Philadelphia Water Department
Financial Statements
Fiscal Years Ended June 30, 2015 And 2014

CITY OF PHILADELPHIA WATER DEPARTMENT

YEAR ENDED JUNE 30, 2015 AND 2014

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The City of Philadelphia Water Department Management Discussion and Analysis

The Philadelphia Water Department is one of the City's ten operating departments and serves under a dedicated Water Fund established pursuant to the Philadelphia Home Rule Charter. Pursuant to the Charter, the City's Water Department has the power and duty to operate, maintain, repair, and improve the City's water system (the "Water System") and the City's wastewater system (the "Wastewater System"; together with the Water System, the "Water and Wastewater Systems" or the "Combined System").

The Department's primary mission is to plan for, operate, and maintain both the infrastructure and the organization necessary to purvey high-quality drinking water, to provide an adequate and reliable water supply for all household, commercial, and community needs, and to sustain and enhance the region's watersheds and quality of life by managing wastewater effectively.

The Department serves the City of Philadelphia by providing integrated water and wastewater services. In addition, the Department also provides wastewater services to ten wholesale customers and water services to one wholesale water customer. The Department operates three drinking water plants which have the capacity to treat and deliver about 522 million gallons per day of top quality drinking water that meets or exceeds all federal, state, and local regulations. Additionally, it operates three water pollution control plants that have the capacity to treat over 1 billion gallons of wastewater per day at a level that meets or exceeds federal and state standards.

The operations of the activity of the Water Department are accounted for with a separate set of balancing accounts that comprise the assets, deferred outflows of resources, liabilities, net position, revenues, and expenses. The activity of the Water Department is grouped in the financial statements into the broad category referred to as an enterprise fund (the "Water Fund")

2015 Financial Highlights

The Water Fund met its bond coverage ratios for the year with a revenue bond coverage ratio of 1.23, a total debt service coverage ratio of 1.12, and a net operating revenue bond coverage ratio of 1.33 prior to the deduction of the transfer to the Rate Stabilization Fund.

At the end of the current fiscal year, the Water Fund's net position totaled $709.6 million resulting from an excess of its assets over its liabilities; its unrestricted net position showed a deficit of $235.9 million.

The Water Fund's net position showed a decrease of $260.9 million during the current Fiscal Year compared with an increase of $72.4 million for the prior fiscal year.

Overview of the Financial Statements

This section serves as an introduction to the Basic Financial Statements. It represents management's examination and analysis of the Water Department's financial condition and performance. Summary financial data, key financial and operational indicators used in Water Department's budget, bond resolutions, and other management tools were used for the analysis.

The Financial Statements report information about the Water Department on the Full Accrual Accounting method as used by similar business activities in the private sector.

The Water Department's basic financial statements include the statement of net position, statement of revenues, expenses, and changes in net position, statement of cash flows, and notes to the financial statements.

The Water Department's financial statements are prepared in accordance with accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

Statement of Net Position: The statement of net position presents the financial position of the Water Department. It presents information on the Water Department's assets, deferred outflows of resources, and liabilities with the difference between the three reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Water Department is improving or deteriorating.

Statement of Revenues, Expenses, and Changes in Net Position: The statement of revenues, expenses, and changes in net position presents information showing how the Water Department's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues are recognized when earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. salary and wages payable).

Statement of Cash Flows: The statement of cash flows presents information on the effects changes in assets, liabilities, and operations have on cash during the course of the fiscal year.

The Water Fund financial statements can be found following the Management Discussion and Analysis. The Notes provide additional information that is essential to a full understanding of the data provided in the Water Fund financial statements. In addition to the basic financial statements and accompanying notes, government accounting standards require presentation of required supplementary information ("RSI"). Following the RSI, the Water Department has presented other supplementary information ("OSI").

Please see the Comprehensive Annual Financial Report of the City of Philadelphia for complete financial information for the City and its component units, which can be found at http://www.phila.gov/investor/CAFR.html.

Financial Analysis

Net Position

A three year condensed summary of the Water Department's net position as of June 30 of each year is presented as follows:

Condensed Statement of Net Position
(Thousands of Dollars)
June 30

	2015	2014*	2013*
Assets:			
Current Assets	$ 240,216	$ 230,330	$ 243,123
Capital Assets	2,149,680	2,070,492	2,019,350
Restricted Assets	889,928	690,596	526,249
Total Assets	3,279,824	2,991,418	2,788,722
Deferred Outflows of Resources	83,507	66,586	73,865
Total Assets and Deferred Outflows	3,363,331	3,058,004	2,862,587
Liabilities:			
Current Liabilities	225,234	214,671	211,872
Bonds Payable	1,974,073	1,809,952	1,702,895
Other Non-Current Liabilities	454,445	62,898	49,732
Total Liabilities	2,653,752	2,087,521	1,964,499
Net Position:			
Net Investment in Capital Assets	385,721	336,980	351,160
Restricted	559,802	506,669	472,310
Unrestricted	(235,944)	126,834	74,618
Total Net Position, as Restated	$ 709,579	$ 970,483	$ 898,088

*The net position of fiscal years 2014 and 2013 were not restated for GASB Statement No. 68. For more information on the change in accounting principle, see Note 23 to the financial statements.

The Water Department's net position at June 30, 2015 was approximately $709.6 million, a $260.9 million or 26.9% decrease from June 30, 2014. Total assets and deferred outflows of resources increased by $305.3 million, or 10.0%, to $3.4 billion, and total liabilities increased $566.2 million, or 27.1%, to $2.7 billion.

The following is a discussion of the more significant changes in assets and deferred outflows of resources, liabilities, and net position in fiscal year 2015:

- Capital assets, net of depreciation and amortization, increased by $79.2 million to $2.1 billion, or 3.8% as a result of capital additions of $203.0 million, offset by depreciation of $103.8 million and net retirements of $20.0 million.

- Current assets increased by $9.9 million to $240.2 million, or 4.3%, due to increases in operating cash.

- Restricted assets increased by $199.3 million to $889.9 million, or 28.9%, due to increases in the Water Capital Fund primarily due to the bond issuance in April 2015.

- Deferred outflows of resources increased by $16.9 million to $83.5 million, or 25.4%, due to deferred outflows of resources related to the Water Department's net pension liability being recognized as part of the adoption of GASB Statement No. 68, which was partially offset by amortization of the unamortized loss on refunded debt.

- Current liabilities increased by $10.6 million to $225.2 million, or 4.9%, primarily due to an increase in the amount of bonds payable that were classified as current on the statement of net position.

- Bonds payable increased by $164.1 million to $2.0 billion, or 9.1%, primarily due to the bond issuance in April of 2015 offset by the maturing principal of $278.6 million during the year.

- Other non-current liabilities increased by $391.5 million to $454.4 million, or 622.5%, primarily due to an increase in net pension liability of $388.7 million, which occurred as a result of the Water Department adopting the provisions of GASB Statement No. 68.

- The Water Department's net position decreased by $260.9 million to $709.6 million, or 26.9%, as a result of fiscal year 2015 operations and capital contributions and the Water Department's net pension liability increasing $388.7 million as part of the adoption of GASB Statement No. 68.

- Net investment in capital assets increased by $48.7 million, or 14.5%, to $385.7 million.

- Unrestricted net position decreased by $362.8 million, or 286.0%, to a deficit of $235.9 million. The unrestricted component of net position represents the net amount of total assets, deferred outflows of resources, and total liabilities that are not included in the determination of net investment in capital assets or restricted components of net position.

Changes in Net Position

A condensed summary of the Water Department's Statement of Revenues, Expenses, and Changes in Net Position for the years ended June 30 is presented as follows:

Condensed Statement of Revenues, Expenses, and Changes in Net Position
(Thousands of Dollars)
Year Ended June 30

	2015	2014*	2013*
Operating Revenues:			
Charges for Goods and Services	$ 667,699	$ 630,429	$ 600,156
Miscellaneous Operating Revenues	8,261	8,146	8,547
Operating Grants	907	1,399	2,285
Total Operating Revenues	676,867	639,974	610,988
Operating Expenses:			
Operating Expenses excluding Depreciation and Amortization	376,528	354,686	345,409
Depreciation and Amortization	103,763	90,523	89,045
Total Operating Expenses	480,291	445,209	434,454
Operating Income (Loss)	196,576	194,765	176,534
Nonoperating Revenues (Expenses):			
Federal, State, & Local Grants	-	-	880
Interest Income	3,732	4,207	12,079
Net Pension Obligation	-	(17,712)	2,839
Debt Service – Interest	(65,933)	(77,561)	(80,146)
Other Expenses	(3,993)	(2,971)	(1,665)
Total Nonoperating Revenues (Expenses)	(66,194)	(94,037)	(66,013)
Increase in Net Position before Transfers	130,382	100,728	110,521
Transfers Out	(30,258)	(28,333)	(21,380)
Capital Contributions	1,337	-	-
Change in Net Position	101,461	72,395	89,141
Net Position – Beginning of Period, Before Restatement	970,483	898,088	808,947
Cumulative Effect of Change in Accounting Principle	(362,365)	-	-
Net Position – Beginning of Period, as Restated	608,118	898,088	808,947
Net Position – Ending of Period	$ 709,579	$ 970,483	$ 898,088

*The net position of fiscal years 2014 and 2013 were not restated for GASB Statement No. 68. For more information on the change in accounting principle, see Note 23 to the financial statements.

Operating revenues increased by $36.9 million to $676.9 million due to increased revenue from a typical bill increase of 5% in fiscal year 2015.

Operating expenses increased by $35.1 million to $480.3 million due to increased costs for personnel services, purchase of services, employee benefits, and depreciation.

Non-operating expenses decreased by $27.8 million to $66.2 million. The decrease in non-operating expenses is due to the net pension obligation expense decrease of $17.7 million and the debt service interest expense decrease of $11.6 million.

Capital Assets and Debt Administration

Capital Assets

The Water Department's investment in capital assets, net of accumulated depreciation, amounted to $2.15 billion as of June 30, 2015. This represented an increase of $79.2 million, or 3.8% over the previous year's total of $2.07 billion. Capital assets consist primarily of land, infrastructure, construction in progress, buildings, and equipment. Infrastructure consists of water and wastewater transmission and distribution lines. The following is a summary of capital assets as of June 30:

Capital Asset Activity
(Thousands of Dollars)
June 30

	2015	2014	2013
Land	$ 5,919	$ 5,919	$ 5,919
Construction in Progress	303,005	361,592	373,844
Infrastructure	2,422,387	2,269,015	2,167,639
Buildings and Equipment	1,667,810	1,623,520	1,591,073
Accumulated Depreciation	(2,249,441)	(2,189,554)	(2,119,125)
Total Capital Assets, net	$ 2,149,680	$ 2,070,492	$ 2,019,350

Long-Term Debt

As of June 30, 2015, the Water Department had $2.4 billion of non-current liabilities outstanding. This was an increase of $555.7 million or 29.7% from the previous year. The following is a summary of the non-current liability outstanding as of June 30:

Non-Current Liability Activity
(Thousands of Dollars)
June 30

	2015	2014	2013
Revenue Bonds – Net	$ 1,974,073	$ 1,809,952	$ 1,702,895
Derivative Instrument	3,289	5,711	8,565
Other Non-Current Liabilities	35,829	30,514	32,205
Net Pension Obligation	415,327	26,673	8,962
Total Non-Current Liabilities	$ 2,428,518	$ 1,872,850	$ 1,752,627

The following details activity to debt during 2015:

	(Thousands of Dollars)
Beginning balance at July 1, 2014	$ 1,935,252
Debt issued	471,213
Less principal payments and amortization	(295,668)
Ending balance at June 30, 2015	$ 2,110,797

More detailed information concerning long-term debt activity and capital asset activity is disclosed in Note 14 and Note 5, respectively, of the financial statements.

Budgetary Highlights

Please see the supplementary Budgetary Comparison Schedule located in the Required Supplementary Information section.

Requests for Information

This financial report is designed to provide a general overview of the City of Philadelphia Water Department's finances for all interested parties. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to the Philadelphia Water Department, Finance Division, Aramark Tower, 5th Floor, 1101 Market Street, Philadelphia, Pennsylvania 19107.

STATEMENTS OF NET POSITION
JUNE 30, 2015 AND 2014 (Thousands of Dollars)

	June 30	
	2015	**2014**
ASSETS:		
Current Assets:		
Cash on Deposit and on Hand	$ 30	$ 30
Equity in Treasurer's Account	80,040	71,136
Due from Other Governments	-	176
Accounts Receivable	158,975	164,042
Allowance for Doubtful Accounts	(12,399)	(18,629)
Inventories	13,323	13,423
Receivables	247	152
Total Current Assets	240,216	230,330
Noncurrent Assets:		
Restricted Assets:		
Equity in Treasurer's Account	668,043	470,740
Sinking Funds and Reserves	221,198	219,013
Receivables	687	843
Total Restricted Assets	889,928	690,596
Capital Assets:		
Land	5,919	5,919
Infrastructure	2,422,387	2,269,015
Construction in Progress	303,005	361,592
Buildings and Equipment	1,667,810	1,623,520
Accumulated Depreciation	(2,249,441)	(2,189,554)
Total Capital Assets	2,149,680	2,070,492
Total Noncurrent Assets	3,039,608	2,761,088
Total Assets	**3,279,824**	**2,991,418**
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred Outflow - Fin. Instruments	3,289	5,711
Deferred Outflow - Net Pension Liability	24,374	-
Deferred Outflow - Unamortized Loss on Refunded Debt	55,844	60,875
Total Deferred Outflows of Resources	**83,507**	**66,586**
LIABILITIES:		
Current Liabilities:		
Vouchers Payable	10,798	8,230
Accounts Payable	12,339	11,664
Salaries & Wages Payable	5,582	4,819
Construction Contracts Payable	21,911	22,783
Accrued Expenses	23,554	27,477
Due to Other Components	3,041	3,607
Unearned Revenue	8,905	8,923
Funds Held in Escrow	2,380	1,868
Current Portion of Long Term Obligations	136,724	125,300
Total Current Liabilities	225,234	214,671
Noncurrent Liabilities:		
Bond Payable - Net	1,974,073	1,809,952
Derivative Instrument Liability	3,289	5,711
Other Noncurrent Liabilities	35,829	30,514
Net Pension Liability	415,327	26,673
Total Noncurrent Liabilities	2,428,518	1,872,850
Total Liabilities	**2,653,752**	**2,087,521**
NET POSITION:		
Net Investment in Capital Assets	385,721	336,980
Restricted For:		
Capital Projects	132,157	102,860
Debt Service	221,198	219,013
Rate Stabilization	206,447	184,796
Unrestricted	(235,944)	126,834
Total Net Position	**$ 709,579**	**$ 970,483**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR FISCAL YEAR ENDED JUNE 30, 2015 AND 2014

(Thousands of Dollars)

	Year Ended June 30 2015	2014
Operating Revenues:		
Charges for Goods and Services	$ 667,699	$ 630,429
Miscellaneous Operating Revenues	8,261	8,146
Operating Grants	907	1,399
Total Operating Revenues	676,867	639,974
Operating Expenses:		
Personal Services	121,770	112,820
Purchase of Services	104,444	90,611
Materials and Supplies	37,382	43,453
Employee Benefits	108,914	102,623
Indemnities and Taxes	4,018	5,179
Depreciation and Amortization	103,763	90,523
Total Operating Expenses	480,291	445,209
Operating Income	196,576	194,765
Nonoperating Revenues (Expenses):		
Interest Income	3,732	4,207
Net Pension Obligation	-	(17,712)
Debt Service - Interest	(65,933)	(77,561)
Other Expenses	(3,993)	(2,971)
Total Nonoperating Expenses	(66,194)	(94,037)
Increase in Net Position before Transfers	130,382	100,728
Transfers Out	(30,258)	(28,333)
Capital Contributions	1,337	-
Change in Net Position	101,461	72,395
Net Position - Beginning of Year, Before Restatement	970,483	898,088
Cumulative Effect of Change in Accounting Principle	(362,365)	-
Net Position - Beginning of Year, as Restated (Note 23)	608,118	898,088
Net Position - End of Year	**$ 709,579**	**$ 970,483**

STATEMENTS OF CASH FLOWS
FOR FISCAL YEAR ENDED JUNE 30, 2015 AND 2014

(Thousands of Dollars)

	Year Ended June 30 2015	2014
Cash Flows from Operating Activities:		
Receipts from Customers	$ 675,466	$ 640,819
Payments to Suppliers	(141,177)	(130,852)
Payments to Employees	(222,723)	(216,574)
Claims Paid	(4,018)	(5,179)
Net Cash Provided by Operating Activities	**307,548**	**288,214**
Cash Flows from Non-Capital Financing Activities:		
Operating Grants Received	907	1,649
Operating Subsidies and Transfers to Other Funds	(30,258)	(31,322)
Net Cash Used by Non-Capital Financing Activities	**(29,351)**	**(29,673)**
Cash Flows from Capital & Related Financing Activities:		
Proceeds from Capital Debt	300,758	229,204
Acquisition and Construction of Capital Assets	(174,135)	(142,039)
Interest Paid on Capital Debt	(78,951)	(74,701)
Principal Paid on Capital Debt	(121,848)	(127,009)
Net Cash Used by Non-Capital Financing Activities	**(74,176)**	**(114,545)**
Cash Flows from Investing Activities:		
Interest and Dividends	2,186	1,459
Net Cash Provided by Investing Activities	2,186	1,459
Net Increase in Cash & Cash Equivalents	206,207	145,455
Balances - Beginning of the Year	541,906	396,451
Balances - End of the Year	**$ 748,113**	**$ 541,906**
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	196,576	194,765
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization Expense	103,763	90,523
Change in Assets and Liabilities:		
Receivables, Net	(1,382)	(547)
Inventories	100	376
Accounts and Other Payables	3,196	3,396
Accrued Expenses	5,314	(1,691)
Unearned Revenue	(19)	1,392
Net Cash Provided by Operating Activities	**$ 307,548**	**$ 288,214**
Reconciliation of Cash and Cash Equivalents to Statement of Net Position		
Cash on Deposit and on Hand	30	30
Equity in Treasurer's Account - Current Portion	80,040	71,136
Equity in Treasurer's Account - Noncurrent Portion	668,043	470,740
Total Cash and Cash Equivalents	**$ 748,113**	**$ 541,906**

NOTE 1: REPORTING ENTITY

The City of Philadelphia was founded in 1682 and was merged with the county in 1854. The City of Philadelphia, Pennsylvania (the “City” or “Philadelphia”), was incorporated in 1789 by an Act of the General Assembly of the Commonwealth of Pennsylvania (the “Commonwealth”) (predecessors of the City under charters granted by William Penn in his capacity as proprietor of the colony of Pennsylvania may date to as early as 1684). In 1854, the General Assembly of the Commonwealth, by an act commonly referred to as the Consolidation Act, made the City’s boundaries coterminous with the boundaries of Philadelphia County (the same boundaries that exist today) (the “County”), abolished all governments within these boundaries other than the City and the County and consolidated the legislative functions of the City and the County. Article 9, Section 13 of the Pennsylvania Constitution abolished all county offices in the City and provides that the City performs all functions of county government and that laws applicable to counties apply to the City.

Since 1951, the City has been governed under a Home Rule Charter authorized by the General Assembly of the Commonwealth (First Class City Home Rule Act, Act of April 21, 1949, P.L. 665, Section 17) and adopted by the voters of the City. The Home Rule Charter, as amended and supplemented to this date, provides, among other things, for the election, organization, powers and duties of the legislative branch (the “City Council”); the election, organization, powers and duties of the executive and administrative branch; and the basic rules governing the City’s fiscal and budgetary matters, contracts, procurement, property and records. The Home Rule Charter, as amended, also provides for the governance of the School District of Philadelphia (the “School District”) as a home rule school district. Certain other constitutional provisions and Commonwealth statutes continue to govern various aspects of the City’s affairs, notwithstanding the broad grant of powers of local self-government in relation to municipal functions set forth in the First Class City Home Rule Act.

The City's Water Department supplies water and provides wastewater treatment services to residents of Philadelphia. In addition, the Water Department also provides wastewater services to ten wholesale customers and water services to one wholesale water customer.

NOTE 1: REPORTING ENTITY (CONTINUED)

There are two principal governmental entities in Philadelphia: (1) the City of Philadelphia, which performs both the ordinary Municipal functions and the traditional County functions; and the School District of Philadelphia, which is part of the Public Education System of the Commonwealth of Pennsylvania. In addition to the School District of Philadelphia, there are a number of other governmental and quasi-governmental entities operating within the City. The financial statements as set forth herein present only the operations of the City of Philadelphia Water Department ("Water Department") that is a Department of the City and is included in the financial statements of the City.

The Philadelphia Water Department serves the City of Philadelphia by providing integrated water and wastewater system. The utility's primary mission is to plan for, operate and maintain both the infrastructure and the organization necessary to purvey high quality drinking water, to provide an adequate and reliable water supply for all household, commercial, and community needs, and to sustain and enhance the region's watersheds and quality of life by managing wastewater and stormwater effectively. In fulfilling its mission, the utility seeks to be customer-focused, delivering services in a fair, equitable, and cost-effective manner, with a commitment to public involvement.

In order to accomplish its mission and pursuant to the Philadelphia Home Rule Charter, the Water Department has the power and duty to operate, maintain, repair and improve the City's water and wastewater systems. The Water Department is managed by a Commissioner who is appointed by the City's Managing Director with the approval of the Mayor.

The operations of the activity of the Water Department are accounted for with a separate set of balancing accounts that comprise its assets, deferred outflows of resources, liabilities, net position, revenues and expenses. The activity of the Water Department is grouped in the financial statements into the broad category referred to as an enterprise fund. Such activities are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises – where the intent of the Government Body is that costs (expenses, including depreciation) of providing goods and services to the general public on a continuous basis be recovered primarily through user charges or (2) where the Government Body has decided that periodic determination of revenues earned, expenses occurred, and/or net income is appropriate for capital maintenance, public policy, management's control of accountability, and other purposes.

The activities of the Water Department are segregated as follows:

- The Operating Fund is used to account for the operations of the water and waste water systems.
- The Revenue Bond Sinking Fund is used to account for the payment of interest of the outstanding debt.

NOTE 1: REPORTING ENTITY (CONTINUED)

- The Debt Reserve Fund shall be funded from the proceeds of each series of Water and Wastewater Revenue Bonds; provided, however, that if the Supplemental Ordinance authorizing a series of Water and Wastewater Revenue Bonds shall so authorize, the deposit to the Debt Reserve Account in respect of such Water and Wastewater Revenue Bonds may be accumulated from project revenues over a period of not more than three fiscal years after the issuance and delivery of such Water and Wastewater Revenue Bonds. The moneys and investments in the Debt Reserve Account shall be held and maintained in an amount equal at all times to the Debt Reserve Requirement. If at any time the moneys in the Debt Service Account of the Sinking Fund shall be insufficient to pay as and when due the principal of (and premium, if any) or interest on any Water and Wastewater Revenue Bonds or other obligations payable from the Debt Service Account (including obligations arising in connection with Qualified Swap Agreements and Credit Facilities), the fiscal agent is required to pay over from the Debt Reserve Account the amount of such deficiency for deposit in the Debt Service Account. With respect to any issue of Water and Wastewater Revenue Bonds, in lieu of the required deposit into the Debt Reserve Account, the City may cause to be deposited into the Debt Reserve Account a surety bond, an insurance policy or an irrevocable letter of credit meeting the requirements of the General Ordinance and the Bond Committee Determination relating to such issue.

  The Debt Reserve Account Amendment authorizes (i) the Director of Finance to apply moneys currently on deposit in the Debt Reserve Account to purchase a surety bond or insurance policy complying with the terms of the General Ordinance (described below), (ii) the transfer of the resulting excess moneys in the Debt Reserve Fund to the Revenue Fund and from there, upon compliance with the provisions of the General Ordinance to a new account in the Residual Fund called the Special Water Infrastructure Account and (iii) the application of the moneys deposited in the Special Water Infrastructure Account to the cost of renewals, replacements and improvements to the water and wastewater systems.

- The Rate Stabilization Fund was created with the sale of the Series 1993 Revenue Bonds on August 20, 1993. The purpose of the Fund is to maintain assets to be drawn down to offset future deficits (and corresponding rate increase requirements) in the Water Department Operating Fund.

  During Fiscal 2015 the fund had the following activity:

Balance at July 1, 2014	$184,795,581
Deposit from Operating Fund	21,456,199
Interest Earnings	195,186
Balance at June 30, 2015	206,446,966

NOTE 1: REPORTING ENTITY (CONTINUED)

During Fiscal 2014 the fund had the following activity:

Balance at July 1, 2013	$161,463,768
Deposit from Operating Fund	22,924,772
Interest Earnings	407,041
Deposit to Operating Fund	-
Balance at June 30, 2014	$184,795,581

- The Residual Fund was created with the sale of the Series 1993 Revenue Bonds on August 20, 1993. The purpose of the Fund is to maintain the remaining assets after payment of all operating expenses, payment of all debt service obligations including payments under a swap agreement, scheduled transfers to the Rate Stabilization Fund, and required deposits to the Capital Account of the Construction Fund. The balance of the Residual Fund was $14,993,329 at June 30, 2015 and $25,275,116 at June 30, 2014.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements include all funds which are controlled by the Philadelphia Water Department. The financial statements have been prepared in accordance with Generally Accepted Accounting Principles as they apply to governmental units. The Governmental Accounting Standards Board (GASB) of the American Institute of Certified Public Accountants is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies.

A. Basis of Accounting

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

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Basis of Accounting (Continued)

Operating revenues and expenses are distinguished from non-operating items in the statement of revenues, expenses and changes in net position. Operating revenues and expenses result from providing services in connection with the Water Department's principle ongoing operations. Principal operating revenues of the Water Department are charges to customers for water use and wastewater collection, transmission and treatment. When calculating user fees charged to customers, the Water Department includes a component for the repayment of principal on the Water Department's outstanding debt. Operating expenses include the cost of providing water and watershed services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal non-operating revenues of the Water Department are interest and grants. The principal non-operating expenses of the Water Department include interest expense and pension expense.

B. Capital Assets

Capital assets are defined by the City as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of three years. The expenses are reported at cost including any liability for contract retainage and construction costs payable.

Contributed assets are carried at fair market value at the time of contribution. Depreciation is determined using the straight-line method over their estimated useful lives as follows:

Computer equipment	3 years
Automotive	5 years
Leasehold Improvements	8 years
General and monitoring equipment	10-20 years
Buildings	40 years
Reconstructed transmission and distribution lines	40 years
New transmission and distribution lines	50 years

Upon sale or retirement, the cost of the assets and related accumulated depreciation, if any, are removed from the accounts. Normal maintenance and repairs are charged to operations as incurred. Renewals and betterments are capitalized and depreciated based upon the expected life of such improvements.

Cost of construction includes all direct contract costs plus overhead charges. Overhead costs include direct and indirect engineering costs and interest incurred during the construction period on projects financed 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. Capitalization of interest during construction for fiscal year 2015 was $7,685,673 and for fiscal year 2014 was $3,926,863.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Bonds and Related Premiums, Discounts, and Issuance Costs

Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. For financial reporting purposes, bond discounts and premiums are offset against bonds payable. Bond issuance costs are recognized as an expense and reported in the period incurred.

D. Inventories

The materials and supplies inventory is priced using the “moving average cost” method.

E. Accounts Receivables

Accounts receivable consist of billed retail and wholesale water and sewer charges that have not been collected as of June 30. The Water Department evaluates the collection of individual account balances and if necessary, records an allowance for doubtful accounts. The Water Department’s policy is to file a lien against the respective property for delinquent water, sewer, and storm water customers. The Water Department’s policy regarding its water customers is to discontinue services for those that refuse to pay, but only as a last resort. As of June 30, 2015 and 2014 the allowance for doubtful accounts was $12,399,107 and $18,629,063 respectively.

F. Unbilled Revenue

The Water Department bills residential water and sewer customers on a monthly basis and wholesale water and sewer customers on a monthly basis. Revenue earned for services provided through June 30 but unbilled is included in accounts receivable on the accompanying financial statements.

G. 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 workers’ compensation, unemployment benefits, and health and welfare to its employees through a self-insured plan. Construction contractors are required to carry protective general liability insurance indemnifying the City and the Contractor.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Cash and Investments

The Water Department's cash and investments are held in segregated operating and capital accounts. Sinking funds and reserves are maintained in segregated investment accounts to comply with reserve and other requirements of the bond covenants.

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

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

I. Restricted Assets

Restricted assets represent revenues set-aside for liquidation of specific obligations, as detailed in Note 8.

J. Unearned Revenues

Unearned revenues represent funds received in advance of being earned. In the Water Department, unearned revenues relate principally to over paid water and sewer bills.

K. Payment to City

In accordance with an agreement between the Finance Director and the Water Department, the Finance Director may transfer to the General Fund up to a limit of $4,994,000 in any fiscal year in "excess interest earnings" as defined by the Rate Covenants under the Ordinance. In fiscal year 2015 and 2014, excess interest earnings of $745,585 and $400,364, respectively, were transferred to the General Fund of the City.

L. Transfers for Long Term Contracts

In addition to the transfer of funds to the General Fund of the City, the Water Department had operating transfers of $29,512,785 and $27,932,268 in fiscal year 2015 and 2014, respectively, to the Philadelphia Municipal Authority ("PMA") for the long-term contracts described in Note 19 A, B, and C.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Net Position

GASB Statement No. 63 requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included.

Restricted – This component of net position consists of restricted assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources related to those assets. The restrictions would be imposed by external parties including creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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

N. Deferred Outflows / Inflows of Resources

The statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Water Department has three items that qualify for reporting in this category. The statement of net position reports a deferred outflow refunded debt, deferred outflow for pension expense, and a deferred outflow from its hedging derivative instrument.

The deferred outflows of resources related to the hedging derivative instrument represents the cumulative change in fair value. Deferred outflows of resources on refunded debt is the result of differences in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded and refunding debt. Deferred outflows of resources related to pension are discussed in Note 16.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Deferred Outflows / Inflows of Resources (Continued)

The statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Water Department does not have an item that qualified for reporting in this category.

O. Accounting Estimates

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

P. Adoption of Governmental Accounting Standards Board Statements

The Water Department adopted the requirements of GASB Statement No. 68, *"Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27"*. The adoption of this statement resulted in the restatement of previously reported net position and net pension liability amounts (see Note 23).

The Water Department adopted the requirements of GASB Statement No. 69 "*Government Combinations and Disposals of Government Operations*". The adoption of this statement has no effect on the previously reported amounts.

The Water Department adopted the requirements of GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*". The adoption of this statement had no effect on previously reported amounts.

Q. Pending Changes in Accounting Principles

In February 2015, the GASB issued Statement No. 72, "*Fair Value Measurement and Application*". The Water Department is required to adopt the provisions of GASB Statement No.72 for its fiscal year 2016 financial statements.

In June 2015, the GASB issued Statement No. 73, "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*". The Water Department is required to adopt the provisions of GASB Statement No. 73 for its fiscal year 2017 financial statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Pending Changes in Accounting Principles (Continued)

In June 2015, the GASB issued Statement No. 74, "*Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*". The Water Department is required to adopt the provisions of GASB Statement No. 74 for its fiscal year 2017 financial statements.

In June 2015, the GASB issued Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*". The Water Department is required to adopt the provisions of GASB Statement No. 75 for its fiscal year 2018.

In June 2015, the GASB issued Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*". The Water Department is required to adopt the provisions of GASB Statement No. 76 for its fiscal year 2016.

In August 2015, the GASB issued Statement No. 77, "*Tax Abatement Disclosures*". The Water Department is required to adopt the provisions of GASB Statement No. 77 for its fiscal year 2017 financial statements.

In December 2015, the GASB issued Statement No. 78, "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*". The Water Department is required to adopt the provisions of GASB Statement No. 78 for its fiscal year 2017 financial statements.

In December 2015, the GASB issued Statement No. 79, "*Certain External Investment Pools and Pool Participants*". The Water Department is required to adopt the provisions of GASB Statement No. 79 for its fiscal year 2016 financial statements.

In January 2016, the GASB issued Statement No. 80, "*Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*". The Water Department is required to adopt the provisions of GASB Statement No. 80 for its fiscal year 2017 financial statements.

The Water Department has not yet completed the various analyses required to estimate the financial statement impact of these new pronouncements.

NOTE 3: DEPOSITS AND INVESTMENTS

A. Deposits

State statutes require banks to collateralize City deposits at amounts equal to or in excess of the City's balance. Such collateral is to be held by the Federal Reserve Bank or the trust department of a commercial bank other than the pledging bank. At year end, the carrying amount (book balance) of deposits for the City and bank balances were $996.5 million and $996.5 million for 2015 respectively, and $925.8 and $925.8 for 2014 respectively. At June 30, 2015 and June 30, 2014, all of the collateralized securities were held in the City's name except for $96 million and $106 million, respectively, which was collateralized but held in the pledging institution's name.

NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

The City has established a comprehensive investment policy that covers all funds other than the Municipal Pension Fund, the Philadelphia Gas Works Retirement Reserve, and the Fairmount Park and Free Library Trust Funds. Those funds have separate investment policies designed to meet the long-term goals of the funds.

The City's investments include all operating, capital, debt service, and debt service reserve accounts of the City's General Fund, Water Department, and Aviation Division. All city investments must be in compliance with applicable provisions of the City Code and City bond resolutions, as well as the City's Investment Policy. The City's Investment Policy is meant to supplement the applicable provisions supplement the applicable provisions of the City Code and City bond resolutions, and is reviewed and adopted by the City's Investment Committee. The City's Investment Committee consists of the Director of Finance, the City Treasurer, and a representative from the Water Department, Aviation Division, and the Philadelphia Gas Works.

As of June 30, 2015 the fair values of the Water Department's investments consist of the following:

(Thousands of Dollars)

Classifications		Fair Value	Percent of Total
U.S. Government Securities	$	272,600	57.98%
U.S. Government Agency Securities		155,901	33.15%
Corporate Bonds		23,947	5.09%
Other Bonds and Investments		17,754	3.78%
Grand Total	$	470,202	100.00%

NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

As of June 30, 2014, the fair values of the Water Department's investments consist of the following:

Classifications	Fair Value (Thousands of Dollars)	Percent of Total
U.S. Government Securities	$ 370,176	74.91%
U.S. Government Agency Securities	98,400	19.91%
Corporate Bonds	11,313	2.29%
Other Bonds and Investments	14,300	2.89%
Grand Total	$ 494,189	100.00%

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

As of June 30, 2015 the maturities of the Water Department's fixed income investments were as follows:

Classifications	Less Than 1 Year (Thousands of Dollars)	1 - 2 Years
U.S. Government Securities	$ 258,719	$ 13,881
U.S. Government Agency Securities	26,352	129,549
Corporate Bonds	18,937	5,010
Other Bonds and Investments	11,817	5,937
Grand Total	$ 315,825	$ 154,377

NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

As of June 30, 2014 the maturities of the Water Department's investments were as follows:

(Thousands of Dollars)

Classifications	Less Than 1 Year	1 - 2 Years
U.S. Government Securities	$ 260,368	$ 109,808
U.S. Government Agency Securities	49,071	49,329
Corporate Bonds	11,313	-
Other Bonds and Investments	6,266	8,034
Grand Total	$ 327,018	$ 167,171

Credit Risk: The City's policy to limit credit risks by limiting the type of allowable investments, as well as the maximum percent of the portfolio for each type of investment.

The City's investment in US Government securities (33.3%) or US Government Agency obligations (30.7%) are allowable up to 100% of the portfolio. The US Government Agency obligations must be rated AAA by Standard & Poor's Corp. ("S&P") or Aaa by Moody's Investor Services ("Moody's"). All US Government Securities meet the criteria.

The City's investment in Commercial Paper (22.5%) is limited to 25% of the portfolio, and must be rated A1 by S&P and/or M1G1 by Moody's and the senior long-term debt of the issuer must not be rated lower than A by S&P and/or Moody's. All commercial paper investments meet the criteria.

The City's investments in corporate bonds (10.2%) are limited to 25% of the portfolio, and had a S&P rating of AAA or AA or Moody's rating of Aa2 or better.

Short Term Investment Pools are rated AAA by S&P and Aaa by Moody's. The Short Term Investment Pools' fair value is the same as the value of the pool shares. Cash accounts are swept nightly and idle cash invested in money market funds (short term investment pools).

The City limits its foreign currency risk by investing in certificates of deposits and banker's acceptances issued or endorsed by non-domestic banks that are denominated in US dollars, providing that the banking institution has assets of not less than $100 million and has a Thompson's Bank Watch Service "Peer Group Rating" not lower than II. At the end of the fiscal year, the City did not have any investments of that nature.

To minimize custodial credit risk, the City's policy is to select custodian banks that are members of the Federal Reserve System to hold its investments. Delivery of the applicable investment documents to the City's custodian is required for all investments.

NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

As of June 30, 2015 the fixed income investments of the Water Department had the following ratings by Moody's:

Classifications	Credit Quality Rating	Percent of Investment Type
U.S. Government Securities	AAA	100%
U.S. Government Agency Securities	AAA	100%
Corporate Bonds	AAA	42%
Corporate Bonds	A1	37%
Corporate Bonds	AA2	21%
Other Bonds and Investments	AA2	100%

As of June 30, 2014 the fixed income investments of the Water Department had the following ratings by Moody's:

Classifications	Credit Quality Rating	Percent of Investment Type
U.S. Government Securities	AAA	100%
U.S. Government Agency Securities	AAA	61%
U.S. Government Agency Securities	Not Rated	39%
Corporate Bonds	A1	21%
Corporate Bonds	AA2	79%
Other Bonds and Investments	AA1	44%
Other Bonds and Investments	AA2	56%

NOTE 4: ACCOUNTS RECEIVABLE

Balances of accounts receivable and allowance for doubtful accounts consisted of the following:

FISCAL YEAR ENDED JUNE 30, 2015	
Accounts Receivable	
Billed in the Last Twelve Months	$ 138,612,875
Billed in 15-year Cycle Billing	-
Penalties on Receivables	25,967,833
Other Receivables	28,039,172
Subtotal	$ 192,619,880
Bad Debt Written Off	33,644,769
Total	$ 158,975,111
Allowance for Doubtful Accounts	$ 12,399,107

NOTE 4: ACCOUNTS RECEIVABLE (CONTINUED)

FISCAL YEAR ENDED JUNE 30, 2014	
Accounts Receivable	
Billed in the Last Twelve Months	$ 138,553,005
Billed in 15-year Cycle Billing	-
Penalties on Receivables	48,072,443
Other Receivables	13,819,108
Subtotal	$ 200,444,556
Bad Debt Written Off	36,402,784
Total	$ 164,041,772
Allowance for Doubtful Accounts	$ 18,629,063

NOTE 5: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at June 30, 2015 and 2014 consisted of the following:

	Beginning Balance	Additions	Dispositions	Ending Balance
Fiscal Year Ended June 30, 2015				
Capital Assets Not Being Depreciated				
Land	$ 5,919,160	$ -	$ -	$ 5,919,160
Construction in Progress	361,591,950	176,436,388	(235,023,251)	303,005,087
Total Capital Assets Not Being Depreciated	$ 367,511,110	$ 176,436,388	$ (235,023,251)	$ 308,924,247
Capital Asssets Being Depreciated				
Buildings and related improvements	1,551,979,787	54,426,060	(15,749,538)	1,590,656,309
Intangible Assets	12,973,506	1,468,206	-	14,441,712
Equipment	71,540,266	24,424,780	(18,811,119)	77,153,927
Infrastructure	2,256,041,472	181,231,429	(29,327,826)	2,407,945,075
Total Capital Assets Being Depreciated	$ 3,892,535,031	$ 261,550,475	$ (63,888,483)	$ 4,090,197,023
Less Accumulated Depreciation For:				
Buildings and related improvements	(922,843,619)	(45,120,983)	14,482,856	(953,481,746)
Intangible Assets	(7,389,590)	(1,370,761)	-	(8,760,351)
Equipment	(63,231,630)	(3,153,513)	119,588	(66,265,555)
Infrastructure	(1,196,089,278)	(54,117,370)	29,273,624	(1,220,933,024)
Total Accumulated Depreciation	(2,189,554,117)	(103,762,627)	43,876,068	(2,249,440,676)
Total Capital Assets, Being Depreciated, Net	1,702,980,914	157,787,848	(20,012,415)	1,840,756,347
Total Capital Assets	$ 2,070,492,024	$ 334,224,236	$ (255,035,666)	$ 2,149,680,594

	Beginning Balance	Additions	Dispositions	Ending Balance
Fiscal Year Ended June 30, 2014				
Capital Assets Not Being Depreciated				
Land	$ 5,919,160	$ -	$ -	$ 5,919,160
Construction in Progress	373,844,154	140,968,008	(153,220,212)	361,591,950
Total Capital Assets Not Being Depreciated	$ 379,763,314	$ 140,968,008	$ (153,220,212)	$ 367,511,110
Capital Asssets Being Depreciated				
Buildings and related improvements	1,517,587,479	44,662,033	(10,269,725)	1,551,979,787
Intangible Assets	12,234,866	738,640	-	12,973,506
Equipment	73,485,553	20,255,147	(22,200,434)	71,540,266
Infrastructure	2,155,403,733	107,998,169	(7,360,430)	2,256,041,472
Total Capital Assets Being Depreciated	$ 3,758,711,631	$ 173,653,989	$ (39,830,589)	$ 3,892,535,031
Less Accumulated Depreciation For:				
Buildings and related improvements	(888,398,708)	(41,711,939)	7,267,028	(922,843,619)
Intangible Assets	(6,129,171)	(1,260,419)	-	(7,389,590)
Equipment	(65,974,792)	(2,723,579)	5,466,741	(63,231,630)
Infrastructure	(1,158,622,726)	(44,826,982)	7,360,430	(1,196,089,278)
Total Accumulated Depreciation	(2,119,125,397)	(90,522,919)	20,094,199	(2,189,554,117)
Total Capital Assets, Being Depreciated, Net	1,639,586,234	83,131,070	(19,736,390)	1,702,980,914
Total Capital Assets	$ 2,019,349,548	$ 224,099,078	$ (172,956,602)	$ 2,070,492,024

NOTE 6: LEASES

The Water Department enters into various operating leases to finance the purchase of photocopier and computer equipment. Leases are defined by the Financial Accounting Standard Board in Statement 13, Accounting for Leases. Lease payments consisted of $1,951,900 in fiscal year 2015, and $1,848,062 in fiscal year 2014. The assets acquired through the leases are shown as equipment within the Capital Asset Note (See Note 5).

NOTE 7: IMPAIRED ASSETS

Government Accounting Standards Board (GASB) Statement 42 requires the disclosure of the impairment of any major capital assets. Over the years, there have been a number of the Water Department's assets that were either damaged or destroyed, were abandoned or became functionally obsolete.

One facility remains in service, which has become "functionally obsolescent", the portion of our Biosolids Recycling Center which performs composting. Composting of our sludge products was stopped in approximately March of 2007 as an interim solution to the air management problems that have occurred at this site. A permanent solution for sludge processing that does not involve composting is being utilized by the Water Department through the biosolids treatment and utilization plant operated by Philadelphia Biosolids Services, LLC (see Note 19). The Water Department's engineering division estimates the value of the compost facilities that are "functionally obsolescent" (which were built in conjunction with the remaining BRC facilities which will remain in service such as the mixing/receiving building, administrative offices and the dewatering facility) to be in the area of $20 million, including the value of any land acquisition and site preparation costs.

No asset impairments occurred during fiscal year 2015 and 2014.

NOTE 8: RESTRICTED ASSETS

Assets whose use is limited to a specific purpose have been classified as "restricted" in the Statement of Fund Net Position. Restricted assets as of June 30, 2015, are comprised of the following:

(Thousands of Dollars)

	Cash and Investments	Accrued Interest
Amounts Reserved for:		
Capital Projects	$ 446,755	$ 106
Rate Stabilization	206,298	150
Residual	14,990	6
Debt Service	221,198	425
Total	$ 889,241	$ 687

NOTE 8: RESTRICTED ASSETS (CONTINUED)

Restricted assets as of June 30, 2014, are comprised of the following:

	(Thousands of Dollars) Cash and Investments	Accrued Interest
Amounts Reserved for:		
Capital Projects	$ 260,834	$ 505
Rate Stabilization	184,631	165
Residual	25,275	-
Debt Service	219,013	173
Total	$ 689,753	$ 843

NOTE 9: VACATION LEAVE

Employees are credited with vacation at rates which vary according to length of service. Vacation may be taken or accumulated up to certain limits until paid upon retirement or termination. Employees' vacation time accrued under Other Noncurrent Liabilities on the Statement of Net Position in Fiscal Year 2015 was $10,133,491 and in Fiscal Year 2014 was $10,170,963. The expense for vacation pay is recognized in the year earned.

NOTE 10: SICK LEAVE

Employees are credited with varying amounts of sick leave per year according to type of employee and/or length of service. Employees may accumulate unused sick leave to predetermined balances. 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.

NOTE 11: ACCOUNTING FOR THE NEW RIVER CITY PROJECT FUNDS – WATER SINKING FUND RESERVE SUBSTITUTION

Pursuant to the Water Department's General Bond Ordinance, the Sinking Fund Reserve provides a reserve against default of the payment of principal and interest on Water Revenue Bonds when due.

NOTE 11: ACCOUNTING FOR THE NEW RIVER CITY PROJECT FUNDS – WATER SINKING FUND RESERVE SUBSTITUTION (CONTINUED)

The New River City Ordinance dated January 23, 2007 (Bill No 060005) authorized the purchase and deposit of a surety bond that meets the requirements of the General Ordinance to replace $67,000,000 of the Sinking Fund reserve Balance. The $67,000,000 will be used as follows:

Cost of the surety bond	$2,010,000
Legal and financial services	290,000
Management fees	375,000
Costs of certain water and sewer infrastructure components of the New River City Program	64,325,000
Total	$67,000,000

The prepaid surety bond was recorded as an asset in the Sinking Fund Reserve and amortized over the lives of the outstanding bonds.

In connection with the New River City Program, the Water Department executed a program agreement with Philadelphia Authority for Industrial Development ("PAID") to provide program management and oversight for the program. To date, twelve projects totaling $83,697,833 have been executed (disbursements were limited to the $64,325,000). As of June 30, 2015, all projects were completed and $1,815 of the project funds remains undisbursed. The transfer of the water and sewer utilities at Philadelphia Naval Business Center from PAID to the Water Department, including the projects outlined above, and occurred in November, 2009.

NOTE 12: DEFERRED COMPENSATION PLAN

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, 2015, 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.

NOTE 13: ARBITRAGE REBATE

The City has issued Water Revenue Bonds subject to Federal arbitrage requirements. Federal tax legislation requires 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 arbitrage liability was zero as of June 30, 2015 and 2014.

NOTE 14: DEBT PAYABLE

A summary of changes in long-term debt obligations as of June 30, 2015 follows:

(In Thousands)

	Beginning Balance, as Restated (See Note 23)	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Water and Sewer Revenue Bonds	$ 1,698,060	$ 417,560	$ (267,995)	$ 1,847,625	$ 126,040
Pennvest Loans	153,385	758	(10,560)	143,583	10,684
Unamortized Bond Premium	83,807	52,895	(17,113)	119,589	-
Derivative Instrument Liability	5,711	-	(2,422)	3,289	-
Net Pension Liability	389,038	26,289	-	415,327	-
Other Non-Current Liabilities:					
Accrued Worker's Compensation	16,814	9,038	(3,862)	21,990	-
Accrued Legal Claims	3,529	3,977	(3,800)	3,706	-
Compensated Absences	10,171	2,144	(2,182)	10,133	-
Total Non-Current Liabilities	$ 2,360,515	$ 512,661	$ (307,934)	$ 2,565,242	$ 136,724

A summary of changes in long-term debt obligations as of June 30, 2014 follows:

(In Thousands)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Water and Sewer Revenue Bonds	$ 1,620,275	$ 293,170	$ (215,385)	$ 1,698,060	$ 114,735
Pennvest Loans	139,504	23,577	(9,696)	153,385	10,565
Unamortized Bond Premium	70,608	28,349	(15,150)	83,807	-
Derivative Instrument Liability	8,565	-	(2,854)	5,711	-
Net Pension Liability	8,962	17,711	-	26,673	-
Other Non-Current Liabilities:					
Accrued Worker's Compensation	17,846	2,277	(3,309)	16,814	-
Accrued Legal Claims	4,387	5,642	(6,500)	3,529	-
Compensated Absences	9,972	1,957	(1,758)	10,171	-
Total Non-Current Liabilities	$ 1,880,119	$ 372,683	$ (254,652)	$ 1,998,150	$ 125,300

NOTE 14: DEBT PAYABLE (CONTINUED)

An analysis of debt service requirements to maturity on the long-term obligations follows:

(In Millions of USD)

Year Ended June 30:	Principal Requirements	Interest Requirements	Total Debt Service Requirements
2016	$ 136.7	$ 82.3	$ 219.0
2017	124.8	81.3	206.1
2018	131.6	76.5	208.1
2019	86.8	72.0	158.8
2020	79.7	68.3	148.0
2021 - 2025	360.6	290.8	651.4
2026 - 2030	291.4	225.5	516.9
2031 - 2035	257.4	160.3	417.7
2036 - 2040	234.0	104.5	338.5
2041 - 2045	254.0	37.9	291.9
2046	34.2	0.9	35.1
	$ 1,991.2	$ 1,200.3	$ 3,191.5

Pertinent information regarding long-term debt obligations outstanding is presented below:

Date of Issue	Amount of Original Issue	Purpose	Balance Outstanding at: June 30, 2015	June 30, 2014
1997	$78,500,000	Water and Wastewater Revenue Bonds, Variable Rate Series of 1997B, issued for various capital projects, to fund the Debt Reserve Account, and to pay the costs of issuance related to the bond issue at a variable rate.	$60,400,000	$63,800,000
1998	135,185,000	Water and Wastewater Revenue Refunding Bonds, Series of 1998, issued for defeasing a portion of the Series of 1993 Bonds, for defeasing a portion of the Fifteenth Series Bonds, and to pay the costs of issuance related to the bond issue at a rate of 5.25%	-	$38,025,000

NOTE 14: DEBT PAYABLE (CONTINUED)

Date of Issue	Amount of Original Issue	Purpose	Balance Outstanding at: June 30, 2015	June 30, 2014
1999	6,700,000	Pennsylvania Infrastructure Investment Authority Loan of 1999, issued for various capital projects at a rate of 1.41% - 2.73%.	329,633	410,107
2005	250,000,000	Water and Wastewater Revenue Bonds, Series of 2005A, issued for various capital projects, to fund the Debt Reserve Account of the Sinking Fund, and to pay the costs of issuance related to the bond issue at a rate of 3% - 5.25%.	5,810,000	117,250,000
2005	83,665,000	Water and Wastewater Revenue Refunding Bonds, Variable Rate Series of 2005B, issued for defeasing a portion of the Series of 1995 Bonds, and to pay the costs of issuance related to the bond issue at a variable rate.	51,640,000	67,175,000
2007	345,035,000	Water and Wastewater Revenue Refunding Bonds, Series of 2007A and 2007B, issued for defeasing the Series of 1997A and Series of 2001A Bonds, and to pay the costs of issuance related to the bond issue at a rate of 4% - 5%.	241,630,000	289,230,000
2009	140,000,000	Water and Wastewater Revenue Bonds, Series of 2009A, issued for various capital projects, issued for funding the Debt Reserve Account of the Sinking Fund, and to pay the costs of issuance related to the bond issue at a rate of 4% - 5.75%.	140,000,000	140,000,000
2009	22,828,000	Pennsylvania Infrastructure Investment Authority Loan of 2009 (B), issued for various capital projects at a rate of 1.193% - 2.107%.	22,966,665	25,090,064
2009	35,667,000	Pennsylvania Infrastructure Investment Authority Loan of 2009 (C), issued for various capital projects at a rate of 1.193% - 2.107%.	33,427,837	36,230,899
2009	64,380,000	Pennsylvania Infrastructure Investment Authority Loan of 2009 (D), issued for various capital projects at a rate of 1.193% - 2.107%.	60,356,734	64,520,996

NOTE 14: DEBT PAYABLE (CONTINUED)

Date of Issue	Amount of Original Issue	Purpose	Balance Outstanding at: June 30, 2015	June 30, 2014
2010	8,111,000	Pennsylvania Infrastructure Investment Authority Loan of 2010 (B), issued for various capital projects at a rate of 1.193% - 2.107%.	26,502,897	27,133,256
2010	396,460.000	Water and Wastewater Revenue Refunding Bonds, Series of 2010A, issued for defeasing the Series of 2003 Bonds, issued for funding a payment to terminate the Series of 2003 Swap Agreement, for funding the required deposit into the Debt Reserve Account of the Sinking Fund, and to pay the costs of issuance related to the bond issue at a rate of 2% - 5%.	202,555,000	251,830,000
2010	185,000,000	Water and Wastewater Revenue Bonds, Series of 2010C, issued for funding a payment to terminate the Series of 2007 Swap Agreement, fund the required deposit into the Debt Reserve Account of the Sinking Fund, and to pay the costs of issuance related to the bond issue at a rate of 3% - 5%.	185,000,000	185,000,000
2011	184,855,000	Water and Wastewater Revenue Bonds, Series of 2011A, and Water and Wastewater Revenue Refunding Bonds, Series of 2011B, issued for partially defeasing the Series of 2001A and Series of 2007A Bonds, for various capital projects, for funding of capitalized interest, for financing any required deposit into the Debt Reserve Account of the Sinking Fund, and to pay the cost of issuance related to the bond issue at a rate of 4% - 5%.	184,855,000	184,855,000
2012	70,370,000	Water and Wastewater Revenue Refunding Bonds, Series of 2012, issued for defeasing the Series of 2001A and 2001B Bonds and to pay the cost of issuance related to the bond issue at a rate of 1% - 5%.	65,005,000	67,725,000

NOTE 14: DEBT PAYABLE (CONTINUED)

Date of Issue	Amount of Original Issue	Purpose	Balance Outstanding at: June 30, 2015	June 30, 2014
2013	170,000,000	Water and Wastewater Revenue Bonds, Series of 2013A, issued to finance capital improvements, finance a deposit to the Debt Reserve Account, and to pay the cost of issuance related to the bond issue at a rate of 3% to 5.125%.	170,000,000	170,000,000
2014	123,170,000	Water and Wastewater Revenue Bonds, Series of 2014A, issued to advance refund a portion of the Series of 2005A Bonds, to finance capital improvements, finance a deposit to the Debt Reserve Account, and to pay the cost of issuance related to the bond issue at a rate of 3% to 5%.	123,170,000	123,170,000
2015	417,560,000	Water and Wastewater Revenue Bonds, Series of 2015A and 2015B, issued to finance capital improvements, finance a deposit to the Debt Reserve Account, current refund a portion of the Series of 2005 A Bonds, advance refund a portion of the Series of 2007A Bonds, and pay the cost of issuance related to the bond issue at a rate of 3.45% to 5.00%.	417,560,000	-
			$1,991,208,766	$1,851,445,322

In prior years, the Water Fund defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Water Fund's financial statements. As of June 30, 2015, $283.2 million of bonds outstanding were considered defeased. As of June 30, 2014 $138.5 million of bonds outstanding were considered defeased.

NOTE 14: DEBT PAYABLE (CONTINUED)

Bond Issues

In April 2015, the City issued Water and Wastewater Revenue Bonds Series 2015 A in the amount of $275.8 million and Water and Wastewater Revenue Bonds Series 2015 B in the amount of $141.7 million. Series of 2015 A were issued at an interest rate of 5.0% and have a final maturity date of 2045. Series of 2015 B were issued at an interest rate of 4.00% to 5.00% and final maturity date of 2035. The total proceeds of the 2015A Bonds were $308.6 million (which includes a premium of $32.8 million). The total proceeds of the 2015B Bonds were $161.8 million (which includes a premium of $20.1 million). The proceeds of the bonds will be used to finance capital improvements to the City's Water and Wastewater systems, a deposit to the Water Sinking Fund Reserve, refund on a current basis a portion of the Series of 2005 A Bonds, refund on an advance basis a portion of the Series of 2007 A Bonds, and pay the cost of issuance relating to the Bonds. The aggregate difference in debt service between the refunding debt and the refunded debt is $27.6 million over the next twenty-one years. This refunding transaction resulted in a net economic gain of $19.8 million.

Pennvest Loans

In July 2010, the City of Philadelphia Water Department received approval from the Pennsylvania Infrastructure Investment Authority ("PENNVEST") for the Green Infrastructure Project (Series 2010B), bringing the total financing from PENNVEST to $214.9 million. During fiscal year 2015 and 2014, PENNVEST drawdowns totaled $758 thousand and $23.6 million, respectively, which represent an increase in bond issuances. The funding is through low interest loans of 1.193% during the construction period and for the first five years of amortization (interest only payment are due during the construction period up to three years) and 2.107% for the remaining fifteen years.

Individual loan information as of June 30, 2015 is as follows:

Date	Series	Maximum Loan Amount	Approved Project Costs	Amount Requested through 6/30/15	Amount Received Yes/No
October 2009	2009B	$42,886,030	$42,339,199	$28,790,697	Yes
October 2009	2009C	57,268,193	56,264,382	41,771,895	Yes
March 2010	2009D	84,759,263	84,404,754	71,703,769	Yes
July 2010	2010B	30,000,000	31,376,846	28,500,000	Yes
	Totals	$214,913,486	$214,385,181	$170,766,361	

NOTE 14: DEBT PAYABLE (CONTINUED)

Pennvest Loans (Continued)

Individual loan information as of June 30, 2014 is as follows:

Date	Series	Maximum Loan Amount	Approved Project Costs	Amount Requested through 6/30/14	Amount Received Yes/No
October 2009	2009B	$42,886,030	$42,339,199	$28,790,697	Yes
October 2009	2009C	57,268,193	56,264,382	41,771,895	Yes
March 2010	2009D	84,759,263	84,404,754	71,703,769	Yes
July 2010	2010B	30,000,000	31,376,846	27,741,841	Yes
	Totals	$214,913,486	$214,385,181	$170,008,202	

NOTE 15: DERIVATIVE INSTRUMENT

City of Philadelphia, 2005 Water & Sewer Swap

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

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

In May 2013, the City and Water Department converted the original variable rate bonds associated with the swap to an index-based rate, terminating the existing letter of credit in the process.

As of June 30, 2015, the swap had a notional amount of $51.640 million and the associated variable rate bond had a $51.640 million principal amount. The bonds' variable rate coupons are based on the same index as the receipt on the swap. The bonds mature on August 1, 2018 and the related swap agreement terminates on August 1, 2018.

NOTE 15: DERIVATIVE INSTRUMENT (CONTINUED)

Fair value: As of June 30, 2015, the swap had a negative fair value of ($2.35 million). This means that the Water Department would have to pay this amount if the swap terminated.

Risk: As of June 30, 2015, the City is not exposed to credit risk because the swap had a negative fair value. Should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. Since the City is now receiving 68.5% of one month LIBOR, and paying 68.5% of one month LIBOR plus a fixed spread, the City is no longer exposed to basis risk, or tax risk. The swap includes an additional termination event based on credit ratings. The swap may be terminated by the City if the ratings of Citigroup or its Credit Support Provider fall below A3 or A-, or by Citigroup if the rating of the City's Water and Wastewater Revenue Bonds falls below A3 or A-. There are 30-day cure periods to these termination events. However, because the City's swap payments are insured by Assured Guaranty Municipal Corporation (formerly FSA), no termination event based on the City's Water and Wastewater Revenue Bond ratings can occur as long as Assured is rated at least A or A2.

As of June 30, 2015, rates were as follows:

	Terms	Rates
Interest Rate Swap		
Fixed payment to Citi under swap	Fixed	4.53000 %
Variable rate payment from Citi under swap	68.5% of 1-month Libor	(0.12604)%
Net interest rate swap payments		4.40396 %
Variable rate bond coupon payments	68.5% of 1-month Libor + fixed spread	0.12604 %*
Synthetic interest rate on bonds		4.53000 %

**Excludes fixed spread, which is similar to the City's expected Letter of Credit costs on a comparable variable rate bond*

As of June 30, 2014, rates were as follows:

	Terms	Rates
Interest Rate Swap		
Fixed payment to Citi under swap	Fixed	4.53000 %
Variable rate payment from Citi under swap	68.5% of 1-month Libor	(0.10631)%
Net interest rate swap payments		4.42369 %
Variable rate bond coupon payments	68.5% of 1-month Libor + fixed spread	0.10631 %*
Synthetic interest rate on bonds		4.53000 %

**Excludes fixed spread, which is similar to the City's expected Letter of Credit costs on a comparable variable rate bond*

NOTE 15: DERIVATIVE INSTRUMENT (CONTINUED)

Swap payments and associated debt: As of June 30, 2015, debt service requirements of the variable rate debt and net swap payments for their term, assuming current interest rates remain the same, were as follows:

Fiscal Year Ending	Variable Rate Bonds		Interest Rate	
June 30	Principal	Interest	Swaps, Net	Total Interest
2016	16,315,000	54,805	1,914,208	1,969,013
2017	17,145,000	33,719	1,177,712	1,211,431
2018	18,015,000	11,561	403,796	415,357
2019	165,000	104	3,632	3,736
Total	$ 51,640,000	$ 100,189	$3,499,348	$3,599,537

NOTE 16: PENSION PLAN

The City maintains two single employer defined benefit plans for its employees and several of its component units. The two plans maintained by the City are the City Plan and the Philadelphia Gas Works (the "PGW") Plan. In addition to the City, the three other quasi-governmental agencies that participate in the City Plan are the Philadelphia Parking Authority (the "PPA"), the Philadelphia Municipal Authority (the "PMA"), and the Philadelphia Housing Development Corporation (the "PHDC").

Effective with Fiscal Year 2015, the City implemented GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27"*. This statement revises existing standards for measuring and reporting pension liabilities for pension plans. GASB Statement No. 68 defines a single employer as the primary government and its component units. All three quasi-governmental agencies that participate in the City Plan were determined to be component units of the City. Therefore, the City Plan meets the definition of a single employer plan.

The note disclosures and Required Supplementary Information required by GASB Statement No. 67, "*Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*", are presented in separately issued audited financial statements of the City plan and PGW plan. Copies of these financial statements may be obtained by contacting the Director of Finance of the City of Philadelphia.

A. Plan Administration

The Philadelphia Board of Pensions and Retirement (the "Board") administers the City of Philadelphia Public Employees Retirement System, a single employer defined benefit pension plan with a small but increasing defined contribution component, which provides pensions for all officers and employees of the City, as well as those of three quasi-governmental agencies (per applicable enabling legislation and contractual agreements). The Board was established by section 2-308 of the 1952 Philadelphia Home Rule Charter. Its actions in administering the Retirement System are governed by Title 22 of the Philadelphia Code.

NOTE 16: PENSION PLAN (CONTINUED)

B. Plan Membership

At July 1, 2014, the date of the most recent actuarial valuation, pension plan membership consisted of the following:

Actives	27,065
Terminated Vested	1,224
Disabled	3,954
Retirees	21,768
Beneficiaries	8,547
DROP	2,264
Total City Members	64,822
Annual Salaries	$1,495,421,387
Average Salary per Active Member	$55,253
Annual Retirement Allowances	$686,601,608
Average Retirement Allowance	$20,036

C. Contributions

Per Title 22 of the Philadelphia Code, members contribute to the System at various rates based on bargaining unit, uniform status, and entry date into the System. As of July 1, 2014 uniform employees contribute either 5.00%, 5.50%, or 6.00% of pensionable earnings; non-uniform employees contribute either 1.95%, 2.71%, 2.95%, 3.23%, 3.38%, 3.75%, or 6.00% of pensionable earnings; and elected employees contribute either 8.33% or 9.94% of pensionable earnings.

Employer contributions are made by the City throughout each fiscal year (which ends June 30) and by three (3) quasi-governmental agencies on a quarterly basis. These contributions, determined by an annual actuarial valuation report ("AVR"), when combined with plan member contributions, are expected to finance the cost of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability.

Within the AVR, two contribution amounts are determined based upon two different sets of rules for determining the way the unfunded actuarial liability is funded.

The first method is defined in accordance with Act 205 and defines the Minimum Municipal Obligation ("MMO"), which is the City's minimum required contribution under Pennsylvania state law.

The second method is in accordance with the City's Funding Policy which predates the Act 205 rules and calls for contributions that are greater than the MMO until the initial unfunded liability determined in 1984 is fully funded.

NOTE 16: PENSION PLAN (CONTINUED)

C. Contributions (Continued)

Under both funding methods there are two components: the normal cost and the amortized unfunded actuarial liability. The actuarial unfunded liability is the amount of the unfunded actuarial liability that is paid each year based upon the given or defined amortization periods. The amortization periods are different under the MMO and City's Funding Policy.

D. Funding Policy

The initial July 1, 1985 unfunded actuarial liability ("UAL") is amortized over 34 years ending June 30, 2019 with payments increasing at 3.3% per year, the assumed payroll growth. Other charges in the actuarial liability are amortized in level-dollar payments as follows:

- Actuarial gains and losses – 20 years beginning July 1, 2009. Prior gains and losses were amortized over 15 years.
- Assumptions changes – 15 years beginning July 1, 2010. Prior changes were amortized over 20 years.
- Plan changes for active members – 10 years.
- Plan changes for inactive members – 1 year.
- Plan changes mandated by the State – 20 years.

In fiscal year 2015, the City and other employers' contributions of $577.2 million was less than the actuarially determined employer contribution (ADEC) of $798.0 million. In the event that the City contributes less than the funding policy, an experience loss will be created that will be amortized in accordance with funding policy over 20 years.

The Schedule of Employer Contributions (based on the City's Funding Policy) is included as Required Supplemental Information and provides a 10-year presentation of employer contributions.

E. Minimum Municipal Obligation

For the purposes of the MMO under Act 205 reflecting the fresh start amortization schedule, the July 1, 2009 UAL was "fresh started" to be amortized over 30 years ending June 30, 2039. This is a level dollar amortization of the UAL. All future amortization periods will follow the City's Funding Policies as outlined above. In fiscal year 2015, the City and other employers' contributions of $577.2 million exceeded the Minimum Municipal Obligation of $556.0 million.

The Schedule of Employer Contributions (based on the MMO Funding Policy) is included as Required Supplemental Information and provides a 10-year presentation of employer contributions.

NOTE 16: PENSION PLAN (CONTINUED)

F. Investments

The Pension Board's Investment Policy Statement provides, in part:

The overall investment objectives and goals should be achieved by use of a diversified portfolio, with safety of principal a primary emphasis. The portfolio policy should employ flexibility by prudent diversification into various asset classes based upon the relative expected risk-reward relationship of the asset classes and the expected correlation of their returns.

The Fund seeks an annual total rate of return of not less than 7.80% over a full market cycle. It is anticipated that this return standard should enable the Fund to meet its actuarially assumed earnings projection (currently 7.80%) over a market cycle. The investment return assumption was reduced by the Board from 7.85% to 7.80%. The Fund's investment program will pursue its afore-stated total rate of return by a combination of income and appreciation, relying upon neither exclusively in evaluating a prospective investment for the Fund.

All investments are made only upon recommendation of the Fund's Investment Committee and approval by a majority of the Pension Board.

In order to document and communicate the objectives, restrictions, and guidelines for the Fund's investment staff and investments, a continuously updated Investment Policy Statement will be maintained. The Investment Policy Statement will be updated (and re-affirmed) each year at the January Board meeting.

The following was the Board's approved asset allocation policy as of June 30, 2015:

Asset Class	Target Allocation
US Equity	19.0%
Non-US Equity – Developed	15.0%
Non-US Equity – Emerging	6.0%
Fixed Income – Investment Grade	6.5%
Fixed Income – Non-Investment Grade	15.0%
Fixed Income – BDCs	2.0%
Real Assets – Private Real Estate	2.0%
Real Assets – MLP's	5.0%
Real Assets – Private Energy	2.0%
Private Equity	12.0%
Private Debt	7.5%
Hedge Funds	6.0%
Cash & Other	2.0%
Total	100.0%

NOTE 16: PENSION PLAN (CONTINUED)

F. Investments (Continued)

Money Weighted Rate of Return: For the year ended June 30, 2015, the annual money-weighted of return on pension plan investments, net of pension plan investment expense, was 0.934%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for changing amounts actually invested.

G. Benefits

The Public Employees Retirement System provides retirement, disability, and death benefits according to the provisions of Title 22 of the Philadelphia Code. These provisions prescribe retirement benefit calculations, vesting thresholds, and minimum retirement ages, that vary based on bargaining unit, uniform/non-uniform status, and entry date into the System.

Non-uniform employees may retire at either age 55 with up to 80% of average final compensation ("AFC") or may retire at either age 60 with up to 100% or 25% of AFC, depending on entry date into the System. Uniform employees may retire at either age 45 with up to 100% of AFC or age 50 with up to either 100% or 35% of AFC, depending on entry date into the System. Survivorship selections may result in an actuarial reduction to the calculated benefit.

Members may qualify for service-connected disability benefits regardless of length of service. Service-connected disability benefits are equal to 70% of a member's final rate of pay, and are payable immediately without an actuarial reduction. These applications require approval by the Board.

Eligibility to apply for non-service-connected disability benefits varies by bargaining unit and uniform/non-uniform status. Non-service connected disability benefits are determined in the same manner as retirement benefits, and are payable immediately.

Service connected death benefits are payable to:

1) surviving spouse/life partner at 60% of final rate of pay plus up to 2 children under age 18 at 10% each of final rate of pay (maximum payout: 80%);

2) if no surviving spouse/life partner, up to 3 children under age 18 at 25% each of final rate of pay (maximum payout 75%); or

3) if no surviving spouse/life partner or children under age 18, up to 2 surviving parents at 15% each of final rate of pay (maximum payout 30%).

Non-service connected deaths are payable as a lump sum payment, unless the deceased was either vested or had reached minimum retirement age for their plan, in which case the beneficiary(s) may instead select a lifetime monthly benefit, payable immediately with an actuarial reduction.

NOTE 16: PENSION PLAN (CONTINUED)

G. Benefits (Continued)

A Pension Adjustment Fund ("PAF") is funded with 50% of the excess earnings that are between 1% and 6% above the actuarial assumed earnings rate. Each year within sixty days of the end of the fiscal year, by majority vote of its members, the Board of Directors of the Fund (the "Board") shall consider whether sufficient funds have accumulated in the PAF to support an enhanced benefit distribution (which may include, but is not limited to, a lump sum bonus payment, monthly pension payment increases, ad-hoc cost-of-living adjustments, continuous cost-of-living adjustments, or some other form of increase in benefits as determined by the Board) to retirees, their beneficiaries and their survivors. As of July 1, 2014, the date of the most recent actuarial valuation, there was $62,439,228 in the PAF and the Board voted to make distributions of $32,174,056 during the fiscal year ended June 30, 2015.

The Fund includes a Deferred Retirement Option Plan (DROP Plan). The DROP Plan allows a participant to declare that they will retire within 4 years. During the 4-year period, the City will make no further contributions for the participant. The participant would continue to work and to receive their salary; however, any increases would not be counted towards their pension benefit.

During the 4-year period the individual participates in the DROP Plan, their pension benefits will be paid into an escrow account in the participant's name. After the 4-year period, the participant would begin to receive their pension benefits and the amount that has been accumulated in the escrow account in a lump sum payment. The balance in the DROP Plan as of June 30, 2015 is $155.5 million.

H. Net Pension Liability

The components of the net pension liability as of June 30, 2015 were as follows:

Total Pension Liability	$10,578,457,204
Plan Fiduciary Net Position	4,674,252,000
Net Pension Liability	$ 5,904,205,204

Plan Fiduciary Net Position as a Percentage of the Total Pension Liability is 44.2%.

NOTE 16: PENSION PLAN (CONTINUED)

I. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2014, using the following actuarial assumptions, applied to all periods including the measurement period:

Actuarial Cost Method: Entry Age Normal
Investment Rate of Return: 7.80% compounded annually, net of expenses
Salary Increases: Age Based Table

* The investment return assumption was changed from 7.85% from the prior year valuation to 7.80 percent for the current year valuation.

*To recognize the expense of the benefits payable under the Pension Adjustment Fund, the actuarial liabilities have been increased 0.54%. This estimate is based on the statistical average expected value of the benefits.

*The mortality rates were based on the RP 2000 Healthy Annuitant Mortality Table for males and females with adjustments for mortality improvements using Scale AA with five years set-back for Municipal males and females and a 2 year set-back for Police and Fire males and females.

The measurement date for the net pension liability is June 30, 2015. Measurements are based on the fair value of assets as of June 30, 2015 and the Total Pension Liability as of the valuation date, July 1, 2014 updated to June 30, 2015. The roll-forward procedure included the addition of service cost and interest cost offset by actual benefit payments. There were no changes in benefits between the valuation date and the measurement date. There was an assumption change resulting from the Board's decision to reduce the discount rate from 7.85% to 7.80%.

Demographic assumptions were updated to reflect the most recent experience study (Experience Study Results and Recommendations Report, April 2014).

The pension plan's fiduciary net position has been determined on the same basis used by the pension plan.

The long-term rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

NOTE 16: PENSION PLAN (CONTINUED)

I. Actuarial Assumptions (Continued)

Best estimates of geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (see discussion of pension plan's investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
US Equity	6.95%
Non-US Equity – Developed	6.95%
Non-US Equity – Emerging	7.95%
Fixed Income – Investment Grade	2.05%
Fixed Income – Non-Investment Grade	5.20%
Real Assets – REITS	5.70%
Real Assets – Private Real Estate	8.90%
Real Assets – MLP's	7.20%
Real Assets – Private Energy	9.95%
Private Equity	9.95%
Private Debt	7.65%
Hedge Funds	6.85%
Cash & Other	1.35%

The above table reflects the expected (7-10 year) real rate of return for each major asset class. The expected inflation rate is projected 1.8% for the same time period.

The discount rate used to measure the total pension liability was 7.80 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and the participating governmental entity contributions will be made at rates equal to the difference between the actuarial determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods on project benefit payment to determine the total pension liability.

NOTE 16: PENSION PLAN (CONTINUED)

J. Sensitivity of the Collective Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the System, calculated using the discount rate of 7.80%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	1% Decrease (6.80%)	Discount Rate (7.80%)	1% Increase (8.80%)
Total Pension Liability	$ 11,627,766,325	$ 10,578,457,204	$ 9,683,791,234
Plan Fiduciary Net Position	4,674,252,000	4,674,252,000	4,674,252,000
Collective Net Pension Liability	$ 6,953,514,325	$ 5,904,205,204	$ 5,009,539,234
Plan Fiduciary Net Position as a percentage of the total pension liability	40.2%	44.2%	48.3%

K. Changes in Collective Net Pension Liability

The following table shows the changes in total pension liability (TBL), the plan fiduciary net position (i.e., fair value of the System assets) (FNP), and the net pension liability (NPL) during the measurement period ending June 30, 2015:

Change in Collective Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2014	$ 10,442,220,266	$ 4,916,705,397	$ 5,525,514,869
Changes for the Year:			
Service Cost	143,556,347	-	143,556,347
Interest	791,290,760	-	791,290,760
Change in Benefits	-	-	-
Differences Between Expected and Actual Experience	34,909,464	-	34,909,464
Changes in Assumptions	48,146,400	-	48,146,400
Contributions - Employer	-	577,195,412	(577,195,412)
Contributions - Member	-	58,657,817	(58,657,817)
Net Investment Income	-	13,837,949	(13,837,949)
Benefit Payments	(881,666,033)	(881,666,033)	-
Administrative Expense	-	(10,478,542)	10,478,542
Net Changes	136,236,938	(242,453,397)	378,690,335
Balances at June 30, 2015	$ 10,578,457,204	$ 4,674,252,000	$ 5,904,205,204

NOTE 16: PENSION PLAN (CONTINUED)

L. Employers' Proportionate Share

GASB 68 requires that the proportionate share for each employer be determined based upon the employer's projected long-term contribution effort to the pension, as compared to the total long-term contribution effort of all employers. In addition to the City, three quasi-governmental agencies currently participate in the system, PHDC, PPA, and PMA. The method of allocation is based on the ratio of quasi-governmental agency contributions in proportion to total contributions of the plan.

The following schedule presents the pension amounts for each participating employer: Philadelphia Parking Authority (PPA), Philadelphia Municipal Authority (PMA), Philadelphia Housing Development Corporation (PHDC), and the City of Philadelphia (City):

Schedule of Pension Amounts by Employer

	For the Year Ended	PPA	PMA	PHDC	City	Total
Collective Pension Expense		$ 14,945,666	$ 152,470	$ 1,571,219	$ 589,038,598	$ 605,707,953
Contribution Difference		1,212,131	6,127	84,425	(1,302,683)	-
Employer Pension Expense		16,157,797	158,597	1,655,644	587,735,915	605,707,953
Net Pension Liability	06/30/14	136,340,458	1,390,895	14,333,302	5,373,450,214	5,525,514,869
Net Pension Liability	06/30/15	145,684,531	1,486,220	15,315,633	5,741,718,820	5,904,205,204
Change in Net Pension Liability		9,344,073	95,325	982,331	368,268,606	378,690,335
Deferred Outflows	06/30/14	-	-	-	-	-
Deferred Outflows	06/30/15	12,276,927	106,529	1,161,645	340,540,743	354,085,844
Change in Deferred Outflows		12,276,927	106,529	1,161,645	340,540,743	354,085,844
Deferred Inflows	06/30/14	-	-	-	-	-
Deferred Inflows	06/30/15	-	-	-	(3,908,051)	(3,908,051)
Change in Deferred Inflows		-	-	-	(3,908,051)	(3,908,051)
Employer Contributions		19,090,652	169,801	1,834,959	556,100,000	577,195,412
Employer Pension Expense		16,157,797	158,597	1,655,644	587,735,914	605,707,952

NOTE 16: PENSION PLAN (CONTINUED)

M. Reconciliation of Net Pension Liability

The following table reconciles the Collective Net Pension Liability to the amount reported in the Statement of Net Position included in the City of Philadelphia's Comprehensive Annual Financial Report:

Reconciliation of Collective Net Pension Liability to the Primary Government Net Penison Liability

(Amounts in Thousands of USD)

Municipal Pension Fund	Porportionate Share of NPL	Discretely Presented Component Units	City and Blended Component Units
City	$ 5,741,719	$ -	$ 5,741,719
PPA (1)	145,685	145,685	-
PMA	1,485	-	1,485
PHDC (2)	15,316	15,316	-
Collective Net Pension Liability	$ 5,904,205	$ 161,001	$ 5,743,204
State Pension Fund			
PICA			1,074
City's Primary Government Net Pension Liability			$ 5,744,278

(1) PPA is not required to adopt the provisions of GASB 68 until its March 2016 financial statements.
(2) PHDC does not appear in the Component Unit Financial Statements in the City's Comprehensive Annual Financial Report due to materiality.

N. Deferred Outflows and Inflows by Employer

The following table summarizes the deferred outflows allocated to each employer for experience, assumption changes, investment returns, and contribution differences:

Schedule of Employers' Deferred Outflows

	PPA	PMA	PHDC	City	Total
Proportionate Shares	2.47%	0.03%	0.26%	97.25%	100%
Experience	$ 646,036	$ 6,591	$ 67,917	$ 25,461,555	$ 26,182,099
Assumption Changes	890,999	9,090	93,670	35,116,042	36,109,801
Investment Returns	7,103,500	72,467	746,782	279,963,145	287,885,894
Contribution Differences	3,636,393	18,382	253,276	-	3,908,051

NOTE 16: PENSION PLAN (CONTINUED)

N. Deferred Outflows and Inflows by Employer (Continued)

The following table summarizes the deferred inflows allocated to each employer for experience, assumptions changes, investment return, and contribution differences:

Schedule of Employers' Deferred Inflows

	PPA	PMA	PHDC	City	Total
Proportionate Shares	2.47%	0.03%	0.26%	97.25%	100%
Experience	$ -	$ -	$ -	$ -	$ -
Assumption Changes	-	-	-	-	-
Investment Returns	-	-	-	-	-
Contribution Differences	-	-	-	(3,908,051)	(3,908,051)

The following table shows the next amount of deferred outflows and inflows to be recognized by each participating employer in each of the next five years and the total thereafter:

Schedule of Employers' Recognition of Deferred Outflows and Inflows

For Year Ending	PPA	PMA	PHDC	City	Total
2016	$ 3,500,351	$ 29,471	$ 324,983	$ 88,880,635	$ 92,735,440
2017	3,500,351	29,471	324,983	88,880,635	92,735,440
2018	3,500,351	29,471	324,983	88,880,635	92,735,440
2019	1,775,875	18,117	186,696	69,990,785	71,971,473
2020	-	-	-	-	-
Thereafter	-	-	-	-	-
Total	$ 12,276,928	$ 106,530	$ 1,161,645	$ 336,632,690	$ 350,177,793

O. Derivative Instrument

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

NOTE 16: PENSION PLAN (CONTINUED)

O. Derivative Instrument (Continued)

The City of Philadelphia Municipal Pension Fund (Pension Fund) enters into a variety of financial contracts which include options, futures, forwards and swap agreements to gain exposure to certain sectors of the equity and fixed income markets; collateralized mortgage obligations (CMO's); other forward contracts, and U.S. Treasury strips. The contracts are used primarily to enhance performance and reduce volatility of the portfolio. The Pension Fund is exposed to credit risk in the event of non performance by counterparties to financial instruments. The Pension Fund generally enters into transactions only with high quality institutions. Legal risk is mitigated through selection of executing brokers and review of all documentation. The Pension Fund is exposed to market risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed in accordance with risk limits set by Board approved guidelines, through buying or selling instruments, or entering into offsetting positions. The notional or contractual amounts of derivatives indicate the extent of the Pension Fund's involvement in the various types and uses of derivative financial instruments and do not measure the Pension Fund's exposure to credit or market risks and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

The following table summarizes the aggregate notional or contractual amounts for the Pension Fund's derivative financial instruments at June 30, 2015:

List of Derivatives Aggregated by Investment Type

	Changes in Fair Value		Fair Value at June 30, 2015		
	Classification	Amount	Classification	Amount	Notional
Investment Derivatives					
Forward Currency Contracts	Net appreciation/(depreciation) in investments	$ 930,382	Accrued interest and other receivables	$ 691,804	$ 119,120,785
Futures	Net appreciation/(depreciation) in investments	(44,815)	Accrued interest and other liabilities	(48,339)	99
Grand Totals		$ 885,567		$ 643,465	$ 119,120,884

NOTE 16: PENSION PLAN (CONTINUED)

O. Derivative Instrument (Continued)

A Derivatives Policy Statement identifies and allows common derivative instruments and strategies, which are consistent with the Investment Policy Statement of the City of Philadelphia Municipal Pension Fund. The guidelines identify transaction-level and portfolio-level risk control procedures and documentation requirements. Managers are required to measure and monitor exposure to counterparty credit risk. All counterparties must have credit ratings available from nationally recognized rating institutions such as Moody, Fitch, and S&P. The details of other risks and financial instruments in which the Fund involves are described below:

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

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

2) ***Swap Agreements*****:** Swap agreements provide for periodic payments at predetermined future dates between parties based on the change in value of underlying securities, indexes or interest rates. During the year ended June 30, 2012 the Fund entered into interest rate swaps. Under the receive fixed interest rate type swap arrangements, the Fund receives the fixed interest rate on certain equity or debt securities or indexes in exchange for a fixed charge. There was not any total receive fixed interest Swaps this year. On its pay-variable, received-fixed interest rate swap, as LIBOR increases, the Fund's net payment on the swap increases. Alternatively, on its pay-fixed, receive-variable interest rate swap, as LIBOR or the SIFMA swap index decreases, the Fund's net payment on the swap increases.

NOTE 16: PENSION PLAN (CONTINUED)

O. Derivative Instrument (Continued)

3) ***Future Contracts***: Future contracts are types of contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specific financial instrument at a predetermined date and price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that counterparty will not pay and generally requires margin payments to minimize such risk. In addition, the Fund enters into short sales, sales of securities it does not presently own, to neutralize the market risk of certain equity positions. Initial margin requirements on futures contracts and collateral for short sales are provided by investment securities pledged as collateral and by cash held by various brokers. Although the Fund has the right to access individual pledged securities, it must maintain the amount pledged by substituting other securities for those accessed. The realized gain from Future contracts was $594,286.

4) ***Forward contracts***: The Fund is exposed to basis risk on its forward contract because the expected funds purchase being hedged will price based on a pricing point different than the pricing point at which the forward contract is expected to settle. The realized loss from Forward contracts was $4,783,826.

5) ***Termination risk***: The Fund or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, the Fund is exposed to termination risk on its receive-fixed interest rate swap. The Fund is exposed to termination risk on its rate cap because the counter-party has the option to terminate the contract if the SIFMA swap index exceeds 12 percent. If at the time of termination, a hedging derivative instrument is in a liability position, the City would be liable to the counter-party for a payment equal to the liability, subject to netting arrangements.

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

P. Summary of Significant Accounting Policies

Financial statements of the Fund are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the Fund. Investments are valued as described in Note 2H.

NOTE 17: OTHER POST EMPLOYMENT BENEFITS

A. Plan description

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

B. Funding Policy

The City funds its retiree benefits on a pay-as-you-go basis. To provide health care coverage, the City pays a negotiated monthly premium for retirees covered by union contracts and is self insured for non-union employees. For fiscal year 2015, the City paid $95.3 million for retiree healthcare.

C. Annual OPEB Cost and Net OPEB Obligation

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

	(Thousands of Dollars)
Annual Required Contribution	$ 132,092
Interest on Net OPEB Liability	9,713
Adjustment to Annual Required Contribution	(8,752)
Annual OPEB Cost	133,053
Payments Made	(95,300)
Increase in Net OPEB Obligation	37,753
Net OPEB Obligation at beginning of year	228,533
Net OPEB Obligation at end of year	$ 266,286

NOTE 17: OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

C. Annual OPEB Cost and Net OPEB Obligation (Continued)

The City of Philadelphia's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal year ended June 30, 2015 was as follows:

(Thousands of Dollars)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Contributed	Net OPEB Obligation
6/30/2015	$ 133,053	72%	$ 266,286
6/30/2014	129,318	52%	228,533
6/30/2013	114,392	50%	166,314

D. Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the City is funding OPEB on a pay as you go basis and accordingly, the unfunded actuarial accrued liability for benefits was $1.7 billion. The covered annual payroll was $1.5 billion and the ratio of the UAAL to the covered payroll was 115.8%.

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

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

E. Actuarial Methods and Assumptions

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

NOTE 17: OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

E. Actuarial Methods and Assumptions (Continued)

Costs were determined according to the individual entry age actuarial cost method with the attribution period ending at each decrement age. This is consistent with the cost method used for the City of Philadelphia Municipal Retirement System. The City uses a level percent open approach as its method of amortization. Unfunded liabilities are funded over a 30 year period as a level percentage of payroll, which is assumed to increase at a compound annual rate of 4.25% per year. The actuarial assumption included a 7.80% compound annual interest rate on the City's general investments. The current plan incorporates the following assumptions: no post-retirement benefit increases since last year; a 7.80% Investment Rate of Return, a 3.30% Rate of Salary increases; and, a 4% Ultimate Rate of Medical Inflation.

NOTE 18: CLAIMS, LITIGATION, AND CONTINGENCIES

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 Water 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, transaction, 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 Water Department 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 Water Department. As of June 30, 2015 and 2014, the aggregate estimate of loss deemed to be probable is $25.7 million and $20.3 million, respectively. This amount has been included on the Statement of Net Position under Other Long-Term Liabilities.

In addition to the above, there are other lawsuits against the Water Department in which some amount of loss is reasonably possible. The aggregate estimate of the loss, which could result if unfavorable legal determinations were rendered against the Water Department with respect to these lawsuits, is $9.2 million and $9.2 million as of June 30, 2015 and 2014, respectively.

NOTE 19: LONG TERM AGREEMENTS

The Water Department has entered into several long term agreements with third parties through the Philadelphia Municipal Authority as follows:

A. Automatic Meter Reading

In September 1997, the Water Department and the Water Revenue Bureau began the implementation of the Automatic Meter Reading Program (the "AMR Program") involving the replacement of all residential water meters with new meters equipped with radio transmitter meter reading devices ("ERT"). Installation commenced on schedule on September 11, 1997. By June 30, 2012, more than 482,841 new meters had been installed. The AMR Program significantly reduced the costs of meter reading and related support. As of June 30, 2014, more than 99.5% of the Water Department's customers have AMR meters, drastically improving the Water Department's ability to initiate and enforce collection of delinquent accounts. From 2011 through 2013, as required in the long-term meter reading contract, the service provider (ITRON) conducted battery replacement of the vast majority of customer reading endpoint devices (ERTs), thus enabling the battery capability of the existing population through 2025. The Water Department is also working on the purchase and installation of upgraded AMR devices for all commercial customers that have ERTs. The AMR Program agreement term ends in 2017. The Department has two one-year renewal options.

Under the agreement ITRON is paid a fixed amount for each monthly meter reading actually obtained. The Water Department paid ITRON, through the Philadelphia Municipal Authority ("PMA"), $1,971,888 and $1,984,362 in Fiscal Year 2015 and Fiscal Year 2014, respectively for meter reads. Additionally, the Water Department paid ITRON, through PMA, $2,158,001 and $1,809,838 in Fiscal Year 2015 and Fiscal Year 2014, respectively, for the purchase of meters.

B. Biosolids Treatment and Utilization

The City is required by Federal and Commonwealth law, administered by the U.S. Environmental Protection Agency ("EPA") and the Pennsylvania Department of Environmental Protection ("PADEP"), respectively, to treat and dispose of biosolids captured during wastewater treatment at the City's Water Pollution Control Plants ("WPCP's"). Biosolids from the three WPCP is treated at the Biosolids Recycling Center ("BRC"). The BRC had historically produced two grades of biosolids, as defined by state and federal regulations. These were Class A biosolids compost and Class B dewatered biosolids cake. Class B biosolids were used on farmlands and at mine reclamation sites and co-disposed with trash at municipal solid waste landfills. Class A compost, which was produced at the BRC until October 2007, was put to a variety of local and regional uses, including garden and horticultural applications and recreation sites.

NOTE 19: LONG TERM AGREEMENTS (CONTINUED)

B. Biosolids Treatment and Utilization (Continued)

Biosolids processing and distribution is governed at the national level by EPA regulations published at 40 CFR Part 503 regulations in February 1993 (the "Part 503 Regulations"). The Part 503 Regulations require, among other things, certain record keeping and monitoring procedures and compliance with technical standards for pathogen reduction, vector attraction reduction and pollutant limits. These regulations are self-implementing and directly enforceable, in that the EPA can initiate enforcement actions for non-compliance even in the absence of the EPA's issuance of permits under the National Pollutant Discharge Elimination System ("NPDES") permitting program. The Water Department is in full compliance with the technical standards in the Part 503 Regulations.

While the Water Department has administered a successful Class A and B biosolids program over the last 25 years, the nation has witnessed continuing health and environmental concerns raised by the public with Class B biosolids recycling. As such, in the summer of 2003, the Water Department began a process to move to an entirely Class A biosolids process, which could operate in Philadelphia without odors. It entered into a contract with the engineering consultant firm Camp, Dresser & McKee to assist with the procurement of facilities and services for Philadelphia to operate the dewatering station for 20 years and to construct new facilities to produce Class A biosolids products.

Philadelphia Biosolids Services, LLC ("PBS") submitted a proposal on November 24, 2004. PBS offered to build a pair of sludge dryers to produce Class A pellets. On June 19, 2008, City Council passed enabling legislation to allow the proposed contract with PBS to proceed. Mayor Nutter approved the contract with PBS in October 2008 and PBS has been operating the facility since October 13, 2008. The Water Department entered into a contract and lease with the Philadelphia Municipal Authority ("PMA") to operate the Water Department's existing BRC, including a dewatering station, and to construct new thermal drying facilities to produce Class A biosolids pellets. The contract term is up to 25 years, including a five-year renewal option. PMA has contracted with PBS for these services.

The contract included a provision for an interim period of up to five years, during which PBS took over operation of the existing Biosolids Recycling Center. Within the first four years, PBS financed $68,275,000 through the Pennsylvania Economic Development Finance Authority, designed, built and now owns and operates a thermal drying facility that handles all of the sludge processed by the Water Department and makes a Class A product in the form of pellets that is used as fertilizer and has potential as a fuel. PBS is responsible for the disposition of the Class A pellets, thus relieving the Water Department of this burden. The Class A period of operation will last 20 years with a five-year renewal at the option of the Water Department.

NOTE 19: LONG TERM AGREEMENTS (CONTINUED)

B. Biosolids Treatment and Utilization (Continued)

When the contract was executed, the Water Department transferred the remaining 60 employees at this facility to other assignments. Subsequently, the Water Department has also transferred to other units, certain vehicles and equipment that had been part of the existing BRC operation but were no longer needed by the contractor. At this time, most of the fixed assets associated with the facility, except for those related to the discontinued composting operations, remain in service (see Note 7).

Payments for the facility are made to PBS through PMA. Fiscal year 2012 payments totaled $21,835,872, which included partial year operation of the new Class A pellet facility. Fiscal year 2013 was the first full year of operation of the Class A facility with payments totaling $21,275,441. Fiscal year 2014 payments for the facility totaled $20,364,249. Fiscal year 2015 payments for the facility totaled $20,496,326.

C. Northeast Water Pollution Control Plant Digester Gas Cogeneration Facility

On December 23, 2011, the Department entered into a contract for the construction and leaseback of a 5.6 Megawatt digester gas (biomethane, which is a renewable energy source) cogeneration facility at the Water Department's Northeast WPCP. This project is expected to produce over 40 million kWh per year. The facility was placed into operation on December 12, 2013.

The parties to this agreement, which will bring green power to the Northeast WPCP, are the Philadelphia Water Department ("City"), Ameresco Energy ("Developer"), and Bank of America. The Developer will build the biogas combined heat and power system that runs on methane gas produced on site and incorporates a small amount of natural gas to optimize engine performance. Bank of America, the facility owner and lessor, has formed a special purpose entity "BAL Biogas 1" and the City pays a monthly fee through PMA, the lessee. The Philadelphia Water Department operates the facility. Under a separate but related agreement Ameresco Energy will maintain the equipment. The structure of the deal allows for Bank of America to apply for the IRS code section 1603 grant in lieu of tax credit under the ARRA and ITC rules that amount to 30% of the qualified cost.

In fiscal year 2015, the Water Department paid Bank of America, through PMA, lease payments of $3,467,981, maintenance fees of $1,393,590, and legal, administrative, and other miscellaneous fees of $25,000. In fiscal year 2014, the Water Department paid Bank of America, through PMA, lease payments of $2,427,767, maintenance fees of $1,291,352, and legal, administrative, and other miscellaneous fees of $54,700. Maintenance fees vary per year based on the amount of work required and is paid separately.

NOTE 19: LONG TERM AGREEMENTS (CONTINUED)

D. Laurel Street Combined Sewer Overflow

On June 7, 2011 the City of Philadelphia entered into an Amended and Restated Development and Tax and Claim Settlement Agreement (the "agreement") with Sugarhouse HSP Gaming, L.P. (HSP). In accordance with the agreement, HSP is required to fund development and expansion of the Laurel Street combined sewer overflow. In compensation for this construction, HSP is allotted a five year credit against its real estate taxes and settlement payments otherwise due to the City of Philadelphia. This credit is equal to 28 percent of the amount expended on the Laurel Street Combined Sewer Overflow project. If the credit exceeds the amount of real estate taxes and settlement payments due to the City, the credit carries over to the following year.

As the Laurel Street Combined Sewer Overflow is a capital asset of the Water Department, the Water Department is required to make payments to the General Fund of the City the amount of this credit. This credit is approximately $3.5 million per year during fiscal year 2014 through 2018. During fiscal year 2015, the Water Department made payments to the General Fund of the City totaling $7,028,842, of which $3,514,421 represents a payment for fiscal year 2014.

NOTE 20: COMBINED SEWER OVERFLOW PROGRAM

The present NPDES permits require the Water Department to implement a combined sewer overflow program. In older sections of the City, both wastewater and stormwater are conveyed in one pipe to the sewage treatment plant. This is known as a combined system. During certain rain events, the additional stormwater exceeds the capacity of the collection system and/or wastewater treatment plant and causes an overflow. The excess stormwater/wastewater mix known as combined sewer overflow ("CSO") discharges directly to local waterways. The Water Department has 164 CSO points in its collection system.

Since 1997, the Water Department has been committed to restoring the region's waterways to fishable, swimmable, and beautiful rivers and streams that are life sustaining and are an amenity to nearby communities. The PADEP and the Water Department signed a consent order and agreement dated as of June 1, 2011 ("COA") that allowed the Water Department to officially embark on the implementation of its landmark strategy known as the *Green City, Clean Waters Program*. Pursuant to the *Green City, Clean Waters Program*, the Water Department will spend approximately $2.4 billion over the next 25 years ($1.2 billion in 2009 dollars) to mitigate CSOs. The plan includes wastewater treatment facility enhancements, green infrastructure technologies, and pipe renewal and replacement.

NOTE 20: COMBINED SEWER OVERFLOW PROGRAM (CONTINUED)

The COA complies with Clean Water Act requirements by adopting the presumption approach to CSO control. The goal under the presumption approach is to eliminate or remove the mass of pollutants that otherwise would be removed by the capture of 85% by volume of the combined sewage otherwise collected in the City's combined sewer system during precipitation events. To ensure this ultimate goal is met, the COA requires that interim water quality milestones at years 5, 10, 15, and 20 of the COA. The interim milestones require the City to achieve specific targets in four categories: (1) Total Greened Acres; (2) Overflow Reduction Volume; (3) Miles of Interceptor Lined; (4) WPCP Upgrades: Design and Construction.

The COA includes financial protections in the event that the costs of complying with the COA exceed the Water Department's projections. Should COA costs increase to extent that the wastewater component of a customer's bill exceed 2.27% of the median household income the City may petition the PADEP for an extension of time to satisfy the COA so that the financial burden does not become excessive on ratepayers.

The COA also includes significant penalties for noncompliance with the 5 year milestone targets. Penalties start at $25,000 per month for each violation (for the first six months) and increase up to $100,000 per month for uncured violations of 13 months or more.

NOTE 21: PLEDGE OF REVENUES

Section 4.02 and 4.04 of the Water bond ordinance of 1989, as amended in 1993, which authorized the issuance of Water and Sewer Revenue Bonds, pledges and assigns to the Fiscal Agent for the security and payment of all bonds, a lien on and security interest in all project revenues and amounts on deposit in or standing to the credit of the: 1) Revenue Fund; 2) Sinking Fund et.al.; 3) Subordinated Bond Fund: 4) Rate Stabilization Fund; 5) Residual Fund; and 6) Construction Fund et al. The fiscal agent shall hold and apply the security interest granted in trust for the holders of bonds listed above without preference, priority, or distinction; provided however, that the pledge of this ordinance may also be for the benefit of a credit facility and qualified swap, or any other person who undertakes to provide moneys for the account of the City for the payment of principal or redemption price and interest on any series of bonds (other than subordinated bonds), on an equal and ratable basis with bonds, to the extent provided by any Supplemental Ordinance or Determination. The amount of this pledge is the equal to the remaining principal and interest outstanding on the Water and Sewer Revenue Bonds. The purpose for the debt secured by the pledge can be found in Note 14 to the financial statements.

NOTE 21: PLEDGE OF REVENUES (CONTINUED)

The following chart displays information related to the pledge as of June 30, 2015:

	Water and Sewer Revenue Bonds
Pledged Revenue Required for Principal and Interest Payments	$3,191.5 million
Term of Pledge	2046
Percentage of Revenue Pledged	100%
Current Year Pledged Revenue	$680.6 million
Current Year Principal and Interest Paid	$344.5 million

The following chart displays information related to the pledge as of June 30, 2014:

	Water and Sewer Revenue Bonds
Pledged Revenue Required for Principal and Interest Payments	$2,786.9 million
Term of Pledge	2044
Percentage of Revenue Pledged	100%
Current Year Pledged Revenue	$644.2 million
Current Year Principal and Interest Paid	$302.6 million

NOTE 22: RISK MANAGEMENT

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, Workers’ 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 is self-insured for medical benefits provided to employees in the Fraternal Order of Police, its city-administered health plan, the International Association of Fire Fighters, and District Council 47.

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

NOTE 22: RISK MANAGEMENT (CONTINUED)

At June 30, the amount of these liabilities was $353.6 million for the City. This liability is the City's best estimate based on available information. Changes in the reported liability since June 30, 2013 resulted from the following:

Amounts in Millions of USD

Fiscal Years Ending June 30	Beginning Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Liability
2013	$355.8	$101.6	$(101.3)	$356.1
2014	356.1	244.0	(250.8)	349.3
2015	349.3	296.0	(291.7)	353.6

The City's Unemployment Compensation and Workers' Compensation coverages are provided through its General Fund. Unemployment Compensation and Workers' Compensation coverages are funded by a pro rata charge to the various funds. Payments for the year were $3.1 million for Unemployment Compensation claims and $63.1 million for Workers' Compensation claims.

The City's estimated outstanding workers' compensation liabilities are $274.9 million discounted at 3.5%. On an undiscounted basis, these liabilities total $356.1 million. These liabilities include provisions for indemnity, medical and allocated loss adjustment expense (ALAE). Excluding the ALAE, the respective liabilities for indemnity and medical payments relating to workers' compensation total $247.0 million (discounted) and $321.3 million (undiscounted). The Water Department's accrued liability for workers compensation was $22.0 million and $16.8 million at June 30, 2015 and 2014, respectively.

During the last five (5) fiscal years, no claim settlements have exceeded the level of insurance coverage for operations using third party carriers. None of the City's insured losses have been settled with the purchase of annuity contracts.

NOTE 23: RESTATEMENT OF NET POSITION / CHANGE IN ACCOUNTING PRINCIPLE

In June 2015, the GASB issued Statement No. 68, "*Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*", an accounting pronouncement that revised existing standards for measuring and reporting of pension liabilities for pension plans. One of the objectives of this accounting standard is to require governmental agencies to recognize the difference between the actuarial total pension liability and the pension plan's fiduciary net position as the net pension liability on the statement of net position. In addition to the benefits earned each year, the annual pension expense will also include interest on the total pension liability and the impacts of changes in benefit terms, projected investment earnings and other plan net position changes. The adoption of this accounting standard had a material impact on recorded pension liabilities compared to the application of prior standards. As a result of this change in accounting principle, a net pension liability was established which required the beginning net position as of July 1, 2014 to be adjusted to reflect the change.

The following reconciliation provides the cumulative effect of the change in accounting principle to the net position at July 1, 2014 for the Water Department:

	(Thousands of Dollars)
Net Position – July 1, 2014 as originally stated	$ 970,483
Cumulative effect of change in accounting principle	(362,365)
Net Position – July 1, 2014 restated	$ 608,118

NOTE 24: SECURITIES LENDING

The Board of Directors of the Municipal Pension Fund (Pension Fund) have authorized management of the fund to participate in securities lending transactions. The fund has entered into a Securities Lending Agreement with its custodian bank to lend its securities to broker-dealers.

The Pension Fund lends US Government and US Government Agency securities, domestic and international equity securities, and international fixed income securities and receives cash and securities issued or guaranteed by the federal government as collateral for these loans. Securities received as collateral cannot be pledged or sold except in the case of a borrower default. Borrowers were required to deliver collateral for each loan equal to at least 102% or 105% of the market value of the loaned securities. The Pension fund has no restriction on the amount of securities that can be lent. The Pension Fund's custodian bank indemnifies the Fund by agreeing to purchase replacement securities or return cash collateral if a borrower fails to return securities or pay distributions thereon. The maturity of investments made with cash collateral generally did not match the maturity of securities loaned during the year or at year-end. The Pension Fund experienced $0.3 million in unrealized loss from securities transactions during the year and had no credit risk exposure as of June 30, 2015.

NOTE 25: SUBSEQUENT EVENT

Through December 2015, drawdowns totaling $895.4 thousand represent new loans from the Pennsylvania State Infrastructure Financing Authority ("PENNVEST") for water treatment and sewer piping replacement.

Required Supplementary Information

BUDGETARY COMPARISON SCHEDULE
Water Operating Fund
For the Fiscal Year Ended June 30, 2015
(Legally Enacted Basis) (Thousands of Dollars)

Revenues	Budgeted Amounts			Final Budget to Actual
	Original	Final	Actual	Positive (Negative)
Locally Generated Non-Tax Revenue	$ 631,671	$ 636,122	$ 640,222	$ 4,100
Revenue from Other Governments	850	1,275	1,083	(192)
Revenue from Other Funds	81,693	59,683	35,541	(24,142)
Total Revenues	**$ 714,214**	**$ 697,080**	**$ 676,846**	**$ (20,234)**
Expenditures and Encumbrances				
Personal Services	116,685	122,065	118,718	3,347
Pension Contributions	53,700	53,700	52,277	1,423
Other Employee Benefits	45,990	53,120	48,293	4,827
Sub-Total Employee Compensation	216,375	228,885	219,288	9,597
Purchase of Services	168,030	166,030	149,986	16,044
Materials and Supplies	50,072	49,752	43,967	5,785
Equipment	4,468	4,787	3,440	1,347
Contributions, Indemnities and Taxes	6,605	6,605	3,842	2,763
Debt Service	213,190	213,190	200,799	12,391
Payments to Other Funds	66,965	66,965	74,913	(7,948)
Advances and Other Miscellaneous Payments	10,509	-	-	-
Total Expenditures and Encumbrances	736,214	736,214	696,235	39,979
Operating Surplus (Deficit) for the Year	**$ (22,000)**	**$ (39,134)**	**$ (19,389)**	**$ 19,745**
Fund Balance Available, July 1, 2014	-	-	-	-
Operations in Respect to Prior Fiscal Years				
Commitments Cancelled - Net	22,000	22,000	19,389	(2,611)
Prior Period Adjustments	-	-	-	-
Adjusted Fund Balance, July 1, 2014	22,000	22,000	19,389	(2,611)
Fund Balance Available, June 30, 2015	**$ -**	**$ (17,134)**	**$ -**	**$ 17,134**

CITY OF PHILADELPHIA
OTHER POST EMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS
FISCAL YEAR ENDED JUNE 30, 2015

(Amounts in Millions of USD)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b - a)	(a / b)	(c)	(b - a) / c
City of Philadelphia Other Post Employment Benefits						
07/01/2008	-	$ 1,156.0	$ 1,156.0	0.00%	$ 1,456.5	79.37%
07/01/2009	-	1,119.6	1,119.6	0.00%	1,461.7	76.60%
07/01/2010	-	1,169.5	1,169.5	0.00%	1,419.5	82.39%
07/01/2011	-	1,212.5	1,212.5	0.00%	1,469.2	82.53%
07/01/2012	-	1,511.9	1,511.9	0.00%	1,371.6	110.23%
07/01/2013	-	1,703.6	1,703.6	0.00%	1,416.9	120.23%
07/01/2014	-	1,732.1	1,732.1	0.00%	1,495.1	115.85%

Schedule of Changes in Net Pension Liability
Fiscal Year Ending June 30, 2015 and 2014

Schedule of Changes in Net Pension Liability

	Fiscal Year Ending June 30, 2015	Fiscal Year Ending June 30, 2014
Total Pension Liability		
Service Cost (MOY)	$ 143,556,347	$ 136,986,515
Interest (Includes Interest on Service Cost)	791,290,760	774,518,750
Changes of Benefit Terms	-	-
Differences Between Expected and Actual Experience	34,909,464	-
Change of Assumptions	48,146,400	213,156,725
Benefit Payments, Including Refund of Member Contributions	(881,666,033)	(808,597,357)
Net Change in Total Pension Liability	$ 136,236,938	$ 316,064,633
Total Pension Liability - Beginning	10,442,220,266	10,126,155,633
Total Pension Liability - Ending	$ 10,578,457,204	$ 10,442,220,266
Plan Fiduciary Net Position		
Contributions - Employer	$ 577,195,412	$ 553,178,927
Contributions - Member	58,657,817	53,722,275
Net Investment Income	13,837,949	681,469,584
Benefit Payments, Including Refunds of Member Contributions	(881,666,033)	(808,597,357)
Administrative Expense	(10,478,542)	(8,291,820)
Net Change in Plan Fiduciary Net Position	$ (242,453,397)	$ 471,481,609
Plan Fiduciary Net Position - Beginning	4,916,705,397	4,445,223,788
Plan Fiduciary Net Position - Ending	$ 4,674,252,000	$ 4,916,705,397
Net Pension Liability - Ending	$ 5,904,205,204	$ 5,525,514,869
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	44.19%	47.08%
Covered-Employee Payroll	$ 1,545,499,872	$ 1,556,660,223
Net Pension Liability as a Percentage of Covered-Employee Payroll	382.03%	354.96%

Schedules of Collective Contributions - Last 10 Years

Schedule of Collective Contributions (Based on Minimum Municipal Obligation)

(Thousands of Dollars)

	FYE 2015	FYE 2014	FYE 2013	FYE 2012	FYE 2011	FYE 2010	FYE 2009	FYE 2008	FYE 2007	FYE 2006
Actuarially Determined Contribution	$ 556,030	$ 523,368	$ 491,990	$ 507,021	$ 511,000	$ 447,446	$ 438,522	$ 412,449	$ 400,256	$ 306,873
Contributions in Relation to the Actuarially Determined Contribution	577,195	553,179	781,823	555,690	470,155	312,556	455,389	426,934	432,267	331,765
Contribution Deficiency/(Excess)	$ (21,165)	$ (29,811)	$ (289,833)	$ (48,669)	$ 40,845	$ 134,890	$ (16,867)	$ (14,485)	$ (32,011)	$ (24,892)
Covered-Employee Payroll*	$ 1,545,500	$ 1,556,660	$ 1,423,417	$ 1,387,086	$ 1,410,207	$ 1,422,987	$ 1,462,451	$ 1,461,640	$ 1,351,826	$ 1,319,400
Contributions as a Percentage of Covered-Employee Payroll	37.35%	35.54%	54.93%	40.06%	33.34%	21.96%	31.14%	29.21%	31.98%	25.15%

**Covered-Employee Payroll is the total payroll reported by the City for the applicable year except for 2006, where it is the payroll used in the actuarial valuation for that year.*

Schedule of Collective Contributions (Based on Funding Policy)

(Thousands of Dollars)

	FYE 2015	FYE 2014	FYE 2013	FYE 2012	FYE 2011	FYE 2010	FYE 2009	FYE 2008	FYE 2007	FYE 2006
Actuarially Determined Contribution	$ 798,043	$ 823,885	$ 738,010	$ 722,491	$ 715,544	$ 581,123	$ 539,464	$ 536,874	$ 527,925	$ 394,950
Contributions in Relation to the Actuarially Determined Contribution	577,195	553,179	781,823	555,690	470,155	312,556	455,389	426,934	432,267	331,765
Contribution Deficiency/(Excess)	$ 220,848	$ 270,706	$ (43,813)	$ 166,801	$ 245,389	$ 268,567	$ 84,075	$ 109,940	$ 95,658	$ 63,185
Covered-Employee Payroll*	$ 1,545,500	$ 1,556,660	$ 1,423,417	$ 1,387,086	$ 1,410,207	$ 1,422,987	$ 1,462,451	$ 1,461,640	$ 1,351,826	$ 1,319,400
Contributions as a Percentage of Covered-Employee Payroll	37.35%	35.54%	54.93%	40.06%	33.34%	21.96%	31.14%	29.21%	31.98%	25.15%

**Covered-Employee Payroll is the total payroll reported by the City for the applicable year except for 2006, where it is the payroll used in the actuarial valuation for that year.*

Notes to Schedules of Collective Contributions

Valuation Date	June 30, 2013
Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation two years prior to the beginning of the plan year

Key Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry Age
Asset Valuation Method	10-year smoothed market
Amortization Method	Gain/Losses are amortized over closed 20-year periods, assumption changes over 15 years, benefit changes for actives over 10 years, benefit changes for inactives members over 1 year, plan changes mandated by the State over 20 years Under the City's Funding Policy, the initial July 1, 1985 unfunded actuarial liability (UAL) is amortized over a 34 year period ending June 30, 2019 with payments increasing 3.3% per year, the assumed payroll growth Under the MMO Funding Policy, the initial July 1, 2009 unfunded actuarial liability (UAL) was "fresh started" to be amortized over a 30 year period, ending June 30, 2039. This is a level dollar amortization of the UAL.
Discount Rate	7.85%
Amortization Growth Rate	3.30%
Salary Increases	Age based salary scale
Mortality	Sex distinct RP-2000 Combined Mortality with adjustments and improvements using Scale AA

Other Supplementary Information

BONDED DEBT FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Thousands of Dollars)

ORIGINAL AUTHORIZATION						FISCAL YEAR 2016		
							DEBT	
Series	Date	Issued	Outstanding June 30, 2015	Maturities	Interest Rates	Service Interest	Principal Requirements	Outstanding June 30, 2016
Revenue Bonds:								
Series 1997 (B)	11/25/97	100,000	60,400	8/2007 to 8/2027	Variable	26	3,500	56,900
Series 2005 (A)	05/04/05	250,000	5,810	7/2007 to 7/2035	3.250 to 5.250	145	5,810	-
Series 2005 (B)	05/04/05	86,105	51,640	8/2007 to 8/2018	Variable	1,970	16,315	35,325
Series 2007 (A)	05/04/07	191,440	89,655	8/2007 to 8/2027	4.00 to 5.00	4,183	-	89,655
Series 2007 (B)	05/04/07	153,595	151,975	11/2007 to 11/2031	4.00 to 5.00	6,913	255	151,720
Series 2009 (A)	05/21/09	140,000	140,000	1/2017 to 1/2036	5.15 to 5.25	7,294	-	140,000
Series 2010 (A)	04/15/10	396,460	202,555	6/2010 to 6/2019	0.500 to 4.110	9,572	100,160	102,395
Series 2010 (C)	08/05/10	185,000	185,000	8/2016 to 8/2030	2.530 to 4.560	9,022	-	185,000
Series 2011 (A)	11/16/11	135,000	135,000	1/2036 to 1/2041	4.50 to 5.00	6,737	-	135,000
Series 2011 (B)	11/16/11	49,855	49,855	11/2016 to 11/2026	4.00 to 5.00	2,460	-	49,855
Series 2012	11/01/12	70,370	65,005	11/2013 to 11/2028	1.00 to 5.00	3,250	-	65,005
Series 2013 (A)	08/22/13	170,000	170,000	1/2017 to 1/2043	3.00 to 5.125	8,472	-	170,000
Series 2014 (A)	01/23/14	30,000	30,000	7/2041 to 7/2043	5.00	1,500	-	30,000
Series 2014 (R)	01/23/14	93,170	93,170	7/2016 to 7/2027	3.00 to 5.00	4,494	-	93,170
Series 2015 (A)	04/16/15	275,820	275,820	7/2036 to 7/2045	5.00	9,769	-	275,820
Series 2015 (B)	04/16/15	141,740	141,740	7/2019 to 7/2035	4.00 to 5.00	4,824	-	141,740
Pennvest - 1999	04/30/00	6,700	329	7/2007 to 4/2019	1.41 to 2.73	8	83	246
Pennvest - 2009 (B)	10/14/09	28,791	22,967	7/2013 to 6/2033	1.193 to 2.107	262	2,149	20,818
Pennvest - 2009 (C)	10/14/09	41,772	33,428	7/2013 to 6/2033	1.193 to 2.107	383	2,837	30,591
Pennvest - 2009 (D)	03/31/10	71,704	60,357	7/2013 to 6/2033	1.193 to 2.107	697	4,214	56,143
Pennvest - 2010 (B)		27,742	26,503			309	1,401	25,102
Total Revenue Bonds		**2,645,264**	**$ 1,991,209**			**82,290**	**136,724**	**$ 1,854,485**
Total Bonded Debt						**$ 82,290**	**$ 136,724**	**$ 1,854,485**

ANNUAL BONDED DEBT SERVICE REQUIREMENT:

Fiscal Year	Interest	Principal	Total
2016	82,290	136,724	219,014
2017	81,419	124,705	206,124
2018	76,459	131,549	208,008
2019	72,012	86,812	158,824
2020	68,313	79,672	147,985

The First Series through the Thirteenth were refunded.

Capitalized Interest added to Construction in Progress in Fiscal 2015 was $7,685,673. Interest Expense was reduced by the same amount.

SUPPLEMENTAL SCHEDULE OF RATE COVENANT COMPLIANCE FOR FISCAL YEAR ENDED JUNE 30, 2015 (Legally Enacted Basis)

(amounts in thousands)

LINE NO.		2015
1.	Total Revenue	676,846
2.	Net Operating Expense	(426,767)
2a	Commitments Cancelled (formerly fund balance)	19,389
2b	Adjustment between Debt Service and Net Operating Expenses due to timing differences	4,470
3.	Transfer (To) From Rate Stabilization Fund	(21,456)
4.	**Net Revenues**	**252,482**
5.	Revenue Bonds Outstanding	(205,270)
6.	General Obligation Bonds Outstanding	-
7.	Pennvest Loan	-
8.	**Total Debt Service**	**(205,270)**
9.	**Net Revenue after Debt Service**	**47,212**
10.	Transfer to General Fund	-
11.	Transfer to Capital Fund	(20,705)
12.	Transfer to Residual Fund	(26,507)
13.	**Total Transfers**	**(47,212)**
14.	**Net Operating Balance for Current Year**	**-**

The rate covenant contained in the General Ordinance requires the City to establish rates and charges for the use of the Water and Wastewater Systems sufficient to yield Net Revenues, as defined therein, in each fiscal year at least equal to 120%(coverage A) of the Debt Service Requirements for such fiscal year (excluding debt service due on any Subordinated Bonds). In addition, Net Revenues, in each fiscal year, must equal at least 100%(coverage B) of : (i) the Debt Service Requirements (including Debt Service Requirements in respect of Subordinated Bonds) payable is such fiscal year; (ii) amounts required to be deposited of Subordinated Bonds payable in such fiscal year; (ii) amounts required to be deposited into the Debt Reserve Account during such fiscal year; (iii) debt service on all General Obligations Bonds issued for the Water and Wastewater Systems payable is such fiscal year; (iv) debt service payable on Interim Debt in such fiscal year; and (v) the Capital Account Deposit Amount for such fiscal year, less amounts transferred from the Residual Fund to the Capital Account during such fiscal year. To insure compliance with the rate covenant, the General Ordinance requires that the City review its rates, rents, fees, and charges at least annually.

Additional Rate Covenant. As long as the Insured Bonds are outstanding, the City covenants to establish rates and charges for the use of the System sufficient to yield Net Revenues (excluding amounts transferred from the Rate Stabilization Fund into the Revenue Fund during, or as of the end of, such fiscal year) at least equal to 90% (coverage C) of the Debt Service Requirements (excluding debt service on any Subordinated Bonds) in such fiscal year.

COVERAGE A:	
Line 4	$252,482
/ Line 5	$205,270
= COVERAGE A:	1.23

COVERAGE B:	
Line 4	$252,482
/ Line 8 + Line 11	$225,975
= COVERAGE B:	1.12

COVERAGE C:	
Line 4 - Line 3	$273,938
/ Line 5	$205,270
= COVERAGE C:	1.33

RECONCILIATION OF LEGALLY ENACTED AND GAAP BASIS OPERATING REVENUES AND EXPENSES
JUNE 30, 2015

(amounts in thousands)

Legal Basis of Accounting Revenues	
Legal Basis Revenues	676,846
GAAP Adjustments	
Reverse Fiscal Year 2014 Accounts Receivable Accrual	(38,101)
Record Fiscal Year 2015 Accounts Receivable Accrual	37,898
Additional Accounts Receivable	1,672
Additional Allowance for Doubtful Accounts	(287)
Reverse Fiscal Year 2014 Grants Receivable Accrual	(176)
Reclassification of Interest Income to Nonoperating Revenue	(985)
Total GAAP Adjustments	21
Total GAAP Basis Operating Revenues	676,867
Legal Basis of Accounting Expenses	
Legal Basis Expenses	696,235
GAAP Adjustments	
Expense in Fiscal Year 2015, included in Fiscal Year 2014 for Legal Basis	29,111
Encumbrances in Fiscal Year 2015, included in Fiscal Year 2015 for Legal Basis	(53,238)
Depreciation on Capital Assets, not included for Legal Basis	103,763
Payments among Water Department Funds, netted for GAAP Basis	(74,913)
Accrual of Probable Indemnities and Worker's Compensation Expenses	5,352
Reclassification of Transfers Out to Nonoperating Expenses	(27,355)
Allocation of Interfund Activity	6,243
Allocation of Accrued Expenses	(34)
Change in Inventory Balance as of June 30, 2015	100
Elimination of Legal Basis Net Position Adjustments	(448)
Net Pension Expense, included in GAAP Basis	1,915
Removal of Debt Service Principal Payments, included in Legal Basis	(200,799)
Net Adjustments from Capitalization of Capital Assets	(5,382)
Removal of Legal Basis Compensated Absences Expense and Reduction of Compensated Absence Liability	(328)
Amortization of Prepaid Surety Bond Insurance	172
Refund of Prior Year Expense (Capital Fund)	(103)
Total GAAP Adjustments	(215,944)
Total GAAP Basis Operating Expenses	480,291