CITY OF PHILADELPHIA
INDEX FOR NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

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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 generally accepted accounting principles, 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.

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) - 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) and one account group (General Long Term Debt).

Philadelphia Municipal Authority (PMA) - 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) and both account groups (General Fixed Assets and General Long Term Debt).

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. In addition, a separate Statement of Changes in Fund Balances and a Statement of Current Funds Revenue, Expenditures and Other Changes is presented for the Community College of Philadelphia in conformity with accounting principles specific to colleges and universities.

Community College of Philadelphia (CCP) - 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.

Penn's Landing Corporation - Penn's Landing Corporation was established to assist the City and the Commonwealth of Pennsylvania and their agencies in the rehabilitation, renewal and management of the historic site on the bank of the Delaware River known as Penn's Landing. The Corporation is governed by a

20 member board with 10 members appointed by the City. It receives substantial subsidies from the City and its budgets must be approved by the City.

Pennsylvania Convention Center Authority - The Pennsylvania Convention Center Authority was established to develop, promote and operate a convention center facility in the Philadelphia metropolitan area.

Philadelphia Housing Authority (PHA) - PHA was established to provide low cost housing and other social services to the residents of the City. It is governed by a five member board with four members appointed by the City. Its fiscal year ends on March 31.

Philadelphia Housing Development Corporation (PHDC) - PHDC was established to promote the development of low cost housing within the City. It is governed by a 35 member board with 25 members appointed by the City and the remaining 10 designated by virtue of their City position.

Philadelphia Parking Authority (PPA) - PPA was established by the City to coordinate a system of parking facilities and on-street parking on behalf of the City. It is governed by a five member board appointed by the City. Its fiscal year ends on March 31.

Redevelopment Authority of the City of Philadelphia (RDA) - 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 - The School District was established by the Educational Supplement to the Philadelphia Home Rule Charter to provide free public education for the City's residents. Its board is appointed by the City and must submit a lump sum statement of revenues and expenditures to the City for approval.

Community Behavioral Health (CBH) - 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.

Philadelphia Authority for Industrial Development (PAID) - PAID was formed under the Industrial Development Authority Law to issue tax-exempt debt to finance eligible industrial and commercial development projects. PAID is the delegate agency responsible for administration of certain state grants for major development projects in the City.

Philadelphia Gas Works (PGW) - PGW was established by the City to provide gas service to residential and commercial customers within the City of Philadelphia.

The financial statements for the various component units have been reformatted to conform with the statement format utilized by the City. However, individual financial statements can be obtained directly from their administrative offices by writing to the addresses below.

Administrative Offices

Pennsylvania Intergovernmental Cooperation Authority
1429 Walnut Street, 14th Floor
Philadelphia, PA 19102

Community College of Philadelphia
1700 Spring Garden Street
Philadelphia, PA 19130

Penn's Landing Corporation
Delaware Avenue and Walnut Street
Philadelphia, PA 19106

Philadelphia Municipal Authority
Land Title Building
100 South Broad Street, Suite 1525
Philadelphia, Pa 19110

Philadelphia Parking Authority
Two Penn Center Plaza, Suite 800
Philadelphia, PA 19102

Redevelopment Authority of the City of Philadelphia
1234 Market Street
Philadelphia, PA 19107

Pennsylvania Convention Center Authority
1101 Arch Street
Philadelphia, PA 19103

Philadelphia Housing Authority
2012 Chestnut Street
Philadelphia, PA 19103

Philadelphia Housing Development Corporation
1234 Market Street
Philadelphia, PA 19107

Philadelphia Gas Works
800 West Montgomery Avenue
Philadelphia, PA 19122

School District of Philadelphia
Parkway At 21st Street
Philadelphia, PA 19103

Community Behavioral Health, Inc.
Philadelphia Department of Public Health
1101 Market Street
Philadelphia, PA 19103

Philadelphia Authority for Industrial Development
2600 Centre Square West
1500 Market Street
Philadelphia, PA 19102

C. AUDIT RESPONSIBILITY

The financial statements of the above component units (except for the School District of Philadelphia), as well as the financial statements of the Municipal Pension Fund and the Gas Works Retirement Reserve Fund have been audited by auditors other than the Office of the Controller of the City of Philadelphia. The table below indicates the percentage of certain financial information that was subject to audit by those other auditors :

	Special Revenue	Capital Projects	Debt Service	Enterprise	Trust and Agency	General Fixed Assets	General Long-Term Debt	Component Units
Total Assets	18%	19%	99%	0%	98%	11%	N/A	52%
Total Liabilities	1%	3%	100%	0%	90%	N/A	38%	56%
Total Revenues	21%	9%	99%	0%	100%	N/A	N/A	42%

D. RELATED ORGANIZATIONS

Hospitals & Higher Education Facilities Authority (HHEFA) - HHEFA was created to provide funds through the issuance of revenue or special obligation bonds and notes to assist nonprofit hospitals, nonprofit religious or hospital-affiliated sub-acute care facilities, nonprofit nursing homes, and higher education facilities in projects determined to be primarily for the health and safety of the citizens of the Philadelphia area. HHEFA is administered by a five member board appointed by the mayor. Management of the HHEFA is not designated by the City nor does the City have the ability to significantly influence operations. The City does not subsidize the operations of the HHEFA and does not guarantee its debt service. HHEFA has not been included as a component unit of the City's reporting entity because there is no accountability for fiscal matters to the City.

Private Industry Council of Philadelphia (PIC) - PIC was created to provide a training-based bridge connecting the City's unemployed with its area employers and prepares them for permanent unsubsidized employment through various types of training programs. PIC is governed by a 29 member board selected from the private sector by elected City officials. However, financial dependency rests with the Commonwealth of Pennsylvania. Management of PIC is not designated by the City nor does the City have the ability to significantly influence operations. PIC has not been included as a component unit of the City's reporting entity because there is no accountability for fiscal matters to the City.

2. FUND ACCOUNTING

The City of Philadelphia uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types".

Governmental funds are used to account for all or most of the City's general activities, including the collection and disbursement of earmarked monies (Special Revenue Funds), the acquisition or construction of general fixed assets (Capital Improvement Funds), and the servicing of general long-term debt (Debt Service Funds). The General Fund is used to account for all activities of the City's general government not accounted for in some other fund.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods and services from such activities can be provided either to outside parties (Enterprise Funds) or to other departments or agencies primarily within the government (Internal Service Funds).

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the City. When these assets are held under the terms of a formal trust agreement, a Pension Trust Fund, a Nonexpendable Trust Fund or an Expendable Trust Fund is used. The terms "nonexpendable" and "expendable" refer to whether or not the City is under an obligation to maintain the trust principal. Agency Funds generally are used to account for assets that the City holds on behalf of others as their agent.

3. BASIS OF ACCOUNTING AND MEASUREMENT FOCUS

A. PRIMARY GOVERNMENT

Governmental Funds and Expendable Trust Funds account for their activities using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets. These funds, as well as the Agency Funds, use the modified accrual basis of accounting, under which revenues are recognized in the accounting period in which they become both measurable and available. "Measurable" means the amount of the transaction can be determined. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. General property taxes, self-assessed taxes, sales tax and investment earnings are recorded when earned as they are measurable and available. Grant revenues are recognized as revenue when grant expenditures have been recorded. Licenses and permits, charges for services, fines and forfeits and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Expenditures are recorded in the accounting period in which the fund liability is incurred, if measurable, except expenditures for debt service, prepaid expenditures, and other long-term obligations which are recognized when paid. Expenditures for claims and judgments, compensated absences, and other long-term obligations are accrued if expected to be liquidated with available resources.

Proprietary Funds, Pension Trust Funds and Non-Expendable Trust Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. These funds use the accrual basis of accounting where revenues are recognized in the accounting period in which they are earned and expenses are recognized at the time the liabilities are incurred. Under GASB Statement No. 20, “Accounting and Financial Reporting for Proprietary Activities”, Proprietary Funds will continue to follow FASB pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements and will follow FASB standards issued after that date which do not conflict with GASB standards. Water revenues, net of uncollectible accounts, are recognized as billed on the basis of scheduled meter readings. Aviation revenue from Passenger Facility Charges is reserved for capital purposes. Pension Trust Funds recognize employer and plan member contributions and benefits and refunds paid in the period in which they are due and payable.

During Fiscal Year 1999, the City changed its policy regarding the write-off of delinquent Water receivables to include accounts determined to be uncollectible as a result of litigation and exhaustion of the judicial process. This resulted in an increase of $23.2 million in Water accounts written off.

B. COMPONENT UNITS

The ***Philadelphia Housing Authority (PHA)*** and the ***School District of Philadelphia*** prepare their financial statements in a manner similar to the City and utilize the full range of governmental and proprietary fund types as well as both account groups. However, for inclusion in the City's financial statements, both PHA's and the School District's statements have been combined into single governmental funds.

The financial statements of the ***Community College Fund*** have been prepared on the accrual basis. The College has elected to present its financial statements in accordance with the provisions of the *Audit Guide for Colleges and Universities* published by the American Institute Of Certified Public Accountants. The statement of current funds revenues, expenditures and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

The remaining component units prepare their financial statements in a manner similar to that of proprietary funds.

4. CASH AND INVESTMENTS

A. PRIMARY GOVERNMENT

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 Non-Expendable Trust 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.

Cash and investments are reflected as follows in the financial statements and related footnotes:

(Amounts In Thousands)

Statement Presentation		Footnote Presentation	
Cash On Deposit and On Hand	$ 68,928	Cash & Cash Equivalents (Note III.1)	$ 209,444
Equity In Treasurer's Account	6,256,473		
Investments	225,364	Investments (Note III.3)	8,071,765
Included In Restricted Assets	1,256,350		
Other Assets	474,094		
Total Cash & Investments	$ 8,281,209	Total Cash & Investments	$ 8,281,209

B. COMPONENT UNITS

The School District utilizes a pooled Cash and Investments Account to provide efficient management of the cash of most School District funds. In addition, cash balances are maintained in separate accounts by various funds due to either legal requirements or operational needs.
The investments of the various component units are carried at amortized cost or cost that approximates fair value as prescribed by GASB Statement 31.

Combined cash and investments and amounts held by fiscal agents of the component units are reflected as follows in the financial statements and related footnotes:

(Amounts In Thousands)

Statement Presentation		Footnote Presentation	
Cash On Deposit and On Hand	$ 68,313	Cash & Cash Equivalents (Note III.1)	$ 194,109
Equity In Pooled Cash and Investments	118,353		
Investments	212,978		
Amounts Held BY Fiscal Agent	55,133	Investments (Note III.3)	607,927
Included In Restricted Assets	347,259		
Total Cash & Investments	$ 802,036	Total Cash & Investments	$ 802,036

5. INVENTORIES

A. PRIMARY GOVERNMENT

All inventories 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.
- **Governmental fund** inventories consist of expendable supplies held for future use. These supplies are recorded as expenditures at the time they are purchased. The inventories are fully offset by a fund balance reserve to indicate that they do not constitute "available spendable resources" even though they are a component of net current assets.

B. COMPONENT UNITS

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

- **Gas Works** inventory consists primarily of fuel stock and gases which are stated at the lower of average cost or market.
- **School District** 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.
- **School District** General Fund inventory includes books, school opening, custodial, summer school and other supplies specifically acquired for use in the subsequent fiscal year. These supplies are delivered to schools and other locations prior to the end of the fiscal year but are recognized as expenditures in the following fiscal year. Accordingly, a fund balance reserve has not been established.
- **Housing Development Corporation** inventory represents properties held for disposition or sale and are valued at the lower of cost or market.
- **Redevelopment Authority** inventory represents real estate held for resale and is valued at appraised value.
- **Housing Authority** inventories are valued at lower of cost or market, cost being determined on a First-in, First-out basis

6. PROPERTY, PLANT AND EQUIPMENT

A. PRIMARY GOVERNMENT

Property, plant and equipment acquired or constructed for general governmental operations are expensed in the fund making the expenditure and capitalized at cost in the General Fixed Assets Account Group. Costs recorded in the General Fixed Assets Account Group do not include interest incurred as a result of financing the assets' acquisition or construction. Property, plant and equipment acquired for Proprietary Fund operations are capitalized in the respective fund to which they apply. Property, plant and equipment is stated at cost.

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

Where cost could not be determined from the records available, estimated historical cost was used to record the value of the assets. 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.

Public Domain ("infrastructure") general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks and lighting systems, are not capitalized along with other general fixed assets.

Cost of construction for Enterprise Fund fixed 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 fixed assets for all Proprietary 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. Contributed capital is reduced by the depreciation expense on those assets which were financed by externally restricted grants.

B. COMPONENT UNITS

Depreciation is not provided for fixed assets recorded in the general fixed assets of the School District or the Philadelphia Housing Authority. Depreciation on the fixed assets for all other 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. Contributed capital is reduced by the depreciation expense on those assets which were financed by externally restricted grants.

7. AMORTIZATION OF BOND DISCOUNT/ISSUANCE COSTS

In governmental fund types, bond discounts and issuance costs are recognized in the current period. Bond discounts and issuance costs for Proprietary Funds are deferred and amortized over the term of the bonds using the bonds outstanding method, except for the Gas Works Fund and the Redevelopment Authority Fund which use the interest method and the straight line method, respectively.

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. A reserve for payment of reported worker's compensation claims and incurred but unreported claims has been recorded in the accompanying financial statements as Other Long-Term Obligations.

9. TAX LEVIES

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 $8.264 on each $100 assessment; $4.519 for the School District and $3.745 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 represent funds received in advance of being earned, or receivables which will be collected and included in revenues of future fiscal years. In the General Fund, deferred revenues relate principally to property tax receivables which were levied in the current and prior years but will not be available to pay liabilities of the current period.

B. COMPONENT UNITS

Deferred revenue of the **School District** consists primarily of uncollected real estate taxes which were levied in the current and prior years but will not be available to pay liabilities of the current period. It is estimated that substantially all of the year-end balance will be received and recognized as revenue in the subsequent year. Deferred revenues of the School District Categorical Fund represents unearned grants.

Community College Fund 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 income in the subsequent year.

11. CLAIMS, JUDGMENTS AND COMPENSATED ABSENCES

Claims, judgments, and compensated vacation absences are recorded as expenditures in the Governmental Funds and Expendable Trust Funds when paid or when judgments have been rendered against the City. Unpaid vacation leave at year end and lawsuits which the City Solicitor has deemed to be a probable loss to the City are recorded in the General Long-Term Debt Account Group. These unpaid amounts will be paid from expendable available resources provided for in the budgets of future years. For Proprietary Funds, vacation leave is recorded as an expense when earned. Pending lawsuits deemed by the City Solicitor to have a probable loss to the City are recognized as expenses and the entire amount of the liability is recorded in the appropriate proprietary fund. Sick leave balances are not accrued in the financial statements because sick leave rights are non-vesting.

12. ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the Governmental Funds and Expendable Trust Funds. Except for encumbrances expected to be financed by grants from other governments, encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. Encumbrances expected to be financed by grants are not reported since the method of accounting for grant activity, as described in Note I.3.A, does not result in the creation of a fund balance.

13. COMPONENT UNIT ACCRUED LIABILITIES, NOTES PAYABLE AND FIXED LIABILITIES

Accrued liabilities, notes payable and fixed liabilities of the Philadelphia Housing Authority (PHA) are comprised primarily of accrued interest and notes or bonds payable which are the obligations of HUD. Such obligations were issued by HUD to finance the acquisition, construction or rehabilitation of housing units utilized by PHA in the Public Housing Program. HUD pays the annual debt service on these obligations through annual contribution contracts.

14. MEMORANDUM ONLY - TOTAL COLUMNS

Total columns on the general purpose financial statements for the primary government and reporting entity are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

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 basis). 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, six Special Revenue Funds (County Liquid Fuels Tax, Special Gasoline Tax, Hotel Room Rental Tax, Grants Revenue, Community Development and HealthChoices Behavioral Health Funds) and two Enterprise Funds (Water and Aviation Funds), are subject to annual operating budgets adopted by City Council. 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 miscellaneous. The appropriation amounts for each fund are supported by revenue estimates and take into account the elimination of accumulated deficits and the reappropriation 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 councilmanic approval. Appropriations that are not expended or encumbered at year end are lapsed. Departmental comparisons of budget to actual activity are located in the City's Supplemental Report of Revenues and Obligations.

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 for 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.

2. RECONCILIATION BETWEEN LEGAL AND GAAP STATEMENTS

The legally enacted basis schedules presented differ from the modified accrual basis of accounting as explained in Note I. 3 above. 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. In addition, annual budgets are not adopted for the City Debt Service Fund, or any of the Municipal Authority or PICA Funds for which budgetary statements are therefore not presented.

The following schedule reconciles the difference between the legally enacted basis and generally accepted accounting principles (GAAP) basis presentations for governmental fund types:

A. REVENUES

(Amounts In thousands)

	General	Special Revenue	Capital Improvement
Revenues On GAAP Basis	$ 2,400,796	$ 1,327,207	$ 23,919
Revenues Of Non-Budgeted Funds	--	(284,511)	(2,191)
Prior Year Revenue Adjustments - Net	7,262	8,167	(125)
Interfund Transfers and Reimbursements	236,263	--	11,625
Other	(16,214)	(7,424)	--
Revenues On Legal Basis	$ 2,628,107	$ 1,043,439	$ 33,228

B. EXPENDITURES

(Amounts In thousands)

	General	Special Revenue	Capital Improvement
Expenditures on GAAP Basis	$ 2,416,057	$ 636,209	$ 115,779
Expenditures of Non-Budgeted Funds	--	(38,472)	(7,620)
Current Year Operating Encumbrances	74,966	33,987	74,904
Current Year Grant Encumbrances	--	56,504	--
Expenditures Made Against Prior Year Encumbrances	(58,855)	(81,269)	(73,254)
Interfund Transfers and Reimbursements	199,086	443,823	76,351
Other	(14,671)	(6,033)	--
Expenditures and Encumbrances On Legal Basis	$ 2,616,583	$ 1,044,749	$ 186,160

3. AMENDMENTS

During the year, classification adjustments and supplementary appropriations were necessary for City funds. Therefore, budgeted appropriation amounts presented are as subsequently 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.

4. OBLIGATIONS IN EXCESS OF APPROPRIATIONS

Obligations exceeded appropriations in one Special Revenue Fund for the fiscal year as shown below:

Fund	Expenditure Classification	
Hotel Room Rental Tax Fund	Contributions, Indemnities and Taxes	$ 550,427

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS

1. CASH

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 in the City's name 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 balance were $209.4 million and $165.1 million, respectively. The amount of the total cash balance per bank records is classified into three categories of custodial credit risk: (1) cash that is insured or collateralized with securities held by the City or by its agent in the City's name, (2) cash collateralized with securities held by the pledging financial institution's trust department or agent in the City's name, and (3) uncollateralized bank accounts.

The deposits of the City and its component units are classified as follows at year-end:

(Amounts In Thousands)

	Custodial Credit Risk Category				
	1	2	3	Total Bank Balance	Book Balance
Primary Government	$ --	$ 100,923	$ 64,180	$ 165,103	$ 209,444
Component Units	$ 42,014	$ --	$ 80,878	$ 122,892	$ 194,109

From February to early June, uncollateralized deposits of the City and School District 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).

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 U.S. Government and U.S. 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 maturities 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 no losses from securities transactions during the year and had no credit risk exposure at June 30.

- **The PGWRR** lends U.S. Treasury, federal agency, and DTC-eligible corporate debt and equity securities and receives cash, U.S. 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. Maturities of investments made with cash collateral are generally matched with maturities of loans. The PGWRR experienced no losses from securities lending transactions during the year. The net credit risk exposure at June 30 was $105,000.

3. INVESTMENTS

A. PRIMARY GOVERNMENT

Statutes authorize the City to invest in obligations of the Treasury, agencies, and instrumentalities 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.

The investments of the City are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the City's name. Investments at year-end consist of:

(Amounts In Thousands)

Investment Type	Category 1	Category 2	Category 3	Fair Value
Repurchase Agreements	$ --	$ 365,347	$ 76,840	$ 442,187
U.S. Government Securities	326,981	79,900	2,859	409,740
U.S. Government Agency Securities	959,764	--	12,316	972,080
Corporate Bonds	1,035,527	--	724	1,036,251
Corporate Equities				
Not On Securities Loan	3,533,153	--	1,752	3,534,905
On Loan For Securities Collateral	2,291	--	--	2,291
Closed-Ended Mutual Funds	6,052	--	--	6,052
Mortgages	93,750	--	--	93,750
Other Investments	196,039	16,897	81,123	294,059
Total Categorized Investments	$ 6,153,557	$ 462,144	$ 175,614	6,791,315
Short Term Investment Pools				258,501
Real Estate				1,542
Partnerships				27,777
Financial Agreements				53,585
Investments Held By Broker-Dealers Under Securities Loans With Cash Collateral:				
U.S. Government Securities				243,092
Corporate Bonds				37,228
Corporate Equities				184,631
Securities Lending Investment Pool				474,094
Total Investments				$ 8,071,765

Securities lent at year end by the Municipal Pension Fund and the PGW Retirement Reserve Fund for cash collateral are presented as unclassified in the schedule above. Securities lent for securities collateral are classified according to the category for the collateral.

The Municipal Pension Fund owns approximately 66.9% of total investments and 80.2% of the investments in Category 1.

B. COMPONENT UNITS

The investments of the City's component units are categorized below, based on the criteria described above, to give an indication of the level of risk assumed by the entity at year-end and consist of:

(Amounts In Thousands)

Investment Type	Category 1	Category 2	Category 3	Fair Value
Repurchase Agreements	$ 282,178	$ --	$ --	$ 282,178
U.S. Government & Agency Securities	139,454	--	16,306	155,760
Corporate Bonds	15,976	--	--	15,976
Other Investments	3,588	--	80,317	83,905
Total Categorized Investments	$ 441,196	$ --	$ 96,623	537,819
Short-Term Investment Pools				70,108
Total Investments				$ 607,927

4. AMOUNTS HELD BY FISCAL AGENT

Restricted Assets - Cash and Cash Equivalents include Proprietary Fund Amounts Held By Fiscal Agent which consist entirely of year-end cash and investment balances related to the net proceeds of PAID's Airport Revenue Bonds, Series 1998A. In accordance with GASB Interpretation No. 2, these bonds are considered by PAID to be conduit debt. Therefore, no asset related to the bond proceeds is reported in PAID's December 31, 1998 financial statements. Instead, the proceeds (which are held by a fiscal agent and disbursed at the City's direction to pay for capital improvements) are shown as assets of the City. These cash and investment balances are included in the amounts categorized in Notes III.1 and III.3 above.

5. INTERFUND RECEIVABLES AND PAYABLES

A. PRIMARY GOVERNMENT

Interfund receivable and payable balances among Primary Government funds at year end are as follows:

(Amounts In Thousands)

	Due From Other Funds	Due To Other Funds
General Fund	$ 17,337	$ 699
Special Revenue Funds:		
Community Development Fund	--	17,066
PICA Administrative Fund	251	271
Debt Service Funds:		
PICA Debt Service Fund	--	251
Trust and Agency Funds		
Departmental Custodial Funds	699	--
Total Primary Government Interfund Receivables and Payables	$ 18,287	$ 18,287

B. COMPONENT UNITS

Interfund receivable and payable balances among the Primary Government and Component Units at year end are as follows:

(Amounts In Thousands)

	Due From Other Funds		Due To Other Funds	
Primary Government				
General Fund		$ 10,359		$ 15,000
Special Revenue Funds:				
Hotel Tax Fund	--		7,588	
Grants Revenue Fund	--		734	
HealthChoices Behavioral Health Fund	--		22,484	
Community Development Fund	--	--	968	31,774
Capital Improvement Funds:				
City Capital Improvement Fund		410		
Component Units				
Philadelphia. Housing Development Corp.	1,702		410	
Philadelphia Gas Works	--		3,000	
Philadelphia Parking Authority	--		20,466	
School District of Philadelphia	15,000		--	
Community Behavioral Health	24,393		--	
Philadelphia Authority for Industrial Development	712		3,416	
Pennsylvania Convention Center Authority	7,588	49,395	10,359	37,651
		60,164		84,425
Timing Differences Betw een Fiscal Years:				
» Community Behavioral Health amounts Due From the HealthChoices Behavioral Health Fund represent amounts due at December 31, 1998		(1,909)		--
» Gas Works amounts Due to General Fund at August 31, 1998 represents rent for the period July 1, 1998 to August 31, 1998.		--		(3,000)
» Philadelphia Authority for Industrial Development amounts Due To Primary Government represent sales and rental proceeds due at December 31, 1998		(712)		(3,416)
» Parking Authority Fund Due To Aviation Fund March 31, 1999 represents parking income paid in June 1999		--		(20,466)
Total Interfund Receivables and Payables With Component Units		$ 57,543		$ 57,543

6. COMPONENT UNIT FINANCIAL INSTRUMENTS

The Redevelopment Authority (RDA) has entered into mortgage loan and note receivable agreements for approximately $10.4 million and $17.8 million, respectively, in connection with the RDA's activities. In addition to specific property collateralizing the mortgage loans, they are insured for at least 90% of the outstanding balance depending on the specific revenue bond program. In addition, the RDA held certain FNMA and GNMA investments for $22.9 million and $12.3 million respectively at year-end in connection with their Bottom Line and Housing Opportunities bond programs. These investments are collateralized by the underlying properties.

7. CHANGES IN GENERAL FIXED ASSETS

A. PRIMARY GOVERNMENT

The following schedule reflects the combined changes in general fixed assets for the City and Municipal Authority during the year.

(Amounts In Millions)

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	$ 398.0	$ --	$ --	$ 2.9	$ 400.9
Buildings	1,117.6	--	(7.7)	60.4	1,170.3
Other Improvements	276.3	--	(2.4)	41.7	315.6
Equipment	445.2	16.5	(5.1)	--	456.6
Transit	172.9	--	--	--	172.9
Leased Equipment	0.1	--	--	--	0.1
Construction In Process	324.3	94.8	(0.1)	(105.0)	314.0
Totals	$ 2,734.4	$ 111.3	$ (15.3)	$ 0.0	$ 2,830.4

B. COMPONENT UNITS

The following schedule reflects the combined changes in general fixed assets for the School District of Philadelphia and the Philadelphia Housing Authority during the year.

(Amounts In Millions)

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	$ 87.1	$ --	$ (0.8)	$ --	$ 86.3
Buildings & Improvements	2,089.1	184.5	(6.1)	94.4	2,361.9
Equipment	130.7	43.4	(6.2)	--	167.9
Construction In Process	142.0	76.4	--	(94.4)	124.0
Totals	$ 2,448.9	$ 304.3	$ (13.1)	$ --	$ 2,740.1

8. PROPERTY, PLANT AND EQUIPMENT

A. PRIMARY GOVERNMENT

The following is a summary of the property, plant and equipment of the City's Enterprise Funds at year-end:

(Amounts In Millions)

	Water Fund	Aviation Fund	Total Enterprise Funds
Buildings & Improvements	$ 1,208.3	$ 967.5	$ 2,175.8
Equipment	1,403.1	25.0	1,428.1
Construction In Process	130.0	68.6	198.6
	2,741.4	1,061.1	3,802.5
Accumulated Depreciation	(1,155.0)	(419.0)	(1,574.0)
	1,586.4	642.1	2,228.5
Land	5.9	69.0	74.9
Totals	$ 1,592.3	$ 711.1	$ 2,303.4

B. COMPONENT UNITS

The following is a summary of the property, plant and equipment of the City's Component Units at year-end:

(Amounts In Millions)

	Penn's Landing Corporation	Pennsylvania Convention Center Authority	Philadelphia Parking Authority †	Redevelopment Authority of the City of Philadelphia	Philadelphia Gas Works ‡	Community Behavioral Health §	Community College of Philadelphia	Total Component Units
Buildings & Improvements	$ 5.3	$ 340.9	$ 136.2	$ 8.6	$ 79.4	$ --	$ 103.7	$ 674.1
Equipment	3.0	8.7	18.9	1.8	1,145.5	4.0	24.6	1,206.5
Construction In Process	1.7	--	--	--	41.0	--	--	42.7
	10.0	349.6	155.1	10.4	1,265.9	4.0	128.3	1,923.3
Accumulated Depreciation	(3.4)	(54.5)	(46.4)	(4.4)	(449.8)	(1.4)	(56.0)	(615.9)
	6.6	295.1	108.7	6.0	816.1	2.6	72.3	1,307.4
Land	2.2	1.0	--	0.5	5.3	--	15.7	24.7
Totals	$ 8.8	$ 296.1	$ 108.7	$ 6.5	$ 821.4	$ 2.6	$ 88.0	$ 1,332.1

† - The Philadelphia Parking Authority amounts are presented as of the close of its fiscal year on March 31, 1999.
‡ - The Philadelphia Gas Works amounts are presented as of the close of its fiscal year on August 31, 1998.
§ - Community Behavioral Health amounts are presented as of the close of its fiscal year on December 31, 1998.

9. NOTES PAYABLE

- **The Philadelphia Gas Works**, 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 $100 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 Fund's revenues. The notes outstanding at year end (August 31, 1998) had an average weighted interest rate of approximately 3.55% and terms to maturity of 2 to 133 days. The principal amount outstanding was $56.0 million.

  The Gas Works also had other notes outstanding at August 31, 1998 related to the acquisition of long-term assets. The principal amount of these notes is $190,000.

- **The Redevelopment Authority** has issued a series of Mortgage Notes Payable with an outstanding balance at year end of $31.9 million related to various projects of the Authority. These notes have interest rates ranging from 0% to 10.56%. Aggregate minimum principal payments on these notes are as follows:

Fiscal Year	Amount
2000	$ 19,759,434
2001	318,302
2002	328,198
2003	338,705
2004	349,860
Thereafter	10,764,906
Total	$ 31,859,405

- In previous years, the **Housing Authority** sold project notes to the Federal Financing Bank. These notes are to be repaid on a long-term basis through subsidies by the Federal government. At March 31, 1999, the amount of the Authority's loans payable to the Federal Financing Bank was $10.8 million. The outstanding notes bear interest at 6.6% and are payable annually on November 1. The Housing Authority also had Project Notes in the amount of $2.3 million outstanding at March 31, 1999.

- **The Community College of Philadelphia** borrowed $30.6 million under an agreement with the Hospitals and Higher Education Facilities Authority dated June 1, 1994. Of the proceeds, $14.9 million was used to retire Series 1989 bonds. This debt is considered to be defeased and the liability has been removed from the

College's Plant Fund. This portion of the obligation is payable over 15 years at interest rates ranging from 3.75% to 6.15% with an average annual debt service payment of $1.5 million. The remaining $15.7 million was used to fund capital projects. This portion of the debt was refinanced by the note described below. The remaining payments are scheduled through fiscal year 2006 at interest rates ranging from 5.3% to 5.95% with average annual debt service of $844,253.

In May, 1999 the College entered a loan agreement with the Hospitals and Higher Education Facilities Authority to borrow $9.6 million. Of the proceeds of $9.3 million (net of bond discount and issuance costs), $300,000 was used for capital improvements. The remaining $9.1 million was used to purchase U.S. Government Securities which were deposited with an escrow agent to provide for future debt service payments on the 1994 Series Bonds for the years 2007-2014. As a result, that portion of the 1994 Bonds are considered defeased and the related debt has been removed from the College's Plant Fund. The 1999 series debt is payable over 15 years at interest rates ranging from 3.4% to 4.88% with average annual debt service of $964,000. The call date on these bonds is May 1, 2004.

Under a revolving loan agreement dated October 1, 1996 with the State Public School Building Authority, the College borrowed $1,005,200 for lighting conversion and related energy projects. The College borrowed an additional $155,100 in August, 1997. The loans are scheduled to be repaid over a five year period through October 1, 2001 at a fixed annual rate of 6.25% and combined annual debt service payment of $278,000.

In July, 1998 the College entered a loan agreement with the Hospitals and Higher Education Facilities Authority to borrow $9.4 million to fund capital projects. This obligation is payable over 20 years at interest rates ranging from 3.9% to 5.23% with an average annual debt service payment of $750,000.

In August, 1998, the College purchased land and buildings whose financing included a promissory note in the amount of $1.25 million. This note was paid in full in August , 1999.

The combined principal balance outstanding at year end for all notes was $36.9 million with combined repayments as follows:

Period				Amount
1999	to	2000	$	3,366,083
2000	to	2001		2,211,385
2001	to	2002		2,217,951
2002	to	2003		2,155,000
2003	to	2004		2,275,000
2004	to	2014		24,630,000
Total			$	36,855,419

- **The Philadelphia Parking Authority** in prior years borrowed a total of $13.6 million in the form of bank notes ranging in maturity from 3-15 years and in interest rates from 5.1-6.5%. The proceeds of these notes were used to finance the purchase of automobiles to be used in operations, a parking facility, building improvements and the development of a records department. Of this total amount, a $6,000,000 note whose proceeds were used to finance the parking facility was retired by proceeds from the Parking Revenue Bonds, Series 1999 (see Note III.9.B.(2).).

  In the current fiscal year, the Parking Authority borrowed a total of $15.0 million in the form of bank notes to finance acquisition of property and construction of a new facility and renovations of an existing facility. Notes in the amount of $4.7 million are for a term of 2 ½ years, payable semiannually, with an interest rate of fifty basis points above the LIBOR. The remaining notes are for 2 years with an interest rate of 5.44%. In May, 1999, these notes were retired by the proceeds of the Parking System Revenue Bonds, Series 1999A.

  The total outstanding principal balance of these notes at March 31, 1999 was $21,826,000 subject to the following repayment schedule:

Fiscal Year	Amount
2000	$ 516,000
2001	10,670,000
2002	359,000
2003	5,082,000
2004	407,000
Thereafter	4,792,000
Total	$ 21,826,000

10. DEBT PAYABLE

A. PRIMARY GOVERNMENT LONG-TERM DEBT PAYABLE

(1) General Obligation Debt Payable

The City is subject to a statutory limitation established by the Commonwealth of Pennsylvania for bonded indebtedness (City General Obligation Bonds) payable principally from property taxes. The statutory limit for the City is $1.2 billion. The City General Obligation Debt net of cash and investments available for bond retirement is $939.1 million, leaving a legal debt borrowing capacity of $288.2 million.

The following schedule reflects the changes in long-term debt as shown in the Combined General Long-Term Debt Account Group for the fiscal year:

(Amounts In Millions)

	Beginning Balance	Additions	Retirements & Transfers	Ending Balance
General Obligation Bonds:				
Term Bonds	$ 1,298.5	$ 742.7	$ (652.8)	$ 1,388.4
Refunding Bonds	150.1	178.2	(23.4)	304.9
Serial Bonds	479.1	117.3	(208.5)	387.9
Total G.O. Bonds	1,927.7	1,038.2	(884.7)	2,081.2
Obligations Under Capital Leases	71.2	--	(3.2)	68.0
Other Long-Term Obligations:				
Indemnity Claims	63.5	7.7	(29.2)	42.0
Worker's Compensation Claims	40.8	70.0	(35.5)	75.3
Termination Compensation Payable	97.7	47.3	(47.8)	97.2
Pension Service Agreement	--	1,297.4	--	1,297.4
Total Other Obligations	202.0	1,422.4	(112.5)	1,511.9
Total Long-Term Debt	$ 2,200.9	$ 2,460.6	$ (1,000.4)	$ 3,661.1

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 Municipal Authority and PICA:

(Amounts In Millions)

	Interest Rates	Principal	Due Dates
Governmental Funds:			
City	1.0 % to 11.5 %	$ 689.5	Fiscal 2000 to 2028
Municipal Authority	2.35 % to 8.625 %	377.6	Fiscal 2000 to 2019
PICA	4.35 % to 6.0 %	1,014.1	Fiscal 2000 to 2023
		2,081.2	
Enterprise Funds			
Water Fund	1.0 % to 7.75 %	17.9	Fiscal 2000 to 2012
Aviation Fund	4.8 % to 11.5 %	33.1	Fiscal 2000 to 2005
		51.0	
Total General Obligation Bonds		$ 2,132.2	

Also, the City has General Obligation Bonds authorized and unissued at year end of $348.0 million for Governmental Funds and $303.6 million for Enterprise Funds.

- In November, 1998 the City issued $250 million of Series 1998 General Obligation Bonds with interest rates from 3.75% to 5.25% and maturities to 2028. The proceeds of these bonds will be used for various capital projects of the City.

- In April, 1999, PICA issued $610.0 million of Series 1999 bonds. The bonds carry interest rates ranging from 4.0% to 5.25% and have maturity dates from 2000 to 2023. The proceeds of the bonds will be used to (i) provide for the advance refunding of PICA's outstanding Series 1993 bonds in the amount of $610.7 million (ii) pay the premium for a Debt Service Reserve Fund Insurance Policy to help satisfy the debt service requirements of three outstanding bond issues and (iii) pay the costs of issuing the Series 1999 bonds.

The debt service through maturity for the General Obligation Debt is as follows:

(Amounts In Millions)

	City Funds						Blended Component Units			
Fiscal	General Fund		Water Fund		Aviation Fund		Municipal Authority		PICA	
Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2000	$ 40.8	$ 39.3	$ 2.4	$ 0.3	$ 10.2	$ 1.7	$ 21.1	$ 23.3	$ 54.7	$ 52.4
2001	42.7	32.5	2.3	0.2	11.6	1.0	21.8	22.6	57.6	49.4
2002	42.1	30.5	1.7	0.1	3.7	0.5	24.7	21.7	61.2	46.1
2003	39.9	28.5	1.1	0.1	2.5	0.4	25.6	20.6	36.6	42.6
2004	38.4	26.4	1.1	0.1	2.7	0.2	24.7	19.5	35.5	40.8
Thereafter	485.6	303.2	9.3	0.4	2.4	0.1	259.7	169.2	768.5	363.5
Totals	$ 689.5	$ 460.4	$ 17.9	$ 1.2	$ 33.1	$ 3.9	$ 377.6	$ 276.9	$ 1,014.1	$ 594.8

(2) Revenue Debt Payable

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)

	Interest Rates	Principal	Due Dates
Water Fund	4.05 % to 10.0 %	$ 1,793.7	Fiscal 2000 to 2028
Aviation Fund	4.5 % to 6.1 %	976.2	Fiscal 2000 to 2028
Total Revenue Debt Payable		$ 2,769.9	

Also, the City has $33 million of Water Revenue Bonds authorized and unissued at year end.

In July, 1998, the City issued $443.7 million in Airport Revenue Bonds, Series 1998B with interest rates from 4.5% to 5.375% and maturities to 2028. These bonds are issued to prepay the City's fixed rental obligation under a lease with PAID. Under this lease agreement, the City will acquire a leasehold interest in and agree to occupy, operate and manage certain airport facilities constructed with funds provided by the PAID Airport Revenue Bonds Series 1998A as described below. Payments for the Series 1998B Bonds are due to be paid 15 days before the payments of the Series 1998A bonds are due.

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

(Amounts In Millions)

Fiscal	Water Fund		Aviation Fund	
Year	Principal	Interest	Principal	Interest
2000	$ 56.6	$ 91.1	$ 14.0	$ 30.3
2001	59.1	88.7	19.2	31.1
2002	61.5	86.4	26.6	41.2
2003	63.9	84.0	28.4	49.8
2004	66.6	81.3	29.9	48.3
Thereafter	1,486.0	714.4	858.1	597.2
Totals	$ 1,793.7	$ 1,145.9	$ 976.2	$ 797.9

(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, $1,841.7 million of bonds outstanding pertaining to the following funds and account groups are considered defeased:

(Amounts In Thousands)

Governmental Funds:	
General Long-Term Debt	$ 31,375
PICA	993,585
Municipal Authority	253,055
Enterprise Funds:	
Water Fund Revenue Bonds	563,720
Total	$ 1,841,735

During the current fiscal year, the City issued the following refunding bonds to defease existing debt:

- In December, 1998, the City issued $178.2 million of General Obligation Refunding Bonds, series 1998 with interest rates from 4.75% to 5.25% and maturities through 2020. The proceeds of these bonds were used to refund principal amounts of all or portions of five outstanding general obligation bond issues. The cash flows required by the new bonds are $958 thousand less than the cash flows required by the refunded bonds. The economic gain on the refunding (the adjusted present value of these reduced cash flows) is $1.2 million.

- In January, 1999 the City issued $135.2 million of Water and Wastewater Revenue Refunding Series 1998 Bonds. The proceeds of these bonds were used to refund a portion of the Series 1993 Water and Wastewater Revenue Bonds maturing from 2012 through 2015 in the amount of $133.8 million. The cash flows required by the new bonds are $8.4 million less than the cash flow required by the refunded bonds. The economic gain on the refunding (the adjusted present value of these reduced cash flows) was $4.3 million. This early extinguishment of debt resulted in an accounting loss of approximately $9.6 million representing the difference between the reacquisition price of $141.7 million and the amount of debt extinguished of $133.8 million (less $1.7 million unamortized discount). The resulting loss will be amortized over the life of the refunded bonds at a rate of $600,982 annually through December, 2015.

(4) Short -Term Borrowings

The City has statutory authorizations to negotiate temporary loans for periods not to extend beyond the fiscal year. The City repaid $350.0 million in Tax and Revenue Anticipation Notes by June 1999 plus interest. In accordance with statute there are no temporary loans outstanding at year end.

(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. The present value of the estimated liability at year end has been calculated for each issue independently and recorded in the appropriate fund or account group. At June 30, the Water Fund and Aviation Fund had recorded liabilities of $3.5 million and $0.7 million respectively.

B. COMPONENT UNIT LONG-TERM DEBT PAYABLE

(1) General Obligation Debt Payable

One discretely presented component unit, the School District of Philadelphia, has debt that is classified as General Obligation debt payable. The General Obligation Bonds outstanding at year end total $822.1 million in principal, with interest rates from 3.4% to 7.0% and have due dates from 2001 to 2027.

The following schedule reflects the changes in long-term debt for the School District's General Long-Term Debt Account Group for the fiscal year:

(Amounts In Millions)

	Beginning Balance	Additions	Retirements & Transfers	Ending Balance
General Obligation Bonds	$ 697.2	$ 256.8	$ (131.9)	$ 822.1
Other Long-Term Debt:				
Severance Payable	150.4	0.8	(14.2)	137.0
Termination Compensation Payable	242.5	29.7	(24.6)	247.6
Other	65.7	19.2	(22.3)	62.6
	458.6	49.7	(61.1)	447.2
Total Long-Term Debt	$ 1,155.8	$ 306.5	$ (193.0)	$ 1,269.3

Debt service to maturity on the School District's general obligation bonds at year end is summarized as follows:

(Amounts In Millions)

Fiscal Year	Principal	Interest
2000	$ 36.4	$ 22.7
2001	49.7	7.8
2002	36.5	27.3
2003	44.9	19.2
2004	39.0	26.7
Thereafter	615.6	455.9
Totals	$ 822.1	$ 559.6

(2) Revenue 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)

	Interest Rates	Principal	Due Dates
Convention Center Authority	5.75 % to 6.875 %	$ 274.0	Fiscal 2000 to 2020
Parking Authority	3.5 % to 8.875 %	155.2	Fiscal 2000 to 2019
Gas Works	3.9 % to 7.5 %	792.0	Fiscal 1999 to 2027
Redevelopment Authority	3.95 % to 10.25 %	63.9	Fiscal 2000 to 2029
Total Revenue Debt Payable		$ 1,285.1	

In June, 1998 the **Gas Works** issued revenue bonds as described in the Defeased Debt section below.

In January, 1999, the **Parking Authority** issued $65.1 million of Parking Revenue Bonds Series 1999 with interest rates ranging from 3.5% - 5.25%. The proceeds of these bonds were used to finance acquisition, new construction or renovation of three parking facilities, to refund two outstanding bond issues and to refund an outstanding $6.0 million note payable.

Additionally, subsequent to its fiscal year end, the Parking Authority issued the bonds described below. These bonds are <u>not</u> included in the balances of the two tables above.

- Series 1999A Parking Revenue Bonds in the amount of $47,390,000 with interest rates from 4.0% - 5.25% maturing through 2029. These bonds were issued In May, 1999 to retire existing bank notes in the amount of $10.3 million and to fund the acquisition and development of various parking facilities.
- Series 1999 Airport Parking Revenue Bonds in the amount of $155,660,000 with interest rates from 4.4% - 5.625% maturing through 2029. These bonds were issued to fund two new airport parking garages and other parking facility capital projects at the airport.

In August, 1998 the **Philadelphia Authority for Industrial Development** issued $443.7 million of Airport Revenue Bonds, Series 1998A with interest rates from 4.5% to 5.375% and maturities to 2028. The proceeds of these bonds will be used to finance certain capital improvements to the Philadelphia Airport System. These bonds are secured by Airport Revenue Bonds Series 1998B issued by the City as described above.

The **Redevelopment Authority** issued 2 new revenue bonds during the year :

- In July, 1998, the Authority issued $4.65 million of Housing for the Homeless Series 1998 bonds with interest rates from 3.95% to 4.6% and maturity dates from 1999 to 2006. The proceeds of these bonds will be used to (i) currently refund Series 1982, subseries No. 2 bonds (ii) make deposits to the project fund and (iii) pay the cost of the issuance of the bonds. As a result of the refunding, total debt service will decrease by $820,651. The economic gain realized is $308,351.
- In May, 1999, the Authority issued $3.3 million of Multiple Draw 1999 Series A bonds with an initial interest rate of 4.39% due on August 1, 2002. The proceeds of the bonds will be used to redeem six different bond issues outstanding in the total amount of $3.3 million. There was no economic gain or loss associated with this transaction because the bonds redeemed were liquidated on their mandatory redemption dates.

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

(Amounts In Millions)

Fiscal	Pennsylvania Convention Center Authority		Philadelphia Parking Authority ‡		Philadelphia Gas Works †		Redevelopment Authority of the City of Philadelphia	
Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2000	$ 6.3	$ 17.9	$ 4.5	$ 8.0	$ 34.6	$ 43.4	$ 1.4	$ 3.9
2001	6.7	17.6	4.7	7.7	32.5	43.4	1.2	3.9
2002	7.2	17.1	5.1	7.5	32.8	43.1	4.1	3.8
2003	7.6	16.7	5.3	7.3	32.5	42.0	2.0	3.7
2004	8.1	16.2	5.6	7.0	30.0	42.6	1.1	3.5
Thereafter	238.1	150.3	130.0	69.4	629.6	358.1	54.1	55.1
Totals	$ 274.0	$ 235.8	$ 155.2	$ 106.9	$ 792.0	$ 572.6	$ 63.9	$ 73.9

† - Gas Works amounts are presented as of its fiscal year ended August 31, 1998.
‡ - Parking Authority amounts are presented as of its fiscal year March 31, 1999.

(3) Defeased Debt

At year end, $811.0 million of defeased bonds are outstanding from the following Component Units of the City as shown below:

	(Amounts In Millions)
Pennsylvania Convention Center Authority	$ 266.3
Philadelphia Parking Authority	57.3
Philadelphia Gas Works †	324.6
School District of Philadelphia	162.8
Total	$ 811.0

† - Gas Works amounts are presented as of August 31, 1998

In June, 1998 the **Gas Works** issued $287.2 million of new debt for the purpose of retiring approximately $172.5 million of existing debt and establishing funds to support new capital spending. The refunding of existing debt at lower interest rates resulted in an accounting loss of $20.9 million but a net present value savings of $9.4 million. As of PGW's August 31, 1998 fiscal year-end, $50.4 million out of the $92.6 million in new funds raised to support construction activity remains on deposit in a restricted account for capital purposes.

In January, 1999, the **School District** issued $98.4 million of general obligation bonds at a premium of $6.3 million and an average interest rate of 5.09% to advance refund $97.3 million of outstanding bonds with an average interest rate of 5.63% and to pay costs of issuing the bonds. The net proceeds were used to purchase $103.7 million of U.S. government securities. These securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, these bonds are considered defeased and the related liability is not reflected in the School District's financial statements. The total debt service over the life of the new bonds will increase $0.5 million (including a decrease of $9.7 million over the first four years) while the economic gain (the difference between the present values of the debt service payments of the old debt and the new debt) is $3.0 million.

(4) Other Long-Term Debt

- The **Housing Authority** had bonds payable of $35.5 million at year end, for the Low-Income Public Housing Program consisting of new Housing Authority bonds issued in the amount of $114.2 million during prior fiscal periods and new Housing Authority bonds retired in the amount of approximately $78.7 million. The outstanding bond interest rate is in a range from 3.125% to 5.0% per year.

- The **School District** had loans payable of $2.4 million at year-end consisting of an interest-free federal asbestos loan expected to be repaid over the next eight years.

11. COMPONENT UNIT THIRD PARTY FINANCINGS

The City, through the **Redevelopment Authority**, has issued $108.5 million in bonds to provide funding for several approved projects on behalf of various third-parties. These third-parties are responsible for the administration and repayment of the aforementioned bonds. The liability of the City and the Redevelopment Authority is limited to revenues received from any projects financed with the proceeds thereof. As a result, these bonds are not reflected in the City's financial statements.

12. LEASE COMMITMENTS AND LEASED ASSETS

A. CITY AS LESSOR

The City's operating leases consist principally 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 as follows:

(Amounts In Thousands)

	Primary Government		Component Units
	Governmental Funds	Proprietary Funds	
Minimum Rentals	$ 12,058	$ 13,919	$ 784
Additional Rentals	7,632	75,812	--
Total Rental Income	$ 19,691	$ 89,731	$ 784

As of year end, future minimum rentals receivable under noncancelable operating leases are as follows:

(Amounts In Thousands)

Fiscal Year Ending June 30	Primary Government Governmental Funds	Primary Government Proprietary Funds	Component Units
2000	$ 4,208	$ 14,156	$ 823
2001	4,186	13,766	560
2002	2,036	13,255	560
2003	1,285	12,228	540
2004	509	11,969	482
Later Years	2,472	115,335	14,462
	$ 14,696	$ 180,709	$ 17,427

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)

	Primary Government Governmental Funds	Primary Government Proprietary Funds	Component Units
Minimum Rentals	$ 29,992	$ 10,480	$ 35,866
Additional Rentals	--	--	--
Total Rental Expense	$ 29,992	$ 10,480	$ 35,866

As of year end, future minimum rental commitments for operating leases having an initial or remaining noncancelable lease term in excess of one year are as follows:

(Amounts In Thousands)

Fiscal Year Ending June 30	Primary Government Governmental Funds	Primary Government Proprietary Funds	Component Units
2000	$ 2,211	$ 862	$ 12,255
2001	2,177	758	6,236
2002	2,144	677	4,503
2003	2,173	447	2,869
2004	2,199	--	2,614
Later Years	5,995	--	11,680
Total	$ 16,898	$ 2,744	$ 40,157

(2) Capital Leases

City capital leases consist of leased real estate included in the General Fixed Assets Account Group. As of year end, future minimum rental commitments of the City under capital leases are as follows:

(Amounts In Thousands)

Fiscal Year Ending June 30	Primary Government General Long Term Debt
2000	$ 4,103
2001	4,106
2002	4,105
2003	4,105
2004	4,103
Thereafter	94,380
Future Minimum Rental Payments	114,901
Interest Portion of Payments	(55,991)
Obligation Under Capital Leases	$ 58,910

13. 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 Internal Revenue Code and Pennsylvania laws in effect at June 30, 1999, 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

The Gas Works 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, 1998 Pennsylvania law required that all compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights were (until paid or made available to the employee or other beneficiary) solely the property and rights of the Gas Works (without being restricted to the provision of benefits under the plan) subject only to the Gas Works' general creditors. Participants' rights under the plan are equal to those of general creditors of the Gas Works in an amount equal to the fair market value of the deferred account for each participant. The Gas Works believes that it is unlikely that it will use the Plan's assets to satisfy the claims of general creditors in the future. The Plan provides that, in the absence of gross negligence, fraud or willful misconduct, neither the Gas Works nor the plan administrator shall be accountable or liable for any investment loss.

The following is a summary of the increases and decreases in Plan assets during the fiscal year:

Plan Assets, Beginning of Year (at estimated Market Value)	$ 31,656
Contributions	3,853
Return on investment	215
Payments to eligible participants and beneficiaries	(1,700)
Plan Assets, End of Year (at estimated Market Value)	$ 34,024

14. RETAINED EARNINGS/FUND BALANCE RESERVATIONS AND DESIGNATIONS

The City and its component units have reserved or designated portions of several funds' Retained Earnings or Fund Balances. Following is a description of all such reservations and designations:

Reserved for Debt Service - An account used to segregate a portion of Retained Earnings for debt service resources legally restricted to the payment of long-term debt principal and interest amounts maturing in future years.

Reserved for Capital Purposes - An account used to segregate a portion of Retained Earnings for resources legally restricted to expenditures of a capital nature.

Reserved for Rate Stabilization - An account used to segregate a portion of Retained Earnings required to segregate assets to offset future deficits and corresponding rate increase requirements.

Reserved for Inventories - An account used to segregate a portion of Fund Balance to indicate that inventory does not represent available, spendable resources even though it is a component of assets.

Reserved for Encumbrances - An account used to segregate a portion of Fund Balance for expenditure upon vendor performance.

Reserved for Self-Insurance - An account used to segregate a portion of Fund Balance for the School District's Weekly Indemnity Insurance coverage.

Reserved for Debt Service Principal - An account used to segregate a portion of Fund Balance for debt service resources legally restricted to the payment of long-term debt principal maturing in future years.

Reserved for Debt Service Interest - An account used to segregate a portion of Fund Balance for debt service resources legally restricted to the payment of long-term debt interest amounts in future years.

Reserved for Trust Principal - An account used to segregate a portion of Fund Balance to indicate that a portion of the Trust Fund Assets do not represent available, spendable resources.

Reserved for Intergovernmental Financing - An account used to segregate a portion of Fund Balance to finance possible future General Fund deficits and capital programs.

Reserved for Intergovernmentally Financed Programs - An account used to segregate a portion of Fund Balance legally restricted to programs to improve the City's financial status.

Reserved for Program Purposes - An account used to segregate a portion of Fund Balance for the purpose of maintaining and operating the City's Community College and Housing Authority.

Reserved for Managed Care - An account used to segregate a portion of Fund Balance that is required to be held in reserve to ensure adequate funding for costs of managed behavioral health care.

Reserved for Tax Lien Proceeds - An account used to segregate a portion of Fund Balance representing amounts received by the School District that will be made available in future years.

Reserved for Public Safety Emergency Phone System - An account used to segregate a portion of Fund Balance legally restricted for the improvement of the emergency phone system.

Reserved for Employees Pension Benefits - An account used to segregate a portion of Fund Balance for the specific operation of the Municipal Pension Trust Fund.

Designated for Trust Purposes - An account used to segregate a portion of Unreserved Fund Balance for the specific operation of the various Trust Funds.

Designated for Behavioral Health Programs - An account used to segregate a portion of Unreserved Fund Balance used for behavioral health programs.

A. PRIMARY GOVERNMENT

The following is a summary by fund type of all reservations and designations of the Primary Government:

(Amounts In Thousands)

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Improvement Funds	Enterprise Funds	Trust and Agency Funds	Total
Retained Earnings:							
Reserved for Capital Purposes	$ --	$ --	$ --	$ --	$ 52,765	$ --	$ 52,765
Reserved for Rate Stabilization	--	--	--	--	197,414	--	197,414
Total Retained Earnings	$ --	$ --	$ --	$ --	$ 250,179	$ --	$ 250,179
Reserved Fund Balance:							
Reserved for Inventories	$ 13,485	$ --	$ --	$ --	$ --	$ 95	$ 13,580
Reserved for Encumbrances	90,292	2,090	--	75,188	--	319	167,890
Reserved for Intergovernmental Financing	--	86,659	--	--	--	--	86,659
Reserved for Intergovernmentally Financed Programs	--	33,642	--	--	--	--	33,642
Reserved for Debt Service Principal	--	--	93,182	--	--	--	93,182
Reserved for Debt Service Interest	--	--	638	--	--	--	638
Reserved for Managed Care	--	19,252	--	--	--	--	19,252
Reserved for Public Safety Emergency Phone System	--	7,624	--	--	--	--	7,624
Reserved for Employees Pension Benefits	--	--	--	--	--	5,173,039	5,173,039
Reserved for Trust Principal	--	--	--	--	--	4,659	4,659
Total Reserved Fund Balance	$ 103,777	$ 149,268	$ 93,820	$ 75,188	$ --	$ 5,178,112	$ 5,600,165
Unreserved Fund Balance:							
Designated for Behavioral Health Programs	$ --	$ 137,663	$ --	$ --	$ --	$ --	$ 137,663
Designated for Trust Purposes	--	--	--	--	--	6,244	6,244
Total Designated Unreserved Fund Balance	$ --	$ 137,663	$ --	$ --	$ --	$ 6,244	$ 143,907

B. COMPONENT UNITS

The following is a summary by entity of all reservations and designations of the various component units:

(Amounts In Thousands)

	Community College of Philadelphia	Philadelphia Parking Authority	Redevelopment Authority of the City of Philadelphia	School District of Philadelphia	Total
Retained Earnings:					
Reserved for Debt Service	$ --	$ 12,782	$ 5,409	$ --	$ 18,191
Reserved Fund Balance:					
Reserved for Inventories	$ --	$ --	$ --	$ 1,599	$ 1,599
Reserved for Encumbrances	--	--	--	123,742	123,742
Reserved for Self-Insurance	--	--	--	2,864	2,864
Reserved for Debt Service Principal	--	--	--	37,773	37,773
Reserved for Debt Service Interest	--	--	--	16,900	16,900
Reserved for Tax Lien Proceeds	--	--	--	7,637	7,637
Reserved for Trust Principal	--	--	--	2,481	2,481
Reserved for Program Purposes	74,489	--	--	--	74,489
Total Reserved Fund Balance	$ 74,489	$ --	$ --	$ 192,996	$ 267,485
Unreserved Fund Balance:					
Designated for Trust Purposes	$ --	$ --	$ --	$ 2,559	$ 2,559
Total Designations	$ --	$ --	$ --	$ 2,559	$ 2,559

15. UNRESERVED FUND BALANCE/RETAINED EARNINGS DEFICIT

Funds experiencing an Unreserved Fund Balance or Retained Earnings deficit at year-end are as follows:

Enterprise Funds:		
Water Fund	$	36,791,458

16. CONTRIBUTED CAPITAL

Several of the City's Proprietary Funds and its component units have contributed capital from local and other sources as part of their fund equity. The following is a summary of changes in their respective contributed capital.

A. PRIMARY GOVERNMENT

(Amounts In Thousands)

	Water Fund		Aviation Fund		Industrial and Commercial Development Fund	Primary Government Total
	Local	Other	Local	Other	Local	
Beginning Balance	$ 28,027	$ 454,229	$ 44,042	$ 174,783	$ 19,884	$ 720,965
Grants Received	--	(11,199)	--	26,160	--	14,961
Contributions Received	649	9,285	--	--	216	10,150
Credit Arising From Depreciation	--	(16,477)	--	(11,140)	--	(27,617)
Ending Balance	$ 28,676	$ 435,838	$ 44,042	$ 189,803	$ 20,100	$ 718,460

B. COMPONENT UNITS

(Amounts In Thousands)

	Philadelphia Housing Development Corp.		Pennsylvania Convention Center Authority		Community Behavioral Health *	School District of Philadelphia	Component Unit Total
	Local	Other	Local	Other	Local		
Beginning Balance	$ 2,550	$ 593	$ 19,910	$ 97,100	$ 2,040	$ 7,238	$ 129,431
Contributions Received	--	--	--	--	531	--	531
Ending Balance	$ 2,550	$ 593	$ 19,910	$ 97,100	$ 2,571	$ 7,238	$ 129,962

* - **Information for CBH is presented for its fiscal year ended December 31, 1998.**

17. INTERFUND TRANSACTIONS

During the course of normal operations the City has numerous transactions between funds including expenditures and transfer of resources to provide services. These transactions are recorded as operating transfers and are reported as other financial sources (uses) in the Governmental Funds, operating transfers (expenses) in the Proprietary Funds, and as City Appropriations in the Community College Fund in accordance with the basis of accounting for educational institutions as described in Note I.3.B. Transfers between fund types during the year were:

A. PRIMARY GOVERNMENT

(Amounts In Thousands)

	Transfers In		Transfers Out	
General Fund		$ 190,381		$ 112,662
Special Revenue Funds:				
Grants Revenue Fund	--		16,430	
Municipal Authority Administrative Fund	261		--	
PICA Administrative Fund	880	1,141	242,773	259,203
Debt Service Funds:				
City Debt Service Fund	68,278		--	
Municipal Authority Debt Service Fund	37,919		11	
PICA Debt Service Fund	100,711	206,908	--	11
Capital Improvement Funds:				
City Capital Improvement Fund	11,625		38,750	
Municipal Authority Capital Improvement Fund	4,025	15,650	--	38,750
Proprietary Funds:				
Water Fund	--			4,138
Trust and Agency Funds:				
Departmental Non-Expendable Trust Funds	--		73	
Departmental Expendable Trust Funds	757	757	--	73
Total Interfund Transactions		$ 414,837		$ 414,837

B. COMPONENT UNITS

(Amounts In Thousands)

	Transfers In		Transfers Out	
Primary Government				
General Fund		$ 45,882		$ 86,425
Special Revenue Funds:				
Hotel Tax Fund	--		15,911	
Grants Revenue Fund	--		28,183	
HealthChoices Behavioral Health Fund	--		336,429	
Community Development Fund	--	--	46,870	427,393
Capital Improvement Funds:				
City Capital Improvement Fund		--		37,601
Proprietary Funds:				
Water Fund		--		2,838
Aviation Fund		20,466		--
Component Units				
School District of Philadelphia	29,331		--	
Philadelphia Gas Works	--		18,000	
Penn's Landing Corporation	1,100		--	
Pennsylvania Convention Center Authority	45,176		10,359	
Philadelphia Housing Development Corporation	30,700		--	
Philadelphia Parking Authority	--		37,989	
Philadelphia Authority for Industrial Development	51,833		1,069	
Redevelopment Authority of the City of Philadelphia	47,194			
Community Behavioral Health	252,360	457,694	--	67,417
Community Behavioral Health transfers represent activity for the fiscal period ended December 31, 1998 and is not compatible with the reporting period of other entities.		84,069		--
Philadelphia Authority for Industrial Development transfers represent activity for the fiscal period ended December 31, 1998 and is not compatible with the reporting period of other entities.		(6,949)		--
General Fund and Capital Improvement Fund transfers to Community College of Philadelphia reflected as Contribution Revenue in conformance with GAAP for educational institutions.		20,512		--
Total Interfund Transactions		$ 621,674		$ 621,674

IV. OTHER INFORMATION

1. PENSION PLANS

The City maintains two single employer defined benefit plans for its employees and several of its component units. One blended component unit and three discretely presented component units - PICA, the School District, the Pennsylvania Convention Center Authority, and the Community College - participate in state administered cost-sharing multiple employer plans. In addition, two discretely presented component units - PHA and RDA - maintain their own single employer defined benefit plans.

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). The two plans maintained by the City's component units are the Philadelphia Housing Authority Plan (PHA Plan) and the Redevelopment Authority of the City of Philadelphia Retirement Plan (RDA Plan).

Financial statements for the City, PGW, and RDA pension plans are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. All assets of the PHA pension plan are invested in an Immediate Participating Guaranteed (IPG) contract.

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.

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. 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.

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 in the plan as of July 1, 1998 was as follows:

Retirees and beneficiaries currently receiving benefits	31,698
Terminated members entitled to benefits but not yet receiving them	789
Active members	30,935
Total Members	63,422

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 3¾% of their total compensation that is subject to Social Security Tax and 6% of compensation not subject to Social Security Tax. 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 of the unfunded actuarial accrued liability determined as of July 1, 1985. The portion of that liability attributable to a class action lawsuit by pension fund beneficiaries (the Dombrowski suit) is amortized in level installments, including interest, over 40 years through June 30, 2009. The remainder of the liability is amortized over 34 years with increasing payments expected to be level as a percentage of each year's aggregate payroll.
- Amortization in level dollar payments of the changes to the July 1, 1985 liability due to the following causes over the stated period:
  - ☐ nonactive member's benefit modifications (10 years)
  - ☐ experience gains and losses (15 years)
  - ☐ changes in actuarial assumptions (20 years)
  - ☐ active members' benefit modifications (20 years)

The total required employer contribution for the City and other participating employers for the current year was 22% of covered payroll of $1,181.6 million.

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

(c) Annual Pension Cost

The actuarial valuation used to compute the current year's required contribution was performed as of July 1, 1997. Methods and assumptions used for that valuation include:

- the entry age actuarial cost method
- a five-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 9%
- projected annual salary increases of 5% (including inflation)
- annual inflation of 3.5%
- no post-retirement benefit increases

For the current year, the City contributed the Annual Pension Cost of $256.7 million. The Annual Pension Cost and related percentage contributed for the three most recent fiscal years are as follows:

Fiscal Year Ended June 30	Annual Required Contribution (In Millions)	Percentage Contributed
1997	$237.0	100.00%
1998	$252.0	100.00%
1999	$256.7	100.00%

(d) Summary of Significant Accounting Policies

Financial statements of the Plan are prepared using the accrual basis of accounting. Contributions of employees and employers are recognized as revenues in the period in which employee services are performed. 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.A.

(2) Gas Works Plan

(a) Plan Description

The Gas Works 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 10 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 $100 of such amount, applicable only to participants who were employees on or prior to March 24, 1967.

Final-average earnings is the employee's 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.

Total membership of the PGW plan as of September 1, 1996 consisted of:

Retirees and beneficiaries currently receiving benefits and terminated members entitled to benefits but not yet receiving them	2,231
Current Employees	1,994
Total Members	4,225

The City of Philadelphia issues a publicly available financial report that includes financial statements and required supplementary information for the PGW Plan. The report may be obtained by writing to the Director of Finance of the City of Philadelphia.

(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 over 11 years. Contributions of $3,334,000 (approximately 3.46% of covered payroll) were made to the PGW Plan during the year.

Historically, payments to beneficiaries of the PGW Plan are made by the Fund and not from the assets of the Plan. During the year, payments to beneficiaries exceeded the Fund's actuarially computed pension contribution and a withdrawal of $24.3 million from the pension assets was necessary to meet beneficiary payment obligations.

(c) Annual Pension Cost

PGW's annual pension cost for the current year was $3,334,000, equal to its required contribution. This represented the net of (a) $5,139,000 for normal cost and (b) $1,805,000 amortization of the excess plan assets over the pension benefit obligation. The annual required contribution for the current year was determined as part of an interim actuarial valuation update performed as of September 1, 1997 using the projected credit unit method. Significant actuarial assumptions used include an annual rate of return on investments of 8.25%, projected salary increases of 3% per year (both of which include an inflation component of 3% and do not include post-retirement benefit increases) and age 62 as the assumed retirement age

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

Fiscal Year Ended August 31	Annual Required Contribution (In Thousands)	Percentage Contributed
1996	$7,337	100%
1997	$4,590	100%
1998	$3,334	100%

(d) 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 in the period in which employee services are performed. 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.

(3) Component Unit - Philadelphia Housing Authority Plan

(a) Plan Description

The Philadelphia Housing Authority contributes to a single-employer Public Employees' Retirement System (PERS), administered by an insurance company (the PHA Pension Plan) covering all permanent employees. The PERS does *not* issue separate, stand-alone financial statements. The Authority's payroll for employees covered by the PHA Plan for the year was approximately $65.6

million. The PHA Pension Plan provides retirement benefits as well as death and disability benefits. Employees who retire at or after age 65 receive an annual retirement benefit equal to 2.5% of average earnings multiplied by the years of service not to exceed 25 years, plus 1.25% of average earnings multiplied by years of service in excess of 25 years.

(b) Funding Policy

Funding policies are determined by collective bargaining agreements and employment policies. Covered employees are required to contribute 5.5% of pre-tax salary to the PHA Pension Plan. The Philadelphia Housing Authority is required to contribute an amount equal to employee contributions.

(c) Annual Pension Cost

Actuarially determined contributions are required to provide sufficient assets to pay benefits when due. The Authority's funding policy is set by collective bargaining agreements and employment policies. The policy is to contribute 5.5% to the PERS along with the employees' required contributions of 5.5% of total salary. Significant methods and assumptions used to calculate the actuarially required contributions are:

- the entry-age normal method
- annual rate of return on investments of 8%
- projected salary increases of 5.5% per year
- an annual rate of inflation of 3.5%
- no post-retirement benefit increases

The Authority's actuarially required contributions and percentage contributed for the last three fiscal years of the Plan are summarized below. The required contribution for the current year was approximately 5.6% of covered payroll.

Fiscal Year Ended October 31	Annual Required Contribution	Percent Contributed
1996	$2,029,166	155.8%
1997	$2,951,006	116.7%
1998	$3,162,422	116.8%

(4) Component Unit - Redevelopment Authority Plan

(a) Plan Description

The Redevelopment Authority contributes to the Redevelopment Authority of the City of Philadelphia Retirement Plan (the Plan) which is a single-employer defined benefit pension plan. The Plan does not issue a stand-alone financial report.

Substantially all full time Authority employees are eligible to participate in the Plan. Benefits vest after five years of service. Authority employees who retire at or after age 55 with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.5% of their final monthly salary multiplied by the number of months of credited service up to 240 months plus 2% of final monthly compensation multiplied by months of credited service in excess of 240 months up to a maximum of 420 months. The Plan also provides death and disability benefits which are determined in a manner similar to the retirement benefits.

(b) Funding Policy

The plan's funding policy provides for actuarially determined periodic employer contributions which account for benefits that increase gradually over time so that sufficient assets will be available to pay benefits when due. The rate for the Authority's employee group as a whole has tended to remain level as a percentage of annual covered payroll. Authority employees are required to contribute 6% of their salary to the Plan. The Authority is required to contribute the remaining amounts necessary to fund the Plan as defined under Act 205 of the Commonwealth of Pennsylvania Code.

(c) Annual Pension Cost

The contribution for the Plan for fiscal 1999 of $862,065 (approximately 13% of covered payroll, representing normal cost) was determined in accordance with actuarially determined requirements computed through the actuarial valuation performed as of January 1, 1999 using the entry age normal actuarial cost method. The Authority contributed $533,793 (approximately 8% of current covered payroll) and the employees contributed $328,292 (5% of current covered payroll).

Significant actuarial assumptions include a 7.25% rate of return on investment assets, projected salary increases of 6% per year (4% for merit and promotion, 2% for inflation) and no post-retirement benefit increases.

The net pension obligation at year end was $33,980 computed as follows:

Annual Required Contribution	$	550,414
Interest On Net Pension Obligation		(7,847)
Adjustment to Annual Required Contribution		13,135
Annual Pension Cost		555,702
Contributions Made		413,493
(Increase) Decrease In Net Pension Obligation		142,209
Net Pension Obligation - Beginning of Year		(108,229)
Net Pension Obligation - End of Year	$	33,980

The Authority's actuarially required contributions and percentage contributed for the transition year (1998) from GASB No. 5 to GASB No. 27 and the following year are summarized below.

Fiscal Year Ended June 30	Annual Required Contribution	Percent Contributed	Net Pension Obligation
1998	$503,398	104%	($108,229)
1999	$555,702	74%	$33,980

B. MULTIPLE EMPLOYERS PLANS

One of the City's blended component units and three of its discretely presented component units participate in two defined benefit plans (PSERS and SERS) and one (Community College) participates in two defined contribution plans (TIAA-CREF and Fidelity Investments) as described below.

The payroll for Community College employees covered by any of the four multiple employer plans was $37.4 million and the total payroll was $49.8 million. Contributions to the four plans by the College during the fiscal year totaled approximately $3.5 million representing 9.37% of covered payroll. College employees contributed approximately $1.9 million representing 5% of covered payroll.

(1) Public School Employee Retirement System (PSERS)

(a) Plan Description

School Districts and Community Colleges in the Commonwealth of Pennsylvania participate in the State administered Public School Employees Retirement System (PSERS) which is a cost-sharing multiple-employer defined benefit plan. PSERS provides retirement and disability benefits, legislatively mandated ad hoc cost-of-living adjustments and healthcare insurance premium assistance to qualifying annuitants. Authority to establish and amend benefit provisions rests in the Public School Employees' Retirement Code (the Code).

PSERS issues a comprehensive annual financial report which includes financial statements and required supplementary information for the plan. A copy of the report can be obtained by writing to :

Public School Employees' Retirement System
P.O. Box 125
Harrisburg, PA 17108-0125
Attn: Wendy Hoover, Bureau of Fiscal Control

(b) Funding Policy

Contribution policy is established by the Code and requires contributions from active members, employers and the Commonwealth. Most active members contribute at 5.25% of qualifying compensation. Members joining the PSERS on or after July 22, 1983 contribute at 6.25%. The employer rate is actuarially determined. The rate for fiscal year 1999 was 5.89% for pension and 0.15% for health insurance premium assistance.

The School District’s contributions for the last three years are as follows:

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
1997	$100,467,353	100%
1998	$87,216,980	100%
1999	$63,377,697	100%

(2) State Employees Retirement System (SERS)

(a) Plan Description

PICA and Convention Center Authority employees and certain Community College employees are eligible to participate in the Pennsylvania State Employees Retirement System (SERS). which is a cost sharing multiple employer plan. The SERS provides pension, death and disability benefits. Retirement benefits vest after 10 years of credited service. Employees who retire at age 60 after 3 years of service or with 35 years of service if under age 60, are entitled to a normal annual retirement benefit. The general annual benefit is 2% of the member's highest three year average salary times years of service. The General Assembly has the authority to establish and amend benefits of the SERS. Ad hoc cost-of-living adjustments are provided at the discretion of the General Assembly.

(b) Funding Policy

The SERS funding policy is set by the SERS Board. Active members are required to contribute periodically at statutory rates, generally 5% of gross pay. The amount is recorded in an individually identified account that accumulates interest at 4% per year as mandated by statute. Accumulated employee contributions and credited interest vest immediately and are returned to the employee upon termination of service if the employee is not eligible for other benefits.

Employer contributions are an actuarially determined percentage of payroll such that they, along with employee contributions and an actuarially determined investment rate of return, are adequate to accumulate assets to pay benefits when due. The rate for fiscal year 1999 was 5.61%.

Contributions of the Convention Center Authority for the last three years were as follows:

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
1997	$207,096	100%
1998	$201,104	100%
1999	$193,337	100%

Contributions of PICA over the past three years were as follows:

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
1997	$29,873	100%
1998	$28,064	100%
1999	$29,017	100%

According to the retirement code, all obligations of the SERS will be assumed by the Commonwealth should the SERS terminate.

During the year and as of year end, the SERS did not hold securities issued by the City or other related parties.

The SERS issues a publicly available financial report that includes financial statements and required supplementary information which may be obtained by writing to:

State Employees' Retirement Board
Commonwealth of Pennsylvania
30 North Third Street
Harrisburg, PA 17108-1147

(3) Teacher's Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and Fidelity Investments

(a) Plan Description

Community College employees are also eligible to participate in the Teacher's Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). TIAA-CREF is a defined contribution plan and, as such, benefits depend solely on amounts contributed to the plan plus investment earnings. Full-time faculty and administrative employees are eligible to participate from the date of employment, and clerical employees have a one year waiting period. Part-time faculty may participate after earning four (4) seniority units, as defined in the Collective Bargaining Agreement. College policy and collective bargaining agreements require that both the employee and the college contribute amounts, as set forth below, based on the employees earnings.

The College's contributions for each employee (and interest allocated to the employee's account) are fully vested. Participants who leave the employ of the college for reasons other than retirement or disability, and are not transferring to another institution with TIAA-CREF, may repurchase their contributions provided they have not participated in the program for more than 5 years. Death benefits in the amount of the full current value of accumulation is provided to the beneficiary of participants who die prior to retirement. A variety of payment options are available. The College has 910 employees participating in this plan.

(b) Funding Policy

The employer's contribution requirement for full-time faculty and administrators and other staff is 10% of the base contract amount. For visiting lecturers, the rate is 5% of the base contract. For

Part-time faculty, the rate is 5% of all earnings. For all employees, the employee's contribution requirement is 5% of base salary.

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. School District employees have an unlimited maximum accumulation and Gas Works' employees' sick leave is noncumulative. 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. POST EMPLOYMENT BENEFITS

A. PRIMARY GOVERNMENT

In addition to providing pension benefits, the City provides certain post-employment health care and life insurance benefits for retired employees, dependents and/or beneficiaries through provisions of City ordinances, civil service regulations and agreements with its various employee bargaining units. The City provides these benefits for from one to four years after retirement depending upon the classification of the employee at his/her retirement. Substantially all of the City's employees may become eligible for those benefits if they reach normal retirement age while working for the City. These and similar benefits for active employees are provided through a combination of a self-insurance program and insurance companies whose premiums are based on the benefits paid during the year. The cost of providing these health benefits and life insurance for approximately 2,924 eligible retirees amounted to $16.6 million and $3.6 million, respectively.

B. COMPONENT UNIT

The **School District** provides life insurance benefits for approximately 8,597 retired employees through a self-insurance program. A retired employee is eligible for this benefit if covered for 10 years as an active employee and retired at age 60 with 30 years of service or age 62 with 10 years of service or any age with 35 years of service. Benefits are recognized as expenditures in the School District General Fund when claims are paid. Total coverage as of year end amounted to $16.4 million and the cost of life insurance for the year for retirees was $636,332.

The **Gas Works** provides certain health care and life insurance benefits for approximately 1,990 retired employees and their dependents. The Gas Works recognizes the cost of providing these benefits by charging the annual insurance premiums to expense. Total premiums incurred for health care amounted to $21.5 million, of which approximately 43% relates to retirees and their dependents. Total premiums for group life insurance amounted to $1.3 million, of which approximately 28% relates to retirees.

4. PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY (PICA)

The 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, the Authority 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, the President pro tempore of the Senate, the Minority Leader of the Senate, the Speaker of the House of Representatives and the Minority Leader of the House of Representatives each appoints one voting member of 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 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 1999 this transfer amounted to $143.2 million.

5. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains several Enterprise Funds which provide water and sewer, airport and industrial and commercial development services. Segment information for the year is as follows:

(Amounts in Thousands)

	Water Fund	Aviation Fund	Industrial & Commercial Development Fund	Total
Operating Revenues	$352,087	$122,346	$1,059	$475,492
Depreciation and Amortization Expense	77,281	41,974	--	119,255
Operating Income/(Loss)	56,626	(15,208)	(693)	40,725
Operating Grants	5,427	322	--	5,749
Operating Transfers In/(Out)	(6,976)	20,466	--	13,491
Net Income/(Loss)	(19,967)	30,441	(1,518)	8,956
Current Capital:				
Contributions	9,934	--	216	10,150
Transfers	16,477	11,140	--	27,617
Property, Plant & Equipment Additions	(117,934)	(95,231)	--	(213,164)
Net Working Capital	13,089	(4,854)	27,537	35,772
Bonds and Other Long-Term Liabilities	1,575,693	956,265	--	2,531,958
Total Equity	625,136	436,313	27,537	1,088,986
Total Assets	2,318,202	1,483,756	28,481	3,830,439

6. 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 $51.0 million to SEPTA. In addition, the City received $3.9 million in fixed rental payments on certain properties leased to SEPTA. Through various agreements executed in 1968, SEPTA purchased the properties of Philadelphia Transportation Company (PTC). SEPTA issued $55.0 million of revenue bonds principally to finance the acquisition and then leased the PTC properties to the City for annual rentals equivalent to the debt service on the SEPTA bonds. The City then leased these properties back to SEPTA together with all the City's transit properties for the same rentals (equivalent to the debt service on the SEPTA bonds). SEPTA is not obligated to pay the rent if they have insufficient earnings. The debt service on the SEPTA bonds paid by the City during the year amounted to $4.7 million. The unpaid principal balance at year end was $16.1 million. The SEPTA bonds require annual debt service payments through the year 2002.

B. OTHER ORGANIZATIONS

The City provides varying levels of subsidy and other support payments (which totaled $66.8 million during the year) to the following organizations:

- Philadelphia Commercial Development Corporation
- Philadelphia Health Management Corporation
- Philadelphia Industrial Development Corporation

7. 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. Risk management activities, except those covered by insurance carriers, are currently reported in the City's General, Water, Aviation, and Pension Funds. The long-term portion of claims related to the General Fund are reported in the General Long-Term Debt Account Group. 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 $129.8 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, 1997 resulted from the following:

(Amounts in Millions)

	Beginning Liability	Current Year Claims and Changes In Estimates	Claim Payments	Ending Liability
Fiscal 1998	$109.1	$84.9	($82.8)	$111.2
Fiscal 1999	$111.2	$90.1	($71.5)	$129.8

The City's Unemployment Compensation and Workers’ Compensation coverages are provided through its General Fund. Unemployment Compensation coverage is funded by a pro rata charge to the various funds. Payments for the year were $1.2 million for Unemployment Compensation claims and $37.6 million for Workers’ Compensation claims.

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 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. They 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 $82.6 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, 1997 resulted from the following:

(Amounts in Millions)

	Beginning Liability	Current Year Claims and Changes In Estimates	Claim Payments	Ending Liability
Fiscal 1998	$95.1	$39.3	($45.6)	$88.8
Fiscal 1999	$88.8	$43.4	($49.6)	$82.6

The School District Weekly Indemnity, Unemployment Compensation and Workers' Compensation coverages are provided through its General Fund. The cost of Weekly Indemnity coverage is shared equally by the School District and covered employees. Unemployment Compensation coverage is funded by a pro rata charge to the various funds. Payments for the year were $15.9 million for Weekly Indemnity, $1.0 million for Unemployment Compensation claims and $20.9 million for Workers' Compensation claims. Amounts collected in excess of claims incurred for the School District's Weekly Indemnity Plan are included in the School District General Fund as a Reservation of Fund Balance.

During the last three (3) fiscal years, no claim settlements have exceeded the level of insurance coverage for those components using third party carriers. None of the losses of any of the Component Units have been settled with the purchase of annuity contracts.

8. COMMITMENTS

A. PRIMARY GOVERNMENT

The City entered into a Lease and Service agreement with the Pennsylvania Convention Center Authority in December 1989 for a term of 50 years. Under the terms of this agreement, the City leases to the Authority the land on which the Authority constructed and operates a Convention Center. To this end, the Authority issued $296.0 million in 1994 Series A Revenue Bonds, due September 1, 2019. Under its terms, the agreement cannot be terminated by the City and the obligation of the City to pay an annual service fee, out of current revenues, is absolute and unconditional as long as the Revenue Bonds are outstanding. Said service fee, which began in July 1992, will be sufficient to cover the debt service on the above-mentioned bonds net of certain other amounts and credits permitted. Without consideration for the additional payments and credits permitted, future Lease and Service payments by the City over the life of the bonds are as follows:

(Amounts In Millions)

Fiscal Year Ended June 30	Commitments
2000	$ 24.3
2001	24.3
2002	24.3
2003	24.3
2004	24.3
Thereafter	388.3
Total	$ 509.8

B. COMPONENT UNITS

- The **School District's** outstanding contractual commitments at year end for construction of new facilities, purchase of new equipment, and various alterations and improvements to facilities totaled $97.9 million.

- The **School District** 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 and institutionalized special education) the School District 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. The amount advanced for instruction of special education students is partially reimbursed in an amount representative of the cost of educating an equivalent number of general education students.

- In April 1992 the Federal Energy Regulatory Commission (FERC) issued order No. 636 which requires the **Gas Works'** suppliers to, among other things, unbundle all services performed and to implement a straight fixed-variable rate design. FERC Order No. 636 also requires PGW to pay transition costs. At August 31, 1993 the pipelines had received FERC authorization to commence billing a portion of their costs. PGW's total exposure to costs stemming from this order is not fully determinable until pipeline suppliers file for cost recovery. Based on their approved filing and in anticipation of future filings for known costs, it is estimated that PGW's liability for transition costs on August 31, 1998 is approximately $15.0 million. Therefore, PGW has recorded both a deferred debit and deferred credit on the Balance Sheet in that amount. As of August 31, 1998, PGW has paid approximately $20.7 million of principal and interest for FERC Order No. 636 transition costs to its pipeline supplies. Such amounts have been recovered through the normal Gas Cost Rate (GCR).

- At year-end, **Penn's Landing Corporation** reported as deferred revenue $11.6 million in unexpended funds from a grant received from the Delaware River Port Authority for the demolition, construction, and purchase of specific assets.

9. 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. At year end the aggregate estimate of loss deemed to be probable is approximately $111.9 million. Of this amount, $7.2 million is charged to current operations of the Enterprise Funds. The remaining $104.7 million pertaining to the General Fund has been recorded in the Long-Term Debt Account Group.

In addition to the above, there are other lawsuits against the City in which some amount of 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 $68.7 million to the General Fund and $6.4 million to the Enterprise Funds.

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

- The Local Economic Revitalization Tax Assistance Act ("LERTA") enables local governments to provide property owners with partial real estate tax exemptions when the property owner improves his property or engages in new construction. Pursuant to this authority, City Council amended the City Code to grant such tax exemptions to property owners. Until 1991, the Ordinance provided that the exemption begins in the year after the City issues the building permit and runs for five (5) years.

  Erie County enacted an identical ordinance which a taxpayer challenged. Commonwealth Court invalidated that ordinance, holding that LERTA only empowers municipalities to enact ordinances which provide that the exemption begin to run the year after the property owner completes construction, rather that the year after the county issues the building permit.

  From 1978 until 1991, the Board of Revision of Taxes, pursuant to its authority under the Code, granted real estate abatements to property owners who either engaged in new construction of or made improvements to commercial property. The abatements commenced in the year after the City issued a building permit and terminated five years later.

  Taxpayers in several appeals have challenged the Board's termination of the real estate tax abatements, relying on the Erie County case, and requested that the Court invalidate that section of the Code. Common Pleas Court ruled that taxpayers had waited too long to challenge the real estate tax abatement. Commonwealth Court reversed this decision and ordered the abatements to be extended with no credit to the City for the earlier improper abatements. The Supreme Court has granted permission to the City, School District and Board of Revision of Taxes to appeal and that appeal is pending.
  The Board of Revision of Taxes has determined that, if the abatement were to be invalidated, the taxpayers could be ordered to pay as much as $18 million in back taxes, including interest. Taxpayers claim they are owed approximately $17 million plus interest.

- In 1996, the U.S. Supreme Court struck down a North Carolina intangible property tax that varied inversely with the corporation’s presence in North Carolina. The Court held that the tax discriminated against interstate commerce in violation of the U.S. Constitution.

  The Philadelphia County Personal Property Tax is also a tax on intangible personal property. This tax provides an exemption for stock of corporations which pay the Pennsylvania Capital Stock or Franchise Tax. The City has received a number of formal and informal requests for refunds and a putative class action suit for refunds has been filed. The class action is stayed pending the outcome of <u>Annenberg v. Montgomery County</u> in which the Pennsylvania Supreme Court will decide whether the Montgomery County personal property tax (which is identical to the Philadelphia tax) is constitutional in light of the ruling on the North Carolina tax. In Annenberg, the Supreme Court has ruled the tax discriminatory, but remanded the matter to Common Pleas Court to determine whether there is constitutional justification for this discrimination and, if not, for recommendation of a remedy. Common Pleas Court's proposed findings concluded that there is no justification and has recommended maintaining the underlying lawful tax and severing the discriminatory exemption. The proposed findings are now before the Supreme Court for its review.

The City has sought a legislative solution by repealing the old tax for subsequent years and enacting a bill that will impose a new tax on intangible personal property if the old tax is found to be unconstitutional. This tax is designed to offset the estimated $60 million in potential refunds.

- In May, 1998, the Administrative Governing Board of the First Judicial District of Pennsylvania (FJD) and officials of Common Pleas, Municipal and Traffic Courts brought suit against the Mayor, the Finance Director, the Treasurer, the City Council President and City Council. The suit seeks an Order to compel the defendants to request, appropriate and disburse funds needed to operate the FJD during fiscal year 1999 (July 1, 1998 -June 30, 1999). The amount needed for these operations includes $108.5 million from the City’s General Fund and $28.9 million from the City’s Grants Revenue Fund.

  The defendants have filed a complaint joining the Commonwealth, the General Assembly and various officials as other defendants. The City is seeking to compel the Commonwealth to fund the FJD in fiscal year 1999, relieving the City of this obligation. The City has also filed an emergency petition asking the Pennsylvania Supreme Court to assume jurisdiction over this case. The plaintiffs contend that the City remains obligated to fund the courts of the FJD until the Commonwealth provides such funds.

(2) Guaranteed Debt

The City has guaranteed certain debt payments of three 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)
Redevelopment Authority of the City of Philadelphia	$ 4,385
Philadelphia Parking Authority	112,480
Philadelphia Authority for Industrial Development	15,804
	$ 132,669

(3) Single Audit

The City and School District receive 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 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 Single Audit of Federal Financial Assistance for the fiscal year ended June 30, 1999, which amounted to $579.3 million for all open program years as of December 1, 1999. Of this amount, $468.8 million represents unresolved cost due to the inability to obtain audit reports from subrecipients for the year ended June 30, 1999 due to timing differences in audit requirements, $86.6 million represents questioned costs due to the inability to obtain subrecipient audit reports for the fiscal years June 30, 1998 and prior and $23.9 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 $181.4 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 unloaned 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 $172.3 million.

B. COMPONENT UNITS

- The School District is a party to various claims, legal actions, arbitrations and complaints arising in the ordinary course of business which aggregate to a total potential liability of $3.3 million. In the opinion of the General Counsel of the School District, it is unlikely that final judgments or compromised settlements will approach the total potential liability. The School District 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. In addition, the School District has recorded in its Long-Term Debt Group of Accounts the total cumulative potential liability of $34.1 million for Workers' Compensation, $4.0 million for Unemployment Compensation claims and $22.1 million for claims and judgments.

- In City and School District v. Tax Review Board for the Use of Shott, the District appealed the decision that Use and Occupancy taxes may not be collected from beer distributors. Recently, the Commonwealth Court ruled in the distributors' favor. The District has filed for petition of appeal before the State Supreme Court. The potential reimbursement is approximately $0.3 million.

- In Nine Penn Center et al. v. Board of Revision of Taxes et al., several property owners challenged the type of real estate tax abatement granted them by the Board. The abatements exempt from real estate taxation any improvements constructed by property owners. The Common Pleas Court has upheld the Board's finding that the taxpayers are not entitled to the refunds. The taxpayers appealed the case to the Commonwealth Court where they were successful in winning a reversal. In June, 1999, the Pennsylvania Supreme Court granted the City's petition for allowance of appeal. The potential reimbursement is less than $11.0 million.

- In 1973 the Pennsylvania Human Relations Commission (PHRC) brought suit against the School District in Pennsylvania Commonwealth court to end historical de facto racial segregation. The parties reached an agreement in October, 1983 on terms for a voluntary desegregation plan. Subsequently, PHRC and the School District disagreed about whether "maximum feasible desegregation" had been achieved.

  In February, 1994, the Pennsylvania Commonwealth Court ruled that the School District had failed to desegregate the schools by all feasible means and had failed to provide an equitable education to students in racially isolated schools. The court appointed a seven member panel of educational experts to make recommendations regarding strategies to remedy racial isolation and disparities in student achievement.

  As a result of the panel's report and additional testimony, the Court issued a remedial Opinion and Order (Order) in November, 1994. The Order directed the School District to undertake various self-studies and audits to implement a variety of educational reforms. The School District presented a Reform Plan in February, 1995. Pursuant to Court Order, it submitted modifications and clarifications of the Reform Plan in May, 1995. In June, 1995, the Court issued an Order mandating the reforms to be undertaken by the School District. The School District and a coalition of intervenors have repeatedly urged the court to join the Commonwealth of Pennsylvania as a party defendant in the case as a means of ensuring that there is adequate funding to support needed reforms. (The intervenors also requested joinder of the City of Philadelphia as a defendant.)

  In August, 1997 Commonwealth Court entered an opinion & order finding in favor of the School District and against the Commonwealth. The Commonwealth appealed the order to the Pennsylvania Supreme

Court, which subsequently vacated the Commonwealth Court's order and stayed further proceedings pending a further order from the Supreme Court.

In January, 1998, the Supreme Court directed the following issues be briefed by the parties in the instant matter: whether the lower court erred in its order of November, 1995 joining the Commonwealth and Governor, the City and Mayor as additional respondents; whether the lower court exceeded its authority in fashioning its remedies to redress de facto segregation in the School District; and whether an enforcement action is to be treated in the lower court's original or appellate jurisdiction.

Oral argument was presented to the Supreme Court in Pittsburgh in February, 1998. No assessment of the fiscal impact of the case can be made until there is a determination of whether the Commonwealth will be required to contribute to the reform effort.

- The School District was notified by the Pennsylvania Department of Education (PDE) that it was disallowing the School District's indirect cost calculation (applied to Federal grants and entitlements) prepared consistently with prior years. PDE also notified the School District that the results of an audit conducted by the Auditor General for the years ending June 30, 1991, 1992 and 1993 revealed that the School District over-reported student enrollment in Fiscal Year 1991 which established the base for all school subsidies through Fiscal Year 1999. The final determination of subsidy reimbursement from the PDE's Director, Bureau of Budget and Fiscal Management, is $20 million. PDE proposed a repayment schedule beginning with a $2.8 million deduction from the School District's 1998-1999 June Basic Education Funding (BEF). In May, 1999, the School District appealed the budget director's determination to the Secretary of Education. A hearing is scheduled for the fall of 1999. Because of the appeal, the state has not made any deductions in BEF amounts, and no such deduction will occur prior to August 31, 1999.

10. ADJUSTMENT TO BEGINNING RETAINED EARNINGS

The **Convention Center Authority** restated its receivable balance to record $2,056,739 of hotel tax overage due at June 30, 1998. The effect of this restatement was to increase retained earnings at June 30, 1998 (as shown in Exhibit I-A-9) from a deficit of $55,910,278 to a deficit of $53,853,539.

11. PENSION OBLIGATION BONDS

In fiscal 1999, the Philadelphia Authority for Industrial Development (PAID) issued $1.291 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. They are not obligations of the City. The City entered into a Service Agreement with PAID, whereby the City will pay directly to the trustee designated by PAID, amounts sufficient to make the required payments of principal and interest on the bonds. The City has recorded $1.297 billion in its General Long-Term Debt Account Group as a result of the Pension Service Agreement.

Act 205 requires the City to budget its minimum municipal pension contribution for the following year. This minimum annual contribution is referred to as the "Minimum Municipal Obligation" or "MMO". The calculation of the MMO depends upon the actuarial cost components that are determined by the actuarial valuations. The components of the MMO are the City's projected normal costs, administrative expenses and amortization payments to fund the Unfunded Actuarial Accrued Liability. The City is authorized under Act 205 to reduce or eliminate the Unfunded Actuarial Accrued Liability, which was $2.665 billion as of July 1, 1998, the date of the latest actuarial valuation.

The net proceeds of the bond sale of $1.25 Billion were deposited with the Municipal Pension Fund. The proceeds are included as employer contributions in the accompanying statement of changes in net plan assets. The deposit of the proceeds will reduce the Unfunded Actuarial Accrued Liability by that amount. The deposit will result in reductions to the City’s MMO payments for Fiscal Year 2000 and the City expects that such deposit will result in reductions of the City’s MMO payments in future fiscal years.

12. SUBSEQUENT EVENTS

- In July 1999, the City issued $270 million of Tax and Revenue Anticipation Notes, Series A of 1999 - 2000, 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, 2000.

- In July, 1999, the City issued and delivered $33.04 million in Series 1999 Water and Wastewater Revenue Refunding bonds. The City had entered into a Purchase Contract for these bonds with the underwriter in December of 1998. The purpose of these bonds is to refund a portion of the City's Fifteenth Series Water and Wastewater Revenue Bonds.

- In July, 1999, the School District issued $240 million of Tax and Revenue Anticipation Notes. The proceeds of the notes will be invested until needed and repaid by June 30, 2000.

- In December, 1999, the School District made settlement on the issuance of $177.8 million of General Obligation Bonds. The bonds were issued in two series. The Series C Bonds in the amount of $104.0 million will finance a portion of the Capital Improvement Program and the Series D Bonds in the amount of $73.8 million will refund a portion of bonds issued in 1991, 1992, 1994 and 1997.

PENSION PLANS - SCHEDULES OF FUNDING PROGRESS

City Plan

(Amounts In Millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll (b - a) / c
07/01/1996	$2,457.2	$5,098.1	$2,640.9	48.20%	$1,068.3	247.21%
07/01/1997	$2,660.9	$5,318.1	$2,657.2	50.03%	$1,067.7	248.87%
07/01/1998	$2,921.3	$5,586.1	$2,664.8	52.30%	$1,128.2	236.20%

Gas Works Plan

(Amounts In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll (b - a) / c
09/01/1995	$330,829	$327,420	($3,409)	101.04%	$96,290	-3.54%
09/01/1996	$349,675	$301,883	($47,792)	115.83%	$98,549	-48.50%
09/01/1997	$390,631	$338,825	($51,806)	115.29%	$96,380	-53.75%

PHA Plan

(Amounts In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll (b - a) / c
10/31/1995	$120,156	$106,522	($13,634)	112.80%	$54,098	-25.20%
10/31/1996	$129,042	$132,041	$2,999	97.73%	$63,856	4.70%
10/31/1997	$138,642	$142,350	$3,708	97.40%	$65,608	5.65%

RDA Plan

(Amounts In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll (b - a) / c
01/01/1997	$41,167	$38,457	($2,710)	107.05%	$5,580	-48.57%
01/01/1998	$42,383	$36,490	($5,893)	116.15%	$4,705	-125.25%
01/01/1999	$43,189	$40,935	($2,254)	105.51%	$5,088	-44.30%

YEAR 2000 COMPLIANCE EFFORT (UNAUDITED)

Reliance on a two-digit date to represent the year in computer programs and microprocessors has caused great concern that hardware and software will either fail or execute in an erratic manner when the date reaches January 1, 2000. Any such failures in systems and equipment maintained by the City, its component units or their respective suppliers could cause severe disruptions in services provided by the City government or by its component units.

A. PRIMARY GOVERNMENT (EXCLUDING BLENDED COMPONENT UNITS)

The City began addressing this problem more than a decade ago by replacing many of its major systems (e.g. payroll, recording of deeds, pensions, real estate taxes, accounting and purchasing) with Year 2000 compliant programming logic. A City-wide approach to this problem was developed that involved inventory, assessment, correction and certification. Each of these aspects is described in four stages as follows:

(1) Awareness - Establishing a Plan for Dealing With the Year 2000 Issue

The City conducted two conclaves in 1995 for information technology managers to address the year 2000 issue. A Year 2000 Application team was formed and met monthly to enhance the awareness of the problem among two hundred key City managers. This stage was completed in December 1996**.**

(2) Assessment - Identifying systems/components for which year 2000 compliance work is needed

The City created an inventory of sixty mission-critical systems. The inventory was completed in September 1997 and reevaluated continuously through September 1998 to yield a list of the major systems that would need to be remedied or replaced.

(3) Remediation - Making changes to systems and equipment

Concurrent with assessment, the City began remediation. Systems were categorized as Citywide (e.g. revenue collection, payroll and accounting), department-wide (e.g. recording of deeds) or division-wide (e.g. recording of wills). As of fiscal year-end, ninety seven percent (97%) of these systems have been remedied or replaced with year 2000 compliant program logic**.**

(4) Testing - Validating and testing the changes that were made during the remediation stage

The City has updated its mainframe computer operating system to one that is year 2000 compliant and established a partition for Year 2000 compliance testing. Certification of systems was implemented for City-wide systems readiness testing from January 1999 to April 1999 and for department-wide and division systems. This testing was directed by an Interagency Steering Committee that includes representatives from the Offices of the Mayor, the Managing Director, the Director of Finance and Budget and Program Evaluation.

During the year, the primary government of the City incurred approximately $1.6 million in expenditures to remedy or replace computer systems and equipment that contain the Year 2000 problem. At year end, the primary government had committed an additional $0.7 million to upgrade and replace its remaining problematic systems and equipment.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the City is or will be year 2000 ready, that the City’s remediation efforts will be successful in whole or in part, or that parties with whom the City does business will be year 2000 ready.

B. COMPONENT UNIT

The School District began addressing the problem approximately three years ago by deciding to replace its business systems (human resources and finance) with Year 2000 compliant programming logic. In addition, a School District-wide approach to this problem was developed that involved

(1) Awareness

The School District's Office of Information Technology began addressing the Year 2000 issue and has developed a plan to evaluate the necessary changes to its information systems. A Year 2000 committee was formed to enhance the awareness of the problem among all offices and schools within the School District. This committee is responsible for the direction of the effort of the School District. The School District has contracted with a third party to assist and provide guidance for this major undertaking. This phase has been completed.

(2) Assessment

The year 2000 committee has completed an inventory of all School District buildings which yielded a list of the major systems that will needed to be replaced or modified.

(3) Remediation

The School District's decision to replace its business systems is a major undertaking and the basis of the School District's remediation plan. All of the major components of the business systems package were installed and operational by September, 1999. Other School District systems that have been determined to be non-compliant (e.g. security and fire alarms, elevators, etc.) will be upgraded/replaced as well.

(4) Testing

The School District has purchased an integrated business systems package which is Year 2000 compliant. As of June 30, 1999, the School District has incurred approximately $28.7 million in expenditures to replace business systems. Testing of this package was completed by June, 1999 under the direction of the School District's project implementation team. The School District anticipates an additional $6.8 million in expenditures to complete this project.

(5) Implementation

During this phase, the School District has implemented contingency plans for other systems deemed at risk by the year 2000 committee. Schools will remain closed until January 5, 2000 in order to test these systems. Its business systems have been fully operational since September, 1999.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the School District will be year 2000 ready, that the School District's remediation efforts will be successful in whole or in part, or that parties with whom it does business will be year 2000 ready.