.4	3.4	5.0	5.6	6.9	9.2	9.1	8.0	7.7	-
Intergovernmental Financing	54.7	53.1	44.9	43.6	50.1	53.3	52.2	62.6	36.2	-
Social Services	-	-	-	-	-	-	-	-	-	0.0
Prisons	-	-	-	-	-	-	-	-	-	3.6
Parks & Recreation	-	-	-	-	-	-	-	-	-	0.5
Assigned to:										
Behavioral Health	69.0	-	144.0	134.7	-	28.4	40.5	-	42.5	-
PICA Rebate Fund	2.2	3.2	3.9	5.7	6.5	7.0	7.4	8.0	7.5	-
PMA	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	-
Unassigned:										
Community Behavioral Health	-	116.1	-	-	(24.8)	-	-	(5.4)	-	-
Housing & Neighborhood Dev	(7.7)	(8.8)	(6.6)	(8.0)	(5.5)	(3.9)	(3.2)	(5.0)	(4.0)	(4.0)
Parks & Recreation	-	-	-	-	-	-	-	-	-	-
Grants Revenue Fund	(68.3)	(55.3)	(53.9)	(43.3)	(51.2)	(26.2)	(23.0)	(36.7)	(39.0)	(34.3)
Capital Improvement	-	(98.1)	-	(6.3)	(67.1)	-	-	-	-	-
Total All Other Governmental Funds	508.3	427.2	562.6	587.1	471.3	696.3	594.2	734.9	672.1	771.7

¹ Effective April 15, 2003, the City implemented a change to the basis on which the Business Privilege Tax is collected requiring an estimated payment applicable to the next year's tax liability. A portion of these estimated tax payments are deferred in the general fund beginning in FY2003 because the underlying events had not occurred.

Table 4
City of Philadelphia
Changes in Fund Balances
Governmental Funds
For the Fiscal Years 2002 Through 2011

Amounts in millions of USD

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues										
Tax Revenue	2,255.6	2,253.8	2,379.0	2,535.2	2,708.5	2,805.1	2,781.8	2,705.2	2,812.3	2,995.0
Locally Generated Non-Tax Revenue	298.4	339.8	280.0	265.2	354.5	381.7	349.7	349.3	302.7	370.6
Revenue from Other Governments	1,790.2	2,049.5	1,922.3	2,242.0	2,223.2	2,376.6	2,468.4	2,564.9	2,323.4	2,366.4
Other Revenues	13.6	17.3	18.5	16.7	15.3	17.1	17.9	49.6	33.1	25.8
Total Revenues	4,357.8	4,660.4	4,599.8	5,059.1	5,301.5	5,580.5	5,617.8	5,669.0	5,471.5	5,757.8
Expenditures										
Current Operating:										
Economic Development	91.7	170.4	157.0	92.7	81.5	85.5	112.3	107.0	135.1	82.6
Transportation:										
Streets & Highways	71.8	78.1	75.9	77.7	78.8	89.2	89.7	89.9	91.1	87.4
Mass Transit	56.9	57.5	52.9	56.6	56.7	58.1	61.7	63.7	65.2	67.1
Judiciary and Law Enforcement:										
Police	665.2	727.3	752.0	770.9	798.0	860.2	951.9	933.9	882.7	955.9
Prisons	194.8	214.3	224.5	241.3	256.6	278.1	298.2	326.9	315.2	315.9
Courts	265.7	246.5	267.8	276.9	278.2	292.3	311.1	310.5	288.1	294.9
Conservation of Health:										
Emergency Medical Services	25.7	28.4	29.7	33.3	34.8	34.9	36.0	36.2	45.0	50.7
Health Services	1,146.0	1,192.7	1,170.3	1,271.1	1,407.7	1,436.8	1,567.6	1,695.0	1,436.5	1,514.8
Housing and Neighborhood Development	123.5	120.7	119.0	122.9	147.9	109.2	141.9	148.4	131.2	126.1
Cultural and Recreational:										
Recreation	64.4	94.0	65.7	58.3	59.8	62.2	74.3	65.1	58.4	82.9
Parks	32.5	24.2	23.8	23.7	26.3	26.3	31.8	31.8	26.9	5.8
Libraries and Museums	62.5	64.4	61.1	68.2	70.2	83.2	84.2	81.0	68.8	68.7
Improvements to General Welfare:										
Social Services	578.6	636.1	683.4	689.1	695.9	756.7	778.2	743.1	699.7	701.8
Education	81.8	57.1	58.6	61.5	59.9	64.0	65.5	67.2	65.4	64.0
Inspections and Demolitions	50.9	46.6	83.6	81.2	59.8	63.0	46.3	33.1	27.3	34.8
Service to Property:										
Sanitation	109.1	111.5	117.8	122.0	125.6	129.5	132.9	134.6	130.6	133.9
Fire	170.3	188.0	203.0	217.8	225.8	267.6	276.4	266.9	237.6	258.1
General Management and Support	420.8	450.9	472.4	477.1	537.5	563.7	618.4	693.8	615.0	568.5
Capital Outlay	277.8	162.2	126.0	103.1	97.9	92.3	105.8	126.9	148.9	134.9
Debt Service:										
Principal	130.0	106.8	105.7	95.8	86.2	91.5	94.1	87.6	89.7	91.4
Interest	116.0	112.3	101.6	101.0	99.9	103.4	100.0	105.7	96.7	105.6
Bond Issuance Cost	-	-	9.2	3.9	-	5.0	24.2	8.5	23.5	2.2
Capital Lease Principal	-	-	-	-	-	-	-	-	-	-
Capital Lease Interest	-	-	-	-	-	-	-	-	-	-
Total Expenditures	4,736.0	4,890.0	4,961.0	5,046.1	5,282.1	5,552.7	5,999.6	6,156.8	5,678.6	5,748.0
Excess of Revenues Over (Under) Expenditures	(378.2)	(229.6)	(361.2)	13.0	19.4	27.8	(381.8)	(487.8)	(207.1)	9.8
Other Financing Sources (Uses)										
Issuance of Debt	-	165.5	487.7	157.3	10.0	353.1	1,303.8	282.9	207.0	139.1
Refunding Debt	-	-	-	-	-	-	-	354.9	337.0	114.6
Bond Issuance Premium	-	-	4.8	-	-	13.8	31.1	26.7	24.3	5.0
Proceeds from Lease & Service Agreements	468.2	-	10.9	-	-	-	-	(3.1)	(1.0)	28.1
Bond Defeasance	(165.4)	(233.1)	-	-	-	-	(1,313.7)	(326.9)	(504.0)	(117.6)
Transfers In	703.5	449.4	442.9	581.4	433.1	460.1	465.2	574.5	568.1	583.1
Transfers Out	(693.5)	(445.2)	(442.9)	(577.0)	(428.1)	(455.1)	(462.2)	(570.3)	(529.7)	(558.1)
Total Other Financing Sources (Uses)	478.2	4.3	270.3	161.7	15.0	371.9	26.2	318.7	91.7	194.2
Special Items										
Business Privilege Tax Adjustment	-	(99.3)	-	-	-	-	-	-	-	-
Net Change in Fund Balances	100.0	(324.6)	(90.9)	174.7	34.4	399.7	(355.6)	(169.1)	(115.4)	204.0
Debt Service as a Percentage of Non-capital Expenditures	5.5%	4.7%	4.3%	4.0%	3.6%	3.6%	3.3%	3.2%	3.4%	3.5%

¹ Effective April 15, 2003, the City implemented a change to the basis on which the Business Privilege Tax is collected requiring an estimated payment applicable to the next year's tax liability. \$149.6 million of these estimated tax payments were deferred in the general fund in FY2011 because the underlying events had not occurred.

**City of Philadelphia
Comparative Schedule of Operations
Municipal Pension Fund
For the Fiscal Years 2002 through 2011**

Table 5

Amounts in millions of USD

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	
Additions:											
Contributions:											
Employee Contributions	50.1	52.5	50.5	49.3	48.9	49.2	51.7	54.0	51.6	52.7	
Employer's:											
City of Philadelphia	174.2	174.6	196.6	290.6	321.3	419.2	412.4	440.0	297.4	455.8	
Quasi-Governmental Agencies	4.0	5.2	6.2	8.6	10.4	13.1	14.5	15.4	15.1	14.2	
Total Employer's Contributions	178.2	179.8	202.8	299.2	331.7	432.3	426.9	455.4	312.5	470.1	
Total Contributions	228.3	232.3	253.3	348.5	380.6	481.5	478.6	509.4	364.1	522.8	
Interest & Dividends	109.3	74.4	68.4	74.6	65.1	80.3	97.1	75.6	70.5	79.5	
Net Gain (Decline) in Fair Value of Investments	(359.6)	(3.9)	526.6	306.2	386.4	684.7	(322.0)	(945.6)	381.2	618.5	
Net Securities Lending Revenue	2.2	1.0	0.8	0.9	0.7	1.1	7.4	5.7	1.9	1.5	
Net Investment Income (Loss)	(248.1)	71.5	595.8	381.7	452.2	766.1	(217.5)	(864.3)	453.6	699.5	
Miscellaneous Operating Revenue	0.7	2.4	1.3	0.4	2.1	2.1	1.1	1.0	0.7	1.4	
Total Additions	(19.1)	306.2	850.4	730.6	834.9	1,249.7	262.2	(353.9)	818.4	1,223.7	
Deductions:											
Pension Benefits	450.2	462.3	657.5	590.6	608.6	655.8	725.7	681.1	680.1	681.9	
Refunds to Members	7.1	4.9	4.1	4.6	4.8	4.5	4.2	4.8	4.5	5.1	
Administrative Costs	5.2	6.6	6.4	6.8	6.7	6.7	7.6	8.4	8.1	8.0	
Total Deductions	462.5	473.8	668.0	602.0	620.1	667.0	737.5	694.3	692.7	695.0	
Net Increase (Decrease)	(481.6)	(167.6)	182.4	128.6	214.8	582.7	(475.3)	(1,048.2)	125.7	528.7	
Net Assets: Adjusted Opening Closing	4,440.1 3,958.5	3,958.5 3,790.8	3,790.8 3,973.2	3,973.2 4,101.8	4,101.8 4,316.6	4,316.6 4,899.3	4,899.3 4,424.0	4,899.3 4,424.0	4,424.0 3,375.9	3,375.9 3,501.6	3,501.6 4,030.2
Ratios:											
Pension Benefits Paid as a Percent of:											
Net Members Contributions	1046.98%	971.22%	1417.03%	1321.25%	1380.05%	1467.11%	1527.79%	1383.30%	1443.95%	1432.56%	
Closing Net Assets	11.37%	12.20%	16.55%	14.40%	14.10%	13.39%	16.40%	20.18%	19.42%	16.92%	
Coverage of Additions over Deductions	-4.13%	64.63%	127.31%	121.36%	134.64%	187.36%	35.55%	-50.97%	118.15%	176.07%	
Investment Earnings as % of Pension Benefits	-55.11%	15.47%	90.62%	64.63%	74.30%	116.82%	-29.97%	-126.90%	66.70%	102.58%	

¹ Includes \$1,250 million from the sale of Pension Obligation Bonds

City of Philadelphia
Wage and Earnings Tax Taxable Income
For the Calendar Years 2001 Through 2010

Table 6

Amounts in millions of USD

Year	City Residents			Non-City Residents			Total Taxable Income	Total Direct Rate
	Taxable Income	% of Total	Direct Rate ^{1,2}	Taxable Income	% of Total	Direct Rate ^{1,2}		
2001	17,478.3	59.25%	4.55100%	12,020.4	40.75%	3.95670%	29,498.7	4.30883%
2002	17,615.6	59.54%	4.51930%	11,969.4	40.46%	3.92950%	29,585.0	4.28068%
2003	18,073.7	58.86%	4.48130%	12,635.0	41.14%	3.89640%	30,708.7	4.24064%
2004	18,428.5	58.31%	4.46250%	13,175.0	41.69%	3.88010%	31,603.5	4.21971%
2005	19,177.8	58.14%	4.33100%	13,805.0	41.86%	3.81970%	32,982.8	4.11699%
2006	20,194.0	57.85%	4.30100%	14,715.3	42.15%	3.77160%	34,909.3	4.07784%
2007	21,051.3	57.32%	4.26000%	15,670.2	42.68%	3.75570%	36,725.6	4.04435%
2008	22,013.7	57.19%	4.09950%	16,479.4	42.81%	3.63170%	38,493.1	3.89923%
2009	21,802.4	57.38%	3.92980%	16,195.0	42.62%	3.49985%	37,997.4	3.74655%
2010	22,158.1	57.02%	3.92880%	16,704.0	42.98%	3.49910%	38,862.1	3.74410%

Note:

The Wage and Earnings Tax is a tax on salaries, wages and commissions and other compensation paid to an employee who is employed by or renders services to an employer. All Philadelphia residents owe this tax regardless of where they perform services. Non-residents who perform services in Philadelphia must also pay this tax.

¹ For the years 2000 through 2003 the rate changed on July 1st. For those years the direct rate is an average of the two rates involved during the calendar year.

² In 2008 and 2009, the rate changed on January 1st and July 1st. The direct rate is an average of the two rates involved during that calendar year.

**City of Philadelphia
Direct and Overlapping Tax Rates
For the Ten Fiscal Years 2002 through 2011**

Tax Classification	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Wage and Earnings Tax:										
a City Residents	4.5385%	4.5000%	4.4625%	4.3310% ^b	4.3010% ^b	4.2600% ^b	4.2190% ^b	3.9300% ^b	3.9296% ^b	3.9280% ^b
Non-City Residents	3.9462%	3.9127%	3.8801%	3.8197% ^b	3.7716% ^b	3.7557% ^b	3.7242% ^b	3.5000% ^b	3.4997% ^b	3.4985% ^b
Wage and Earnings Tax is a tax on salaries, wages and commissions and other compensation paid to an employee who is employed by or renders services to an employer. All Philadelphia residents owe this tax regardless of where they perform services. Non-residents who perform services in Philadelphia must also pay this tax.										
d Real Property: (% on Assessed Valuation)										
City	3.745%	3.474%	3.474%	3.474%	3.474%	3.474%	3.305%	3.305%	3.305%	4.123%
School District of Philadelphia	4.519%	4.790%	4.790%	4.790%	4.790%	4.790%	4.959%	4.959%	4.959%	4.959%
Total Real Property Tax	8.264%	8.264%	8.264%	8.264%	8.264%	8.264%	8.264%	8.264%	8.264%	9.082%
^o Assessment Ratio	30.33%	30.12%	30.02%	29.70%	29.69%	29.24%	29.22%	28.86%	28.46%	26.73%
Effective Tax Rate (Real Property Rate x Assessment Ratio)	2.506%	2.489%	2.481%	2.454%	2.454%	2.416%	2.415%	2.385%	2.352%	2.428%
The City and the School District impose a tax on all real estate in the City. Real Estate Tax bills are sent out in December and are due and payable March 31st without penalty or interest if you pay your bill on or before the last day of February, you receive a 1% discount.										
Real Property Transfer Tax										
City	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Commonwealth of Pennsylvania	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Total Real Property Transfer Tax	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Realty Transfer Tax is levied on the sale or transfer of real estate located in Philadelphia. The tax also applies to the sale or transfer of an interest in a corporation or partnership that owns real estate. Certain long term leases are also subject to this tax.										
Business Privilege Taxes										
(% on Gross Receipts)	0.2400%	0.2400% ^c	0.2300% ^c	0.2100% ^c	0.1900% ^c	0.1665% ^c	0.1540% ^c	0.1415% ^c	0.1415% ^c	0.1415% ^c
f (% on Net Income)	6.5000%	6.5000% ^c	6.4500% ^c	6.4500% ^c	6.4500% ^c					
Every individual, partnership, association and corporation engaged in a business, profession or other activity for profit within the City of Philadelphia must file a BPT Return.										
c Net Profits Tax:										
a City Residents	4.5385%	4.5000%	4.4625%	4.4625%	4.3310%	4.3010%	4.2600%	3.9800%	3.9296%	3.9280%
Non-City Residents	3.9462%	3.9127%	3.8801%	3.8801%	3.8197%	3.7716%	3.7557%	3.5392%	3.4997%	3.4985%
Net Profits Tax is levied on the net profits from the operation of a trade, business, profession, enterprise or other activity conducted by individuals, partnerships, associations or estates and trusts.										

**City of Philadelphia
Direct and Overlapping Tax Rates
For the Ten Fiscal Years 2002 through 2011**

Table 7

<u>Tax Classification</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Sales Tax										
City	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	2.0%	2.0%
Commonwealth of Pennsylvania	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Total Sales Tax	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	8.0%	8.0%
Amusement Tax	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Imposed on the admission fee charged for attending any amusement in the City. Included are concerts, movies, athletic contests, night clubs and convention shows for which admission is charged										
Parking Lot Tax	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	20.0%	20.0%	20.0%
Parking Tax is levied on the gross receipts from all financial transactions involving the parking or storing of automobiles or other motor vehicles in outdoor or indoor parking lots and garages in the City										
Hotel Room Rental Tax	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	7.2%	8.2%	8.2%
Rate of Tourism & Marketing Tax	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	8.2%	9.2%	9.2%
Imposed on the rental of a hotel room to accommodate paying guests. The term "hotel" includes an apartment, hotel, motel, inn, guest house, bed and breakfast or other building located within the City which is available to rent for overnight lodging or use of facility space to persons seeking temporary accommodations.										
Vehicle Rental Tax	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Imposed on any person acquiring the custody or possession of a rental vehicle in the City under a rental contract for money or other consideration										

^a Pursuant to an agreement with the Pennsylvania Intergovernmental Cooperation Authority (PICA), PICA's share of the Wage, Earnings and Net Profits Tax is 1.5% of City residents portion only.

^b Effective January 1 of the fiscal year cited, the previous fiscal year's rate was in effect from July 1 through December 31. For FY 2011, from July 1 through December 31, 2010 the rates were 3.928 % and 3.4985%.

^c Rates apply to the tax year (previous calendar year) and the tax is due April 15th in the fiscal year cited.

^d Rates apply to the tax year (current calendar year) and the tax is due March 31st in the fiscal year cited.

^e The State Tax Equalization Board (STEB) annually determines a ratio of assessed valuation to true value for each municipality in the Commonwealth of Pennsylvania. The ratio is used for the purpose of equalizing certain state school aid distribution.

^f 60% of the Net Income portion of the Business Privilege Tax is allowed to be credited against the Net Profits Tax

City of Philadelphia
Principal Wage and Earnings Tax Remitters ¹
Current Calendar Year and Nine Years Ago

Table 8

Amounts in millions of USD

Remittance Range	2010			2001		
	# of Remitters (Employers)	Total Amount Remitted	Percentage of Total Remitted	# of Remitters (Employers)	Total Amount Remitted	Percentage of Total Remitted
Greater than \$10 million	16	\$384.9	26.45%	12	\$273.7	21.53%
Between \$1 million & \$10 million	155	365.7	25.13%	130	320.4	25.21%
Between \$100,000 & \$1 million	1,473	375.8	25.83%	1,355	348.7	27.43%
Between \$10,000 & \$100,000	8,269	244.1	16.78%	8,268	244.7	19.25%
Less than \$10,000	36,834	84.6	5.81%	36,427	83.5	6.58%
Total	<u>46,747</u>	<u>\$1,455.0</u>	<u>100.00%</u>	<u>46,192</u>	<u>\$1,271.0</u>	<u>100.00%</u>

¹ Wage & Earnings information for individual remitters is confidential

City of Philadelphia
Assessed Value and Estimated Value of Taxable Property
For the Calendar Years 2002 through 2011

Table 9

Amounts in millions of USD

Calendar Year of Levy ¹	Assessed Value ³	Less: Tax-Exempt Property ^{2,3}	Total Taxable Assessed Value	Total Direct Tax Rate ⁴	STEB Ratio ⁵	Estimated Actual Taxable Value (STEB)	Sales Ratio ⁶	Estimated Actual Taxable Value (Sales)
2002	13,762	3,603	10,159	3.745%	30.33%	33,495	25.18%	40,346
2003	14,326	3,705	10,621	3.474%	30.12%	35,262	22.58%	47,037
2004	14,813	3,867	10,946	3.474%	30.02%	36,462	24.21%	45,213
2005	15,072	4,040	11,032	3.474%	29.70%	37,145	23.73%	46,490
2006	15,803	4,372	11,431	3.474%	29.69%	38,501	17.42%	65,620
2007	16,243	4,628	11,615	3.474%	29.24%	39,723	17.94%	64,744
2008	16,974	4,799	12,175	3.305%	29.22%	41,667	16.44%	74,057
2009	17,352	5,146	12,206	3.305%	28.86%	42,294	24.64%	49,537
2010	17,615	5,339	12,276	3.305%	28.46%	43,134	13.35%	91,955
2011	17,940	5,593	12,347	3.305%	26.73%	46,192	NA	NA

¹ Real property tax bills are sent out in November and are payable at one percent (1%) discount until February 28th, otherwise the face amount is due by March 31 without penalty or interest.

² Bill #1130, approved February 8, 1978, provides relief from real estate taxes on improvements to deteriorated industrial, commercial or other business property for a period of five years. Bill #982, approved July 9, 1990, changed the exemption period from five years to three years. Bill #225, approved October 4, 2000, extended the exemption period from three years to ten years.

Bill #1456A, approved January 28, 1983, provides for a maximum three year tax abatement for owner-occupants of newly constructed residential property. Bill #226, approved September 12, 2000, extended the exemption period from three years to ten years.

Legislative Act #5020-205 as amended, approved October 11, 1984, provides for a maximum thirty month tax abatement to developers of residential property.

Bill #274, approved July 1, 1997, provides a maximum ten year tax abatement for conversion of eligible deteriorated commercial or other business property to commercial non-owner occupied residential property.

Bill #788A, approved December 30, 1998, provides a maximum twelve year tax exemption, abatement or credit of certain taxes within the geographical area designated as the Philadelphia Keystone Opportunity Zone.

³ Source: Board of Revision of Taxes

⁴ per \$1,000.00 of assessed value

⁵ The State Tax Equalization Board (STEB) annually determines a ratio of assessed valuation to true value for each municipality in the Commonwealth of Pennsylvania. See Table 13.

⁶ This ratio is compiled by the Board of Revision of Taxes based on sales of property during the year.

**City of Philadelphia
Principal Property Tax Payers
Current Year and Nine Years Ago**

Table 10

Amounts in millions of USD

<u>Taxpayer</u>	<u>2011</u>			<u>2002</u>		
	<u>Assessment</u> ¹	<u>Rank</u>	<u>Percentage of Total Assessments</u>	<u>Assessment</u> ¹	<u>Rank</u>	<u>Percentage of Total Assessments</u>
Franklin Mills Associates	57.6	1	0.47	48.1	5	0.47
Phila Liberty Pla E Lp	54.4	2	0.44	64.3	1	0.63
Nine Penn Center Associates	54.1	3	0.44	52.1	3	0.51
Sugarhouse HSP Gaming LP	48.3	4	0.39			
HUB Properties Trust	43.8	5	0.35	59.5	2	0.59
Brandywine Operating Part (Bell Atlantic)	40.6	6	0.33	43.3	6	0.43
PRU 1901 Market LLC	35.2	7	0.29	32.9	7	0.32
Maguire/Thomas	33.9	8	0.27	32.0	9	0.32
Commerce Square Partners	33.3	9	0.27	32.3	8	0.32
Phila Shipyard Development Corp	30.3	10	0.25			-
Philadelphia Market Street			-	30.4	10	0.30
Two Liberty Place	-		-	51.8	4	0.51
	<u>431.5</u>		<u>3.49</u>	<u>446.7</u>		<u>4.40</u>
Total Taxable Assessments	<u>12,347.1</u>		<u>100.00</u>	<u>10,158.6</u>		<u>100.00</u>

¹ Source: Board of Revision of Taxes

City of Philadelphia
Real Property Taxes Levied and Collected
For the Calendar Years 2002 through 2011

Table 11

Amounts in millions of USD

Calendar Year of Levy ¹	Taxes Levied for the Year	Collected within the Year of the Levy		Collected in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount ²	Percentage of Levy
2002	368.2	340.4	92.4%	26.4	366.8	99.6%
2003	359.4	326.8	90.9%	27.2	354.0	98.5%
2004	372.5	340.9	91.5%	25.9	366.8	98.5%
2005	373.5	350.3	93.8%	21.6	371.9	99.6%
2006	385.6	339.6	88.1%	22.3	361.9	93.9%
2007	391.7	347.5	88.7%	22.3	369.8	94.4%
2008	390.2	346.4	88.8%	22.6	369.0	94.6%
2009	396.5	315.4	79.6%	37.9	353.3	89.1%
2010	405.8	353.7	87.2%	23.0	376.7	92.8%
2011	509.1	440.9 ³	86.6%	n/a	440.9	86.6%

¹ Real property tax bills are sent out in November and are payable at one percent (1%) discount until February 28th, otherwise the face amount is due by March 31 without penalty or interest.

² Includes collections through June 30, 2011

³ Includes collections through June 30, 2011. It is estimated that approximately 91% of the amount levied for 2011 will be collected within the year of levy.

City of Philadelphia
Ratios of Outstanding Debt by Type
For the Fiscal Years 2002 through 2011

Table 12

Amounts in millions of USD (except per capita)

Fiscal Year	Governmental Activities											Business-Type Activities						Total Primary Government	% of Personal Income ¹	Per Capita
	General Obligation Bonds	Pension Service Agreement	Neighborhood Transformation Initiative	One Parkway Agreement	Sports Stadia Agreement	Central Library Project	Cultural & Commercial Corridor	Total Governmental Activities	General Obligation Bonds	Water Revenue Bonds	Airport Revenue Bonds	Total Business-Type Activities								
2002	2,009.5	1,386.6	142.6	55.8	346.8	-	-	3,941.3	19.2	1,722.2	1,123.0	2,864.4	6,805.7	0.2	4,543.2					
2003	1,903.3	1,394.6	139.2	54.7	342.0	-	-	3,833.8	15.5	1,670.8	1,104.8	2,791.1	6,624.9	0.2	4,434.3					
2004	2,047.1	1,416.4	146.5	53.5	341.9	-	-	4,005.4	11.6	1,614.7	1,073.1	2,699.4	6,704.8	0.2	4,490.8					
2005	1,950.8	1,429.7	285.3	52.2	341.1	-	-	4,059.1	8.1	1,815.4	1,077.4	2,900.9	6,960.0	0.2	4,668.0					
2006	1,863.8	1,439.2	279.8	50.9	339.6	10.1	-	3,983.4	7.0	1,747.3	1,168.8	2,923.1	6,906.5	0.2	4,638.4					
2007	1,993.7	1,444.9	273.9	49.6	334.0	9.7	139.6	4,245.4	5.8	1,674.3	1,141.0	2,821.1	7,066.5	0.1	4,733.1					
2008	1,899.1	1,446.6	267.8	47.7	328.8	9.3	136.6	4,135.9	4.6	1,590.0	1,282.2	2,876.8	7,012.7	0.1	4,678.3					
2009	2,093.8	1,443.8	261.5	46.3	323.6	8.9	133.3	4,311.2	3.4	1,648.7	1,250.4	2,902.5	7,213.7	0.1	4,761.5					
2010	2,085.1	1,428.3	254.8	44.9	319.6	8.5	129.9	4,271.1	2.2	1,574.9	1,213.9	2,791.0	7,062.1	0.1	4,621.8					
2011	2,135.0	1,407.3	247.8	43.4	314.9	8.1	126.4	4,282.9	1.0	1,738.2	1,450.8	3,190.0	7,472.9	0.1	4,890.6					

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

¹ See Table 17 for Personal Income and Population Amounts

City of Philadelphia
Ratios of General Bonded Debt Outstanding
For the Fiscal Years 2002 through 2011

Table 13

Amounts in millions of USD (except per capita)

Fiscal Year	General Obligation Bonds	Assessed Taxable Value of Property ¹	Assessed Ratio ²	Actual Taxable Value of Property	% of Actual Taxable Value of Property	Per Capita ³
2002	2,009.5	10,158.6	30.33%	33,493.6	6.00%	1,330.31
2003	1,903.3	10,621.1	30.12%	35,262.6	5.40%	1,260.41
2004	2,047.1	10,945.9	30.02%	36,462.0	5.61%	1,351.53
2005	1,950.8	11,031.8	29.70%	37,144.1	5.25%	1,285.43
2006	1,863.8	11,430.6	29.69%	38,499.8	4.84%	1,225.98
2007	1,993.7	11,615.0	29.24%	39,723.0	5.02%	1,303.05
2008	1,899.1	12,175.2	29.22%	41,667.4	4.56%	1,232.90
2009	2,093.8	12,205.6	28.86%	42,292.4	4.95%	1,353.20
2010	2,085.1	12,276.3	28.46%	43,135.3	4.83%	1,364.32
2011	2,135.0	12,347.1	26.73%	46,191.9	4.62%	1,365.09

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statement.

¹ Source: Board of Revision of Taxes

² The State Tax Equalization Board (STEB) annually determines a ratio of assessed valuation to true value for each municipality in the Commonwealth of Pennsylvania. The ratio is used for the purpose of equalizing certain state school aid distribution.

³ See Table 17 for Population Amounts

City of Philadelphia
Direct and Overlapping Governmental Activities Debt
June 30, 2011

Table 14

Amounts in millions of USD

	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
<u>Governmental Unit</u>			
School District of Philadelphia	<u>2,866.3</u>	<u>100.00%</u>	<u>2,866.3</u>
¹ City Direct Debt			<u>4,282.9</u>
Total Direct and Overlapping Debt			<u><u>7,149.2</u></u>

Note:

Overlapping governments are those that coincide, in least in part, with the geographic boundaries of the City. The outstanding debt of the School District of Philadelphia is supported by property taxes levied on properties within the City boundaries. This schedule attempts to show the entire debt burden borne by City residents and businesses.

¹ Refer to Table 12

City of Philadelphia
Pledged-Revenue Coverage
For the Fiscal Years 2002 through 2011

Table 16

Amounts in millions of USD

No.		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Water and Sewer Revenue Bonds											
1	Total Revenue and Beginning Fund Balance	390.8	454.2	421.6	463.5	504.0	536.2	597.8	527.5	566.7	589.7
2	Net Operating Expenses	242.9	250.2	262.0	277.7	284.2	303.2	334.7	342.6	334.0	357.7
3	Transfer To (From) Rate Stabilization Fund	(26.3)	16.8	(28.8)	(0.6)	21.6	26.0	(9.8)	(34.7)	(2.7)	10.9
4	Net Revenues	174.2	187.2	188.4	186.4	198.2	207.0	272.9	219.6	235.4	221.1
Debt Service:											
5	Revenue Bonds Outstanding	145.2	156.1	157.0	155.4	165.2	172.7	173.8	183.0	195.7	184.3
6	General Obligation Bonds Outstanding	0.6	-	-	-	-	-	-	-	-	-
7	Pennvest Loan	1.6	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
8	Total Debt Service	147.4	157.3	158.2	156.6	166.4	173.9	175.0	184.2	196.9	185.5
9	Net Revenue after Debt Service	26.8	29.9	30.2	29.8	31.8	33.1	97.9	35.4	38.5	35.6
10	Transfer to General Fund	4.1	4.1	-	4.4	5.0	5.0	5.0	4.2	2.3	-
11	Transfer to Capital Fund	16.1	16.0	16.4	16.7	16.9	16.9	16.9	17.1	17.3	18.1
12	Transfer to Residual Fund	6.6	9.8	13.8	8.7	9.9	11.2	76.0	14.1	18.9	17.5
13	Ending Fund Balance	-	-	-	-	-	-	-	-	-	-
Debt Service Coverage:											
	Coverage A (Line 4/Line 5)	1.20	1.20	1.20	1.20	1.20	1.20	1.57	1.20	1.20	1.20
	Coverage B (Line 4/(Line 8 + Line 11))	1.07	1.08	1.08	1.08	1.08	1.08	1.42	1.09	1.10	1.09
Airport Revenue Bonds											
1	Fund Balance	-	-	-	-	-	10.2	42.6	61.4	55.1	77.6
2	Project Revenues	146.5	168.4	183.3	185.1	200.8	211.3	250.5	255.3	246.9	260.8
3	Passenger Facility Charges	16.8	31.2	32.8	32.9	32.6	32.9	32.9	32.9	33.1	32.4
4	Total Fund Balance and Revenue	163.3	199.6	216.1	218.0	233.4	254.4	326.0	349.6	335.1	370.8
5	Net Operating Expenses	56.3	67.0	71.9	71.3	77.2	87.1	99.8	99.5	102.9	98.1
6	Interdepartmental Charges	39.7	46.1	52.2	57.6	57.9	70.6	89.1	89.0	80.7	88.6
7	Total Expenses	96.0	113.1	124.1	128.9	135.1	157.7	188.9	188.5	183.6	186.7
Available for Debt Service:											
8	Revenue Bonds (Line 4-Line 5)	107.0	132.6	144.2	146.7	156.2	167.3	226.2	250.1	232.2	272.7
9	All Bonds (Line 4-Line 7)	67.3	86.5	92.0	89.1	98.3	96.7	137.1	161.1	151.5	184.1
Debt Service:											
10	Revenue Bonds	64.1	83.2	89.7	88.1	88.1	85.5	84.4	95.6	94.3	102.4
11	General Obligation Bonds	2.0	1.4	1.0	1.1	-	-	-	-	-	-
12	Total Debt Service	66.1	84.6	90.7	89.2	88.1	85.5	84.4	95.6	94.3	102.4
Debt Service Coverage:											
	Revenue Bonds Only - Test "A" (Line 8/Line 10)	1.67	1.59	1.61	1.67	1.77	1.96	2.68	2.62	2.46	2.66
	Total Debt Service - Test "B" (Line 9/Line 12)	1.02	1.02	1.01	1.00	1.12	1.13	1.62	1.69	1.61	1.80

Note:

The rate covenant of the Aviation issues permit inclusion of Fund Balance at the beginning of the period with project revenues for the period to determine adequacy of coverage.

Coverage "A" requires that Net Revenues equal at least 120% of the Debt Service Requirements while Coverage "B" requires that Net Revenues equal at least 100% of the Debt Service Requirements plus Required Capital Account Transfers. Test "A" requires that Project Resources be equal to Net Operating Expenses plus 150% of Revenue Bond Debt Service for the year. Test "B" requires Project Resources be equal to Operating Expenses for the year plus all debt service requirements for the year except any General Obligation Debt Service not applicable to the project.

Amounts in the above statement have been extracted from reports submitted to the respective Fiscal Agents in accordance with the reporting requirements of the General Ordinance and Supplemental Ordinance relative to rate covenants. Water and Sewer Coverage is calculated on the modified accrual basis; Aviation Fund on the accrual basis. Prior to FY2008 Airport Revenues and Expenses were reduced by amounts applicable to the Outside Terminal Area and the Overseas Terminal as prescribed by the indenture.

City of Philadelphia
Demographic and Economic Statistics
For the Calendar Years 2001 through 2010

Table 17

<u>Calendar Year</u>	<u>Population</u> ¹	<u>Personal Income</u> ² (thousands of USD)	<u>Per Capita Personal Income</u> (USD)	<u>Unemployment Rate</u> ³
<u>2001</u>	<u>1,512,507</u>	<u>38,709,099</u>	<u>25,593</u>	<u>6.1%</u>
<u>2002</u>	<u>1,510,550</u>	<u>40,731,865</u>	<u>26,965</u>	<u>7.3%</u>
<u>2003</u>	<u>1,510,068</u>	<u>42,198,628</u>	<u>27,945</u>	<u>7.5%</u>
<u>2004</u>	<u>1,514,658</u>	<u>43,463,015</u>	<u>28,695</u>	<u>7.3%</u>
<u>2005</u>	<u>1,517,628</u>	<u>44,944,207</u>	<u>29,615</u>	<u>6.7%</u>
<u>2006</u>	<u>1,520,251</u>	<u>47,566,075</u>	<u>31,288</u>	<u>6.2%</u>
<u>2007</u>	<u>1,530,031</u>	<u>50,672,227</u>	<u>33,118</u>	<u>6.0%</u>
<u>2008</u>	<u>1,540,351</u>	<u>53,689,351</u>	<u>34,855</u>	<u>7.1%</u>
<u>2009</u>	<u>1,547,297</u>	<u>54,125,507</u>	<u>34,981</u>	<u>9.8%</u>
<u>2010</u>	<u>1,528,306</u>	<u>54,565,206</u> ⁴	<u>35,703</u>	<u>10.9%</u>

¹ US Census Bureau

² US Department of Commerce, Bureau of Economic Analysis

³ US Department of Labor, Bureau of Labor Statistics

⁴ Estimated using the rate of growth for the previous year

City of Philadelphia
Principal Employers
Current Calendar Year and Nine Years Ago

Table 18

Listed Alphabetically

2011	2002
Albert Einstein Medical Children's Hospital of Philadelphia City of Philadelphia Comcast Corporation Hospital of the University of Pennsylvania School District of Philadelphia SEPTA Temple University Thomas Jefferson University Hospitals University Of Pennsylvania	Albert Einstein Medical City of Philadelphia First Union Services, Inc. School District of Philadelphia SEPTA Temple University Tenet Healthsystem United States Postal Service University Of Pennsylvania Verizon Corporation

City of Philadelphia
Full Time Employees by Function
For the Fiscal Years 2005 through 2011

Table 19

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Governmental Activities:							
Economic Development	6	6	6	6	23	25	27
Transportation:							
Streets & Highways	564	579	585	584	568	515	499
Mass Transit	1	1	1	1	8	7	9
Judiciary and Law Enforcement:							
Police	7,578	7,522	7,639	7,754	7,685	7,503	7,439
Prisons	2,227	2,228	2,183	2,153	2,309	2,268	2,173
Courts	3,450	3,403	3,361	3,386	3,310	3,215	3,225
Conservation of Health:							
Emergency Medical Services	289	255	249	237	256	329	341
Health Services	1,163	1,133	1,148	1,140	1,163	1,135	1,139
Housing and Neighborhood Development	105	97	111	108	99	96	94
Cultural and Recreational:							
Recreation	511	495	482	483	462	453	601
Parks	182	158	156	156	152	158	1
Libraries and Museums	726	812	816	808	723	687	682
Improvements to General Welfare:							
Social Services	2,196	2,140	2,164	2,232	2,107	2,079	1,989
Inspections and Demolitions	380	248	243	246	221	223	214
Service to Property:							
Sanitation	1,233	1,272	1,229	1,239	1,169	1,157	1,185
Fire	1,925	1,974	2,109	2,052	2,019	1,820	1,838
General Management and Support	2,253	2,347	2,331	2,414	2,393	2,276	2,225
Total Governmental Activities	<u>24,789</u>	<u>24,670</u>	<u>24,813</u>	<u>24,999</u>	<u>24,667</u>	<u>23,946</u>	<u>23,681</u>
Business Type Activities:							
Water and Sewer	2,326	2,239	2,229	2,291	2,256	2,196	2,116
Aviation	967	1,004	1,010	1,057	1,033	1,001	1,010
Total Business-Type Activities	<u>3,293</u>	<u>3,243</u>	<u>3,239</u>	<u>3,348</u>	<u>3,289</u>	<u>3,197</u>	<u>3,126</u>
Fiduciary Activities:							
Pension Trust	64	65	65	59	69	66	65
Total Primary Government	<u>28,146</u>	<u>27,978</u>	<u>28,117</u>	<u>28,406</u>	<u>28,025</u>	<u>27,209</u>	<u>26,872</u>

Table 20

City of Philadelphia
Operating Indicators by Function
For the Fiscal Years 2002 through 2011

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental Activities:										
Transportation:										
Streets & Highways										
Street Resurfacing (miles)	134	93	117	105	102	107	74	119	69	36
Potholes Repaired	11,593	24,182	23,179	20,862	18,203	12,721	12,326	11,976	23,049	24,406
Judiciary and Law Enforcement:										
Police										
Arrests	77,701	66,083	68,486	67,795	69,166	73,606	75,805	68,922	64,465	73,310
Calls to 911	3,319,936	3,269,276	3,290,786	3,270,114	3,321,896	3,398,985	3,164,454	3,084,261	3,064,973	2,949,231
Prisons										
Average Inmate Population	7,637	7,631	7,738	8,141	8,613	8,796	9,133	9,554	8,806	7,935
Inmate Beds (city owned)	7,382	7,382	8,283	8,405	8,605	8,443	9,005	9,137	9,137	8,200
Conservation of Health:										
Emergency Medical Services										
Medic Unit Runs	NA	NA	NA	NA	209,654	216,606	215,305	217,505	222,882	227,147
First Responder Runs	NA	NA	NA	NA	69,740	68,203	60,756	53,610	54,960	66,763
Health										
Patient Visits	342,742	320,833	317,184	337,770	324,014	323,121	334,139	349,078	350,695	339,032
Children Screened for Lead Poisoning	39,629	39,293	37,863	38,013	43,038	43,501	41,590	50,525	47,713	45,844
Cultural and Recreational:										
Parks										
Athletic Field Permits Issued	NA	NA	NA	NA	2,878	2,227	1,389	1,420	1,388	2,714
Libraries										
Items borrowed	7,024,391	7,056,608	6,963,935	6,294,315	6,188,637	6,328,706	7,037,694	7,419,466	6,530,662	7,210,217
Visitors to all libraries	6,226,316	6,440,990	6,216,973	5,517,569	6,103,354	6,422,857	6,648,998	6,396,633	5,615,201	6,103,528
Visitors to library website	970,970	1,353,626	1,661,794	2,044,518	2,594,527	3,285,380	4,912,405	4,613,496	5,256,928	6,131,726
Improvements to General Welfare:										
Social Services										
Children Receiving Services	NA	26,388	28,039	28,926	28,086	28,898	25,893	35,685	31,416	28,572
Children in Placement	NA	9,190	9,037	8,548	7,999	8,070	7,739	7,993	8,792	7,122
Emergency Shelter Beds (average)	2,011	2,109	2,412	2,539	2,781	2,677	2,747	2,689	2,617	2,520
Transitional Housing Units (new placements)	615	458	489	597	448	543	435	476	487	510
Service to Property:										
Sanitation										
Refuse Collected (tons per day)	2,929	2,894	3,006	3,008	3,006	2,922	2,798	2,532	2,412	2,254
Recyclables Collected (tons per day)	149	175	169	157	155	179	197	288	381	441
Fire										
Fires Handled	NA	NA	NA	NA	9,523	8,080	7,444	6,850	4,927	7,945
Fire Marshall Investigations	NA	NA	NA	NA	2,734	3,153	3,097	3,031	2,726	2,711
Business Type Activities:										
Water and Sewer										
New Connections	83	110	106	137	207	125	295	281	704	121
Water Main Breaks	497	988	794	706	660	825	687	802	646	954
Avg. Daily Treated Water Delivered (x 1000 gallons)	178,000	183,700	175,600	174,100	175,800	169,400	167,000	163,660	242,900	250,000
Peak Daily Treated Water Delivered (x 1000 gallons)	200,300	208,600	201,700	210,000	207,400	179,100	170,500	167,090	272,200	282,000
Avg. Daily Water Sewage Treatment (x 1000 gallons)	409,230	478,130	476,110	478,670	430,170	463,080	411,830	417,330	468,200	410,000
Aviation										
Passengers Handled (PIA)	24,030,686	24,232,804	26,190,976	31,074,454	31,341,459	31,885,333	32,287,035	30,819,348	30,469,899	31,225,470
Air Cargo Tons (PIA)	544,875	565,653	568,898	599,758	591,815	571,452	575,640	475,365	440,495	449,683
Aircraft Movements (PIA and NPA)	590,563	654,758	584,214	629,885	625,692	614,720	593,757	551,191	543,462	458,832

¹ PIA (Philadelphia International Airport)-passenger aircraft and cargo, NPA (Northeast Philadelphia Airport)-private aircraft and cargo

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental Activities:										
Transportation:										
Streets & Highways										
¹ Total Miles of Streets		2,400	2,400	2,400	2,400	2,400	2,575	2,575	2,575	2,575
Streetlights	100,612	101,224	101,836	102,000	102,219	102,840	102,949	103,982	104,219	104,219
Judiciary and Law Enforcement:										
Police										
Stations and Other Facilities	33	33	33	33	33	34	36	35	35	31
Prisons										
Major Correctional Facilities	5	5	6	6	6	6	6	6	6	6
Conservation of Health:										
Health Services										
Health Care Centers	9	9	9	9	9	9	9	9	9	9
Cultural and Recreational:										
Recreation										
Recreation Centers	NA	164	164	165	165	171	171	171	171	153
² Athletic Venues	NA	1,121	1,121	1,121	1,117	1,117	919	915	914	1,148
⁴ Neighborhood Parks and Squares	NA	232	232	232	232	232	79	79	79	-
Parks										
Parks	NA	62	62	62	62	63	63	63	63	150
Baseball/Softball Fields	NA	106	106	106	106	109	77	79	79	407
Libraries										
Branch & Regional Libraries	55	55	54	53	54	54	54	54	54	54
Service to Property:										
Fire										
Stations and Other Facilities	63	63	63	63	64	64	64	63	63	63
Business Type Activities:										
Water and Sewer:										
Water System Piping (miles)	3,168	3,169	3,169	3,169	3,169	3,133	3,137	3,145	3,236	3,164
Fire Hydrants	27,836	27,846	27,987	26,080	26,080	25,195	25,181	25,208	25,234	25,353
Treated Water Storage Capacity (x 1000 gallons)	1,067,200	1,065,500	1,065,500	1,065,500	1,065,500	1,065,500	1,065,500	1,065,500	1,065,400	1,065,400
Sanitary Sewers (miles)	594	595	596	596	596	768	750	749	751	758
Stormwater Conduits (miles)	622	622	623	623	623	784	713	720	721	731
Sewage Treatment Capacity (x 1000 gallons)	1,044,000	1,044,000	1,044,000	1,044,000	1,044,000	1,044,000	1,044,000	1,044,000	1,044,000	1,044,000
Aviation										
Passenger Gates (PIA)	103	120	120	120	120	120	120	120	120	126
Terminal Buildings (square footage) (PIA)	1,563,000	2,415,000	2,415,000	2,415,000	2,415,000	2,415,000	2,415,000	2,415,000	3,144,000	3,144,000
Runways (length in feet) (PIA & NPA)	42,460	42,460	42,460	42,460	42,460	42,460	42,460	43,500	43,500	43,500

¹ Street System-83% city streets, 2% park streets, 15% state highways

² Includes baseball fields, football/soccer fields, tennis, basketball and hockey courts, skating rinks and indoor and outdoor pools

³ PIA (Philadelphia International Airport)-passenger aircraft and cargo. NPA (Northeast Philadelphia Airport)-private aircraft and cargo.

⁴ FPC and Recreation Dept were merged in FY2011, hence the category of Neighborhood Parks and Squares was eliminated.