NEW ISSUE—BOOK-ENTRY ONLY

RATINGS: Moody's: "A2"
S&P: "A+"
Fitch: "A-"
See "RATINGS" herein

In the opinion of Co-Bond Counsel, interest on the 2014 Bonds will be excluded from gross income for federal income tax purposes under existing statutes, regulations, rulings and court decisions, subject to the conditions described in "TAX MATTERS" herein. In addition, interest on the 2014 Bonds will not be treated as an item of tax preference under Section 57 of the Internal Revenue Code of 1986, as amended (the "Code"), for purposes of the individual and corporate alternative minimum taxes; however, under the Code, such interest may be subject to certain other taxes affecting corporate holders of the 2014 Bonds. Under the existing laws of the Commonwealth of Pennsylvania, interest on the 2014 Bonds will be free from Pennsylvania personal income taxation and Pennsylvania corporate net income taxation but such exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the 2014 Bonds or the interest thereon. For a more complete discussion, see "TAX MATTERS" herein.

$154,275,000
CITY OF PHILADELPHIA, PENNSYLVANIA
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2014A

Dated: Date of Delivery **Due: As shown on the inside front cover**

The City of Philadelphia, Pennsylvania (the "City"), a corporation, body politic and city of the first class existing under the laws of the Commonwealth of Pennsylvania is issuing $154,275,000 aggregate principal amount of General Obligation Refunding Bonds, Series 2014A (the "2014 Bonds") as fixed rate obligations in registered form in denominations of $5,000 and any integral multiple thereof ("Authorized Denominations"). Interest on the 2014 Bonds is payable semi-annually on January 15 and July 15 of each year, commencing July 15, 2014. The 2014 Bonds will mature on the dates and in the amounts, and bear interest from the date of delivery at the rates, all as shown on the inside front cover. Payments of principal of and interest on the 2014 Bonds will be made by U.S. Bank National Association, as Fiscal Agent, as described herein under "THE 2014 BONDS."

The 2014 Bonds are being issued for the purpose of refunding certain maturities of the City's outstanding General Obligation Bonds, Series 2008B, as more particularly described herein, and for the payment of the costs relating to the issuance of the 2014 Bonds. See "PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF FUNDS" herein.

The 2014 Bonds will be initially issued in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), which will act as securities depository for the 2014 Bonds. Purchases will be made only in book-entry form through DTC participants in Authorized Denominations, and no physical delivery of 2014 Bonds will be made to purchasers. Payments of principal, premium, if any, and interest will be made to purchasers by DTC through its participants. See "THE 2014 BONDS — Book-Entry Only System" herein.

THE 2014 BONDS ARE SUBJECT TO OPTIONAL AND MANDATORY REDEMPTION PRIOR TO MATURITY AS MORE FULLY DESCRIBED IN THIS OFFICIAL STATEMENT.

The 2014 Bonds are general obligations of the City, and the full faith, credit and taxing power of the City are pledged for the payment thereof.

This cover page contains information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement, including the Appendices, which are an integral part hereof, to obtain information essential to making an informed investment decision regarding the 2014 Bonds.

The 2014 Bonds are offered when, as and if issued by the City, subject to the approval of the legality of the issuance of the 2014 Bonds by Cozen O'Connor and Law Office of Ann C. Lebowitz, Co-Bond Counsel, both of Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the City by the City of Philadelphia Law Department and for the Underwriters by Dilworth Paxson LLP, Philadelphia, Pennsylvania and Law Offices of Joseph C. Reid, P.A., New York, New York. It is anticipated that the 2014 Bonds will be available for book-entry delivery to DTC in New York, New York on or about February 6, 2014.

Citigroup **Siebert Brandford Shank & Co., L.L.C.**

J.P. Morgan **Mesirow Financial, Inc.** **PNC Capital Markets LLC**

RBC Capital Markets **Wells Fargo Securities**

Dated: January 30, 2014

$154,275,000
City of Philadelphia, Pennsylvania
General Obligation Refunding Bonds, Series 2014A

MATURITIES, AMOUNTS, INTEREST RATES, PRICES OR YIELDS AND CUSIPS †

$111,955,000 Serial Bonds

Maturity (July 15)	Principal Amount	Interest Rate	Price	Yield	CUSIP† 717813
2014	$1,285,000	4.000%	101.676	0.200%	QA0
2015	870,000	3.000%	103.733	0.400%	QB8
2016	900,000	3.000%	105.708	0.640%	QC6
2017	925,000	3.000%	106.959	0.940%	QD4
2018	4,125,000	4.000%	111.295	1.370%	QE2
2019	4,320,000	5.000%	116.968	1.720%	QF9
2020	4,535,000	5.000%	116.991	2.160%	QG7
2021	4,770,000	5.000%	116.657	2.530%	QH5
2022	5,015,000	5.000%	116.028	2.850%	QJ1
2023	5,270,000	5.000%	115.270	3.120%	QK8
2024	5,545,000	5.000%	113.670*	3.370%*	QL6
2025	5,830,000	5.000%	112.054*	3.550%*	QM4
2026	6,130,000	5.000%	110.554*	3.720%*	QN2
2027	6,450,000	5.250%	111.122*	3.890%*	QP7
2028	6,795,000	5.250%	110.082*	4.010%*	QQ5
2029	7,160,000	5.250%	109.224*	4.110%*	QR3
2030	7,550,000	5.250%	108.459*	4.200%*	QS1
2031	7,955,000	5.250%	107.700*	4.290%*	QT9
2032	8,380,000	5.250%	107.031*	4.370%*	QU6
2033	8,835,000	5.250%	106.368*	4.450%*	QV4
2034	9,310,000	5.250%	105.955*	4.500%*	QW2

$42,320,000, 5.000% Term Bonds due July 15, 2038, Yield: 4.650%*, Price 102.758*, CUSIP† 717813QX0

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† Registered trademark of the American Bankers Association. CUSIP numbers are provided by Standard and Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of the holders of 2014 Bonds only at the time of issuance of the 2014 Bonds and the City and the Underwriters do not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the 2014 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the 2014 Bonds.

* Price/yield to first optional call date.

THE CITY OF PHILADELPHIA, PENNSYLVANIA

MAYOR
HONORABLE MICHAEL A. NUTTER

MAYOR'S CHIEF OF STAFF
Everett A. Gillison

MAYOR'S CABINET

Richard Negrin..Managing Director
Rob Dubow..Director of Finance
Shelley R. Smith..City Solicitor
Rina Cutler..Deputy Mayor of Transportation and Utilities
Alan Greenberger..........Deputy Mayor for Planning and Economic Development and Commerce Director
Donald F. Schwartz, M.D. ....Deputy Mayor for Health and Opportunity and Health Commissioner
Michael DiBerardinis..Deputy Mayor for Environmental and Community Resources
Desiree Peterkin Bell.............Director of Communications and Strategic Partnerships/City Representative
Suzanne Biemiller..First Deputy Chief of Staff
Lori A. Shorr, Ph.D..Chief Education Officer
Adel Ebeid..Chief Information Officer
Katherine Gajewski..Director of Sustainability
Teresa A. Gillen*..Director, Federal Legislative Affairs
Eva Gladstein...................Executive Director, Mayor's Office of Community Engagement & Opportunity
Amy L. Kurland..Inspector General
Joan L. Markman..Chief Integrity Officer
Michael Resnick..Director of Public Safety
Robert Murken..Director, Legislative and Government Affairs
David G. Wilson..First Deputy Managing Director
Maia Jachimowicz..Director of Policy

CITY TREASURER
Nancy E. Winkler

CITY CONTROLLER
Alan L. Butkovitz

* Ms. Gillen has announced that she is resigning from her position effective on or about February 3, 2014. The City does not intend to replace Ms. Gillen. Her duties will be assumed by Robert Murken.

This Official Statement does not constitute an offer to sell, or a solicitation of an offer to buy, any of the 2014 Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. No dealer, salesperson or any other person has been authorized by the City of Philadelphia (the "City") or the Underwriters to give any information or to make any representations, other than those contained herein, in connection with the offering of the 2014 Bonds, and, if given or made, such information or representations must not be relied upon.

This Official Statement is not to be construed as a contract or agreement among the City, the Underwriters and the purchasers or owners of any offered 2014 Bonds. The information and the opinions expressed herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the operation or financial condition of the City or in any of the other matters referred to herein since the date hereof or the date as of which particular information is given, if earlier.

No quotations from or summaries or explanations of provisions of law and documents herein purport to be complete and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact.

IN CONNECTION WITH THE OFFERING OF THE 2014 BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2014 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME WITHOUT PRIOR NOTICE. THE UNDERWRITERS MAY OFFER AND SELL THE 2014 BONDS TO CERTAIN DEALERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

THIS OFFICIAL STATEMENT CONTAINS STATEMENTS WHICH, TO THE EXTENT THEY ARE NOT RECITATIONS OF HISTORICAL FACT, CONSTITUTE FORWARD-LOOKING STATEMENTS, AS SUCH TERM IS DEFINED IN SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. IN THIS RESPECT, SUCH FORWARD-LOOKING STATEMENTS ARE IDENTIFIED BY THE USE OF THE WORDS ESTIMATE, PROJECT, ANTICIPATE, EXPECT, FORECAST, INTEND OR BELIEVE OR THE NEGATIVE THEREOF OR OTHER VARIATIONS THEREON OR COMPARABLE TERMINOLOGY. SUCH FORWARD-LOOKING INFORMATION INVOLVES IMPORTANT RISKS AND UNCERTAINTIES THAT COULD RESULT IN THE ACTUAL INFORMATION BEING SIGNIFICANTLY DIFFERENT FROM THAT EXPRESSED IN THIS OFFICIAL STATEMENT. POTENTIAL INVESTORS SHOULD SPECIFICALLY CONSIDER THE VARIOUS FACTORS WHICH COULD CAUSE ACTUAL EVENTS OR RESULTS TO DIFFER MATERIALLY FROM THOSE INDICATED BY SUCH FORWARD-LOOKING STATEMENTS. SUCH FORWARD-LOOKING STATEMENTS SPEAK ONLY AS OF THE DATE OF THIS OFFICIAL STATEMENT. THE CITY DISCLAIMS ANY OBLIGATION OR UNDERTAKING TO RELEASE PUBLICLY ANY UPDATES OR REVISIONS TO ANY FORWARD-LOOKING STATEMENT CONTAINED HEREIN TO REFLECT ANY CHANGES IN THE CITY'S EXPECTATIONS WITH REGARD THERETO OR ANY CHANGE IN EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENT IS BASED.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE CITY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE 2014 BONDS WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE ORDER AND PLACEMENT OF MATERIALS IN THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES HERETO AND THE INFORMATION INCORPORATED HEREIN BY REFERENCE, ARE NOT TO BE DEEMED TO BE A DETERMINATION OF RELEVANCE, MATERIALITY OR IMPORTANCE, AND THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES AND THE INFORMATION INCORPORATED HEREIN BY REFERENCE, MUST BE CONSIDERED IN ITS ENTIRETY. THE OFFERING OF THE 2014 BONDS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.

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OFFICIAL STATEMENT

relating to

$154,275,000
City of Philadelphia, Pennsylvania
General Obligation Refunding Bonds, Series 2014A

INTRODUCTION

General

This Official Statement, including the cover page and Appendices hereto, provides information with respect to the issuance by The City of Philadelphia, Pennsylvania (the "City") of $154,275,000 aggregate principal amount of its General Obligation Refunding Bonds, Series 2014A (the "2014 Bonds"). This introduction is a brief description of certain matters set forth in this Official Statement and is qualified by reference to the entire Official Statement, including the Appendices hereto.

Reference should be made to the material under the caption "THE 2014 BONDS" for a description of the 2014 Bonds, including the book-entry system applicable thereto. Appendix A provides information regarding the City, including relevant statutory provisions, financial information, litigation information, the relationship with the Pennsylvania Intergovernmental Cooperation Authority ("PICA"), and the City's Five-Year Plans. Appendix B contains socio-economic and demographic information about the City. Appendix C contains the Comprehensive Annual Financial Report of the City for the fiscal year ended June 30, 2012. Certain information contained herein regarding the City is for periods prior to or subsequent to June 30, 2012. As a result, certain of the information in Appendix C is, at times, at variance with corresponding information concerning the City in Appendix A. Appendix D contains the proposed form of opinion of Co-Bond Counsel with regard to the 2014 Bonds. Appendix E contains the form of Continuing Disclosure Agreement with respect to the 2014 Bonds.

The 2014 Bonds are being issued for the purpose of refunding certain maturities of the City's outstanding General Obligation Bonds, Series 2008B, as more particularly described herein, and for the payment of the costs relating to the issuance of the 2014 Bonds. See "PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF FUNDS."

Certain factors that may affect an investment decision concerning the 2014 Bonds are described throughout this Official Statement. Persons considering a purchase of the 2014 Bonds should read this Official Statement, including the cover page and Appendices, which are an integral part hereof, in its entirety. All estimates and assumptions of financial and other information are based on information currently available, are believed to be reasonable and are not to be construed as assurances of actual outcomes. All estimates of future performance or events constituting "forward-looking statements" may or may not be realized because of a wide variety of economic and other circumstances. Included in such forward-looking statements are numbers and other information from adopted and proposed budgets of the City, including the City's Twenty-Second Five-Year Plan (as defined in Appendix A). Accordingly, no assurance is given that any projected future results will be achieved.

The City's Comprehensive Annual Financial Report and other information about the City can be found at the City's website ("City Investor Website"), www.phila.gov/investor. The "Terms of Use" statement of the City Investor Website, which applies to all users of the City Investor Website, provides, among other things, that the information contained therein is provided for the convenience of the user, that the City is not obligated to update such information, and that the information may not provide all information that may be of interest to investors. The information contained on the City Investor Website does not constitute an offer to buy or sell securities, nor is it a solicitation therefor. The information contained on the City Investor Website is not incorporated by reference in this Official Statement and persons considering a purchase of the 2014 Bonds should rely only on information contained in this Official Statement or incorporated by reference herein.

The quotations from and summaries and explanations of the Constitution and laws of the Commonwealth of Pennsylvania (the "Commonwealth") and ordinances and resolutions of the City contained herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof, and all descriptions and summaries of the 2014 Bonds are qualified in their entirety by reference to the definitive form of the 2014 Bonds. Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Bond Committee Resolution (as defined herein).

THE 2014 BONDS

General

The 2014 Bonds will be dated the date of their original issuance and delivery and will bear interest at fixed rates and mature on such dates as set forth on the inside cover page of this Official Statement. Interest on the 2014 Bonds will be payable on each January 15 and July 15, commencing July 15, 2014 (each, an "Interest Payment Date"). Interest on the 2014 Bonds shall be computed on the basis of a 360-day year, consisting of twelve 30-day months.

Any interest on a 2014 Bond which is due and payable but is not punctually paid or duly provided for on an Interest Payment Date shall cease to be payable to the person in whose name such 2014 Bond is registered on the bond register ("Registered Owner") on the relevant Record Date (defined below) and such defaulted interest will be paid to the person in whose name such 2014 Bond is registered in the bond register at the close of business on a special record date which shall be fixed by U.S. Bank National Association, Philadelphia, Pennsylvania, a national banking association formed under the laws of the United States of America (the "Fiscal Agent"). The Fiscal Agent shall cause notice of the date and amount of the proposed payment of defaulted interest and the special record date therefor to be mailed to each Registered Owner of a 2014 Bond, at its respective address appearing in the bond register, not less than ten (10) days prior to the special record date. The full text of the 2014 Bonds is included in the resolution adopted by the Mayor, City Controller and City Solicitor or a majority of them (the "Bond Committee") on January 30, 2014 (the "Bond Committee Resolution"), a copy of which is on file with the Fiscal Agent. See "THE 2014 BONDS — Authorization."

The 2014 Bonds will be issued as registered bonds in denominations of $5,000 and any integral multiple thereof ("Authorized Denominations"). The 2014 Bonds are subject to redemption prior to maturity, as described herein. See "THE 2014 BONDS — Redemption Provisions."

Interest on the 2014 Bonds will be paid by check of the Fiscal Agent. The Fiscal Agent will pay such interest by check mailed to the person in whose name the 2014 Bonds are registered in the bond register maintained by the Fiscal Agent, as bond registrar, at the address appearing therein at the close of business on the January 1 or July 1 immediately preceding each Interest Payment Date (the "Record Date"). Interest is payable by wire transfer to a designated account within the continental United States upon receipt by the Fiscal Agent at least two (2) business days prior to the applicable Record Date of the written request of a Registered Owner of $1,000,000 or more aggregate principal amount of a series of 2014 Bonds. The principal of the 2014 Bonds will be payable at the designated corporate trust office of the Fiscal Agent, currently located at 50 South 16th Street, Philadelphia, Pennsylvania, upon presentation and surrender of the 2014 Bonds. While the 2014 Bonds are issued and registered in book-entry only form, interest and principal shall be payable in the manner described under the heading "Book-Entry Only System" herein.

Redemption Provisions

Optional Redemption

The 2014 Bonds, or portions thereof in integral multiples of $5,000, maturing on or after July 15, 2024 are subject to redemption prior to maturity at the option of the City, on or after January 15, 2024, either as a whole at any time or in part at any time and from time to time and, if in part, in such order of maturity as the City may direct, and within a maturity by lot or by such other method as the Fiscal Agent determines to be fair and reasonable, in each case upon payment of the principal amount of the 2014 Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption.

Each notice of optional redemption of 2014 Bonds shall be conditional and of no effect unless there are on deposit with the Fiscal Agent, as of the redemption date, sufficient funds to effect any such proposed redemption in full.

In the case of a 2014 Bond in a denomination larger than the minimum Authorized Denomination, a portion of such 2014 Bond may be redeemed, provided that the remaining portion of such 2014 Bond shall be in an Authorized Denomination.

Mandatory Redemption

The 2014 Bonds maturing on July 15, 2038 are subject to mandatory redemption prior to maturity (to the extent that 2014 Bonds of such maturity in the principal amount otherwise required to be redeemed have not been previously purchased or optionally redeemed by the City), in part, as selected by lot by the Fiscal Agent, upon payment of the principal amount thereof, together with accrued interest to the date fixed for redemption, on July 15 of the following years in the following principal amounts:

Year	Principal Amount
2035	$ 9,800,000
2036	10,305,000
2037	10,830,000
2038*	11,385,000

*Stated Maturity

In the event a portion, but not all, of the 2014 Bonds maturing on July 15, 2038 are redeemed pursuant to optional redemption or purchased by the City and presented to the Fiscal Agent for cancellation, then the principal amount of any remaining mandatory sinking fund redemptions or the final maturity applicable to such 2014 Bonds shall be reduced (subject to the ability to effect future redemptions of the 2014 Bonds in Authorized Denominations) in such amounts as specified by the City.

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Effect of Call for Redemption

On the date designated for redemption by notice given as herein provided, the 2014 Bonds so called for redemption shall become and be due and payable at the redemption price provided for redemption of such 2014 Bonds on such date plus accrued interest, if any, to such date. If, on the date fixed for redemption, moneys for payment of the redemption price and accrued interest are held by the Fiscal Agent as provided in the Bond Committee Resolution, interest on such 2014 Bonds shall cease to accrue, and such 2014 Bonds so called for redemption shall cease to be entitled to any benefit or security under the Bond Committee Resolution except the right of Registered Owners thereof to receive payment from such moneys held by the Fiscal Agent.

Notice of Redemption

Notice of redemption identifying the 2014 Bonds to be redeemed shall be mailed by first class mail, postage prepaid, to the Registered Owners of the 2014 Bonds selected for redemption by the Fiscal Agent not less than thirty (30) nor more than sixty (60) days prior to the date fixed for redemption. Such notice shall be mailed to the respective addresses of the Registered Owners of the 2014 Bonds to be redeemed as the same shall appear in the bond register. Such notice shall be given in the name of the City, shall identify the 2014 Bonds to be redeemed by certificate number, unless all of the 2014 Bonds are being redeemed whereupon certificate numbers need not be identified, CUSIP number, date of issue, interest rate, maturity date and any other identifying information (and in the case of a partial redemption of any 2014 Bonds, the respective principal amount thereof to be redeemed and the numbers, including CUSIP number, if applicable, of the 2014 Bonds, or portions thereof, to be redeemed which may, if appropriate, be expressed in designated blocks of numbers), shall specify the redemption date, the redemption price and the Fiscal Agent's name and address, and shall state that on the redemption date, the 2014 Bonds called for redemption will be payable at the designated corporate trust office of the Fiscal Agent and that, from the date of redemption, interest will cease to accrue; provided, however, that the Registered Owners of all 2014 Bonds to be redeemed may file written waivers of notice with the Fiscal Agent and, if so waived, such 2014 Bonds may be redeemed without the requirement of written notice.

A second notice of redemption shall be mailed in the manner provided above to any Registered Owner who has not tendered the 2014 Bonds that have been called for redemption within sixty (60) days after the applicable redemption date.

Any notice mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not received by the Registered Owner. Deposit of any notice in the United States mail shall constitute constructive receipt by the Registered Owner. Failure to so mail any such notice to a Registered Owner or any defect therein shall not affect the validity of the proceedings for such redemption as to any other Registered Owner to whom proper notice has been mailed.

Each notice of redemption with respect to an optional redemption pursuant to the provisions above shall specify that, to the extent that funds on deposit with the Fiscal Agent as of the redemption date are insufficient to provide funds to effect any such proposed redemption, then such call for redemption shall be of no effect.

Transfer and Exchange

2014 Bonds may be surrendered for registration of transfer or for exchange to the Fiscal Agent, as bond registrar, duly endorsed, or accompanied by a written instrument of transfer in form and with guaranty of signature satisfactory to the bond registrar and executed by the Registered Owner or the Registered Owner's attorney-in-fact. The bond registrar is required to execute and deliver to and in the name of the designated transferee one or more new fully registered 2014 Bonds of the same maturity, in Authorized Denominations and of the same aggregate principal amount as the 2014 Bonds so surrendered. No service charge will be made for any transfer or exchange, except that the Registered Owner requesting the transfer or exchange shall be required to pay any tax or governmental charge payable in connection therewith. When the book-entry system is in effect, transfers of Beneficial Owners' interests in the 2014 Bonds will be accomplished by book entries made by DTC and, in turn, by the DTC Participants who act on behalf of the Beneficial Owners. See "Book-Entry Only System" herein.

The City and Registrar are not required to issue, transfer or exchange any 2014 Bond: (i) during a period beginning at the opening of business fifteen days before the day of the selection of 2014 Bonds to be redeemed and ending at the close of business on the day on which any notice of redemption is given; or (ii) which is selected for redemption in whole or in part.

Constitutional Debt Limit

General obligation debt of the City is of two types: (i) debt (herein called "Tax-Supported") which is subject to the limitation of the Constitution of the Commonwealth (the aggregate limit on such debt equals 13.5% of the average annual assessed value of taxable real property in the City during the ten (10) years immediately preceding the year in which debt is incurred (of which no more than 3% may be non-electoral debt)); and (ii) debt (herein called "Self-Supporting") which, having been incurred for revenue producing facilities reasonably expected to yield revenue in excess of operating expenses sufficient to pay the interest and sinking fund charges thereon, is excluded from the computation of debt for the purposes of the constitutional debt limit. The amount of such Self-Supporting general obligation debt to be so excluded must be determined by the Court of Common Pleas of Philadelphia County upon petition by the City. Self-Supporting debt is general obligation debt of the City and ranks equally in all respects with Tax-Supported general obligation debt, the only distinction being that it is not used in the calculation of the constitutional debt limit and revenues are expected to be generated by the facilities in amounts sufficient to cover their debt service. Self-Supporting debt, however, is not secured by a lien on any particular revenues. The 2014 Bonds constitute Tax-Supported debt. The issuance of the 2014 Bonds will not cause the City's indebtedness to exceed the constitutional debt limit. See "DEBT OF THE CITY" in Appendix A hereto.

As of January 1, 2014: (i) the constitutional debt limitation for Tax-Supported general obligation debt was approximately $1,669,996,000 (based upon a formula of 13.5% of the assessed value of taxable real estate within the City on a ten (10) year rolling average for the 10 year period ending with the year immediately preceding the year in which the increase in debt occurs); (ii) the City's total amount of authorized general obligation debt was $2,022,849,000, including approximately $353,766,000 of Self-Supporting debt and the legally authorized deductions shown below, which do not count against the constitutional debt limit; (iii) $1,662,083,000 of general obligation debt subject to the constitutional debt limit was authorized, and of this authorized amount, $1,435,195,000 was issued and outstanding; (iv), a balance of $587,654,000 remained authorized and unissued; and (v) after legally authorized deductions for appropriations of approximately $7,000,000 for fiscal year 2014 maturing serial bonds, there remained a balance of $7,913,000 available for future authorization and issuance.

As a result of the implementation of the City's Actual Value Initiative ("AVI"), see "REVENUES OF THE CITY−Real Property Taxes" in Appendix A, the assessed value of taxable real estate within the City will increase substantially beginning with valuations for 2014. Such increase in assessed valuation along with the change in the methodology for calculating real estate taxes under AVI will increase substantially the Constitutional debt limitation of the City for tax-supported general obligation debt starting in 2015 as the higher valuations are averaged into the formula described above over the following ten years. The increase in such Constitutional debt limitation could be more than approximately $1 billion annually over such ten-year period.

The City is also authorized to issue revenue bonds pursuant to The First Class City Revenue Bond Act of 1972. Currently, the City issues revenue bonds to support the Division of Aviation, the Water Department and the Philadelphia Gas Works. Bonds so issued are excluded for purposes of the calculation of the constitutional debt limit. See “Security” herein.

Authorization

Under Article 9, Section 12 of the Constitution of the Commonwealth and the Acts of General Assembly of the Commonwealth of June 25, 1919, P.L. 581, as amended and June 11, 1941, P.L. 113, amended December 8, 1985, P.L. 324 (together, the “Act”), the City is authorized to issue bonds to refund bonds previously issued to secure indebtedness of the City. Pursuant to the Act, the Council of the City adopted an Ordinance (Bill No. 100654) on November 18, 2010 (the “Refunding Ordinance”), which authorizes borrowings by the issuance and sale of bonds (including the 2014 Bonds) for the purpose of refunding certain general obligation bonds of the City.

The Refunding Ordinance, which was signed by the Mayor on November 22, 2010, authorizes the Bond Committee, to issue and sell on behalf of the City up to $320,000,000 aggregate principal amount (exclusive of costs of issuance, including, but not limited to, underwriters’ discount, costs of liquidity and/or credit enhancement, original issue discount or redemption premiums, if any, or similar items) of general obligation bonds of the City in one or more series, for the purpose of refunding certain general obligation bonds of the City, including the City’s General Obligation Bonds, Series 2008B. The City has previously issued $135,865,000 of refunding bonds pursuant to the Refunding Ordinance.

By the Bond Committee Resolution adopted on January 30, 2014, the Bond Committee authorized the issuance of the 2014 Bonds in the principal amount of $154,275,000, and determined the terms of the 2014 Bonds, including the interest rates and maturity dates.

Book-Entry Only System

The information set forth herein concerning The Depository Trust Company, New York, New York (“DTC”) and the book-entry system described below has been extracted from materials provided by DTC for such purpose, is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the City, the Underwriters or the Fiscal Agent. The websites referenced below are included for reference only and the information contained therein is not incorporated by reference in this Official Statement.

DTC will act as securities depository for the 2014 Bonds under a book-entry system with no physical distribution of the 2014 Bonds made to the public. The 2014 Bonds will initially be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for the aggregate principal amount of the 2014 Bonds of each maturity and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.6

million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions, in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the 2014 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2014 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2014 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2014 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2014 Bonds, except in the event that use of the book-entry system for the 2014 Bonds is discontinued.

To facilitate subsequent transfers, all 2014 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2014 Bonds with DTC and their registration in the name of Cede & Co., or such other DTC nominee does not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2014 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2014 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2014 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2014 Bonds, such as defaults and proposed amendments to the bond documents. For example, Beneficial Owners of 2014 Bonds may wish to ascertain that the nominee holding the 2014 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the bond registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2014 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2014 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the registrar as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2014 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any and interest on the 2014 Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or its agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct Participants and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct and Indirect Participants and not of DTC (or its nominee), the City or its agent subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Fiscal Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

In the event of insolvency of DTC, if DTC has insufficient securities in its custody (e.g., due to theft or loss) to satisfy the claims of its Direct Participants with respect to deposited securities and is unable by application of: (i) cash deposits and securities pledged to DTC to protect DTC against losses and liabilities; (ii) the proceeds of insurance maintained by DTC and/or its Direct Participants or Indirect Participants; or (iii) other resources, to obtain securities necessary to eliminate the insufficiency, no assurances can be given that Direct Participants will be able to obtain all of their deposited securities.

THE CITY, THE FISCAL AGENT AND THE UNDERWRITERS CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC WILL DISTRIBUTE TO ITS PARTICIPANTS OR THAT DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL DISTRIBUTE TO BENEFICIAL OWNERS OF THE 2014 BONDS (A) PAYMENTS OF THE PRINCIPAL OF, OR INTEREST ON, THE 2014 BONDS, OR (B) CONFIRMATION OF OWNERSHIP INTERESTS IN THE 2014 BONDS, OR (C) NOTICES, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SECURITIES AND EXCHANGE COMMISSION AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH ITS PARTICIPANTS ARE ON FILE WITH DTC.

NONE OF THE CITY, THE FISCAL AGENT OR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR: (A) SENDING TRANSACTION STATEMENTS; (B) MAINTAINING, SUPERVISING OR REVIEWING THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (C) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY DTC PARTICIPANT, OR BY ANY DTC PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OF, OR INTEREST ON, THE 2014 BONDS; (D) DELIVERY OR TIMELY

DELIVERY BY DTC TO ANY DTC PARTICIPANT, OR BY ANY DTC PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OF ANY NOTICE OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE BOND COMMITTEE RESOLUTION TO BE GIVEN TO HOLDERS OR OWNERS OF THE 2014 BONDS; OR (E) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF THE 2014 BONDS.

Discontinuation of Book-Entry Only System

DTC may determine to discontinue providing its service with respect to the 2014 Bonds at any time by giving notice to the Fiscal Agent and discharging its responsibilities with respect thereto under applicable law. In addition, the City may determine to discontinue the book-entry only system. In the event that the book-entry only system for the 2014 Bonds is discontinued, bond certificates will be printed and delivered to Registered Owners.

Security

The 2014 Bonds are general obligations of the City payable from taxes and other general revenues of the City. The full faith, credit and taxing power of the City are irrevocably pledged for the prompt and full payment, when due, of the principal of and interest and premium, if any, on the 2014 Bonds and all other general obligation debt of the City. See "DEBT OF THE CITY" in Appendix A. The City is also empowered by statute to issue revenue bonds and, as of December 31, 2013 had outstanding \$1,877,305,000 aggregate principal amount of Water and Wastewater Revenue Bonds, \$1,058,920,000 aggregate principal amount of Gas Works Revenue Bonds, and \$1,315,455,000 aggregate principal amount of Airport Revenue Bonds. Such revenue bonds are secured by a pledge of the revenues of the City's water and sewer system, revenues of the Philadelphia Gas Works and revenues of the City's airport system, respectively, constituting a first lien on such revenues. The City also issued certain general obligation bonds to fund water and sewer and airport facilities which have been determined to be Self-Supporting. Subject to such priority in application of revenues as is required by law for such revenue bonds and to covenants made with respect to revenue bonds, and excluding grants in aid, trust funds and sinking funds designated for application to specific purposes, all revenues and funds of the City support its general obligation debt, including the 2014 Bonds. See Appendix A for certain financial information regarding the City and Appendix C for the City's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012.

Remedies of Bondholders

Should a Registered Owner fail to receive payment of principal and interest when due and payable, a suit may be brought by such Registered Owner against the City to seek a judgment for the unpaid amount.

No writ of execution may be issued on such judgment against the real or personal property of the City, but under the Act of April 15, 1834, P.L. 537, Section 6, a judgment creditor may cause the court to issue a writ commanding the City Treasurer to cause the judgment to be paid out of any unappropriated monies of the City, and if there be no such monies, out of the first monies that shall be received for the account of the General Fund of the City. This statute was repealed by the Act of April 28, 1978, P.L. 202, effective June 27, 1980 (the "Judiciary Act Repealer Act"), which provides that general rules of the Supreme Court of Pennsylvania were to be substituted for the practice and procedure set forth in the repealed statute. Since no rules have been issued in substitution of the repealed statute, the Judiciary Act Repealer Act provides that the repealed statute shall continue in full force and effect, as part of the common law of the Commonwealth, until general rules are promulgated. Furthermore, the 1951

Philadelphia Home Rule Charter (the "Home Rule Charter") requires that, if any obligations of the City are not paid or provided for within the fiscal year in which such obligations are payable, the annual operating budget ordinance for the following fiscal year shall provide for discharging the resulting deficit.

The rights and remedies of bondholders could be limited by the provisions of Chapter 9 of the United States Bankruptcy Code, which permits, under prescribed circumstances, a public agency or instrumentality of a state to file a petition for relief, in the nature of an adjustment in the repayment of debts, in a bankruptcy court of the United States, other reorganization and insolvency proceedings, and general principles of equity, whether asserted in a proceeding at law or in equity.

The Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class, Act No. 1991-6, approved June 5, 1991 (the "PICA Act"), prohibits the City from filing a petition for relief under Chapter 9 of the United States Bankruptcy Code as long as PICA has outstanding any bonds issued pursuant to the PICA Act. As of the close of business on November 30, 2013, the principal amount of PICA bonds outstanding was $409,280,000. If no such bonds were outstanding, the PICA Act requires approval in writing by the Governor of the Commonwealth for a filing under Chapter 9 by the City. If the provisions of the PICA Act relating to the authorization by the Governor for the City to file a petition under Chapter 9 of the United States Bankruptcy Code were invoked, such provisions could limit the enforcement of bondholders' rights and remedies. See "SUMMARY FINANCIAL INFORMATION — Pennsylvania Intergovernmental Cooperation Authority" and "DEBT OF THE CITY — PICA Bonds" in Appendix A herein.

PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF FUNDS

The City will use the proceeds of the 2014 Bonds to (i) advance refund the City's outstanding General Obligation Bonds, Series 2008B maturing on July 15 of the years 2018, 2023, 2028 and 2038, currently outstanding in the principal amount of $142,920,000 (such bonds being refunded are referred to herein as the "Refunded Bonds"); and (ii) pay the costs of issuing the 2014 Bonds.

A portion of the proceeds of the 2014 Bonds will be deposited in an escrow fund established under an Escrow Deposit Agreement dated as of February 6, 2014 between the City and U.S. Bank National Association, as escrow agent, invested in United States Treasury securities, and applied to the payment of the interest on and redemption price of the Refunded Bonds to and including July 15, 2016, which is the date fixed for redemption of the Refunded Bonds. See "VERIFICATION" herein.

Set forth below is a summary of the estimated sources and uses of funds for the 2014 Bonds.

Sources	
Principal Amount	$154,275,000
Original Issue Premium	12,837,492
TOTAL	$167,112,492
Uses	
Deposit to Escrow Fund for the Refunded Bonds	$165,891,169
Costs of Issuance*	1,221,323
TOTAL	$167,112,492

*Includes legal fees, underwriters' discount, printing costs, rating agency fees, fiscal agent fees, financial advisor fees, verification agent fee, and other closing costs and expenses.

FISCAL YEAR DEBT SERVICE REQUIREMENTS

Set forth below is the schedule of the City's fiscal year debt service payments on Tax-Supported and Self-Supporting Debt, including the 2014 Bonds, in each fiscal year of the City ending June 30.

Period Ending June 30	Debt Service on the 2014 Bonds	Current Annual General Obligation Debt Service(1)(2)(3)	Aggregate General Obligation Debt Service
2014		$ 121,286,473	$121,286,473
2015	$ 8,568,364	122,033,964	130,602,327
2016	8,567,388	118,977,451	127,544,839
2017	8,570,838	118,876,957	127,447,795
2018	8,568,463	118,666,751	127,235,214
2019	11,672,088	115,454,365	127,126,452
2020	11,676,588	113,974,410	125,650,997
2021	11,670,213	103,740,566	115,410,779
2022	11,672,588	103,391,772	115,064,360
2023	11,672,963	104,275,629	115,948,591
2024	11,670,838	104,102,054	115,772,891
2025	11,675,463	103,853,535	115,528,997
2026	11,676,088	96,373,644	108,049,732
2027	11,677,088	96,080,554	107,757,641
2028	11,674,525	96,480,274	108,154,799
2029	11,671,844	66,797,761	78,469,605
2030	11,670,525	79,642,747	91,313,272
2031	11,674,388	79,743,512	91,417,899
2032	11,672,381	79,822,548	91,494,929
2033	11,668,588	40,920,431	52,589,019
2034	11,671,694	26,132,050	37,803,744
2035	11,670,388	10,021,775	21,692,162
2036	11,671,000	10,021,125	21,692,125
2037	11,673,375	10,016,775	21,690,150
2038	11,670,000	10,017,925	21,687,925
2039	11,669,625	10,020,313	21,689,938
2040		10,018,900	10,018,900
2041		10,021,413	10,021,413
2042		10,020,413	10,020,413
TOTALS(4)	**$279,397,295**	**$2,090,786,086**	**$2,370,183,381**

(1) For outstanding bonds as of July 31, 2013; amounts include Tax-Supported and Self-Supporting debt.
(2) Reflects the refunding of the Refunded Bonds.
(3) Assumes interest rate to be fixed swap rate on hedged variable rate bonds.
(4) Totals may not add due to rounding.

UNDERWRITING

The 2014 Bonds are being purchased by the Underwriters named on the cover page of this Official Statement, for whom Citigroup Global Markets Inc. is acting as the representative, subject to certain terms and conditions set forth in a Bond Purchase Contract between the City and the Underwriters, at a purchase price of $166,400,739.37, which reflects the par amount of the 2014 Bonds, plus original issue premium of $12,837,492.15, less an underwriters' discount of $711,752,78. The 2014 Bonds are offered for sale to the public at prices set forth on the inside front cover page of this Official Statement. The 2014 Bonds may be offered and sold to certain dealers (including the Underwriters and other dealers depositing 2014 Bonds into investment trusts) at prices lower than such offering prices, and such public offering prices may be changed from time to time by the Underwriters without prior notice.

Citigroup Global Markets Inc., an underwriter of the 2014 Bonds, has entered into a retail distribution agreement with each of TMC Bonds L.L.C. ("TMC") and UBS Financial Services Inc. ("UBSFS"). Under these distribution agreements, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement Citigroup Global Markets Inc. may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the 2014 Bonds.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the 2014 Bonds, has entered into a negotiated dealer agreement (a "Dealer Agreement") with Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Dealer Agreement (if applicable to this transaction), CS&Co. will purchase 2014 Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any 2014 Bonds that CS&Co. sells.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association ("WFBNA"). WFBNA, one of the underwriters of the 2014 Bonds, has entered into an agreement (the "Distribution Agreement") with its affiliate, Wells Fargo Advisors, LLC ("WFA"), for the distribution of certain municipal securities offerings, including the 2014 Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting compensation with respect to the 2014 Bonds with WFA. WFBNA also utilizes the distribution capabilities of its affiliates, Wells Fargo Securities, LLC ("WFSLLC") and Wells Fargo Institutional Securities, LLC ("WFIS"), for the distribution of municipal securities offerings, including the 2014 Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, WFIS, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed and may in the future perform, various investment banking services for the City for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City.

LEGALITY FOR INVESTMENT

Under the Pennsylvania Probate, Estates and Fiduciaries Code, the 2014 Bonds are authorized investments for fiduciaries, as defined in that code, within the Commonwealth. The 2014 Bonds are legal investments for Pennsylvania savings banks, banks, trust companies and insurance companies and are acceptable as security for deposits of funds of the Commonwealth.

RATINGS

Moody's Investors Service, Inc. Standard & Poor's Ratings Group and Fitch Ratings have assigned the 2014 Bonds the City's general obligation bond ratings of "A2," Stable outlook, "A+," Stable outlook, and "A-," Stable outlook, respectively.

Such ratings reflect only the view of each such credit rating agency. An explanation of the significance of each of such ratings and any outlook may only be obtained from the rating agency furnishing the same.

A rating is not a recommendation to buy, sell or hold securities. There is no assurance that any such credit rating will continue for any given period of time or that it will not be revised or withdrawn entirely by such credit rating agency if, in its judgment, circumstances so warrant. Neither the City nor the Underwriters have undertaken any responsibility to assure the maintenance of any rating. The City has agreed, in the Continuing Disclosure Agreement, to report actual rating changes on the 2014 Bonds. See "CONTINUING DISCLOSURE UNDERTAKING" herein and Appendix E. Any downward change in or withdrawal of such credit rating may have an adverse effect on the marketability or market price of the 2014 Bonds.

TAX MATTERS

Federal Tax Exemption

The Internal Revenue Code of 1986, as amended (the "Code") contains provisions relating to the tax-exempt status of interest on obligations issued by governmental entities which apply to the 2014 Bonds. These provisions include, but are not limited to, requirements relating to the use and investment of the proceeds of the 2014 Bonds and the rebate of certain investment earnings derived from such proceeds to the United States Treasury Department on a periodic basis. These and other requirements of the Code must be met by the City subsequent to the issuance and delivery of the 2014 Bonds in order for interest thereon to be and remain excludable from gross income for purposes of federal income taxation. The City has covenanted to comply with such requirements.

In the opinion of Co-Bond Counsel, interest on the 2014 Bonds will be excluded from gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions. The opinion of Co-Bond Counsel is subject to the condition that the City complies with all applicable federal income tax law requirements that must be satisfied subsequent to the issuance of the 2014 Bonds in order that interest thereon continues to be excluded from gross income. The City has covenanted to comply with all such requirements. Failure to comply with certain of such requirements could cause the interest on the 2014 Bonds to be includable in gross income retroactive to the date of issuance thereof. Interest on the 2014 Bonds is not treated as an item of tax preference under Section 57 of the Code for purposes of the individual and corporate alternative minimum taxes; however, under the

Code, to the extent that interest on the 2014 Bonds is a component of a corporate holder's "adjusted current earnings," a portion of that interest may be subject to the corporate alternative minimum tax.

Original Issue Premium

The 2014 Bonds have been sold with original issue premium. An amount equal to the excess of the initial public offering price of a 2014 Bond over its stated redemption price at maturity constitutes premium on such 2014 Bond. A purchaser of a 2014 Bond must amortize any premium over such 2014 Bond's term using constant yield principles. The amount of amortized bond premium (i) reduces the holder's basis in the 2014 Bond for purposes of determining gain or loss for federal income tax purposes upon the sale or other disposition of the 2014 Bond and (ii) is not allowed as a deduction for federal income tax purposes to the holder. Purchasers of any 2014 Bonds, whether at the time of the initial issuance or subsequent thereto, should consult their own tax advisors with respect to the determination and treatment of premium.

In addition to the matters addressed above, prospective purchasers of the 2014 Bonds should be aware that ownership of the 2014 Bonds may result in collateral tax consequences to certain taxpayers, including, but not limited to, foreign corporations, certain S corporations, recipients of social security and railroad retirement benefits, financial institutions and property or casualty insurance companies. Co-Bond Counsel expresses no opinion regarding any other federal tax consequences relating to the 2014 Bonds or the receipt of interest thereon, and prospective purchasers should consult their own tax advisors as to collateral federal income tax consequences.

No assurance can be given that amendments to the Code or other federal legislation will not be introduced and/or enacted which would cause the interest on the 2014 Bonds to be subject, directly or indirectly, to federal income taxation or adversely affect the market price of the 2014 Bonds or otherwise prevent the holders of the 2014 Bonds from realizing the full current benefit of the federal tax status of the interest thereon.

Pennsylvania Tax Matters

In the opinion of Co-Bond Counsel, under the existing laws of the Commonwealth, the interest on the 2014 Bonds is free from Pennsylvania personal income taxation and Pennsylvania corporate net income taxation, but such exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the 2014 Bonds or the interest thereon. Profits, gains or income derived from the sale, exchange or other disposition of the 2014 Bonds are subject to state and local taxation within the Commonwealth.

This summary is based on laws, regulations, rulings and decisions now in effect, all of which may change. Any change could apply retroactively and could affect the continued validity of this summary. **Prospective purchasers should consult their tax advisors about the consequences of purchasing or holding the 2014 Bonds.**

VERIFICATION

AMTEC Corporation of Avon, Connecticut and Ross & Company, PLLC (a Certified Public Accountant) of Louisville, Kentucky (together, the "Verification Agent") will deliver to the City, on or before the date of the delivery of the 2014 Bonds, its report (the "Verification Report") indicating that it has verified the mathematical accuracy of the information provided by the City and its representatives with respect to the refunding requirements of the Refunded Bonds. Included within the scope of its engagement will be a verification of (a) the mathematical accuracy of the computations of the adequacy of the cash and maturing principal of the securities to be placed in an escrow account to meet the scheduled payment of interest on the Refunded Bonds until redemption and the payment of the redemption price of the Refunded Bonds on July 15, 2016; and (b) the mathematical accuracy of the computations supporting the conclusion of Co-Bond Counsel that the 2014 Bonds are not "arbitrage bonds" under the Code and the regulations promulgated thereunder.

The verification performed by the Verification Agent will be based solely upon data, information and documents provided to the Verification Agent by the City and its representatives. The Verification Report will state that the Verification Agent has no obligation to update the Verification Report for events occurring, or data or information coming to their attention, subsequent to the date of the Verification Report.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the 2014 Bonds are subject to the approval of the legality of the issuance of the 2014 Bonds by Cozen O'Connor and Law Office of Ann C. Lebowitz, both of Philadelphia, Pennsylvania, Co-Bond Counsel. The proposed form of opinion of Co-Bond Counsel is included herein as Appendix D. Certain legal matters will be passed upon for the City by the City of Philadelphia Law Department and for the Underwriters by Dilworth Paxson LLP, Philadelphia, Pennsylvania and Law Offices of Joseph C. Reid, P.A., New York, New York.

The various legal opinions to be delivered concurrently with the delivery of the 2014 Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

NO LITIGATION

Upon delivery of the 2014 Bonds, the City of Philadelphia Law Department shall furnish an opinion, in form satisfactory to Co-Bond Counsel, to the effect, among other things, that, except for litigation which in the opinion of the City of Philadelphia Law Department is without merit and except as disclosed in the Official Statement, there is no litigation or other legal proceeding pending in any court or, to the best of its knowledge, threatened in writing to restrain or enjoin the issuance or delivery of the 2014 Bonds or challenging the validity of the proceedings of the City with respect to the authorization, issuance, sale and provision for payment of the 2014 Bonds or in any way contesting the validity or enforceability of the 2014 Bonds.

FINANCIAL ADVISORS

Public Financial Management, Inc. of Philadelphia, Pennsylvania and Acacia Financial Group, Inc. of Marlton, New Jersey are acting as co-financial advisors (together, the "Financial Advisors") to the City in connection with the issuance of the 2014 Bonds. The Financial Advisors have assisted in the preparation of this Official Statement and in other matters relating to the planning, structuring and issuance of the 2014 Bonds. They have received and reviewed but have not independently verified information in this Official Statement for accuracy or completeness (except, as to each Financial Advisor, the information in this section). Investors should not draw any conclusions as to the suitability of the 2014 Bonds from, or base any investment decisions upon, the fact that the Financial Advisors have advised the City with respect to the 2014 Bonds. The Financial Advisors' fees for this issue are contingent upon the sale and issuance of the 2014 Bonds.

The Financial Advisors are financial advisory and consulting organizations and not organizations engaged in the business of underwriting, marketing or trading of municipal securities or any other negotiable instruments.

CERTAIN RELATIONSHIPS

Dilworth Paxson LLP, co-counsel to the Underwriters, represents the City in matters unrelated to this financing.

Certain subsidiaries of Wells Fargo & Company (parent company of Wells Fargo Bank, National Association, one of the underwriters for the 2014 Bonds) have provided, from time to time, investment banking services, commercial banking services or advisory services to the City, for which they have received customary compensation. Wells Fargo & Company or its subsidiaries may, from time to time, engage in transactions with and perform services for the City in the ordinary course of their respective businesses.

The City has selected J.P. Morgan Securities LLC, one of the underwriters for the 2014 Bonds, as one of the brokers for the sale of the Philadelphia Gas Works should the City determine to proceed with such a sale. See "THE GOVERNMENT OF THE CITY OF PHILADELPHIA—Government Services" in Appendix A hereto.

CONTINUING DISCLOSURE UNDERTAKING

In order to assist the Underwriters in complying with the requirements of Rule l5c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, the City will enter into a Continuing Disclosure Agreement with Digital Assurance Certification, L.L.C., as dissemination agent for the benefit of the Registered Owners (as defined in such agreement) of the 2014 Bonds, to be dated the date of original delivery and payment for the 2014 Bonds, the form of which is annexed hereto as Appendix E.

The City has complied with its continuing disclosure undertakings for each of the past five (5) years, except that the City did not file: (i) until June 26, 2013, notice of a downgrade in September 2010 by Moody's Investor Service, Inc. of certain of the City's variable rate bonds (related to changes in the credit quality of the banks then providing credit and liquidity support for such bonds); (ii) until July 9, 2013, notice of an upgrade of the underlying credit rating in April 2012 by Standard & Poor's Ratings Group of a series of bonds issued by the Philadelphia Municipal Authority on behalf of the City; (iii) until July 9, 2013 notice of a downgrade of the credit rating in November 2011 by Standard & Poor's Ratings Group of the insurer of certain of the City's bonds; and (iv) until January 7, 2014, a notice of a correction on December 19, 2013 raising the credit rating by Standard & Poor's Ratings Group of certain of the City's variable rate bonds.

MISCELLANEOUS

This Official Statement is made available only in connection with the sale of the 2014 Bonds and may not be used in whole or in part for any other purpose. This Official Statement is not to be construed as a contract or agreement between the City, the Underwriters and the purchasers or owners of any of the 2014 Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinions and not as representations of fact. No representation is made that any of the opinions or estimates will be realized. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there is no change in the affairs of the City since the date hereof.

The attached Appendices are integral parts of this Official Statement and should be read in their entirety together with the foregoing statements.

The City makes no representations or warranties to investors as to the accuracy or timeliness of any other information available on the City Investor Website or any other website maintained by the City, nor any hyperlinks referenced therein.

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The City has authorized the execution and distribution of this Official Statement. This Official Statement has been duly executed and delivered by the following officers, constituting a majority of the Bond Committee, on behalf of the City of Philadelphia.

CITY OF PHILADELPHIA

By: /s/Michael A. Nutter
Name: Michael A. Nutter
Title: Mayor

By: /s/Alan L. Butkovitz
Name: Alan L. Butkovitz
Title: City Controller

By: /s/Shelley R. Smith
Name: Shelley R. Smith
Title: City Solicitor

Approved:

By: /s/Rob Dubow
Name: Rob Dubow
Title: Director of Finance

APPENDIX A

Government and Financial Information

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APPENDIX A

GOVERNMENT AND FINANCIAL INFORMATION

THE GOVERNMENT OF THE CITY OF PHILADELPHIA

General

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 1952, 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.

Under the Home Rule Charter, as currently in effect, there are two principal governmental entities in the City: (1) the City, which performs ordinary municipal functions as well as traditional county functions; and (2) the School District, which has boundaries coterminous with the City and has responsibility for all public primary and secondary education.

The court system in the City, consisting of Common Pleas and Municipal Courts, is part of the Commonwealth judicial system. Although judges are paid by the Commonwealth, most other court costs are paid by the City, with partial reimbursement from the Commonwealth.

Elected and Appointed Officials

The Mayor is elected for a term of four years and is eligible to succeed himself for one term. Each of the seventeen members of the City Council is also elected for a four-year term which runs concurrently with that of the Mayor. There is no limitation on the number of terms that may be served by members of the City Council. Of the members of the City Council, ten are elected from districts and seven are elected at-large, with a minimum of two of the seven representing a party or parties other than the majority party. The District Attorney and the City Controller are elected at the mid-point of the terms of the Mayor and City Council.

The City Controller's responsibilities derive from the Home Rule Charter, various City ordinances and state and federal statutes, and contractual arrangements with auditees. The City Controller must follow Generally Accepted Government Auditing Standards ("GAGAS") established by the federal Government Accountability Office (formerly known as the General Accounting Office), and GAAS, Generally Accepted Auditing Standards promulgated by the American Institute of Certified Public Accountants. As of August 22, 2013, the Office of the City Controller had 117 full time employees, 2 part time employees, and 3 interns for a total of 122 on staff. This includes 59 auditors, 22 of whom are certified public accountants.

The City Controller post-audits and reports on the City's and the School District's Comprehensive Annual Financial Reports, federal assistance received by the City and the performance of City departments. The City Controller also conducts a pre-audit program of expenditure documents required to be submitted for approval, such as invoices, payment vouchers, purchase orders and contracts. Documents are selected for audit by category and statistical basis. The Pre-Audit Division verifies that expenditures are authorized and accurate in accordance with the Home Rule Charter and other pertinent legal and contractual requirements before any moneys are paid by the City Treasurer. The Pre-Audit Technical Unit, consisting of auditing and engineering staff, inspects and audits capital project design, construction and related expenditures. Other responsibilities of the City Controller include investigation of allegations of fraud, preparation of economic reports, certification of the City's debt capacity and the capital nature and useful life of the capital projects, and opining to the Pennsylvania Intergovernmental Cooperation Authority ("PICA") on the reasonableness of the assumptions and estimates in the City's five-year financial plans.

The principal officers of the City's government appointed by the Mayor are the Managing Director of the City (the "Managing Director"), the Director of Finance of the City (the "Director of Finance"), the City Solicitor (the "City Solicitor"), the Deputy Mayor for Planning and Economic Development and Director of Commerce (the "Director of Commerce") and the Director of Communications and Strategic Partnerships & City Representative (the "City Representative"). These officials, together with the Mayor and the other members of the Mayor's cabinet, constitute the major policy-making group in the City's government.

The Managing Director, in coordination with the Deputy Mayors for Public Safety, Health and Opportunity, Transportation and Utilities, Economic Development and Environmental and Community Resources, and the Director of Commerce, is responsible for supervising the operating departments and agencies of the City that render the City's various municipal services. The Director of Commerce is charged with the responsibility of promoting and developing commerce and industry. The City Representative is the Ceremonial Representative of the City and especially of the Mayor. The City Representative is charged with the responsibility of giving wide publicity to any items of interest reflecting the activities of the City and its inhabitants, and for the marketing and promotion of the image of the City.

The City Solicitor is head of the Law Department and acts as legal advisor to the Mayor, the City Council, and all of the agencies of the City government. The City Solicitor is also responsible for all of the City's contracts and bonds, for assisting City Council, the Mayor, and City agencies in the preparation of ordinances for introduction in City Council, and for the conduct of litigation involving the City.

The Director of Finance is the chief financial and budget officer of the City and is selected from three names submitted to the Mayor by a Finance Panel. The Director of Finance is responsible for the financial functions of the City including development of the annual operating budget, the capital budget, and capital program; the City's program for temporary and long-term borrowing; supervision of the operating budget's execution; the collection of revenues through the Department of Revenue; and the oversight of pension administration as Chairperson of the Board of Pensions and Retirement. The Director of Finance is also responsible for the appointment and supervision of the City Treasurer, whose office manages the City's debt program and serves as the disbursing agent for the distribution of checks and electronic payments from the City Treasury and the management of cash resources.

The following are brief biographies of Mayor Nutter, his Chief of Staff, the Director of Finance and the City Treasurer:

Michael A. Nutter, Mayor, was sworn in for a second term on January 2, 2012 as Mayor of his hometown. Since then, Mayor Nutter has set an aggressive agenda for America's fifth largest city – devising the City's innovative school reform strategy, vowing to strengthen community policing through Philly Rising, a unique partnership between vulnerable neighborhoods and the City, and continuing to implement the nationally recognized GreenWorks Philadelphia initiative that is helping to make the City of Philadelphia become the greenest city in America. Since taking office in January 2008, Mayor Nutter has vigorously managed city government through the worst recession since the Great Depression by maintaining core services and reducing the City's spending – most notably closing a $2.4 billion gap in Philadelphia's five year plan without compromising a single police officer, fire fighter, sanitation, or health center worker. Under Mayor Nutter, municipal government has reduced energy usage by seven percent and increased alternative energy usage citywide from 2.5 to 14 percents. In June 2013, City

Council passed the Mayor Nutter's Actual Value Initiative, the City's first property assessment system overhaul, transforming it into a more fair, accurate and understandable system.

In June 2013, Mayor Nutter concluded his year-long tenure as President of the United States Conference of Mayors, which is the official non-partisan organization of almost 1,300 U.S. cities with populations of 30,000 or more. As President, Mayor Nutter represented the Conference by promoting the development of effective national urban/ suburban policy; strengthening federal-city relationships; and ensuring that federal policy meets urban needs.

Following the December 14th, 2012 shooting at Sandy Hook Elementary School, and responding to a lack of congressional action addressing gun violence, Mayor Nutter launched the Sandy Hook Principles, a corporate code of conduct designed to encourage responsible behavior among businesses involved with the gun manufacturing industry. In affiliation with the National League of Cities, Mayor Nutter also launched Cities United, an initiative aimed at creating partnerships between cities, non-profits, and other stake holders to combat violence and crime among African-American men and boys.

Born in Philadelphia and educated at the Wharton School at the University of Pennsylvania, Michael Nutter has been committed to public service since his youth in West Philadelphia. He served almost 15 years on the Philadelphia City Council, earning the reputation of a reformer, before his election as Mayor of Philadelphia. He is happily married to his wife Lisa, and a proud parent to Christian and Olivia.

Everett A. Gillison, Chief of Staff to the Mayor and Deputy Mayor for Public Safety, was appointed Chief of Staff by Mayor Nutter on October 19, 2011. Mr. Gillison has served as Deputy Mayor for Public Safety since January 7, 2008, and continues in his role as Deputy Mayor for Public Safety in addition to his role as the Mayor's Chief of Staff. Mr. Gillison previously served as a Senior Trial Lawyer for the Defender Association of Philadelphia where he worked for more than 30 years.

Rob Dubow, Director of Finance, was appointed on January 7, 2008. Prior to his appointment, Mr. Dubow was the Executive Director of PICA. He has also served as Chief Financial Officer of the Commonwealth, from 2004 to 2005 and as Budget Director for the City, from 2000 to 2004.

Nancy E. Winkler, City Treasurer, was appointed City Treasurer effective January 31, 2011. Prior to her tenure with the City, Ms. Winkler worked for over 28 years with Public Financial Management (the PFM Group), from 1990 to 2011 as Managing Director, with responsibility to manage the firm's municipal, state and authority practices in New York and Maryland.

Government Services

Municipal services provided by the City include: police and fire protection; health care; certain welfare programs; construction and maintenance of local streets, highways, and bridges; trash collection, disposal and recycling; provision for recreational programs and facilities; maintenance and operation of the water and wastewater systems (the "Water and Wastewater Systems"); the acquisition and maintenance of City real and personal property, including vehicles; maintenance of building codes and regulation of licenses and permits; maintenance of records; collection of taxes and revenues; purchase of supplies and equipment; construction and maintenance of airport facilities; and maintenance of a prison system. The City owns the assets that comprise the Philadelphia Gas Works ("PGW" or the "Gas Works"). PGW serves residential, commercial, and industrial customers in the City. PGW is operated by Philadelphia Facilities Management Corporation ("PFMC"), a non-profit corporation specifically organized to manage and operate PGW for the benefit of the City.

The City has engaged a team of legal and financial advisors, as well as brokers, to assist with a process to consider the sale of PGW to a private entity. Lazard Frères & Co. LLC is serving as financial advisor and has conducted a financial review of the proposed transaction, including an analysis of the anticipated loss to the City of the $18 million annual payment from PGW. Lazard prepared a report for the City, which was completed in October 2013 and may be viewed at http://www.exploringasale.com/wp-content/uploads/PGW-Cost-Benefit-Analysis-Oct-2013-vF.pdf. The City's brokers, J.P. Morgan Securities LLC and Loop Capital Markets LLC, are assisting the City in managing the bidding process. The City received more than 30 responses to its Request for Qualifications from potential bidders on August 30, 2013, and received indicative bids from a number of prequalified bidders on

November 1, 2013. The City has announced that a short list of bidders has been approved to continue in the process. Final bids are expected to be due in January, negotiations will follow, and the City expects to finalize the terms of any sale in February. If an agreement is reached, the sale must then be authorized by Philadelphia's City Council and approved by the Pennsylvania Public Utility Commission. No sale can be completed without providing for the defeasance of the City's outstanding Gas Works Revenue Bonds and Notes. The City is under no obligation to sell PGW.

Local Government Agencies

There are a number of significant governmental authorities and quasi-governmental non-profit corporations that also provide services within the City. Certain of these entities are comprised of governing boards, the members of which are either appointed or nominated, in whole or part, by the Mayor, while others are independent of the Mayor's appointment or recommendation.

Mayoral-Appointed or Nominated Agencies

PIDC/PAID. The Philadelphia Industrial Development Corporation ("PIDC") and its affiliate, the Philadelphia Authority for Industrial Development ("PAID"), coordinate the City's efforts to maintain an attractive business environment and to attract new businesses to the City and retain existing ones. Of the 30 members of the board of PIDC, seven are City officers or officials (the Mayor, the Director of Commerce, the President of City Council or a designee, the Chairman of the City Planning Commission, the City Solicitor, the Managing Director, and the Director of Finance), 15 are nominated jointly by the President of the Greater Philadelphia Chamber of Commerce and the Director of Commerce, and eight are nominated by the President of the Greater Philadelphia Chamber of Commerce. The five-member board of PAID is appointed by the Mayor.

PMA. The Philadelphia Municipal Authority (formerly The Equipment Leasing Authority of Philadelphia) ("PMA") was originally established for the purpose of buying equipment and vehicles to be leased to the City. PMA's powers have been expanded to include, without limitation, the construction and leasing of municipal solid waste disposal facilities, correctional facilities, and other municipal buildings. The PMA is governed by a five-member board appointed by City Council from nominations made by the Mayor.

PEA. The Philadelphia Energy Authority ("PEA") was established by the City and incorporated in 2011 for the purpose of facilitating and developing energy generation projects, facilitating and developing energy efficiency projects, the purchase or facilitation of energy supply and consumer energy education. The PEA is authorized to participate in projects on behalf of the City, other government agencies, institutions and businesses. The PEA is governed by a five-member board of energy professionals appointed by City Council from four nominations made by the Mayor and one nomination from City Council.

Redevelopment Authority. The Philadelphia Redevelopment Authority (formerly known as the Redevelopment Authority of the City of Philadelphia) (the "PRA"), supported by Federal funds through the City's Community Development Block Grant Fund and by Commonwealth and local funds, is responsible for the redevelopment of the City's blighted areas. The PRA is governed by a five-member board appointed by the Mayor and must submit its budgets to the City for review and approval.

Housing Authority. The Philadelphia Housing Authority (the "Housing Authority") is the fourth largest public housing authority in the United States and is responsible for developing and managing low and moderate income rental units and limited amounts of for-sale housing in the City. By Act 130 of 2012 ("Act 130"), the number of Board members for the Housing Authority was increased, and the method of the Board's appointment was changed. Under Act 130, the Housing Authority is to be governed by a Board of nine members appointed by the Mayor of the City, subject to the approval of City Council. New members of the Housing Authority Board were duly appointed and took office on April 26, 2013. From March 4, 2011 until April 26, 2013, the Housing Authority was under the control of the U.S. Department of Housing and Urban Development under the terms of a Co-operative Endeavor Agreement, which terminated on April 26, 2013. In March 2013, Kelvin A. Jeremiah was appointed to be the President and CEO of the Housing Authority, after having served as Interim Administrative Receiver/Interim Executive Director since June 15, 2012.

Hospitals Authority. The Hospitals and Higher Education Facilities Authority of Philadelphia (the "Hospitals Authority") assists non-profit hospitals by financing hospital construction projects. The City does not own or operate any hospitals. The powers of the Hospitals Authority have been expanded to permit the financing of construction of buildings and facilities for certain colleges and universities and other health care facilities and nursing homes. The Hospitals Authority is governed by a five-member board appointed by City Council from nominations made by the Mayor.

SEPTA. The Southeastern Pennsylvania Transportation Authority ("SEPTA"), which is supported by transit revenues and Federal, Commonwealth, and local funds, is responsible for developing and operating a comprehensive and coordinated public transportation system in the southeastern Pennsylvania region. Two of the 15 members of SEPTA's board are appointed by the Mayor and confirmed by City Council.

Convention Center Authority. The Pennsylvania Convention Center Authority (the "Convention Center Authority") constructed and maintains, manages, and operates the Pennsylvania Convention Center, which opened on June 25, 1993. The Pennsylvania Convention Center is owned by the Commonwealth and leased to the Convention Center Authority. An expansion of the Pennsylvania Convention Center was completed in March 2011. This expansion enlarged the Pennsylvania Convention Center to approximately 2,300,000 square feet with the largest contiguous exhibit space in the Northeast, the largest convention center ballroom in the East and the ability to host large tradeshows or two major conventions simultaneously. Of the 15 members of the board of the Convention Center Authority, two are appointed by the Mayor and one by each of the President and Minority Leader of City Council. The City Finance Director is an ex-officio member of the Board. The Commonwealth, the City and the Convention Center Authority have entered into an operating agreement with respect to the operation and financing of the Pennsylvania Convention Center. In June 2013, the Pennsylvania Convention Center Authority selected SMG to manage and operate the Pennsylvania Convention Center.

The School District. The School District was established by the Educational Supplement to the City's Home Rule Charter to provide free public education to the City's residents. Under the Home Rule Charter, its board is appointed by the Mayor and must submit a lump sum statement of expenditures to the City annually. Such statement is used by City Council in making its determination to authorize the levy of taxes on behalf of the School District. Certain financial information regarding the School District is included in the City's Comprehensive Annual Financial Report. It has no independent taxing powers and may levy only the taxes authorized on its behalf by the City and the Commonwealth. Under the Home Rule Charter, the School District is managed by a nine-member Board of Education appointed by the Mayor from a list supplied by an Educational Nominating Panel that is chosen by the Mayor. In some matters, including the incurrence of short-term and long-term debt, the School District is governed primarily by the laws of the Commonwealth. The School District is a separate political subdivision of the Commonwealth and the City has no property interest in or claim on any revenues or property of the School District.

The School District was declared distressed by the Secretary of Education of the Commonwealth pursuant to Section 691(c) of the Public School Code of 1949, as amended (the "School Code"), effective December 22, 2001. During a period of distress under Section 691(c) of the School Code, all of the powers and duties of the Board of Education granted under the School Code or any other law are suspended and all of such powers and duties are vested in the School Reform Commission (the "School Reform Commission") provided for under the School Code. The School Reform Commission is responsible for the operation, management and educational program of the School District during such period. It is also responsible for financial matters related to the School District. The School Code provides that the members of the Board of Education continue to serve during the time the School District is governed by the School Reform Commission, and that the establishment of the School Reform Commission shall not interfere with the regular selection of the members of the Board of Education. During the tenure of the School Reform Commission, the Board of Education will perform those duties delegated to it by the School Reform Commission. As of the date hereof, the School Reform Commission has not delegated any duties to the Board. Two of the five members of the School Reform Commission are appointed by the Mayor and three by the Governor of Pennsylvania.

Non-Mayoral-Appointed or Nominated Agencies

PICA. PICA was created on June 5, 1991 by the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (the "PICA Act"). PICA was established to provide financial assistance to cities of the first class. The City is the only city of the first class in the Commonwealth. Each of the Governor of Pennsylvania, the President pro tempore of the Pennsylvania Senate, the Minority Leader of the Pennsylvania Senate, the Speaker of the Pennsylvania House of Representatives and the Minority Leader of the Pennsylvania House of Representatives appoints one voting member of PICA's board. The Secretary of the Budget of the Commonwealth and the Director of Finance of the City serve as ex officio members of PICA's board with no voting rights. The City is required to develop an annual five-year financial plan and obtain annual approval of such five-year financial plan from PICA; the City is also required to prepare and submit quarterly reports to PICA. See "SUMMARY FINANCIAL INFORMATION" for a further discussion of PICA, its relationship to the City and its financial oversight role.

Parking Authority. The Philadelphia Parking Authority (the "Parking Authority") is responsible for the construction and operation of parking facilities in the City and at the Philadelphia International Airport and, by contract with the City, for enforcement of on-street parking regulations. The members of the Parking Authority's board are appointed by the Governor of Pennsylvania, with certain nominations from the General Assembly of the Commonwealth.

DISCUSSION OF FINANCIAL OPERATIONS

Principal Operations

The major operations of the City are conducted through the General Fund. In addition to the General Fund, operations of the City are conducted through two other major governmental funds and 12 minor governmental funds. The two major governmental funds and three of the minor governmental funds are financed solely through grants from the Commonwealth and Federal government. The City's Debt Service Fund and Capital Projects Fund are also included with the minor governmental funds. The Fiscal Year 2012 Operating Budget moved the reimbursable component of the Department of Human Services ("DHS") activities (constituting approximately 80% of DHS activities) from the General Fund to the Grants Revenue Fund.

Fund Accounting

Funds are groupings of activities that enable the City to maintain control over resources that have been segregated for particular purposes or objectives. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. The governmental funds are used to account for the financial activity of the City's basic services, such as: general government; economic and neighborhood development; public health, welfare and safety; cultural and recreational; and streets, highways and sanitation. The funds' financial activities focus on a short-term view of the inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. The financial information presented for the governmental funds is useful in evaluating the City's short term financing requirements.

The City maintains twenty-three individual governmental funds. The City's Comprehensive Annual Financial Report ("CAFR"), including for the City's Fiscal Year ended June 30, 2012, presents data separately for the General Fund, Grants Revenue Fund and Health Choices Behavioral Health Fund, which are considered to be major funds. Data for the remaining twenty funds are combined into a single aggregated presentation.

Proprietary Funds. The proprietary funds are used to account for the financial activity of the City's operations for which customers are charged a user fee; they provide both a long and short-term view of financial information. The City maintains three enterprise funds that are a type of proprietary funds - airport, water and wastewater operations, and industrial land bank.

Fiduciary Funds. The City is the trustee, or fiduciary, for its employees' pension plans. It is also responsible for PGW's employees' retirement reserve assets. Both of these fiduciary activities are reported in the City's CAFR, including for the City's Fiscal Year ended June 30, 2012, as separate financial statements of fiduciary net assets and changes in fiduciary net assets.

The City reports its financial performance on a consolidated basis including the School District of Philadelphia. The City is required by the Home Rule Charter to issue, within one hundred and twenty days after the close of each fiscal year, a statement as of the end of the fiscal year showing the balances in all funds of the City, the amounts of the City's known liabilities, and such other information as is necessary to furnish a true picture of the City's financial condition. The Annual Financial Report, which is released on or about October 28 of each year, is intended to meet these requirements and is not audited. The CAFR for each fiscal year is published at a later date. The Annual Financial Report contains financial statements for all City governmental funds and blended component units presented on the modified accrual basis. The proprietary and fiduciary funds are presented on the full accrual basis. It also contains budgetary comparison schedules for those funds that are subject to an annual budget. The financial statements of the City's discretely presented component units that are available as of the date of the Annual Financial Report are also presented. Historically these results have not changed between the Annual Financial Report and the CAFR.

See "CITY FINANCES AND FINANCIAL PROCEDURES" for a further description of these funds.

Current Financial Information

The Adopted Fiscal Year 2014 Budget (hereinafter defined), the Twenty-Second Five-Year Plan (hereinafter defined), as further revised, the Fiscal Year 2013 budget and Twenty-First Five-Year Plan (hereinafter defined) and the Quarterly City Manager's Report are discussed below. As described more fully in "CITY FINANCES AND FINANCIAL PROCEDURES-Budget Procedures" herein, annually in March the executive branch prepares a budget for the next fiscal year together with a five-year financial plan. City Council is required by the Home Rule Charter to adopt the budget at least 30 days prior to the end of the fiscal year. The City has not adopted a budget later than the end of the fiscal year in the past ten (10) years. The City Council may change the budget from that which is proposed by the executive branch. The budget and corresponding five-year plan include information and projections for the current fiscal year. Subsequent to the release of the five-year plan, the City reviews and may revise the financial projections underlying the budget and the five-year plan in its Quarterly City Manager's reports (the reports are required by the PICA Act and are released forty-five days after the end of every calendar quarter). The estimates from the Adopted Fiscal Year 2014 Budget are included in certain of the financial information with respect to the City presented herein.

Fiscal Year 2014 Adopted Budget

The City's Fiscal Year 2014 budget (the "Adopted Fiscal Year 2014 Budget") was presented to City Council on March 14, 2013, was approved by City Council on June 20, 2013 and signed by the Mayor on June 25, 2013. The Adopted Fiscal Year 2014 Budget projects estimated General Fund revenues of $3.724 billion, obligations of $3.845 billion, an operating deficit of $102.4 million (net of prior year adjustments), which results in a projected ending fund balance of $86.5 million on the legally enacted basis. The Adopted Fiscal Year 2014 Budget conforms to the Twenty-Second Five-Year Plan originally submitted to PICA, but not to the revised Twenty-Second Five-Year Plans described below. See "SUMMARY FINANCIAL INFORMATION-Five-Year Plans of the City."

Total tax revenues are estimated at $2.76 billion, an increase of $29.1 million or 1.0% over Fiscal Year 2013's unaudited actual revenues. In Fiscal Year 2014, growth is projected for all major taxes except the property tax for which no growth is assumed and the BIRT (hereinafter defined) for which negative growth is assumed given receipts in Fiscal Year 2013. The City's plan to implement the Actual Value Initiative (AVI) in Fiscal Year 2014 has been adopted. See "REVENUES OF THE CITY-Real Property Taxes." The property tax rate for Fiscal Year 2014 has been set at 1.34%; the Adopted Fiscal Year 2014 Budget assumes that, under AVI, approximately the same amount of property tax revenue will be collected in Fiscal Year 2014 as was projected for Fiscal Year 2013. The Adopted Fiscal Year 2014 Budget includes the resumption of wage tax cuts which were halted during the recession.

In the Adopted Fiscal Year 2014 Budget, total revenues increase $25.6 million, or 0.7%, largely due to the combination of the tax growth described above together with a $23 million decrease in revenue from other governments, a $1 million decrease in local non-tax revenues, and a $20 million increase in revenues from other funds of the City. The budgeted decrease in revenue from other governments is largely due to the effect of reimbursed obligations and associated revenues for DHS which were moved to the Grants Fund in Fiscal Year 2012.

Reimbursement revenues related to expenditures in prior years continued to be received in the General Fund in Fiscal Year 2013, however in Fiscal Year 2014 no additional revenue is anticipated in the General Fund budget.

Budgeted Fiscal Year 2014 expenditures total $3.845 billion, a $232 million (6.4%) increase from Fiscal Year 2013 unaudited actuals. The largest increase in expenditures is the result of an addition of a $84.7 million provision for potential labor obligations related to District Council 33, District Council 47 and IAFF Local 22. See "EXPENDITURES OF THE CITY-Overview of Current Labor Situation." Other increases are due to rising pension, employee benefit and debt service costs which account for about $69 million of this increase and an additional $20 million is due to a salary increase awarded to the Fraternal Order of Police. The remaining estimated $58 million represents a 1.6% increase.

The Twenty-Second Five-Year Plan was submitted to PICA on July 3, 2013, and revised Twenty-Second Five-Year Plans were submitted to PICA on September 3, 2013, and September 10, 2013, as described under "SUMMARY FINANCIAL INFORMATION-Five-Year Plans of the City." The revised Twenty-Second Five-Year Plan submitted to PICA on September 10, 2013, which was approved by PICA on September 17, 2013, projects a Fiscal Year 2014 ending General Fund balance of $78.5 million on the legally enacted basis and reflects the effect of the August 2013 order of the Court of Common Pleas directing the City to implement certain portions of the health care provisions of the July 2, 2012 interest arbitration award between the City and the IAFF (defined below) (the "August 2013 IAFF Order") and the IAFF Withdrawal (defined below) on the General Fund. On November 15, 2013, the City filed a further revision to the Twenty-Second Five-Year Plan which included: $2.4 million in additional costs associated with the Sheriff's Office arbitration award; incorporation of actual Fiscal Year 2013 financial results which were $33.1 million better than projected in the plan approved by PICA on September 17, 2013; a $3.6 million increase in projected State Act 205 pension aid revenue in Fiscal Year 2014; inclusion of $45 million of one-time State aid that will pass through the General Fund in Fiscal Year 2014 and be paid to the School District of Philadelphia (this change has no net impact on the General Fund); and a shift of Fire Department salary costs from a reserve for labor obligations to the personal services category. This latest revision of the Twenty-Second Five-Year Plan was approved by PICA on November 19, 2013. See "SUMMARY FINANCIAL INFORMATION-Five-Year Plans of the City" and "EXPENDITURES OF THE CITY - Overview of Current Labor Situation – IAFF."

Fiscal Year 2014 Current Estimate

The Quarterly City Manager's Report for the period ending September 30, 2013 (the "9/30/2013 QCMR") projects revenues for Fiscal Year 2014 of $3.7785 billion, obligations of $3.9405 billion, an operating deficit of $142.6 million (net of prior year adjustments) and an ending fund balance of $114.2 million on the legally enacted basis, which is $27.7 million higher than the Adopted Fiscal Year 2014 Budget.

Total Revenues is projected to be $54.9 million higher than the Adopted Fiscal Year 2014 Budget. Tax Revenues for Fiscal Year 2014 are projected to be $1.8 million lower than the Adopted Fiscal Year 2014 Budget due to a decrease in the projection for the Sales Tax. Locally Generated Non-Tax Revenues are revised upward by $8.2 million, largely the result of increased collections of Licenses & Inspections permit & license fees of $2.0 million, increased reimbursements for fuel use by local agencies of $1.0 million and higher Sheriff's fees of $4.7 million. Revenues from Other Governments are projected to be $48.6 million higher than forecasted due to higher than anticipated Pension Aid (Act 205) of $3.6 million and $45 million of one-time State aid that will pass through the General Fund in FY14 and be paid to the School District (this change has no net impact on the General Fund).

Total obligations are $95.1 million higher than the Adopted Fiscal Year 2014 Budget. The increase is the result of $0.8 million in additional costs associated with the arbitration award for Deputy Sheriffs, the addition of $49.3 million in health and legal services costs resulting from the IAFF Withdrawal (which was included in the Twenty-Second Five-Year Plan approved by PICA on November 19, 2013, and approximately $31 million of which is for retroactive payments) and the inclusion of $45 million payment to the School District as a result of additional one-time State aid.

Fiscal Year 2013 Adopted Budget

The City's Fiscal Year 2013 budget was presented to City Council on March 8, 2012, was approved by City Council on June 28, 2012, and signed by the Mayor on June 29, 2012. The process and required timing for the approval of the budget are described under "CITY FINANCES AND FINANCIAL PROCEDURES-Budget Procedures" herein. The General Fund budget projected estimated revenues of $3.568 billion, obligations of $3.604 billion, an operating deficit of $17.6 million (net of prior year adjustments) and based on an assumed Fiscal Year 2012 ending General Fund balance of $98.970 million, it projected an ending fund balance of $81.3 million on the legally enacted basis. The actual Fiscal Year 2012 ending General Fund balance was $146.754 million. The Fiscal Year 2013 budget conformed to the Twenty-First Five-Year Plan, which was submitted to PICA on July 27, 2012, resubmitted with addendum on August 9, 2012 and approved by PICA on September 5, 2012.

Fiscal Year 2013 Results (Unaudited)

The City's Annual Financial Report for Fiscal Year 2013 (unaudited), released on October 28, 2013, reported that the City had revenues of $3.698 billion, obligations of $3.613 billion and an ending fund balance of a positive $256.9 million on the legally enacted basis.

Actual revenues for Fiscal Year 2013 were $130.3 million higher than the Fiscal Year 2013 adopted budget, primarily driven by taxes which were $119 million higher than the Fiscal Year 2013 adopted budget and actual obligations which were $9.4 million higher than the Fiscal Year 2013 adopted budget, resulting in a higher operating surplus of $110.1 million (net of prior year adjustments) and an ending fund balance of $256.9 million on a legally enacted (budgetary) basis.

Fiscal Year 2012 Budget

The City's Fiscal Year 2012 budget was presented to City Council on March 3, 2011, was approved by City Council on June 23, 2011, and signed by the Mayor on June 24, 2011. The budget projected estimated revenues of $3.503 billion, obligations of $3.470 billion, an operating surplus of $57.1 million and an ending fund balance of $60.6 million on the legally enacted basis. The Fiscal Year 2012 budget conformed to the Twentieth Five-Year Plan (hereinafter defined) which was submitted to PICA on July 7, 2011, and approved by PICA on July 26, 2011.

For several years, the financial position of the City's General Fund had been distorted by the timing of the receipt of reimbursements from the Commonwealth for DHS. For a variety of reasons, those reimbursements had not been received in the same year as the costs were incurred. As a result, the costs were reflected in the City's fund balances, but the reimbursements were not, leading to fund balances that were distorted and artificially low. In some years, the late receipt of reimbursements led to changes of tens of millions of dollars in the City's fund balance.

The Fiscal Year 2012 budget moved reimbursed costs and corresponding revenues for services provided by DHS of approximately $495.1 million to the Grants Revenue Fund. As a result of this change the City's General Fund balance better reflects the City's financial condition.

Fiscal Year 2012 Results

The City's CAFR for the Fiscal Year ended June 30, 2012 (the "Fiscal Year 2012 CAFR"), released on February 21, 2013, reported that the City had revenues of $3.591 billion, obligations of $3.485 billion and an ending fund balance of a positive $146.8 million on the legally enacted basis.

Fiscal Year 2011 Results

The CAFR for Fiscal Year 2011, released on February 24, 2012, reported that the City had revenues of $3.860 billion, obligations of $3.785 billion and an ending fund balance of a positive $0.1 million after discharging the Fiscal Year 2010 fund balance deficit on the legally enacted basis. These figures were unchanged from the City's Annual Financial Report for Fiscal Year 2011, released on October 28, 2011. The City's Fiscal Year 2011 budget was signed by the Mayor on June 1, 2010. The budget projected estimated revenues of $3.909 billion, obligations of

$3.853 billion, an operating surplus of $80.5 million and an ending fund balance of $42.6 million after discharging the Fiscal Year 2010 fund balance deficit on the legally enacted basis. The budget included a 9.9% Real Estate Tax increase. The Nineteenth Five-Year Plan (hereinafter defined) was approved by PICA on August 10, 2010.

Overview of City Response to Economic Downturn

Between October of 2008 and December 2011, the City implemented significant actions to balance the budget and its five-year plans, including reducing overtime costs, reducing General Fund full- and part-time employee headcount by 1,652 (from December 31, 2008 to December 31, 2011), implementing a temporary five year sales tax increase (expiring June 30, 2014) and a 9.9% Real Estate Tax increase in Fiscal Year 2011, pension funding changes, freezing City funded and business privilege tax reductions until Fiscal Year 2014, increasing fees, and instituting spending cuts throughout the government. During this period of time, the City improved its public safety results due to important changes in policing and has largely maintained delivery of its services.

The City undertook these measures as a result of the impact of the national and global recession. Beginning in August 2008, the City began to experience adverse budgetary performance for Fiscal Year 2009 as a result of the recession. In November 2008, the City projected a gap of at least $1 billion over the five-year period of the Seventeenth Five-Year Plan (covering Fiscal Years 2009-2013) (the "Seventeenth Five-Year Plan"), and the City took a series of measures to close the projected gap for Fiscal Year 2009 and over the period of the Seventeenth Five-Year Plan. However, the economy deteriorated further and revenues declined at a greater pace than had been projected, leaving the City with a Fiscal Year 2009 operating deficit of $286.8 million resulting in a deficit of $236.8 million after prior year net adjustments of $41.8 million and a cumulative adjusted year-end General Fund balance deficit of $137.2 million. Tax receipts continued to display weakness in Fiscal Year 2010, increasing the projected gap for both Fiscal Year 2010 and the period of the Eighteenth Five-Year Plan. In total during the six-year period of Fiscal Years 2009-2014, the projected shortfall reached $2.4 billion. As a result of a number of steps outlined herein, in Fiscal Year 2010, the City had a cumulative adjusted year-end General Fund balance deficit of $114.0 million, in Fiscal Year 2011, the City had a cumulative adjusted year-end General Fund balance surplus of approximately $92,000, and in Fiscal Year 2012, the City had a cumulative adjusted year-end General Fund balance surplus of approximately $146.8 million. The Annual Financial Report for Fiscal Year 2013 (unaudited), released on October 28, 2013, reports a cumulative adjusted year-end General Fund balance surplus of $256.9 million. See also "CITY FINANCES AND FINANCIAL PROCEDURES -- Budget Stabilization Reserve."

Current City Practices

It is the City's practice to file its CAFR, which contains the audited combined financial statements of the City, in addition to certain other information such as the City's bond ratings and information about upcoming debt issuances with the Municipal Securities Rulemaking Board ("MSRB") as soon as practicable after delivery of such report. The Fiscal Year 2012 CAFR was deposited with the MSRB on February 24, 2013, through the MSRB's Electronic Municipal Market Access (EMMA) system. The CAFR is prepared by the Director of Finance of the City in conformance with guidelines adopted by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants' audit guide, Audits of State and Local Government Units. Upon written request to the Office of the Director of Finance and payment of the costs of duplication and mailing, the City will make available copies of the Fiscal Year 2012 CAFR. Such a request should be addressed to: Office of the Director of Finance, Municipal Services Building, Suite 1300, 1401 John F. Kennedy Boulevard, Philadelphia, Pennsylvania 19102. The Fiscal Year 2012 CAFR is also available online at the City's Investor Information website: http://www.phila.gov/investor (the "City's Investor Website"), further described below, and is also attached hereto as APPENDIX C.

The Home Rule Charter requires the Director of Finance to issue within 120 days after the close of each Fiscal Year a statement as of the end of that year showing the balances in all funds of the City, the amounts of the City's known liabilities and such other information as is necessary to furnish a true picture of the City's financial condition. To meet this requirement, on or about October 28 of each year, the Director of Finance releases the Annual Financial Report for the prior Fiscal Year (available at the City's Investor Website). It is not audited; the audited financial statements of the City are contained in the CAFR, described above. The Annual Financial Report contains financial statements for all City governmental funds and blended component units presented on the modified accrual basis. The proprietary and fiduciary funds are presented on the full accrual basis. It also contains budgetary comparison schedules for those funds that are subject to an annual budget.

The City's Quarterly City Manager's Reports are also available at the City's Investor Website and are released within 45 days of the end of the applicable quarter.

The "Terms of Use" statement of the City's Investor Website, which applies to all users of the City's Investor Website, provides, among other things, that the information contained therein is provided for the convenience of the user, that the City is not obligated to update such information, and that the information may not provide all information that may be of interest to investors. The information contained on the City Investor Website does not constitute an offer to buy or sell securities, nor is it a solicitation therefor. The information contained on the City Investor Website is not incorporated by reference in this Official Statement and persons considering a purchase of the 2014 Bonds should rely only on information contained in this Official Statement or incorporated by reference herein.

The foregoing statement as to filing or furnishing of additional information reflects the City's current practices, but is not a contractual obligation to the holders of the City's bonds or notes.

The City also expects to provide financial and other information from time to time to Moody's Investors Service, Inc., Standard & Poor's Ratings Services and Fitch Ratings, in connection with the securities ratings assigned by those rating agencies to bonds or notes of the City.

CITY FINANCES AND FINANCIAL PROCEDURES

Except as otherwise noted, the financial statements, tables, statistics, and other information shown below have been prepared by the Office of the Director of Finance and can be reconciled to the financial statements in the City's CAFR and notes therein.

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

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

Revenue that is considered to be program revenue includes: (1) charges to customers or applicants for goods received, services rendered or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program specific revenues; therefore, all taxes are considered general revenues.

The City's financial statements reflect the following three funds as major Governmental Funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in other funds.
- The Health Choices Behavioral Health Fund accounts for resources received from the Commonwealth. These resources are restricted to providing managed behavioral health care to residents of the City.

- The Grants Revenue Fund accounts for the resources received from various federal, state and private grantor agencies. The resources are restricted to accomplishing the various objectives of the grantor agencies.

In Fiscal Year 2012, the City transferred the majority of DHS revenues and obligation to the Grants Revenue Fund.

The City also reports on Permanent Funds, which are used to account for resources legally held in trust for use by the park and library systems of the City. There are legal restrictions on the resources of the Permanent Funds that require the principal to remain intact, while only the earnings may be used for the programs.

The City reports on the following Fiduciary Funds:

- The Municipal Pension Fund accumulates resources to provide pension benefit payments to qualified employees of the City and certain other quasi-governmental organizations.
- The Philadelphia Gas Works Retirement Reserve Fund accounts for contributions made by PGW to provide pension benefit payments to its qualified employees under its noncontributory pension plan.

The City reports on the following major Proprietary Funds:

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

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

Legal Compliance

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

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

The City's capital budget is adopted annually by City Council. The capital budget is appropriated by project for each department. Requests to transfer appropriations between projects must be approved by City Council. Any appropriations that are not obligated at year-end are either lapsed or carried forward to the next fiscal year.

Schedules prepared on the legally enacted basis differ from the GAAP basis in that both expenditures and encumbrances are applied against the current budget, adjustments affecting activity budgeted in prior years are accounted for through fund balance or as reduction of expenditures and certain interfund transfers and reimbursements are budgeted as revenues and expenditures. The primary difference between the GAAP and legal (budgetary) fund balance is due to the timing of recognizing the Business Income and Receipts Tax ("BIRT"). The legal basis recognizes BIRT revenues in the fiscal year it is collected. The GAAP basis requires the City to recognize the BIRT revenues (which are primarily paid in April) for the calendar year in which the BIRT taxes are due, requiring the City to defer a portion of the April payment into the next fiscal year.

Budget Procedure

At least 90 days before the end of the Fiscal Year the operating budget for the next Fiscal Year is prepared by the Mayor and must be submitted to City Council for adoption. The budget, as adopted, must be balanced and provide for discharging any estimated deficit from the current Fiscal Year and make appropriations for all items to be funded with City revenues. The Mayor's budgetary estimates of revenues for the ensuing Fiscal Year and projection of surplus or deficit for the current Fiscal Year may not be altered by City Council. Not later than the passage of the operating budget ordinance, City Council must enact such revenue measures as will, in the opinion of the Mayor, yield sufficient revenues to balance the budget.

At least 30 days before the end of each Fiscal Year, City Council must adopt by ordinance an operating budget and a capital budget for the ensuing Fiscal Year and a capital program for the six ensuing years. If the Mayor disapproves the bill, he must return it to City Council with the reasons for his disapproval at the first meeting thereof held not less than ten days after he receives it. If the Mayor does not return the ordinance within the time required, it becomes law without his approval. If City Council passes the bill by a vote of two-thirds of all of its members within seven days after the bill has been returned with the Mayor's disapproval, it becomes law without his approval. The capital program is prepared annually by the City Planning Commission to present the capital expenditures planned for each of the six ensuing Fiscal Years, including the estimated total cost of each project and the sources of funding (local, state, Federal, and private) estimated to be required to finance each project. The capital program is reviewed by the Mayor and transmitted to City Council for adoption with his recommendation thereon. See Table 33 for a summary of the City's capital improvement program for the Fiscal Years 2014 through 2019.

The capital budget ordinance, authorizing in detail the capital expenditures to be made or incurred in the ensuing Fiscal Year from City Council appropriated funds, is adopted by City Council concurrently with the capital program. The capital budget must be in full conformity with that part of the capital program applicable to the Fiscal Year that it covers.

Budget Stabilization Reserve

In April 2011, the City adopted an Amendment to the Home Rule Charter adding the following language to Section 7 thereof ("Budget Stabilization Reserve"), in addition to directions for implementation.

> (a) The annual operating budget ordinance shall provide for appropriations to a Budget Stabilization Reserve, to be created and maintained by the Director of Finance as a separate fund which shall not be commingled with any other funds of the City. Appropriations to the Budget Stabilization Reserve shall, each year, be made in the following amounts, provided that total appropriations to the Budget Stabilization Reserve shall not exceed five percent of General Fund Appropriations:
>
> > (1) Such amounts as remain unencumbered in the Budget Stabilization Reserve from the prior fiscal year, including any investment earnings certified by the Director of Finance; plus
> >
> > (2) When the Projected General Fund Balance for the end of the fiscal year to which the operating budget relates (the "upcoming fiscal year"), without taking into account any deposits to the Budget Stabilization Reserve required by this subsection (2), equals or exceeds three percent (3%) of General Fund appropriations for the upcoming fiscal year, an amount equal to three-

quarters of one percent (.75%) of Unrestricted Local General Fund Revenues for the upcoming fiscal year; plus

(3) Such additional amounts as the Council shall authorize by ordinance, no later than at the time of passage of the annual operating budget ordinance and only upon recommendation of the Mayor.

Since the enactment of such Budget Stabilization Reserve provisions in 2011, three City budgets have been presented by the Mayor; no budget ordinance has included a provision to fund the Budget Stabilization Reserve as described in paragraph (a)(2) above because the applicable projected year ending General Fund balances did not exceed the 3% General Fund appropriation threshold described in paragraph (a)(2) above.

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SUMMARY FINANCIAL INFORMATION

Tables 1 and 2 below should be read in conjunction with the discussion concerning financial procedures of the City described under "CITY FINANCES AND FINANCIAL PROCEDURES."

Table 1
General Fund
Summary of Operations (Legal Basis)
(Amounts in Millions of USD)

	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Actual[4] 2012	Unaudited Actual[5] 2013	Adopted Budget[6] 2014	Current Estimate[7] 2014
Revenues										
Real Property Taxes[1]	395.8	397.5	402.8	400.1	402.2	482.7	500.7	540.5	536.6	536.6
Wage and Earnings Tax	1,111.2	1,167.4	1,184.8	1,117.0	1,114.2	1,134.3	1,196.3	1,221.5	1,274.1	1,274.1
Net Profits Tax	14.6	15.3	12.5	12.2	14.5	8.8	15.1	19.2	12.8	12.8
Business Privilege Tax	415.5	436.4	398.8	386.0	364.7	376.9	389.4	450.9	410.0	410.0
Sales Tax[2]	127.8	132.6	137.3	128.2	207.1	244.6	253.5	257.6	272.6	270.8
Other Taxes[3]	304.1	286.7	260.3	209.3	213.9	211.8	215.4	243.7	256.5	256.5
Total Taxes	2,369.0	2,435.9	2,396.5	2,252.8	2,316.6	2,459.1	2,570.4	2,733.5	2,762.6	2,760.8
Locally Generated Non-Tax Revenue	235.9	247.9	265.8	256.3	229.4	280.0	256.7	266.2	265.2	273.3
Revenue from Other Governments[8]	924.5	1,032.9	1,033.4	993.4	1,076.4	1,066.5	715.9	651.5	628.6	677.1
Receipts from Other City Funds[8]	24.9	27.4	27.2	135.4	31.9	54.6	48.3	46.8	67.2	67.2
Total Revenue	3,554.3	3,744.1	3,722.8	3,637.9	3,654.3	3,860.3	3,591.4	3,698.0	3,723.6	3,778.5
Obligations/Appropriations										
Personnel Services	1,250.2	1,327.6	1,390.7	1,406.3	1,358.5	1,360.4	1,319.0	1,362.4	1,401.3	1,449.6
Purchase of Services	1,065.7	1,151.6	1,188.7	1,174.2	1,111.4	1,127.8	760.8	757.8	790.6	790.6
Materials, Supplies and Equipment	82.1	89.1	92.1	82.7	68.7	78.3	79.9	85.4	88.6	88.6
Employee Benefits	760.2	890.3	983.0	973.2	831.4	967.0	1,066.3	1,119.1	1,177.3	1,226.6
Indemnities, Contributions and Grants	110.9	119.0	120.9	130.0	128.0	111.1	118.0	138.3	141.7	186.7
City Debt Service	82.9	89.1	87.2	100.9	105.5	110.4	111.3	118.9	129.5	129.5
Other[9]	38.6	31.2	32.3	22.7	26.0	0.0	0.0	0.0	84.7	37.2
Payments to Other City Funds	35.4	38.7	24.8	25.3	24.2	30.3	29.5	31.4	31.6	31.6
Total Obligations/Appropriations	3,426.0	3,736.6	3,919.8	3,915.3	3,653.7	3,785.3	3,484.9	3,613.3	3,845.4	3,940.5
Operating Surplus (Deficit) for the Year	128.2	7.5	(197.0)	(277.4)	0.6	75.0	106.4	84.7	(121.8)	(162.0)
Net Adjustments – Prior Year	30.1	35.9	18.6	20.7	22.6	39.1	40.3	25.4	19.4	19.4
Funding for Contingencies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cumulative Fund Balance Prior Year	96.2	254.5	297.9	119.5	(137.2)	(114.0)	0.1	146.8	188.9	256.9
Cumulative Adjusted Year End Fund Balance (Deficit)	254.5	297.9	119.5	(137.2)	(114.0)	0.1	146.8	256.9	86.5	114.3

(1) Actual 2011 reflects a 9.9% increase. See "Revenues of the City – Assessment and Collection of Real and Personal Property Taxes" herein. The Twenty-First Five-Year Plan included a Real Estate Tax increase of 3.6% (8.2% on the City portion) in Fiscal Year 2013. The increased revenue generated by such increase was transferred to the School District.
(2) Reflects 1% increase effective October 8, 2009 and expiring June 30, 2014. See "REVENUES OF THE CITY-Sales and Use Tax."
(3) Includes Real Estate Transfer Tax, Parking Tax, Amusement Tax, and Other Taxes.
(4) The reduction in Revenue from Other Governments (State and Federal funding) in Fiscal Year 2012 is largely the result of transferring the majority of DHS revenues and obligations to the Grants Revenue Fund.
(5) From the Annual Financial Report for Fiscal Year 2013 (unaudited) issued on 10/28/2013.
(6) From the estimates for the Adopted Fiscal Year 2014 Budget. Does not conform to the revised Twenty-Second Five-Year Plan approved by PICA.
(7) From the 9/30/2013 QCMR.
(8) State gaming revenues are reported as a Receipt from Other City Funds in Fiscal Year 2009 and as Revenue from Other Governments in Fiscal Years 2010, 2011, 2012, 2013 and 2014.
(9) Other for Fiscal Year 2014 includes a provision for funding a portion of the "final offer" associated with District Council 33, a future settlement for District Council 47 and a future IAFF Arbitration Award. See "EXPENDITURES OF THE CITY−Overview of Current Labor Situation."

Source: City of Philadelphia Department of Finance.
Figures may not add up due to rounding.

Table 2
Principal Operating Funds (Debt Related)
Summary of Operations (Legal Basis)
(Amounts in Millions of USD)

	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Actual[5] 2012	Unaudited Actual [6] 2013	Adopted Budget[7] 2014	Current Estimate[8] 2014
Revenues										
General Fund	3,554.3	3,744.1	3,722.8	3,637.9	3,654.3	3,860.3	3,591.4	3,698.0	3,723.6	3,778.5
Water Fund[1]	490.3	519.7	589.7	543.5	546.7	567.5	592.5	611.4	688.1	674.2
Aviation Fund[2]	271.5	268.6	287.9	294.1	290.2	304.8	299.2	304.6	414.5	358.6
Other Operating Funds[3]	41.9	44.9	113.2	49.5	50.1	48.1	48.3	55.7	55.4	55.4
Total Revenue	4,358.0	4,577.3	4,713.6	4,525.0	4,541.3	4,780.7	4,531.3	4,669.7	4,881.6	4,866.7
Obligations/Appropriations										
Personnel Services	1,412.9	1,498.2	1,568.9	1,579.0	1,523.6	1,525.0	1,484.3	1,534.9	1,590.8	1,631.9
Purchase of Services	1,233.5	1,328.5	1,441.4	1,369.2	1,312.8	1,344.2	1,001.4	1,005.3	1,086.4	1,060.7
Materials, Supplies and Equipment	136.2	145.9	151.1	140.7	128.9	135.2	140.0	147.4	166.8	163.4
Employee Benefits	845.3	990.1	1,095.8	1,091.4	932.8	1,092.2	1,196.0	1,266.3	1,329.6	1,378.9
Indemnities, Contributions and Taxes	116.5	122.6	127.1	135.9	134.4	118.7	123.0	145.3	156.5	198.4
Debt Service[4]	337.6	348.8	346.7	384.8	397.8	398.4	406.9	429.4	470.7	462.4
Other [9]	38.6	31.2	32.3	22.7	24.2	0.0	0.0	0.0	99.6	51.1
Payments to Other City Funds	119.4	144.9	154.7	88.1	98.5	101.3	113.3	165.5	132.8	122.9
Total Obligations/ Appropriations	4,240.0	4,610.2	4,917.9	4,811.8	4,553.0	4,715.0	4,465.0	4,694.2	5,033.4	5,069.7
Operating Surplus (Deficit) for the Year	118.0	(32.8)	(204.3)	(286.8)	(11.6)	65.7	66.4	(24.5)	(151.7)	(203.0)
Net Adjustments Prior Year	60.6	69.6	51.0	41.8	58.1	70.5	75.8	75.5	56.9	55.9
Funding for Contingencies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cumulative Fund Balance (Deficit) Prior Year End	132.9	311.5	348.3	195.0	(50.0)	(3.4)	132.7	274.9	249.2	325.9
Cumulative Adjusted Year End Fund Balance (Deficit)	311.5	348.3	195.0	(50.0)	(3.4)	132.7	274.9	325.9	154.4	178.8

(1) Revenues of the Water Fund are not legally available for payment of other obligations of the City until, on an annual basis, all revenue bond debt service requirements and covenants relating to those bonds have been satisfied, and then only to the extent of $4,994,000 per year, provided certain further conditions are satisfied. From Fiscal Year 1991 to Fiscal Year 2003, the maximum transfer, per administrative agreement, was $4,138,000. For Fiscal Year 2004, the budgeted transfer was not made. For Fiscal Year 2005, the transferred amount was $4,401,000. For Fiscal Year 2006, 2007 and 2008, the transferred amount was $4,994,000. For Fiscal Year 2009, the transferred amount was $4,185,463. For Fiscal Year 2010, the transferred amount was $2,303,986, for Fiscal Year 2011, the amount transferred was $1,229,851. The transferred amount for Fiscal Year 2012 was $1,086,165, the unaudited actual for Fiscal Year 2013 is $560,000 and the transferred amount in the Adopted Fiscal Year 2014 Budget is $700,000.

(2) Airport revenues are not available for other City purposes.

(3) Includes County Liquid Fuels Tax Fund, Special Gasoline Tax Fund and Water Residual Fund.

(4) Excludes PICA bonds.

(5) The reduction in General Fund revenues for Fiscal Year 2012 is largely the result of transferring the majority of DHS revenues and obligations to the Grants Revenue Fund.

(6) From the Annual Financial Report for Fiscal Year 2013 (unaudited) issued on 10/28/2013.

(7) From the estimates for the Adopted Fiscal Year 2014 Budget. Does not conform to the revised Twenty-Second Five-Year Plan approved by PICA.

(8) From the 9/30/2013 QCMR.

(9) Other for Fiscal Year 2014 includes a provision for funding a portion of the "final offer" associated with District Council 33, a future settlement for District Council 47 and a future IAFF Arbitration Award. See "EXPENDITURES OF THE CITY−Overview of Current Labor Situation."

Figures may not add up due to rounding.

Independent Audit and Opinion of the City Controller

The City Controller has examined and expressed opinions on the basic financial statements of the City contained in the Fiscal Year 2012 CAFR, which can be found at the City's Investor Website and is also attached hereto as APPENDIX C.

The City Controller has not participated in the preparation of this Official Statement nor in the preparation of the budget estimates and projections and cash flow statements and forecasts set forth in various tables contained in this Official Statement. Consequently, the City Controller expresses no opinion with respect to any of the data contained in this Official Statement other than what is contained in the Fiscal Year 2012 CAFR.

Pennsylvania Intergovernmental Cooperation Authority

PICA was created on June 5, 1991 by the PICA Act to provide financial assistance to cities of the first class. The City is the only city of the first class in the Commonwealth. The Governor of Pennsylvania, the President pro tempore of the Pennsylvania Senate, the Minority Leader of the Pennsylvania Senate, the Speaker of the Pennsylvania House of Representatives and the Minority Leader of the Pennsylvania House of Representatives each appoints one voting member of PICA's board. The Secretary of the Budget of the Commonwealth and the Director of Finance of the City serve as ex officio members of PICA's board with no voting rights.

The PICA Act provides that, upon request by the City to PICA for financial assistance and for so long as any bonds issued by PICA remain outstanding, PICA shall have certain financial and oversight functions. PICA has the power, in its oversight capacity, to exercise certain advisory and review procedures with respect to the City's financial affairs, including the power to review and approve five-year financial plans prepared at least annually by the City, and to certify non-compliance by the City with the then-existing five-year plan adopted by the City pursuant to the PICA Act. PICA is also required to certify non-compliance if, among other things, no approved five-year plan is in place; and PICA is required to certify non-compliance with an approved five-year plan if the City has failed to file mandatory revisions to an approved five-year plan. Under the PICA Act, any such certification of non-compliance would require the Secretary of the Budget of the Commonwealth to withhold payments due to the City from the Commonwealth or any of its agencies (including, with certain exceptions, all grants, loans, entitlements and payment of the portion of the PICA Tax, hereinafter described, otherwise payable to the City). See "DEBT OF THE CITY -- PICA Bonds." Under the PICA Act, the City is required to make quarterly financial reports to PICA, as further described under "Quarterly Reporting to PICA" below.

Five-Year Plans of the City

The PICA Act requires the City to annually develop a five-year financial plan and obtain PICA's approval of it. The original five-year plan, which covered Fiscal Years 1992 through 1996, was prepared by the Mayor, approved by City Council on April 29, 1992 and by PICA on May 18, 1992. In each subsequent year, the City updated the previous year's five-year plan, each of which was approved by PICA.

The Mayor presented the Twenty-Second Five-Year Plan (the "Twenty-Second Five-Year Plan") to City Council on March 14, 2013, City Council approved the Adopted Fiscal Year 2014 Budget on June 20, 2013, and the Mayor signed it on June 25, 2013. The Adopted Fiscal Year 2014 Budget conforms to the original Twenty-Second Five-Year Plan. The Twenty-Second Five-Year Plan was submitted to PICA on July 3, 2013, and a revised Twenty-Second Five-Year Plan was submitted to PICA on September 3, 2013. Such revised Twenty-Second Five-Year Plan included additional expenditures resulting from the August 2013 IAFF Order and the updated current estimates from the Quarterly City Manager's Report for the period ended June 30, 2013, but did not reflect the IAFF Withdrawal. On September 10, 2013, the City withdrew the previously filed, revised Twenty-Second Five-Year Plan and filed a further revised Twenty-Second Five-Year Plan updated to include the effect of the IAFF Withdrawal. PICA approved such further revised Twenty-Second Five-Year Plan on September 17, 2013. On November 15, 2013, the City filed a further revision to the Twenty-Second Five-Year Plan which included: $2.4 million in additional costs associated with the Sheriff's Office arbitration award; incorporation of actual Fiscal Year 2013 financial results which were $33.1 million better than projected in the plan approved by PICA on September 17, 2013; a $3.6 million increase in projected State Act 205 pension aid revenue in Fiscal Year 2014; inclusion of $45 million of one-time State aid that will pass through the General Fund in Fiscal Year 2014 and be paid to the School District (this change has no net impact on the General Fund); and a shift of Fire Department salary costs from a reserve for labor obligations to the personal services category. This latest revision of the Twenty-Second Five-Year Plan was approved by PICA on November 19, 2013. See "EXPENDITURES OF THE CITY - Overview of Current Labor Situation – IAFF."

The Mayor presented the Twenty-First Five-Year Plan (the "Twenty-First Five-Year Plan") to City Council on March 8, 2012, City Council approved the Fiscal Year 2013 Operating Budget on June 28, 2012, and the Mayor signed it on June 29, 2012. The adopted Fiscal Year 2013 Operating Budget conformed to the Twenty-First Five-Year Plan. The Twenty-First Five-Year Plan was approved by PICA on September 5, 2012. The Twenty-First Five-Year Plan included a Real Estate Tax increase of 3.6% (8.2% on the City portion) in Fiscal Year 2013 (increased revenue generated by such increase was transferred to the School District) and also made permanent the temporary 9.9% Real Estate Tax increase in the Nineteenth Five-Year Plan (described below).

The Mayor presented the Twentieth Five-Year Plan (the "Twentieth Five-Year Plan") to City Council on March 3, 2011. City Council approved the Fiscal Year 2012 Operating Budget on June 23, 2011, and the Mayor signed it on June 24, 2011. The adopted Fiscal Year 2012 Operating Budget conformed to the Twentieth Five-Year Plan. The Twentieth Five-Year Plan was approved by PICA on July 26, 2011.

The Mayor presented the Nineteenth Five-Year Plan (the "Nineteenth Five-Year Plan") to City Council on March 4, 2010. City Council approved the Fiscal Year 2011 Operating Budget on May 20, 2010, and the Mayor signed it on June 1, 2010. The Nineteenth Five-Year Plan was approved by PICA on August 10, 2010. The Nineteenth Five-Year Plan included a temporary 9.9% Real Estate Tax increase through Fiscal Year 2012.

The City's Eighteenth Five-Year Plan (the "Eighteenth Five-Year Plan"), covering Fiscal Years 2010-2014, included a one percent City Sales Tax increase through Fiscal Year 2014 and a partial deferral of the City's pension payment in Fiscal Year 2010 ($150 million) and Fiscal Year 2011 ($80 million) to be paid back in full by Fiscal Year 2014, as permitted under Act 44 of 2009 of the General Assembly of the Commonwealth ("Act 44"). In addition to the deferrals, the City changed the amortization period from 20 years to 30 years and lowered the interest rate assumption from 8.75% to 8.25%. On October 28, 2010, the City's Board of Pensions and Retirement (the "Board of Pensions") voted to further lower the pension fund's annual earnings assumption from 8.25% to 8.15%. This is reflected in subsequent five-year plans through the Twentieth Five-Year Plan. In February of 2012, the Board of Pensions again voted to lower the Municipal Pension Fund's annual earnings assumption from 8.15% to 8.10%; this is reflected in the Twenty-First Five-Year Plan. The Board of Pensions voted to further lower the Municipal Pension Fund's annual earnings assumption to 7.95% in March 2013; this is reflected in the Twenty-Second Five-Year Plan.

At PICA's request, the Eighteenth Five-Year Plan was revised to include at least $25 million in additional savings or recurring revenues in each year of the Eighteenth Five-Year Plan. PICA approved the revised Eighteenth Five-Year Plan on September 16, 2009, subject to the enactment of the legislation authorizing the increase in the City's sales tax and change in the City's pension fund payments. The Commonwealth enacted such legislation on September 18, 2009.

Quarterly Reporting to PICA

The PICA Act requires the City to prepare and submit quarterly reports to PICA so that PICA may determine whether the City is in compliance with the then-current Five-Year Plan. Under the PICA Act, a "variance" is deemed to have occurred as of the end of a reporting period if (i) a net adverse change in the fund balance of a covered fund of more than 1% of the revenues budgeted for such fund for that fiscal year is reasonably projected to occur, such projection to be calculated from the beginning of the fiscal year for the entire fiscal year, or (ii) the actual net cash flows of the City for a covered fund are reasonably projected to be less than 95% of the net cash flows of the City for such covered fund for that fiscal year originally forecast at the time of adoption of the budget, such projection to be calculated from the beginning of the fiscal year for the entire fiscal year. The Mayor is required to provide a report to PICA that describes actual or current estimates of revenues, expenditures, and cash flows by covered funds compared to budgeted revenues, expenditures, and cash flows by covered funds for each month in the previous quarter and for the year-to-date period from the beginning of the then-current fiscal year of the City to the last day of the fiscal quarter or month, as the case may be, just ended. Each such report is required to explain any variance existing as of such last day.

PICA may not take any action with respect to the City for variances if the City (i) provides a written explanation of the variance that PICA deems reasonable; (ii) proposes remedial action that PICA believes will restore overall compliance with the then-current Five-Year Plan; (iii) provides information in the immediately succeeding quarterly financial report demonstrating to the reasonable satisfaction of PICA that the City is taking remedial action and otherwise complying with the then-current Five-Year Plan; and (iv) submits monthly supplemental reports as required by the PICA Act. PICA last declared a variance in February 2009. It has since been removed and there are no current variances.

Awards

For the thirty-third consecutive year, the Government Finance Officers Association of the United States and Canada ("GFOA") awarded its prestigious Certificate of Achievement for Excellence in Financial Reporting ("GFOA Awards") to the City for its CAFR for the fiscal year ended June 30, 2012. The City received this recognition by publishing a report that was well organized and readable and satisfied both generally accepted accounting principles and applicable legal requirements. The City expects to apply for the GFOA Award for its Fiscal Year 2013 CAFR.

REVENUES OF THE CITY

General

In 1932, the General Assembly of the Commonwealth adopted an act (commonly referred to as the Sterling Act) under which the City was permitted to levy any tax that was not specifically pre-empted by the Commonwealth. Prior to 1939, the City relied heavily upon the Real Estate Tax as the mainstay of its revenue system. Acting under the Sterling Act and other legislation, the City has taken various steps over the years to reduce its reliance on real property taxes as a source of income, including: (1) enacting the wage, earnings, and net profits tax in 1939; (2) introducing a sewer service charge to make the sewage treatment system self-sustaining after 1945; (3) requiring under the Home Rule Charter that the water, sewer, and other utility systems be fully self-sustaining; and (4) enacting in 1952 the Mercantile License Tax (a gross receipts tax on business done within the City), which was replaced as of the commencement of Fiscal Year 1985 by the Business Privilege Tax (which was renamed the Business Income and Receipts Tax in May 2012).

Major Revenue Sources

The City derives its revenues primarily from various taxes, non-tax revenues, and receipts from other governments. See Table 3 below for revenues by major source for Fiscal Years 2003-2013 and Table 4 below for General Fund tax revenues for Fiscal Years 2007-2013 as well as, in each case, the Adopted Fiscal Year 2014 Budget and current estimates for Fiscal Year 2014. The following descriptions do not take into account revenues in the Non-Debt Related Funds. The tax rates for Fiscal Years 2002 through 2011 are contained in the Fiscal Year 2012 CAFR.

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Table 3
Summary of Principal Operating Funds (Debt Related)
Revenues by Major Source
Fiscal Years 2003-2014 (Legal Basis)
(Amounts in Millions of USD)

Fiscal Year	General Fund Tax Revenues: Real Property Taxes[1]	Wage Earnings & Net Profits Taxes[1]	Business Privilege Tax[1]	Sales and Use Tax[1]	Other Taxes[2]	Total Taxes	Water & Wastewater Charges	Airport Charges	Other Locally Generated Charges	Total Local Revenue	Revenue from Other Governments	Revenue from Other City Funds	Total Revenues
2003	361.1	1,025.1	286.1	108.0	156.3	1,936.6	329.6	219.4	327.4	2,813.0	909.7	62.8	3,785.5
2004	377.7	1,062.6	309.2	108.0	202.2	2,059.7	383.1	235.0	207.4	2,885.2	834.2	92.1	3,811.5
2005	392.7	1,087.3	379.5	119.9	250.9	2,230.3	419.7	246.3	200.8	3,097.1	1,082.4	71.6	4,251.1
2006	395.8	1,125.8	415.5	127.8	304.1	2,369.0	460.4	269.4	236.2	3,335.0	953.1	69.9	4,358.0
2007	397.5	1,182.7	436.4	132.6	286.7	2,435.9	486.9	266.0	248.3	3,437.1	1,063.3	77.0	4,577.4
2008	402.8	1,197.3	398.8	137.3	260.3	2,396.5	555.0	275.3	267.5	3,494.3	1,066.2	153.1 [3]	4,713.6
2009	400.1	1,129.2	386.0	128.2	209.3	2,252.8	484.5	291.3	258.3	3,286.9	1,025.4	212.7 [4]	4,525.0
2010	402.2	1,128.7	364.7	207.1[5]	213.9	2,316.6	516.4	290.2	224.5	3,347.7	1,110.7[6]	82.7	4,541.3
2011	482.7[7]	1,143.1	376.9	244.6	211.8	2,459.1	537.5	302.7	280.2	3,579.5	1,100.0	91.1	4,770.7
2012[9]	500.7	1,211.4	389.4	253.5	215.4	2,570.4	560.3	293.8	256.8	3,681.3	753.3	96.7	4,531.3
2013 (Unaudited Actual)[8, 10]	540.5	1,221.5	450.9	257.6	262.9	2,733.5	572.0	301.1	266.2	3,872.8	685.7	111.2	4,669.7
2014 (Adopted Budget)[11]	536.6	1,286.9	410.0	272.6	256.5	2,762.6	606.8	408.3	266.4	4,044,1	662.3	175.2	4,881.6
2014 (Current Estimate)[12]	536.6	1,286.9	410.0	270.8	256.5	2,760.8	601.2	354.6	274.6	3,991.2	710.4	165.2	4,866.8

(1) See Table 7 in the Fiscal Year 2012 CAFR and "REVENUES OF THE CITY" herein for Tax Rates. As of May 1, 2012, the Business Privilege Tax was renamed the Business Income and Receipts Tax.
(2) Includes Real Estate Transfer Tax, Parking Tax, Amusement Tax, and Other Taxes.
(3) In Fiscal Year 2008, there was an increase of $73 million in payment from Water Fund to Water Residual Fund.
(4) In Fiscal Year 2009, there was an $86 million payment from the Wage Tax Reduction Fund.
(5) Reflects 1% increase effective October 8, 2009 and expiring June 30, 2014. See "REVENUES OF THE CITY-Sales and Use Tax."
(6) In Fiscal Year 2010, the Wage Tax Reduction payment is shown in the Revenue from Other Governments column.
(7) Reflects a Real Estate Tax increase of 9.9%.
(8) From the Annual Financial Report for Fiscal Year 2013 (unaudited) issued on 10/28/2013.
(9) The reduction in Revenue from Other Governments in Fiscal Year 2012 is largely the result of the transfer of the majority of DHS revenue and obligations to the Grants Revenue Fund.
(10) Reflects an 8.2% increase in the City portion of the Real Estate Tax (equating to 3.6% of the overall tax). The increased revenue was provided to the School District.
(11) From the estimates for the Adopted Fiscal Year 2014 Budget .
(12) From the 9/30/2013 QCMR.

Figures may not add up due to rounding.

Table 4
General Fund Tax Revenues[1]
Fiscal Years 2007-2014
(Amounts in Millions of USD)

	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Unaudited Actual [5] 2013	Adopted Budget[6] 2014	Current Estimate[7] 2014
Real Property Taxes									
Current	367.2	366.5	365.6	364.3	454.7[4]	464.4	504.2	492.4	492.4
Prior	30.3	36.3	34.4	37.9	28.0	36.3	36.3	44.2	44.2
Total	397.5	402.8	400.0	402.2	482.7	500.7	540.5	536.6	536.6
Wage and Earnings Tax[2]									
Current	1,162.4	1,176.5	1,105.9	1,102.3	1,127.4	1,192.2	1,219.5	1,269.9	1,269.9
Prior	5.1	8.3	11.1	11.9	6.9	4.1	2.0	4.2	4.2
Total	1,167.5	1,184.8	1,117.0	1,114.2	1,134.3	1,196.3	1,221.5	1,274.1	1,274.1
Business Taxes									
Business Privilege									
Current & Prior	436.4	398.8	386.0	364.7	376.9	389.4	450.9	410.0	410.0
Net Profits Tax									
Current	10.9	9.1	9.5	12.1	5.7	12.2	17.2	10.3	10.3
Prior	4.3	3.4	2.7	2.4	3.1	2.9	1.9	2.5	2.5
Subtotal Net Profits Tax	15.3	12.5	12.2	14.5	8.8	15.1	19.2	12.8	12.8
Total Business Taxes	451.6	411.3	398.2	379.2	385.8	404.5	470.1	422.8	422.8
Other Taxes									
Sales and Use Tax	132.6	137.3	128.3	207.1[3]	244.6	253.5	257.6	272.6	270.8
Amusement Tax	16.4	18.0	21.4	21.8	20.8	21.9	19.1	20.5	20.5
Real Property Transfer Tax	217.3	184.0	115.1	119.2	116.6	119.4	148.0	157.6	157.6
Parking Taxes	50.3	55.5	70.4	70.5	71.6	70.9	73.3	75.0	75.0
Other Taxes	2.6	2.8	2.4	2.4	2.7	3.2	3.4	3.4	3.4
Subtotal Other Taxes	419.2	397.6	337.6	421.0	456.3	468.9	501.3	529.1	527.3
TOTAL TAXES	2,435.9	2,396.5	2,252.8	2,316.6	2,459.1	2,570.4	2,733.5	2,762.6	2,760.8

[1] See Table 7 in the Fiscal Year 2012 CAFR for Tax Rates. As of May 1, 2012, the Business Privilege Tax was renamed the Business Income and Receipts Tax.
[2] Beginning in Fiscal Year 1992, the City reduced the resident Wage and Earnings and Net Profits Tax from 4.96% to 3.46% and levied the PICA Tax at a rate of 1.50%, the proceeds of which are remitted to PICA for payment of debt service on PICA bonds and the PICA expenses. After paying debt service and expenses, net proceeds from the tax are remitted to the City as Revenue from Other Governments.
[3] Effective October 8, 2009, there was a 1% increase to the City Sales tax expiring June 30, 2014. See "REVENUES OF THE CITY-Sales and Use Tax."
[4] Reflects a Real Estate Tax increase of 9.9%.
[5] Reflects an 8.2% increase in the City portion of the Real Estate Tax (equating to 3.6% of the overall tax). The increased revenue was provided to the School District.
[6] From the estimates for the Adopted Fiscal Year 2014 Budget.
[7] From the 9/30/2013 QCMR

Figures may not add up due to rounding.

Wage, Earnings, and Net Profits Taxes

The largest tax revenue source (comprising 45.4% of all tax revenues based on the Fiscal Year 2013 unaudited actual) is the Wage, Earnings, and Net Profits (Wage) Tax. The Wage Tax is collected from all employees working within City limits, and all City residents regardless of work location. In Fiscal Year 1992, the City reduced the City wage, earnings, and net profits tax on City residents by 1.5% and imposed the PICA Tax on wages, earnings and net profits at the rate of 1.5% on City residents. See "DEBT OF THE CITY-- PICA Bonds" for a description of the pledge of the PICA Tax to secure PICA's bonds. The table below sets forth the resident and non-resident wage and earnings tax rates for Fiscal Years 2003-2014, and the annual wage and earnings tax receipts in Fiscal Years 2003-2013 and the Adopted Budget and current estimate for Fiscal Year 2014.

Table 5
Summary of Wage, Earnings and Net Profits Tax Rates and Receipts

Fiscal Year	Resident Wage, Earnings and Net Profits Tax Rates[1]	Non-Resident Wage, Earnings and Net Profits Tax Rates	Annual Wage, Earnings and Net Profits Tax Receipts (including PICA Tax) (Amounts in Millions of USD)
2003	4.5000	3.9127	1,306.6
2004	4.4625	3.8801	1,347.6
2005	4.4625 (Jul. 1)	3.8801 (Jul. 1)	1,387.5
	4.3310 (Jan. 1)	3.8197 (Jan. 1)	
2006	4.3310 (Jul. 1)	3.8197 (Jul. 1)	1,435.6
	4.3010 (Jan. 1)	3.7716 (Jan. 1)	
2007	4.3010 (Jul. 1)	3.7716 (Jul. 1)	1,510.6
	4.2600 (Jan. 1)	3.7557 (Jan. 1)	
2008	4.2600 (Jul. 1)	3.7557 (Jul. 1)	1,527.5
	4.2190 (Jan. 1)	3.7242 (Jan. 1)	
2009[2]	3.9800 (Jul. 1)	3.5392 (Jul. 1)	1,477.8
	3.9300 (Jan. 1)	3.5000 (Jan. 1)	
2010	3.9296	3.4997	1,472.0
2011	3.9280	3.4985	1,501.8
2012	3.9280	3.4985	1,568.9
2013	3.9280	3.4985	1,617.2 Unaudited Actual[3]
2014	3.9240	3.4950	1,677.9 Adopted Budget[4][5]

(1) Includes PICA Tax.
(2) There were two rate decreases during Fiscal Year 2009.
(3) From the Annual Financial Report for Fiscal Year 2013 (unaudited) issued on 10/28/2013.
(4) From the estimates for the Adopted Fiscal Year 2014 Budget.
(5) The 9/30/2013 QCMR estimates Annual Wage, Earnings and Net Profits Tax Receipts will equal the adopted budget of $1,677.9 million.

Commonwealth funding from gaming revenues is mandated by statute to be used to reduce the resident and nonresident wage tax rate. Gaming revenues were first used to reduce the wage tax rates in Fiscal Year 2009. Revenues from gaming revenues were $86.545 million in Fiscal Year 2009, $86.270 million in Fiscal Year 2010, $86.277 million in Fiscal Year 2011 and $86.273 million in Fiscal Year 2012. The unaudited actual for Fiscal Year 2013 is $86.269 million. The amount estimated in the Adopted Fiscal Year 2014 Budget is $86.269 million and the current estimate is $86.283 million. Accordingly, the wage tax rates in Fiscal Years 2009, 2010, 2011, 2012, 2013 and 2014 reflect a rate reduction due to these revenues.

In the Seventeenth Five-Year Plan, the Mayor approved further reductions in the wage, earnings, and net profits tax rate for each of the Fiscal Years 2009-2013. The Seventeenth Five-Year Plan approved reducing the wage tax from the Fiscal Year 2008 level of 4.2190% for residents and 3.7242% for non-residents to 3.60% for residents and 3.25% for non-residents by Fiscal Year 2013. These reduced rates include rate reductions funded with Commonwealth funds from gaming proceeds. In Fiscal Year 2009 there were two rate reductions: one that took effect July 1, 2008 and the other that took effect January 1, 2009. The Eighteenth Five-Year Plan suspended future City-funded rate reductions until Fiscal Year 2015. The Nineteenth, Twentieth, Twenty-First and Twenty-Second Five-Year Plans all include resumption of City-funded rate reductions in Fiscal Year 2014.

Business Income and Receipts Tax

In 1984, the Commonwealth of Pennsylvania passed legislation known as The First Class City Business Tax Reform Act of 1984 authorizing the City Council of Philadelphia to impose a business tax measured by Gross Receipts, Net Income or the combination of the two. The same year, the City Council by ordinance repealed the Mercantile License Tax and the General Business Tax and imposed the Business Privilege Tax. As of May 1, 2012 the Business Privilege Tax was renamed the Business Income and Receipts Tax ("BIRT"). Rental activities are usually considered to be business activities. Every estate or trust (whether the fiduciary is an individual or a corporation) must file a BIRT return if the estate or trust is engaged in any business or activity for profit within the City of Philadelphia.

The BIRT allows for particular allocations and tax computation for regulated industries, public utilities, manufacturers, wholesalers and retailers. There are also credit programs where meeting the requirement of the program allows for a credit against the BIRT. All persons subject to both the BIRT and the Net Profits Tax are entitled to apply a credit of 60% of the net income portion of their BIRT liability against what is due on the Net Profits Tax to the maximum of the Net Profit Tax liability for that Tax Year.

In Fiscal Year 1996, the City began a program of reducing the gross receipts portion of the BIRT with plans of eventually eliminating the gross receipts portion of the tax. In November 2011, legislation was enacted to freeze the gross receipts portion and commence reductions in the net income portion of the BIRT to take effect calendar year 2014 with changes phasing in through calendar year 2023. These changes altered the prior proposed schedule of rate reductions to the BIRT. The City Council has approved certain changes to the BIRT, further described below.

Table 6
Summary of Business Income and Receipts Tax Rates

Tax Year	Gross Receipts	Net Income
2003	2.300 mills	6.50%
2004	2.100 mills	6.50%
2005	1.900 mills	6.50%
2006	1.665 mills	6.50%
2007	1.540 mills	6.50%
2008	1.415 mills	6.45%
2009	1.415 mills	6.45%
2010	1.415 mills	6.45%
2011	1.415 mills	6.45%
2012	1.415 mills	6.45%
2013	1.415 mills	6.45%
2014	1.415 mills	6.43%
2015	1.415 mills	6.41%
2016	1.415 mills	6.39%
2017	1.415 mills	6.35%
2018	1.415 mills	6.30%
2019	1.415 mills	6.25%
2020	1.415 mills	6.20%
2021	1.415 mills	6.15%
2022	1.415 mills	6.10%
2023	1.415 mills	6.00%

In addition, the 2011 legislative changes passed by City Council and signed by the Mayor incorporated several changes intended to help businesses grow in Philadelphia. These tax changes intend to help small and medium sized businesses and spur lower costs associated with starting a new business in order to stimulate new business formation and increase employment in Philadelphia. The Commercial Activity License fee for all businesses will be eliminated in 2014. In addition, business taxes for the first two years of operations for all new businesses that employ at least three employees in their first year and six in their second were eliminated beginning in 2012. These legislative changes also provide for across the board exclusions on the gross receipts portion for all businesses scaled in over a three-year period beginning in 2014 and reductions in the net income portion of the BIRT. When the exclusions are fully phased in, the first $100,000 of receipts will be excluded. Lastly, these legislative changes call for implementation of single sales factor apportionment in 2015. This enables businesses to pay BIRT based solely on sales in the City, not on property or payroll in the City. By taxing property and payroll, the BIRT previously had provided disincentives to firms to locate in the City. A Council committee gave a favorable recommendation to legislation that would eliminate the net income portion of the BIRT and increase the gross receipts side to make up for the lost revenue. The bill is being held pending the completion of an analysis by an outside consultant of the economic impact of the proposed legislation.

Real Property Taxes Assessment and Collection

A Real Estate Tax on all taxable real property is levied on the assessed value of residential and commercial property located within the City's boundaries as assessed by the Office of Property Assessment ("OPA"). Real Estate taxes benefit both the City and the School District with the millage split changing over the years. Due to economic difficulties in 2011, Real Estate taxes were raised by 9.9%. In calendar year 2012, the School District portion of the tax was increased. For calendar year 2013, the City portion of the real estate tax was raised to provide additional funding to the School District of Philadelphia by way of an increased contribution. The City offers a 1% discount on current real estate taxes paid before March 1. The Department of Revenue also offers special payment plans covering current year taxes, including plans for low income households and low income senior citizen households.

The tax rates for tax years 2003-2014 are set forth below:

Table 7
Real Property Tax History and Allocation

Calendar Year	City	School	Total
2003-2007	3.474%	4.790%	8.264%
2008-2010	3.305%	4.959%	8.264%
2011	4.123%	4.959%	9.082%
2012	4.123%	5.309%	9.432%
2013	4.462%	5.309%	9.771%
2014	0.6018%	0.7382%	1.340%

The City has completed its Actual Value Initiative (AVI) whereby all properties in the City will be assessed at actual market values for tax years 2014 and forward. Pennsylvania's Act 131 (as defined below) directs the City to adopt AVI for real estate taxes for 2014 and thereafter. This was the City's first city wide reassessment in decades, and it will ensure that property owners have fair, accurate, and more easily understood real estate tax bills. Cumulative assessed values have increased dramatically as a result of AVI because before the reassessment, properties were assessed at only a fraction of what is considered to be the actual market values, and because many increases in market values throughout the City were not captured in assessments previously. As described below, City Council has enacted an ordinance to adjust millage rates to account for the changes in assessed value due to AVI. The Office of Property Assessment mailed notices of revised property values in February 2013.

The table below shows the differences in the current assessed value of properties used for tax year 2013 real estate taxes and the assessed values used for tax year 2014 real estate taxes following the reassessment and implementation of AVI.

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Table 8
Assessed Property Values 2013 and 2014

	Tax Year 2013*			
Category	**Assessed Value**	**Taxable Assessed Value**	**Exempt Assessed Value**	**Number of Parcels**
Residential	$23,480,956,634	$20,253,095,331	$ 3,227,861,303	456,852
Commercial	21,414,689,601	8,086,881,511	13,327,808,090	15,333
Industrial	2,367,255,600	1,635,367,256	731,888,344	4,729
Hotels and Apartments	7,312,672,990	5,803,784,850	1,508,888,140	41,339
Stores with Dwellings	1,013,104,334	907,265,169	105,839,165	15,199
Vacant Land	1,226,885,260	683,978,425	542,906,835	46,086
Total	$56,815,564,419	$37,370,372,542	$19,445,191,877	579,538

* Taxes applied against 2011 Assessed Value as described under "Assessment and Collection of Real and Personal Property Taxes."

	Tax Year 2014			
Category	**Assessed Value**	**Taxable Assessed Value**	**Exempt Assessed Value**	**Number of Parcels**
Residential	$67,031,300,900	$62,124,464,380	$ 4,906,836,520	471,197
Commercial	43,593,893,400	17,260,794,497	26,333,098,903	15,041
Industrial	3,535,800,300	2,847,170,296	688,630,004	4,544
Hotels and Apartments	16,022,031,200	12,655,457,633	3,366,573,567	27,657
Stores with Dwellings	3,447,991,700	3,346,130,697	101,861,003	15,150
Vacant Land	3,773,163,500	1,707,997,271	2,065,166,229	46,109
Total	$137,404,181,000	$99,942,014,774	$37,462,166,226	579,698

On October 24, 2012, the Governor approved Act 160 ("Act 160") which permits downward adjustments to School District millage tax rates, solely to offset the higher assessed values anticipated under AVI, and only to the extent the yield from such lower rates is no lower than the highest tax yield in the previous three years. Act 160 also precludes the School District from using its independent authority to levy real estate taxes, separately granted by the General Assembly of the Commonwealth, but only to the extent the City authorizes School District real estate taxes in an amount no lower than total real estate taxes yielded in the year prior to the revision of assessments, adjusted to account for increases in assessed value since the first year of revision.

The City Council and the Mayor have enacted a combined City and School District property tax rate for 2014 of 1.34%, down from 9.7710% in 2013 in order to generate approximately the same current year revenue in Fiscal Year 2014 as in Fiscal Year 2013. The City portion of the tax is 0.6018% (down from 4.4620% in 2013) and the School District portion is 0.7382% (down from 5.3090% in 2013).

The rate is set to ensure that AVI results in the collection of approximately the same amount of current year revenue in both Fiscal Year 2013 and Fiscal Year 2014. Nonetheless, there will be changes in property taxes for many individual property owners. Under the old assessment system, some properties were valued closer to their actual value than other properties. Properties that had been valued closer to their actual value will see smaller increases in assessments and when those assessment changes are coupled with the much lower property tax rate, they will produce tax decreases. On the other hand, properties that were relatively undervalued will see increases, a small percent of which could be substantial. In order to mitigate the hardship that could be created by those large increases, the ordinance imposing the new real estate tax rates includes a homestead exemption of $30,000 for all residential owner-occupants. The new property tax rates take into account the impact of the homestead exemption and other anticipated relief measures. The estimated current property tax revenue for the City is projected to be $492.4 million in Fiscal Year 2014 (excluding delinquent collections) under the Adopted Fiscal Year 2014 Budget, slightly lower than the $504.2 million collected in Fiscal Year 2013 which reflects the effect of the new AVI and projected related appeal losses. The City is offering a program that provides relief for long term owner occupants whose property value has at least tripled and who meets the income requirements. Under the legislation, its cost is capped at $20 million and recouping that $20 million was assumed in the 1.34% rate.

Recent City Council legislation intended to ease the transition to AVI provides, for Tax Year 2014 only, that residential and commercial property owners who appeal their new property assessments need only pay the prior year's amount of Property Tax and (if applicable) Use and Occupancy Tax, pending the assessment appeal. Interest and penalties will not accrue on the additional 2014 tax liability during the appeal, whether or not the appeal is ultimately successful. See City Council Bill Nos. 130308-A (became law Sept. 6, 2013); 130591 (became law October. 31, 2013); 130592 (became law October. 31, 2013). The City is analyzing the impact of that legislation on projected Fiscal Year 2014 revenues.

Philadelphia real estate tax ("Tax") is due by March 31 of the year for which the tax is imposed. Tax that remains unpaid after that date is overdue and begins to accrue additions (1.5% per month) for each additional month it remains unpaid until the Tax becomes delinquent January 1 of the following year.

Historically the City did not commence collection of Real Estate Taxes while they were "Overdue," between the March 31st due date and January 1 when they became "delinquent". In late 2010, the Revenue Department sent a letter to taxpayers who had overdue taxes, but had paid all prior years, to explaining that if they did not pay by the end of the year, the addition on their Tax would be capitalized (i.e. become part of the principal) and their Tax liability would become a lien on the property. This effort has been repeated each year since and has resulted in significant collections and reduction of expenses that would otherwise be incurred for further collection efforts. Also in 2012 and 2013, the Revenue Department and Law Department hired two outside collection firms to collect overdue Tax with an Outbound Calling Campaign. This project has been extremely successful, contributing to a decrease in first time real estate delinquencies and generating a total of approximately $17,000,000 in (Overdue) collection this year alone. The City is continuing this practice and pursuing a number of other initiatives to improve collections.

Historical Assessment and Collection and Appeal of Real Property Taxes

Historically, the Board of Revision of Taxes (the "BRT") was responsible for both the property assessment and assessment appeals functions for the City. The BRT consists of a seven-member panel that is appointed by the Judges of the First Judicial District of Pennsylvania. On December 17, 2009, City Council passed legislation that would disband the BRT and replace it with separate offices for assessments and appeals, subject to the approval of City voters. In the May 10, 2010, primary election voters approved the separation of the assessment and appeals functions. On June 16, 2010 a new Chief Assessment Officer, Rich McKeithen, was appointed by the Mayor and approved by City Council on June 17, 2010 to lead the new Office of Property Assessment.

According to the legislation, the BRT would cease to exist at the end of September 2010 and the changes described above would take effect; however, the Pennsylvania Supreme Court ruled on September 20, 2010 that the City could not abolish the existing appeals board because only the General Assembly of the Commonwealth has the authority to do so. Therefore, the BRT remains in place as the property appeals board; however, the separation of the property assessment function from the property appeals function proceeds as per the original legislation. The City has established an informal review process to speed review and resolution of some assessment matters prior to the formal BRT appeal process. The Office of Property Assessment received 51,290 First Level Reviews (FLRs). As a result of the FLRs, to date (as of January 6, 2014), the total taxable market value has been reduced by $1,126,296,307, but there are still several thousand FLRs that have not yet been finalized. There have been 23,491 timely formal appeals to the Board of Revision of Taxes, but hearings have yet to begin.

Beginning on October 1, 2010, the new Office of Property Assessment was formally created to conduct the annual assessment of all real estate located within the City. The Office of Property Assessment has now reassessed all properties throughout the City and certified the tax year 2014 values. Additionally, the Office of Property Assessment no longer employs a fractional assessment system, and for tax year 2014 all assessments are at 100% of actual value.

According to the existing appeals mechanism, the BRT has the authority to increase or decrease the property valuations contained in the return of the assessors in order that such valuations conform with law. After all changes in property assessments, and after all assessment appeals, assessments are certified and the results provided to the Department of Revenue.

Real Estate Taxes, if paid by February 28, are discounted by 1%. If the tax is paid during the month of March, the gross amount of tax is due. If the tax is not paid by the last day of March, tax additions of 1.5% per month are added to the tax for each month that the tax remains unpaid through the end of the calendar year. Beginning in January of the succeeding year, the 15% tax additions that accumulated during the last ten months of the preceding years are capitalized and the tax is registered delinquent. Interest is then computed on the new tax base at a rate of 0.5% per month until the real estate tax is fully paid. Commencing in February of the second year, an additional 1% per month penalty is assessed for a maximum of seven months. See Table 9 for assessed and market values of taxable realty in the City and for levies and rates of collections.

For tax year 2013 and earlier tax years, real estate tax bills were calculated as follows: certified fair market value multiplied by established predetermined ratio (EPR) multiplied by tax rate. The last applicable EPR was 32%. However, for properties that are the subject of tax assessment appeals, the EPR is generally replaced with the common level ratio (CLR) issued by the State Tax Equalization Board (STEB) if the CLR differs from the EPR by more than 15%. STEB has issued a final 2012 CLR of 25.2%, revised upwards from 18.1% following objections from the City and School District. This higher CLR still differs from the EPR by more than 15%.

On July 5, 2012, the Governor approved Act 131 ("Act 131"). Act 131 provides that 2013 real estate taxes are based on the 2011 assessed values, with adjustments for construction, demolition and other dramatic changes in condition. Act 131 further directs the City to adopt AVI for real estate taxes for 2014 and thereafter. See "Real Property Taxes." For tax year 2013 only, Act 131 provides that real estate tax assessment appeals are decided using the EPR, regardless of the CLR. Act 131 also permits the City to provide the same "Homestead Exemption" from real property taxes allowed by other jurisdictions, but does not require the City to provide such exemptions, nor does it set an amount for such exemption. The legislation allows for an exemption from real estate property tax for up to fifty percent (50%) of the median assessed value of homesteads. Partner property tax legislation passed by City Council includes a homestead exemption of $30,000 starting in tax year 2014. Additionally, property tax legislation was passed allowing for tax exemptions for certain longtime owner-occupants of residential properties starting in tax year 2014.

An action was filed in Commonwealth Court on behalf of the owners of approximately 1,530 parcels of real property in the City (the "Taxpayers") and purportedly as a class action on behalf of all property owners in the City against the City, among others, challenging the Pennsylvania and federal constitutionality of Act 131. The Taxpayers also have filed objections with STEB to its determination that the City's CLR applicable in 2013 is 30.6%, to which the City responded. In September 2013, the parties reached, and in December of 2013 the Common Pleas court approved, a settlement under which the taxpayers are withdrawing both actions in exchange for $195,000 of real estate tax reductions. The vast majority of the tax reductions will be in the form of credits against tax for 2014 but a small minority of taxpayers insisted on and will receive cash refunds.

Beginning in tax year 2014 and thereafter, real estate tax bills are being levied based on AVI, as described under "Real Property Taxes." For the first two years following a county reassessment such as AVI, the CLR is irrelevant for real estate tax assessment appeals. In 2016, the CLR will again be relevant to Philadelphia real estate tax assessment appeals as described above.

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Table 9
City of Philadelphia
Real Property Taxes Levied and Collected
For the Calendar Years 2004 through 2013
as of November 19, 2013 (Amounts in Millions of USD)

Calendar Year	Taxes Levied Based on Original Assessment (1)	Taxes Levied Based on Adjusted Assessment (2)	Collections in the Calendar Year of Levy	Percentage Collected in the Calendar Year of Levy	Collections in Subsequent Years (4)	Total Collections to Date: All Years	Percentage Collected to Date: All Years
2004	$ 380.3	$ 366.9	$ 339.5	92.6%	$ 25.0	$ 364.5	99.4%
2005	$ 383.2	$ 370.4	$ 346.9	93.6%	$ 21.3	$ 368.2	99.4%
2006	$ 397.1	$ 381.8	$ 357.3	93.6%	$ 22.0	$ 379.2	99.3%
2007	$ 403.5	$ 389.2	$ 363.3	93.4%	$ 21.9	$ 385.2	99.0%
2008	$ 402.4	$ 386.6	$ 360.6	93.3%	$ 22.2	$ 382.8	99.0%
2009	$ 403.4	$ 389.0	$ 361.9	93.0%	$ 21.5	$ 383.3	98.5%
2010	$ 405.7	$ 391.4	$ 360.0	92.0%	$ 22.6	$ 382.6	97.8%
2011	$ 509.1	$ 490.5	$ 456.6	93.1%	$ 16.6	$ 473.2	96.5%
2012	$ 508.5	$ 492.5	$ 459.2	93.2%	$ 6.4	$ 465.6	94.5%
2013	$ 554.0	$ 538.6	$503.2 (3)	93.4%	N/A	$ 503.2	93.4%

(1) Taxes are levied on a calendar year basis. They are due on March 31st.
(2) Adjustments include assessment appeals, a 1% discount for payment in full by the end of February, the senior citizen tax discount, and the tax increment financing (TIF) return of tax paid.
(3) For 2013, "collections in the calendar year of levy" does not include the full 12 months; it only includes collections thru the end of June 2013
(4) Includes payments from capitalization charges. This capitalization occurs one time, after the end of the first year of the levy, on any unpaid balances.

Note- Property tax revenues are split between the City's General Fund and the School District.
While this table reflects General Fund revenues exclusively, the School District collections rates are the same.

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Table 10
Principal Property Taxpayers
2014 and 2005
(Amounts in Millions of USD)

Taxpayer	2014 Assessment*	2014 Percentage of Total Assessments	2005 Assessment**	2005 Percentage of Total Assessments
HUB Properties Trust	265.7	0.27	55.0	0.51
Nine Penn Center Associates	232.6	0.23	54.1	0.50
Phila Liberty Place ELP	207.7	0.21	49.6	0.46
Philadelphia Market Street	203.7	0.20	32.9	0.30
Tenet Health Systems Hahnemann	192.1	0.19	32.0	0.29
Commerce Square Partners	178.2	0.18	30.5	0.28
Maguire / Thomas	170.1	0.17	43.3	0.40
NNN 1818 Market Street 37	170.0	0.17	22.2	0.20
Franklin Mills Associates	163.2	0.17	30.3	0.28
Brandywine Operating Partners	159.4	0.16	28.8	0.27
Total	1,942.7	1.97	378.7	3.49
Total Taxable Assessments**	98,522.4		10,864.9	

*Assessment Values rounded to the nearest $100,000 and only include the largest assessed property for each taxpayer; additional properties owned by the same taxpayer are not included.
**Total Taxable Assessment as of January 6, 2014.
Source: City of Philadelphia, Office of Property Assessment.

Table 11
Ten Largest Certified Market and Assessment Values
of Tax-Abated Properties
Certified Values for 2014
(Amounts in Millions of USD)

Location	2014 Certified Market Value	Total Assessment	Total Taxable Assessment	Total Exempt Assessment	Exempt Thru Tax Year
1701 John F Kennedy Blvd.	212.5	212.5	9.1	203.4	2017
2929L Arch St.	160.7	160.7	0	160.7	2015
1001 N Delaware Ave.	150.9	150.9	39.3	111.6	2020
1500 Spring Garden St.	138.7	138.7	27.8	110.9	2020
2323 Race St.	72.4	72.4	2.8	69.6	2016
3401 Chestnut St.	64.6	64.6	3.4	61.2	2017
1601 N 15th St.	64.2	64.2	0.5	63.7	2017
907-37 Market St.	61.0	61.0	41.4	19.6	2016
1327-39 Chestnut St.	58.5	58.5	56.4	2.1	2016
630-40 N Broad St.	55.5	55.5	9.6	45.9	2016

Source: City of Philadelphia, Office of Property Assessment.

Sales and Use Tax

The City adopted a 1% sales and use tax (the "City Sales Tax") for City general revenue purposes effective beginning in Fiscal Year 1992. The Commonwealth authorized the levy of this tax under the PICA Act. Vendors are required to pay this sales tax to the Commonwealth Department of Revenue together with the similar Commonwealth sales and use tax. The State Treasurer deposits the collections of this tax in a special fund and disburses the collections, including any investment income earned thereon, less administrative fees of the Commonwealth Department of Revenue, to the City on a monthly basis.

The City Sales Tax is imposed in addition to, and on the same basis as, the Commonwealth's sales and use tax. The City Sales Tax became effective September 28, 1991 and is collected for the City by the Commonwealth Department of Revenue. The Fiscal Year 2010 budget provided an increase to 2% from the then-current 1% rate. The General Assembly of the Commonwealth enacted legislation authorizing this increase effective October 8, 2009, through June 30, 2014. The Eighteenth Five-Year Plan, the Nineteenth Five-Year Plan, the Twentieth Five-Year Plan, the Twenty-First Five-Year Plan and the Twenty-Second Five-Year Plan all assumed this temporary increase will sunset on June 30, 2014.

In July 2013, the General Assembly of the Commonwealth enacted legislation authorizing the implementation of a new 1% City Sales Tax increase following the expiration on June 30, 2014, of the previously authorized 1% increase. Implementation requires adoption of an ordinance by the City. The legislation provides that such 1% increase will be applied in each fiscal year beginning with Fiscal Year 2015 as follows: (1) the first $120 million collected will be paid to the School District so long as the Commonwealth's Secretary of Education has made an annual certification that the School District has begun implementation of reforms that provide for fiscal stability, educational improvement and operational control; (2) for Fiscal Years 2015 through 2018, the next $15 million collected will be applied to payment of debt service on approximately $50 million of bonds to be issued by the City for the benefit of the School District; and (3) the remainder will be paid to the City pursuant to Act 205 (defined below) for application to the Municipal Pension Fund. Enactment of the new 1% increase is not legally required in order for the City to undertake a borrowing to benefit the School District. Each of the implementation of the new 1% increase and such bond issue would require action by both the City's current administration and City Council.

Mayor Nutter had expressed support for the $50 million borrowing and had indicated a willingness to proceed with the borrowing in advance of City Council action on the new 1% increase in the sales tax. City Council President Darrell L. Clarke had proposed an alternative to the Commonwealth legislation which provided that the City instead purchase $50 million worth of unused buildings from the School District, which would then be sold by the City. The purchase would be funded with an appropriation of funds from the General Fund. City Council President Clarke had further proposed that the new sales tax revenues be divided evenly between the School District and the City, with the City portion being dedicated to the pension fund. Any change to the application of the new 1% increase from that described in the preceding paragraph would require legislation in the General Assembly of the Commonwealth. Mayor Nutter and City Council President Clarke recently announced that they would support an alternative plan under which the School District itself would attempt to sell its unused buildings to raise $50 million in addition to the $11 million already in the School District's budget for the fiscal year ending June 30, 2014. The School District received proposals and expressions of interests for buildings in December and, together with the City's Commerce Department and PIDC, is analyzing those proposals and expressions of interest. It is too soon to determine if a sale of buildings can generate such additional $50 million in the School District's current fiscal year. The final form of additional assistance for the School District has yet to be determined. In order to provide liquidity to the School District while a final plan is adopted, the City has paid in November and December of 2013 its normal annual grant to the School District of approximately $60 million which grant would otherwise be paid in June of 2014, at the end of the City's Fiscal Year.

The table below sets forth the City Sales Tax collected in Fiscal Years 2003 through 2013, the Adopted Budget and current estimate for Fiscal Year 2014.

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Table 12
Summary of City Sales Tax Collections
(Amounts in Millions of USD)

Fiscal Year	City Sales Tax Collections
2003	108.0
2004	108.0
2005	119.9
2006	127.8
2007	132.6
2008	137.3
2009	128.0
2010	207.1
2011	244.6
2012	253.5
2013 (Unaudited Actual)(1)	257.6
2014 (Adopted Budget)(2)	272.6
2014 (Current Estimate)(3)	270.8

(1) From the Annual Financial Report for Fiscal Year 2013 (unaudited) issued on 10/28/2013.
(2) From the for the Adopted Fiscal Year 2014 Budget.
(3) From the 9/30/2013 QCMR.

Other Taxes

The City also collects real property transfer taxes, parking taxes, amusement tax, valet parking tax, outdoor advertising tax, smokeless tobacco tax and other miscellaneous taxes.

Improved Collection Initiative

The City is pursuing a multifaceted strategy designed to improve collections of various taxes while decreasing delinquencies. Key compliance strategies include revocation of commercial licenses and sequestration, each of which are described below:

- In May of 2013, the City implemented a program to revoke commercial activity licenses of those establishments that have been delinquent on their taxes. The program focuses on the liquor and use and occupancy taxes. The City estimates the program generated $6 million in cash payments and an additional $6 million in payment plans.

- In October 2013, the City implemented a sequestration effort, which the City has successfully used in previous administrations. Sequestration places delinquent properties under receivership. A third party administrator appointed by the Court of Common Pleas of Philadelphia collects rents which are to be used to manage the property and satisfy outstanding tax delinquencies. The City has engaged two experienced vendors to assist with this program. Since the program was implemented, over 400 property owners have been given notice with initial properties facing receivership as early as December 2013. Although the City is prepared to place properties into receivership, the goal of the program is to motivate property owners to pay delinquent taxes so that sequestration is unnecessary. As of November 2013, the City has received nearly $1 million in cash payments from affected property owners.

- The School Income Tax, which is collected by the City on behalf of the School District and is imposed on certain dividends and other income, poses several challenges including the belief by the City that many citizens are unaware of their responsibility under the tax. The City has partnered with the Commonwealth and received data that will assist in compliance efforts. In addition, the City continues to use available IRS data to identify those residents who have qualifying income.

In addition to compliance efforts, the City is engaged in two active projects to implement technology solutions for its cashiering and payments processing systems and to develop an integrated data warehouse and case management system. These initiatives are designed to improve operational efficiencies and drive compliance efforts by providing tools currently unavailable to the City.

Other Locally Generated Non-Tax Revenues

These revenues include license fees and permit sales, traffic fines and parking meter receipts, court related fees, stadium revenues, interest earnings and other miscellaneous charges and revenues of the City.

Revenue from Other Governments

The City's Annual Financial Report for Fiscal Year 2013 (unaudited), which provides unaudited financial statements, indicates that approximately 17.65% of General Fund revenues were received from other governmental jurisdictions, including (1) $235.9 million from the Commonwealth for health, welfare, court, and various other specified purposes; (2) $35.1 million from the Federal government; and (3) $64.7 million from other governments, in which revenues are primarily payments from PGW and parking fines and fees from the Philadelphia Parking Authority. See "THE GOVERNMENT OF THE CITY OF PHILADELPHIA-Government Services." In addition, the net collections of the PICA Tax of $313.9 million are included in "Revenue from Other Governments." The decrease in Fiscal Year 2013 unaudited actual of Revenue from Other Governments of $64.3 million from the Fiscal Year 2012 actual amount is primarily the result of the elimination of several one-time revenue sources including: $29.0 million of State Pension Aid, $12.4 million from the Parametric Garage for amounts owed to the City, and $10.2 million in amounts due related to the Love Park Garage which was offset by certain other revenues.

The City's Fiscal Year 2012 General Fund received 19.9% of General Fund revenues from other governmental jurisdictions, including: (1) $241.6 million from the Commonwealth for health, welfare, court, and various other specified purposes; (2) $97.0 million from the Federal government; and (3) $82.1 million from other governments, in which revenues are primarily payments from PGW and parking fines and fees from the Philadelphia Parking Authority. In addition, the net collections of the PICA Tax of $295.2 million are included in "Revenue from Other Governments." The General Fund decrease in Fiscal Year 2012 Revenue from Other Governments is largely due to the transfer of the majority of DHS revenue and obligations to the Grants Revenue Fund.

The City's Fiscal Year 2011 General Fund received 27.6% of General Fund revenues from other governmental jurisdictions, including: (1) $542.2 million from the Commonwealth for health, welfare, court, and various other specified purposes; (2) $165.4 million from the Federal government; and (3) $63.5 million from other governments, in which revenues are primarily rentals and payments from PGW and parking fines and fees from the Philadelphia Parking Authority. In addition, the net collections of the PICA Tax of $293.8 million are included in "Revenue from Other Governments."

These amounts do not include the substantial amounts of revenues from other governments received by the Grants Revenue Fund, Community Development Fund, and other operating and capital funds of the City.

Revenues from City-Owned Systems

In addition to taxes, the City realizes revenues through the operation of various City-owned systems such as the Water and Wastewater Systems and PGW. The City has issued revenue bonds with respect to the Water and Wastewater Systems and PGW to be paid solely from and secured by a pledge of the respective revenues of these systems. The revenues of the Water and Wastewater Systems and PGW are not legally available for payment of other obligations of the City until, on an annual basis, all revenue bond debt service requirements and covenants relating to those bonds have been satisfied and then, in a limited amount and upon satisfaction of certain other conditions.

Effective June 1991, the revenues of the Water Department were required to be segregated from other funds of the City. Under the City's Restated General Water and Wastewater Revenue Bond Ordinance of 1989 (the "Water Ordinance"), an annual transfer may be made from the Water Fund to the City's General Fund in an amount not to exceed the lesser of (a) all Net Reserve Earnings, as defined below, and (b) $4,994,000. Net Reserve Earnings means the amount of interest earnings during the fiscal year on amounts in the Debt Reserve Account and Subordinated Bond Fund, as defined in the Water Ordinance. Commencing in Fiscal Year 1991, the $4,994,000 amount was reduced to $4,138,000 by administrative agreement that remained in effect through Fiscal Year 2003. No such transfer was made in Fiscal Year 1992; however, the transfer was made in each subsequent year through Fiscal Year 2003. For Fiscal Year 2004, the transfer was to have increased to $4,994,000 but no payment was made. For Fiscal Year 2005, the transferred amount was $4,401,000; for each of Fiscal Years 2006 through 2008, the transferred amount was $4,994,000. In Fiscal Years 2009, 2010, 2011 and 2012, the transferred amounts were $4,185,463, $2,303,986, $1,229,851, and $1,086,165, respectively. In Fiscal Year 2013, the amount transferred was $560,156 and the Fiscal Year 2014 budget and current estimate is $700,000.

The revenues of PGW are segregated from other funds of the City. Payments for debt service on Gas Works Revenue Bonds are made directly by PGW. In previous years, PGW has also made an annual payment of $18,000,000 to the City's General Fund. For Fiscal Year 2005, the City agreed to forgo the $18,000,000 payment, and for Fiscal Years 2006, 2007, 2008, 2009 and 2010, the City budgeted the receipt of the $18,000,000 payment and the grant back of such amount to PGW. The City's Nineteenth Five-Year Plan assumed that the $18,000,000 payment would be made in each of Fiscal Years 2011 through 2015 and that the City would grant back such payment to PGW in each such Fiscal Year. See also "EXPENDITURES OF THE CITY - Annual Payments to PGW." The City's Twentieth Five-Year Plan included the PGW annual payment of $18,000,000 to the City's General Fund but discontinued the City's grant back to PGW equal to the annual payment received from PGW for Fiscal Years 2012, 2013, 2014, 2015 and 2016. The City's Twenty-First Five-Year Plan included the PGW annual payment of $18,000,000 to the City's General Fund and discontinued the City's grant back to PGW equal to the annual payment received from PGW for Fiscal Years 2013, 2014, 2015, 2016 and 2017. The City's Twenty-Second Five-Year Plan includes the PGW annual payment of $18,000,000 to the City's General Fund and discontinues the City's grant back to PGW equal to the annual payment received from PGW for Fiscal Years 2014, 2015, 2016, 2017 and 2018. The City is considering the sale of PGW to a private entity. See "THE GOVERNMENT OF THE CITY OF PHILADELPHIA-Government Services."

Philadelphia Parking Authority Revenues

The Philadelphia Parking Authority ("PPA") was established by City ordinance pursuant to the Pennsylvania Parking Authority Law, P.L. 458, No. 208 (June 5, 1947). Various statutes, ordinances, and contracts authorize PPA to plan, design, acquire, hold, construct, improve, maintain and operate, own or lease land and facilities for parking in the City, including such facilities at Philadelphia International Airport (the "Airport" or "PHL"), and to administer the City's on-street parking program through an Agreement of Cooperation ("Agreement of Cooperation") with the City.

PPA owns and operates five parking garages at the Airport, as well as operating a number of surface parking lots at the Airport. The land on which these garages and surface lots are located is leased from the City, acting through the Department of Commerce, Division of Aviation, pursuant to a lease expiring in 2030 (the "Lease Agreement"). The Lease Agreement provides for payment of rent to the City, which is equal to gross receipts less operating expense, debt service on PPA's bonds issued to finance improvements at the Airport and reimbursement to PPA for capital expenditures and prior year operating deficits relating to its Airport operations, if any. The City received transfers of rental payments in Fiscal Years 2006 through 2012 that totaled $30,186,642, $33,184,918, $33,570,037, $31,239,909, $23,732,623, $28,008,554 and $25,035,368, respectively. The amount for Fiscal Year 2013 was $24,040,892. The Fiscal Year 2014 budgeted amount is $25,000,000 and the current estimated amount is $25,100,000.

One component of the operating expenses is PPA's administrative costs. In 1999, at the request of the Federal Aviation Administration ("FAA"), PPA and the City entered into a letter agreement (the "FAA Letter Agreement") which contained a formula for calculating PPA's administrative costs and capped such administrative costs at 28% of PPA's total administrative costs for all of its cost centers. PPA owns and/or operates parking facilities at a number of non-Airport locations in the City. These parking facilities are revenue centers for purposes of the FAA Letter Agreement. According to PPA's audited financial statements, as filed with the City, PPA has been in compliance with the FAA Letter Agreement since its execution.

Pursuant to the Agreement of Cooperation, on-street parking revenues are administered and collected on behalf of the City by the PPA. Pursuant to state law, the PPA is to transmit these revenues to the City, net of any actual expenses incurred in the administration of the on-street parking system in accord with the PPA's approved budget, provided that, should such net revenues exceed a designated threshold, any excess above that threshold is to be transmitted to the School District. The threshold is set by statute at $25 million, plus a mandatory escalator to take into account increases in revenues. Pursuant to Act 84 of 2012, the threshold is reset at $35 million, including a mandatory escalator to take into account increases in revenues. The City received payments from the PPA for Fiscal Year 2006 through Fiscal Year 2012 of $18,131,387, $20,585,709, $25,000,000, $30,372,262, $32,622,232, $33,371,273 and $34,271,546. For those same fiscal years, the School District received $0.00, $0.00, $2,885,632, $3,800,588, $7,284,153, $7,788,598 and $13,955,844.

EXPENDITURES OF THE CITY

The major City expenditures are for personal services (including pensions and other employee benefits), purchase of services (including payments to SEPTA), and debt service.

Personal Services (Personnel)

As of June 30, 2013, the City employed 26,472 full-time employees, 20,897 of which had salaries paid from the General Fund. Additional employment is supported by other funds, including the Grants Fund, Water Fund and the Aviation Fund.

Additional operating funds for employing personnel are contributed by other governments, primarily for categorical grants, as well as for the conduct of the community development program. These activities are not undertaken if funding is not received.

The following table sets forth the number of filled full-time positions of the City as of the dates indicated.

Table 13
Filled, Full Time Positions - All Operating Funds
as of June 30 (Actual)

	2006	2007	2008	2009	2010	2011	2012[1,2]	2013[1,2]
General Fund								
Police	7,287	7,424	7,367	7,443	7,378	7,219	7,225	7.193
Fire	2,270	2,399	2,326	2,252	2,187	2,146	2,072	2,125
Courts	1,936	1,928	1,970	1,889	1,756	1,869	1,957	1,909
Prisons	2,225	2,176	2,131	2,294	2,254	2,166	2,144	2,248
Streets	1,858	1,814	1,839	1,724	1,693	1,689	1,682	1,690
Health	662	664	665	662	662	661	669	673
Human Services	1,703	1,721	1,784	1,743	1,751	1,668	804	349
All Other	4,878	4,941	5,029	4,905	4,616	4,602	4,622	4,710
Total General Fund	22,819	23,067	23,111	22,912	22,297	22,020	21,175	20,897
Other Funds	4,616	4,598	4,642	4,570	4,566	4,540	5,197	5,575
Total - All Funds	27,435	27,665	27,753	27,482	26,863	26,560	26,372	26,472

(1) Reflects full-time positions for Fiscal Year 2012 from the June 30, 2012 Quarterly City Manager's Report and for Fiscal Year 2013 from the 6/30/2013 QCMR.
(2) Reflects the transfer of the majority of DHS revenue and obligations from the General Fund to the Grants Revenue Fund.

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Overview of City Employees

The wages and benefits of City employees vary not only by position, but also by whether the employees are represented by a union and, if so, which union. Employee wages and benefits may also be impacted by whether the employee is subject to the Civil Service system or exempt from those rules. Thus, City employees may be broken down into three major categories for purposes of understanding how their wages and benefits are determined: (1) employees who are not subject to the Civil Service system ("exempt employees"); (2) employees who fall under the Civil Service system but are not represented by a union ("non-represented employees") and (3) employees who are subject to the Civil Service system and represented by a union ("union employees"). In addition, there are employees of the First Judicial District who are represented by a union but are not subject to the Civil Service system. By state law, the City is considered to be the economic employer and a joint employer over these court employees, which results in the City negotiating the wages and economic benefits for these employees while the First Judicial District retains control over the non-economic terms of their employment including decisions such as hiring, promotion and all work rules.

As of November 8, 2013, the City's 25,057 unionized employees were represented by the City's four municipal unions: Fraternal Order of Police Lodge No. 5 ("FOP"); International Association of Fire Fighters Local 22 ("IAFF"); American Federation of State, County and Municipal Employees ("AFSCME") District Council 33 ("DC 33"); and AFSCME District Council 47 ("DC 47").

Table 14
Number of Unionized Employees
As of November 8, 2013

AFSCME District Council 33	AFSCME District Council 33 Correctional Officers	AFSCME District Council 47, Local 2187	AFSCME District Council 47 Local 810 Court Employees	AFSCME District Council 47 Local 2186	Fraternal Order of Police Lodge No. 5 (Police Department)	Fraternal Order of Police Lodge No. 5 (Sheriff's Office and Register of Wills)	International Association of Fire Fighters Local 22
9,668	2,255	2,636	522	954	6,551	285	2,186

Union employees, other than uniformed employees of the Police Department and Fire Department, are subject to the requirements of Pennsylvania Act 195 of 1972 ("Act 195"). Under Act 195, the union and the City are required to bargain in good faith to attempt to reach agreement on new contract terms. Act 195 also requires the parties to satisfy certain state-mandated mediation procedures involving a mediator appointed by the Commonwealth Bureau of Mediation. Once those mediation procedures are satisfied and no collective bargaining agreement has been reached, most employees covered by Act 195 are permitted to strike. For most employees under Act 195 there is no statutory mechanism to resolve an impasse in collective bargaining.

However, under Act 195, certain employees, including employees of the Sheriff's Office and the Register of Wills represented by the FOP, corrections officers represented by DC 33 and employees of the First Judicial District represented by DC 47, are not permitted to strike, but may proceed to interest arbitration under Act 195 when collective bargaining negotiations reach an impasse. In interest arbitration, a tri-parte arbitration panel is convened with each side appointing one partial arbitrator and the partial arbitrators selecting a neutral third arbitrator. The panel then conducts evidentiary hearings and issues an arbitration award that sets the terms and conditions of employment, including changes in wages and benefits, for covered employees. Although the arbitration panel cannot issue an award on matters that are not mandatory subjects of bargaining, such as matters of inherent managerial policy, without the parties' consent, arbitration panels have broad powers to set employment terms. Pennsylvania law provides limited grounds on which an interest arbitration award can be set aside by a court on appeal. However, provisions of an interest arbitration award issued under Act 195 that require legislative action are considered advisory only and the legislative body is permitted to meet, consider and reject those provisions.

Uniformed employees of the Police Department and Fire Department bargain under Pennsylvania Act 111 of 1968 ("Act 111"), which provides for final and binding interest arbitration to resolve collective bargaining impasses. These employees are similarly not permitted to strike. Interest arbitration under Act 111 operates similarly to interest arbitration under Act 195, but the City's legislative body is not permitted to reject the portions of an interest arbitration award that require legislative action. To the contrary, the City is required to pass any legislation necessary to implement the award unless doing so would violate state or federal law. Thus, the arbitration panel has significant, although not limitless power, to issue an award on mandatory subjects of bargaining. As with interest arbitration under Act 195, the arbitration panel cannot issue an award on a matter that is one of inherent managerial policy. In addition to the grounds available to challenge an Act 195 interest arbitration award on appeal, the PICA Act requires an Act 111 interest arbitration panel to *inter alia* give substantial weight to the City's Five-Year Plan and ability to pay for the cost of the award without negatively impacting services, and gives the City the right to appeal the award to the Court of Common Pleas if it believes the panel has failed to meet these responsibilities. If the arbitration panel fails to do so or *inter alia* if it awards wages or benefits that exceed what is assumed in the Five-Year Plan without substantial evidence in the record demonstrating that the City can afford these increases without adversely impacting service levels, the Court of Common Pleas is required to vacate the arbitration award and remand it to the arbitration panel.

Overview of Employee Benefits

The City provides various pension, life insurance, and health benefits for its employees. The benefits offered depend on the employee's union status and bargaining unit, if applicable. General Fund employee benefit expenditures for Fiscal Years 2007 through 2014 are shown in the following table.

Table 15
General Fund Employee Benefit Expenditures
Fiscal Years 2007-2014
(Amounts in Millions of USD)

	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Unaudited Actual [2] 2013	Adopted Budget [3] 2014	Current Estimate [4] 2014
Pension Contribution[1]	436.8	430.8	459.0	346.7	485.2	547.8	618.9	667.5	667.5
Health	331.5	421.0	377.0	349.7	346.3	379.4	362.6	362.9	411.9
Social Security	64.1	69.7	68.8	65.2	64.6	67.2	64.7	65.0	65.0
Other	57.9	61.5	68.4	69.5	70.9	71.8	72.9	81.9	82.2
Total	890.3	983.0	973.2	831.4	967.0	1,066.2	1,119.1	1,177.3	1,226.6

(1) The Pension Contribution amount includes debt service on the 1999 Pension Obligation Bonds (defined below) and certain debt incurred to refinance existing pension deferral repayment obligations (outstanding together in the aggregate principal amount of $1,294,825,350 on June 30, 2013). See also "*Pension Obligation Bonds*" and "*Funded Status of the Municipal Pension Fund*" under "Municipal Pension Fund (Related to All Funds)" below.
(2) From the Annual Financial Report for Fiscal Year 2013 (unaudited) issued on 10/28/2013.
(3) From the estimates for the Adopted Fiscal Year 2014 Budget. Does not reflect full impact of August 2013 IAFF Order and IAFF Withdrawal. See "Overview of Current Labor Situation – IAFF."
(4) From the 9/30/2013 QCMR.

Each of the City's four municipal unions sponsors its own health plan that provides medical, prescription, dental and optical benefits to participating employees and eligible retirees through trusts on which the City has varying degrees of minority representation. Exempt and non-represented employees, along with represented employees of the Register of Wills and employees represented by DC 33 who have chosen not to become members of the union, receive health benefits through a plan sponsored and administered by the City (the "City-Administered Plan"). Each of the plans provide different benefits determined by the plan sponsor. In addition, employees who satisfy the eligibility criteria, receive five years of health benefits after their retirement. See "Other Post-Employment Benefits." These benefits are determined and administered by the plan in which the employee participated at the time of his or her retirement.

Other employee benefits, including life insurance and paid leave, are similarly determined by the respective collective bargaining agreements and City policies and Civil Service Regulations. Employees also participate in the Municipal Retirement System. See “Municipal Pension Fund.” The City sponsors a number of pension plans within the Retirement System. Membership in the plans is determined by the employee's hire date, union membership and job classification. Uniformed employees of the Police Department and Fire Department have their own separate pension plans, which have lower retirement ages, higher multipliers and higher employee contribution rates. All other City employees participate in what is referred to as the "municipal plan." Depending on hire date and union status, employees participate in one of three basic pension plan tiers in the municipal plan, which have varying levels of benefits, and which are colloquially referred to based on the year in which they were first implemented: "Plan 67" is the most generous of the three plans, offering a traditional defined benefit for life; "Plan 87" maintains Plan 67's defined benefit structure but provides less generous benefits to employees and lower employee contributions; "Plan 10," which was created by the current Administration, is a so-called hybrid plan, combining a lower level of defined benefits with an optional defined contribution component in which employees can contribute a portion of their salary, pre-tax, to a 403(b) plan and receive a 50% match on those contributions up to a maximum City contribution of 1.5% of pay annually. Plan 10 has only been put in place for newly-hired employees of the Register of Wills. New employees who belong to the FOP or the IAFF can opt to participate in Plan 87 by paying an extra one percent of salary or may enter into Plan 10. To date no members of the IAFF or FOP have chosen to enter Plan 10. The actuary for the pension plan has estimated the savings to the City for new hires participating in Plan 10 at 2.5% of payroll compared to the cost of these employees participating in Plan 87 instead. See Table A-1 of the 2012 Actuarial Report (hereinafter defined) for information on the number of active members in the various City pension plans as of July 1, 2012. As of such date there were no active members in Plan 10.

Overview of Current Labor Situation

The Fraternal Order of Police received a five-year interest arbitration award for uniformed police department employees on December 18, 2009 covering the period Fiscal Year 2010 through Fiscal Year 2014. Interest arbitration awards covering employees of the Sheriff's Office and Register of Wills, corrections officers and youth detention counselors represented by DC 33 and court employees represented by DC 47 through Fiscal Year 2014 were issued in 2011 and 2012. An interest arbitration award covering employees of the IAFF for the period Fiscal Year 2010 through Fiscal Year 2013 was first issued in 2010. After an appeal by the City that resulted in the award being vacated and additional hearings, a new award was issued in 2012. The City appealed again, but that appeal was withdrawn in September 2013 and the award has now been implemented.

Agreements with the remaining two bargaining units – DC 33 and DC 47 – expired on June 30, 2009 and no new agreements have been reached.

The information below summarizes the interest arbitration awards that have been issued and provides an update on the status of negotiations for the other bargaining units, as well as changes that have been made for exempt and non-represented employees.

<u>Uniformed Police Department Employees Represented by FOP</u>

On December 18, 2009, an arbitration panel awarded a five-year contract to the FOP effective July 1, 2009. On March 2, 2010, the arbitration panel issued a supplemental award solely on the issue of pension benefits. On December 20, 2012, the interest arbitration panel issued an award setting the wage terms for Fiscal Year 2013 and Fiscal Year 2014. These awards have the following key provisions:

- No wage increase for Fiscal Year 2010.
- Three percent pay increases for each of Fiscal Year 2011 and Fiscal Year 2012, along with a re-opener for Fiscal Year 2013 and Fiscal Year 2014 which yielded an additional 3% raise in both years.
- An increase in the stress pay that police officers receive as a result of working rotating shifts by 1% in Fiscal Year 2011 and 1% in Fiscal Year 2014.
- Several changes were made in the area of health benefits to reduce City costs. At the start of the Nutter Administration, the City was contributing $1,265 per eligible employee and retiree per month (“PEPM”) to

the FOP health plan. In the one-year 2008-2009 interest arbitration award, that amount was reduced to $1,165 PEPM. The 2009-2014 interest arbitration award continued that downward trend, reducing the City's contribution to the FOP health plan to $965 PEPM effective January 1, 2010. Effective July 1, 2010, the award ordered the FOP's health plan moved to self-insurance. Under self-insurance, the health fund pays for the actual cost of services provided to members, instead of paying a premium to an insurance carrier based on expected claims. The FOP's change is similar to the change the City made in Fiscal Year 2010 for the City-Administered Plan. In addition, the award also ordered increases in the co-pays employees pay for doctor's visits and prescription drugs. The health plan's actuary has estimated that the change in benefits reduced costs by $1.5 million in the first six months alone. Changes in the health care provisions in the 2008 and 2009 interest arbitration awards have resulted in savings to the City in excess of $50 million to date.

- Pension changes for new hires - FOP members now choose between either increasing their pension contribution from 5% to 6% of pay or enrolling in Plan 10.
- The City gained the right to furlough (a day off without pay) employees up to 30 days each fiscal year.

The City and the FOP continue to have disputes regarding implementation of certain portions of the 2009 interest arbitration award regarding health insurance. Originally, the parties disputed how the expected costs were calculated by the parties' respective experts for Fiscal Year 2011, the inclusion of certain depreciation expenses in administrative costs and the creation of an escrow account. A hearing was held before the interest arbitration panel and it issued a decision in August 2013 accepting the City's position on the method of calculating the expected costs, and accepting the FOP's position on the depreciation expenses and the creation of an escrow account. The disputed amounts have now been paid, with the exception of the escrow account because the FOP has not forwarded a proposed escrow agreement to the City, as required by the Panel's award. The City has escrowed the fund to cover the ordered escrow account. Currently, the parties are in dispute over the reconciliation between the expected costs for Fiscal Year 2012, as calculated by the parties' respective consultants, and the actual Fiscal Year 2012 results. Specifically, the FOP contends that more than $3 million in expenses that it alleges were incurred by dependents up to age 26 who gained coverage under the Affordable Care Act should be excluded from the reconciliation for purposes of increasing the reconciliation payment owed. This dispute, which has a total impact of approximately $1.5 million, has not been submitted to the interest arbitration panel for resolution at this time but is still in discussions between the parties. The prior disputes have delayed the exchange of the Fiscal Year 2013 and Fiscal Year 2014 expected costs until January 2014.

The current interest arbitration award has an expiration date of June 30, 2014. In accordance with Act 111, the parties exchanged proposals for a successor agreement on December 31, 2013.

<u>FOP-Represented Deputy Sheriff and Register of Wills</u>

A five-year interest arbitration award covering the unionized employees of the Sheriff's Office and Register of Wills was issued on June 21, 2011 for the period July 1, 2009 through June 30, 2014. Key provisions of the award include:

- A 2.5% increase for Sheriff's Office employees in Fiscal Year 2011 and Fiscal Year 2012 and a re-opener for Fiscal Year 2013 and Fiscal Year 2014, which yielded an award of 3% raise in both years. The re-opener award also directed a change in the longevity schedule from a fixed dollar to a percentage, intended to not result in additional costs to the City.
- Wage increases for Register of Wills employees, if any, will be based on increases negotiated between the City and DC 33.
- Step and longevity increments, which had been frozen by the City in July 2009, were restored for employees of the Sheriff's Office retroactive to the start of the freeze. Increments for Register of Wills employees were restored prospectively as of the date the award was issued.
- Employees of the Sheriff's Office participate in the FOP's health plan. The award continued that arrangement, along with the same funding terms and benefit plan changes as the police interest arbitration award. Register of Wills employees continue to participate in the City-Administered Plan.

- Pension changes for new hires. New employees of the Sheriff's Office choose between going into the existing municipal pension Plan 87 and increasing their contribution to 50% of normal cost from 30% of normal cost, or going into Plan 10. Register of Wills employees hired after the date of the award must enter Plan 10. The award was the first that required City employees to enter the hybrid plan.

Because the award has an expiration date of June 30, 2014, the union has now requested bargaining for a contract to begin July 1, 2014. No bargaining sessions have yet been scheduled.

IAFF

A four-year interest arbitration award with the IAFF was issued on October 15, 2010. Although the award took a crucial step toward reform by implementing a Plan 10 option like the one in the 2009 FOP award, it would have imposed more than $200 million in new costs over the Five-Year Plan without giving the City the required tools to manage these costs. As a result, the City appealed the award, with the exceptions of the revisions to the pension plan and a change related to vacations, on the basis that the award violated the PICA Act because it failed to give substantial weight to the City's approved Five-Year Plan and ability to pay, and, as a result, granted increases in pay and benefits in excess of what the City can afford. On November 16, 2011, the Philadelphia Court of Common Pleas vacated the entire award, with the exception of the pension and vacation provisions, and remanded it to the arbitration panel to issue an award that complies with the PICA Act.

On July 2, 2012, the arbitration panel issued an award following the remand. This award followed the same pattern as the vacated award on economic terms with the exception of health insurance. Key provisions of the award include:

- No wage increase for Fiscal Year 2010.
- Three percent pay increases for each of Fiscal Year 2011, Fiscal Year 2012 and Fiscal Year 2013.
- Pension changes for new hires - IAFF members now choose between either increasing their pension contribution from 5% to 6% of pay or enrolling in Plan 10.

Under the 2012 award, the City's required contributions to the IAFF-controlled health fund were substantially increased from $1,270 PEPM at the start of the award to $1,679 PEPM as of July 1, 2012, including more than $20 million in retroactive payments. For the period October 1, 2012 through June 30, 2013, the City's required contribution was set at $1,619.64 PEPM under the award, which is significantly higher than the monthly per employee contribution for DC 33 and DC 47 ($975.76) and the FOP ($1,192). The award also gave the City the option to have the health fund move to self-insurance on terms based on the FOP award effective October 1, 2012 rather than pay the fixed $1,619.64 PEPM. However, to do so, the City would still have had to pay the retroactive contributions in excess of $20 million and bear the costs of the benefits and administration of the health fund, regardless of their magnitude with no employee contribution after the health fund paid the first $5 million in claims. Because this award would have added over $200 million in costs over the Five-Year Plan, including more than $80 million in retroactive payments in Fiscal Year 2013, it was appealed by the City. On November 19, 2012, the Common Pleas Court denied the City's appeal. The City appealed the denial to Commonwealth Court.

On September 6, 2013, the City withdrew its appeal of the 2012 award (the "IAFF Withdrawal"). Although the City believes it would have prevailed in the appeal, it determined that its improved financial condition made it appropriate to implement the terms of the award, rendering the appeal unnecessary. The City has now implemented the terms of the award and revised the Twenty-Second Five Year Plan to reflect the additional costs. See "SUMMARY FINANCIAL INFORMATION-Five-Year Plans of the City."

During the pendency of the appeal, the City had not implemented its terms, except for the pension provision that was implemented following issuance of the 2010 award. The IAFF filed an unfair labor practice charge with the Pennsylvania Labor Relations Board and a Motion for Contempt with the Court of Common Pleas of Philadelphia County challenging the City's failure to implement the 2012 award. The Court of Common Pleas issued an order on June 26, 2013 denying the IAFF's Motion for Contempt and finding that the City is entitled to an automatic stay of its decision to deny the petition to vacate while the City's appeal of that order is pending. The IAFF recently withdrew its appeal of that order to Commonwealth Court with prejudice. The parties have agreed to submit the unfair labor practice dispute through stipulated facts which were filed in September 2013. No briefing schedule has yet been set. The IAFF is still pursuing the unfair labor practice charge, even though the terms of the award have been implemented by the City.

Because the appealed contract would have expired on June 30, 2013, negotiations are underway for a new contract to begin on July 1, 2013. The IAFF declared an impasse and requested interest arbitration. The arbitration panel was selected. Hearings began in August 2013 and are expected to last through January 2014 with an award expected in 2014.

DC 33

After having spent nearly four years in negotiations, the City has been unable to reach an agreement with DC 33. On January 16, 2013, the City made a final offer to DC 33 for a contract to run July 1, 2009 through June 30, 2014. The City's offer includes wage increases of 2.5% following ratification and an additional 2% in January 2014 and restoration of step and longevity increments prospectively following ratification, along with $25 million in additional payments to the union managed health fund. Under the City's proposal, the City's PEPM contribution to the union's health fund will remain at $975.76 for the term of the contract with the health fund using the lump sum payments to offset any cost increases it has experienced. The City also proposed two pension changes: (1) to require all new employees to enter Plan 10; and (2) increased pension contributions from current employees as was ordered for corrections officers represented by DC 33 (discussed below). Additionally, the City proposed changes in overtime rules based on the changes made in Fiscal Year 2013 for non-represented employees and those represented by Local 2186 of DC 47 (discussed below) and the right to furlough employees when economic circumstances warrant, similar to the FOP award. The City estimates the Five-Year Plan cost of its final offer at more than $50 million. When DC 33 rejected this offer, the Mayor gave DC 33 two weeks to reconsider its refusal, but subsequent discussions were unproductive.

On February 1, 2013, the City filed an action in the Court of Common Pleas of Philadelphia County, asking the court for a declaration that the City has the right to implement its final offer for the currently-expired contract. On February 5, 2013, the City asked the Pennsylvania Supreme Court to assume immediate jurisdiction over the matter to speed a final resolution. Groups representing all 3,000 elected local governments in Pennsylvania filed a brief in the Pennsylvania Supreme Court on February 19, 2013 in support of the City's request. On June 7, 2013, the Pennsylvania Supreme Court declined to expedite review over a strong dissent by Justice Castille. The case continues in the Court of Common Pleas with the union filing a motion for summary judgment on November 18, 2013 and the City filing its cross motion for summary judgment on December 2, 2013. During the period of litigation, the City is maintaining the status quo on the issues that separate the parties.

DC 33 Corrections' Officers and Youth Detention Counselors

On March 16, 2012, an interest arbitration panel issued an award for the period July 1, 2009 through June 30, 2014 covering approximately 2,100 prison guards and related employees of the City who are part of DC 33. Key components of the award include:

- A one-time $1,100 lump sum bonus, equivalent to that received by the larger unit of DC 33 in 2008, and wage increases of 2.5% effective July 1, 2012 and July 1, 2013. If the City agrees to any wage increases in the DC 33 negotiations described in the preceding section for July 1, 2009 through June 30, 2012, the prison guards and related City employees would also receive these increases.
- All new hires are required to enter Plan 10. Additionally, current employees are required to make increased contributions for their pension plans effective July 1, 2013. Employees covered under Plan 87 will see an increase from 30% of normal cost to 50% of normal cost, which will increase the employee contribution by approximately 1.3% of salary. Employees in Plan 67 will also pay 50% of normal cost, but will no longer receive an offset while contributing toward FICA, which will increase the employee contribution by 2.25% of salary for most employees.
- Paid leave hours other than vacation no longer count as hours worked when determining when overtime is due.

The union filed a petition to vacate portions of the award, which was denied by the Court of Common Pleas of Philadelphia County on April 5, 2013. The union has appealed that decision to Commonwealth Court. Briefs have been submitted by the parties and they await the scheduling of oral argument. The pension changes awarded require approval by City Council to be implemented.

Because the award has an expiration date of June 30, 2014, the union has now requested bargaining for a contract to begin July 1, 2014. No bargaining sessions have yet been scheduled.

DC 47

DC 47 represents three distinct groups of City employees that have different bargaining rights under Act 195. Local 2187 is the rank-and-file professional employees that DC 47 represents. They have the right to collectively bargain under Act 195 and to strike once the statutory mediation procedures are exhausted, as described above. Local 2186 is a unit comprised of first-level supervisors who do not have the right to collectively bargain under Act 195, but only to meet and discuss. Subject to this obligation, it has the right to impose changes in terms and conditions of employment, including wage and benefit changes, on Local 2186 employees. Local 810 is a unit of employees of the First Judicial District who have the right to proceed to interest arbitration under Act 195.

All three of the groups participate in the union-controlled health fund. The City's current contribution to the health fund of $975.76 has been in place since 2007. The status of contracts with each group of these employees is discussed below.

On December 18, 2013, the City agreed to make a one-time, lump sum payment of $2.4 million to the District Council 47 health fund as an advance against any additional contributions owed by the City under a new collective bargaining agreement, when one is negotiated. It is anticipated that negotiations will resume in January 2014.

DC 47 Local 2187

Negotiations are on-going with DC 47 for employees represented by Local 2187 with the City seeking similar changes to those it is seeking in its negotiations with DC 33.

DC 47 Local 810

On July 11, 2012, an interest arbitration award was issued governing economic terms of employment for covered employees for the period from July 1, 2009 through June 30, 2014. The award ordered general wage increases of 2.5% on July 1, 2012 and July 1, 2013. Additionally, employees in the classification of Probation Officer 2 were awarded a one-range increase within the First Judicial District pay schedule. The First Judicial District has not implemented the classification adjustment, as ordering a promotion infringes on the exclusive authority of the courts. The union has filed an unfair labor practice charge challenging the refusal to implement that provision, on which two days of hearings were held. The union has submitted its post-hearing brief. The First Judicial District has now decided to implement the change to the pay scheduled for these employees and the City expects the unfair labor practice charge to be rendered moot. Under the award, new hires are required to enter Plan 10. Implementation of the pension provision requires City Council approval.

Although the current award expires on June 30, 2014, no demand for negotiations for a successor agreement to begin July 1, 2014 has been received by the City at this time.

DC 47 Local 2186 and Exempt and Non-Represented Employees

In September 2012, Mayor Nutter announced changes in wages and benefits for supervisors in DC 47 Local 2186 (for whom the City may impose terms of employment), effective October 1, 2012, along with civil service non-represented and exempt employees. These changes included: (1) a 2.5% pay increase; (2) prospectively restored step and longevity increments (but no back pay); (3) changes restricting overtime including the elimination of double time. In addition, the City amended the Civil Service Regulations to allow it to furlough employees when economic circumstances warrant. As part of this package of changes, the Mayor asked City Council to pass legislation placing new employees in Plan 10 and requiring other employees to contribute, on average, 1.3% to 2.25% more to their pension, as was awarded in interest arbitration with the City's corrections officers (discussed above). Implementation of the pension changes is awaiting City Council approval. These changes affect approximately 5,500 City employees, including those in independently elected offices, who had not had a pay increase since 2007.

The union filed an unfair labor practice charge challenging the implementation of these changes on employees in Local 2186. The parties have agreed to submit the dispute through stipulations of facts and the submission of written briefs. A decision is expected in 2014.

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Summary of Wage Changes Since Fiscal Year 2006

The following table presents employee wage increases for the Fiscal Years 2006 through 2014.

Table 16
Employee Wage Increases
Fiscal Years 2006-2014

Fiscal Year	AFSCME District Council 33	AFSCME District Council 47	Fraternal Order of Police Lodge No. 5 (Police)	IAFF Local 22	AFSCME District Council 33 Correctional Officers	AFSCME District 47 Local 810 Court Employees	AFSCME District Council 47 Local 2186	Fraternal Order of Police Lodge No. 5 (Sheriff's Office and Register of Wills
2006	2.0%	2.0%	3.0%	3.0%	2.0%	2.0%	2.0%	2.0%
2007	3.0%(1)	3.0%(1)	3.0%	3.0%	3.0%(1)	3.0%(1)	3.0%(1)	3.0%(1)
2008	4.0%(2)	4.0%(2)	4.0%	4.0%	4.0%(2)	4.0%(2)	4.0%(2)	4.0%(2)
2009	No increase(3)	No increase(3)	4.0%(4)	4.0%(4)	No increase	No increase(3)	No increase(3)	3.0%(10)
2010	(5)	(5)	0.0%(6)	0.0%(7)	(8)	(9)	(11)	0.00%(12)
2011	(5)	(5)	3.0%(6)	3.0%(7)	(8)	(9)	(11)	2.5%(12)
2012	(5)	(5)	3.0%(6)	3.0% (7)	(3) (8)	(9)	(11)	2.5%(12)
2013	(5)	(5)	3.0%(6)	3.0% (7)	2.5%(8)	2.5%(9)	2.5%(11)	3.0% (12)
2014	(5)	(5)	3.0%(6)	(7)	2.5%(8)	2.5%(9)	(11)	3.0% (12)

(1) Third year of a four year contract: 3% effective July 1, 2006.
(2) Fourth year of a four year contract: 4% effective July 1, 2007.
(3) Cash bonus of $1,100 paid 15 days after ratification.
(4) One year contract: 2% effective July 1, 2008 and 2% effective January 1, 2009.
(5) Contract expired on June 30, 2009, and negotiations are currently underway.
(6) Five year contract: 0% effective July 1, 2009, 3% effective July 1, 2010, 3% effective July 1, 2011, 3% effective July 1, 2012, 3% effective July 1 2013.
(7) Four year contract: 0% effective July 1, 2009, 3% effective July 1, 2010, 3% effective July 1, 2011, 3% effective July 1, 2012. Negotiations for a contract beginning July 1, 2013 are underway.
(8) Five year contract: For Fiscal Years 2010, 2011 and 2012, covered employees will receive the same wage increases, if any, negotiated by DC33 for that time period; 2.5% effective July 1, 2012; 2.5% effective July 1, 2013.
(9) Five year contract: For Fiscal Years 2010, 2011 and 2012, covered employees will receive the same wage increases, if any, negotiated by DC47 for that time period; ; 2.5% effective July 1, 2012; 2.5% effective July 1, 2013.
(10) One year contract: 3% effective July 1, 2008.
(11) Memorandum of Agreement expired on June 30, 2009. City implemented wage increase of 2.5% effective October 1, 2012 when no agreement was reached. The union continues to participate in DC47 negotiations.
(12) Five year contract: 0% effective July 1, 2009, 2.5% effective July 1, 2010, 2.5% effective July 1, 2011, 3.0% effective July 1, 2012 and 3.0% effective July 1, 2013.

Municipal Pension Fund (Related to All Funds)

General

The Board of Pensions and Retirement (the "Pension Board") is charged under the Philadelphia Home Rule Charter with the creation and maintenance of an actuarially sound retirement system providing benefits for all City employees. Court decisions have interpreted the requirement to maintain an actuarially sound retirement system to mean that the City must make contributions to the Municipal Pension Fund sufficient to fund:

A. Accrued actuarially determined normal costs; and

B. Amortization of the unfunded actuarial accrued liability ("UAAL").

The Pension Board, pursuant to the Home Rule Charter, is composed of the Director of Finance, who serves as chairperson, the Managing Director, the City Solicitor, the Personnel Director, the City Controller and four members who are elected by the Civil Service employees of the City. The elected members serve a four-year term of office.

The Pension Board formally approves all benefit applications, but its major role is that of "trustee," to ensure that the retirement system remains actuarially and financially sound for the benefit of current and future benefit recipients. The Pension Board, with the assistance of its staff and professional consultants, develops the policies and strategies which enable the Pension Board to successfully execute its fiduciary obligations.

The City's funding of employer contributions to the Municipal Pension Fund requires the Mayor's annual budget submission and the appropriation of funds for such purpose by the City Council. See "CITY FINANCES AND FINANCIAL PROCEDURES – Budget Procedure" above. In every year since 1987, the City has appropriated contributions to the Municipal Pension Fund in an amount at least equal to the required minimum municipal obligation ("MMO") specified under state law. See "*Funded Status of the Municipal Pension Fund*" below. However, the City, pursuant to state legislation, deferred a portion of its previously calculated MMO in the amount of $150 million in Fiscal Year 2010 and $80 million in Fiscal Year 2011 to be paid over the period ending in Fiscal Year 2014. See "*Annual Required Contributions*" below for further information regarding the City's annual contributions to the Municipal Pension Fund. The City's annual funding of the Municipal Pension Fund at a level at least equal to the applicable MMO makes the City eligible to receive certain annual pension funding from the Commonwealth of Pennsylvania which is deposited to the City's General Fund and transferred to the Municipal Pension Fund. For information regarding the annual amounts of Commonwealth contributions see Table 23 below.

Overview Discussion of Funding of Municipal Pension Fund

Since 2004, the City has been making contributions to the Municipal Pension Fund based primarily upon the MMO rather than the higher annual required contribution (the "ARC") under the pension fund's funding policy and the City's Twenty-Second Five-Year Plan projects continued funding based upon the MMO. See "Comparison of State Law (MMO) and Pension Board Funding Policy Funding Methods" for a comparison of the methodologies for the actuarial calculations of the ARC and the MMO. The MMO, the ARC, the actuarial accrued liability, the unfunded actuarial accrued liability and the net pension obligation with respect to the Municipal Pension Fund have each generally been increasing over the prior decade while the funded ratios for the Municipal Pension Fund have generally been decreasing. See Tables 21 through 24 below. The Municipal Pension Fund is expected to generally show a continuation of these trends over the City's next five fiscal years. See Table 25 below. The 2012 Actuarial Report sets forth certain projections of the funded ratio of the Municipal Pension Fund to 2032 which indicate that funding the Municipal Pension Fund at the MMO level, based on current methods and assumptions, will result in a slow improvement of funding of the Municipal Pension Fund. See *"Projections of Funded Status"* below for a further discussion of such projections and related assumptions. The fresh start amortization on a level dollar basis ensures the principal is paid each year and is expected to cause the City's pension contributions to be more level compared to what they would have been under the City's previous amortization period.

The City considers capital market fluctuations with respect to the assets of the Municipal Pension Fund to be a significant risk to the funded status of the Municipal Pension Fund. The City has reduced the assumed rate of return over the last several years and anticipates that it may further reduce the assumed rate. No assurances can be given that the Municipal Pension Fund will achieve its assumed rate of return for any particular time period. See "*Investments"* and *"Cash Flows of the Municipal Pension Fund"* below.

The City's ability to reduce the unfunded actuarial accrued liability for the Municipal Pension Fund depends, among other factors, upon collective bargaining negotiations and accompanying City Council implementing actions. No assurances can be given that such negotiations and actions will be successfully implemented in their entirety, or, if implemented, will produce expected improvements in funded status for the Municipal Pension Fund.

With respect to Municipal Pension Fund's impact on the City's overall budget, the City's Twenty-Second Five-Year Plan includes annual funding at the MMO level without reductions in services or new General Fund revenues but reflects the alterations in pension fund benefits that have been included in arbitration awards and are being sought in collective bargaining negotiations. Historically, however, pension cost increases (which have gone from approximately 6% of the City's General Fund budget in 2004 to 12% in 2011) necessitated, at least in part, service cuts and tax increases imposed by the City in recent years.

Certain Additional Municipal Pension Fund Information

In addition to the discussion of the City's Municipal Pension Fund and the City's municipal pension programs known as Plan 67 and Plan 87 (collectively, the "Municipal Pension Plan") set forth under "Municipal Pension Fund (Related to All Funds)" herein, investors are referred to certain other portions of this Official Statement for other information relating to the City's Municipal Pension Fund and Municipal Pension Plan as described below.

See "SUMMARY FINANCIAL INFORMATION–Five-Year Plans of the City" for a discussion of changes in the annual earnings assumptions for the Municipal Pension Fund in relation to the City's five-year financial plans. See "Overview of Current Labor Situation" above for a discussion of pension-related changes set forth in certain collective bargaining agreement contracts or arbitration awards.

A schedule of funding progress as of July 1, 2011, a comparative schedule of operations of the City's Municipal Pension Fund for Fiscal Years 2003 through 2012 and a description of the derivatives and other financial contracts utilized by the Pension Board, among other items, are contained in the CAFR for the City's Fiscal Year ended June 30, 2012, included as APPENDIX C to this Official Statement.

The City's actuarial report dated March 29, 2013, for the period ending July 1, 2012 (the "2012 Actuarial Report"), which sets forth further information regarding the City's pension obligations, including projections of assets and liabilities in the Municipal Pension Fund and future City contributions, is available on the City's Investor Website. See "DISCUSSION OF FINANCIAL OPERATIONS-Current City Practices." The 2012 Actuarial Report is <u>not</u> incorporated into this Official Statement by reference. The 2012 Actuarial Report was prepared by Cheiron, McLean, Virginia (the "Actuary"). The City has not prepared the projections or actuarial assessments set forth in the 2012 Actuarial Report but has reviewed the information set forth in the 2012 Actuarial Report and has no reason to believe that any such information as of its relevant date is inaccurate. **Projections and actuarial assessments are "forward looking" statements and based upon assumptions which may not be fully realized in the future and are subject to change including changes based upon the future experience of the City's Municipal Pension Fund and Municipal Pension Plan.**

Employee Participants and Membership in Municipal Pension Plan

Total membership in the City's Municipal Retirement System increased by 0.2% from July 1, 2011 to July 1, 2012 from 64,349 to 64,485 members, including a decrease of 1.4% in active members from 26,671 to 26,306. Between such dates, annual salaries increased by 0.1% from approximately \$1.371 billion to \$1.372 billion; average salary per active member increased by 1.5% from \$51,414 to \$52,162; annual retirement allowances increased by 3.2% from approximately \$627.12 million to \$646.92 million and the average retirement allowance increased by 1.8% from \$18,641 to \$18,969.

Non-uniformed represented employees become vested in the Municipal Pension Plan upon the completion of ten years of service or may elect accelerated vesting after five years of service and pay a higher employee contribution; provided that such accelerated vesting is required for exempt employees hired after January 13, 1999. Upon retirement, non-uniformed employees may receive up to 100% of their average final compensation depending upon their years of credited service and the plan in which they participate. Generally, uniformed employees become vested in the Municipal Pension Plan upon the completion of ten years of service. Upon retirement, uniformed employees may receive up to 100% of their average final compensation depending upon their years of credited service and the plan in which they participate. City employees participate in arrangements set forth under one of three municipal pensions programs known as Plan 67, Plan 87 and Plan 10, depending, primarily, on such employee's date of hire. The retirement age differs for Plan 67 (age 55) and Plan 87 and Plan 10 (age 60) for non-uniformed employees and also for Plan 67 (age 45) and Plan 87 and Plan 10 (age 50) for uniformed employees.

Police employees hired on or after January 1, 2010 and Fire employees hired after October 15, 2010 have the option to participate in Plan 10, which has a defined benefit plan with a different benefit calculation formula and eligibility and vesting rules and a defined contribution plan with eligibility for City matching contributions, or enter Plan 87 but with an increased employee contribution rate of 6.0% of pay instead of 5.0%. Represented employees of the Sheriff's Office hired after January 1, 2012 have the option to participate in municipal Plan 10, which also has a defined benefit plan with a different benefit calculation formula and eligibility and vesting rules and a defined contribution plan with eligibility for City matching contributions, or enter Plan 87 but with an increased employee contribution rate of 50% of normal cost instead of 30% of normal cost. Represented employees of the Register of Wills hired after June 21, 2011 are required to participate in municipal Plan 10. See also "Overview of Current Labor Situation."

All City employees participate in the U.S. Social Security retirement system except for Police and Fire employees.

Certain membership information relating to the City's municipal retirement system provided by the Pension Board is set forth in Appendix A to the 2012 Actuarial Report and includes as of July 1, 2012, among other information, active and non-active member data by plan, age/service distribution for active participants and average salary for all plans, and age and benefit distributions for non-active member data. See also Appendix D to the 2012 Actuarial Report for a summary of the provisions of Plan 67 and Plan 87 including, among other things, plan provisions regarding: participation, credited service, compensation, employee contributions, service requirements, early retirement, deferred vested retirements, withdrawal benefit, service-connected and ordinary death and disability, survivor benefits, service-connected health care benefit, a description of Plan 10 and deferred retirement option plan (DROP).

Investments

The allocation of assets in the Municipal Pension Fund as of April 30, 2013 as well as the target allocation is set forth below:

Table 17
Asset Allocation as of September 30, 2013

	Domestic Equity	Non-US Equity	Total Fixed Income	Private Equity	Hedge Funds	Real Assets	Cash & Other
Current Allocation	28.0%	19.0%	23.0%	12.0%	9.0%	6.0%	3.0%
Target Allocation	20.0%	20.0%	21.0%	17.0%	12.0%	8.0%	2.0%

Source: Current Allocation – J.P. Morgan
Target Allocation – Approved by Board of Trustees October 2012.
Totals may not add due to rounding.

The Pension Board's investment policy 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 7.95% over a full market cycle with a standard deviation of 12.7% as of November 2012. It is anticipated that this return standard should enable the Fund to meet its actuarially assumed earnings projections (currently 7.95%) over a market cycle. Accordingly, the Fund's investment program will pursue its aforestated total rate of return by a combination of income and appreciation, relying upon neither exclusively in evaluating a prospective investment for the Fund. Any exceptions, an investment made solely for income with no prospect of appreciation or an investment made solely for appreciation prospects with no income contribution, will be made only upon recommendation of the Fund's Investment Committee and approval by a majority of the Pension Board.

For Fiscal Year 2012, the Fund's market return was 0.2% and the actuarial return was 2.4%. During Fiscal Year 2012, the Fund was in the process of implementing the then recently approved asset allocation and City officials believe the returns reflect the timing of the transition. Accordingly, a number of managers were terminated and new relationships created. The objective of establishing new relationships is, among other things, to reduce the risk profile of the fund and reduce management fees.

The following table sets forth for the City's Fiscal Years 2003-2012 the market value of assets internal rate of return and actuarial value of assets internal rate of return experienced by the Municipal Pension Fund, and the assumed rate of return. The 5-year and 10-year arithmetic average returns as of June 30, 2012 were 1.80% and 6.56%, respectively on a market value basis.

Table 18
Municipal Pension Fund
Annual Rates of Return

Year Ending June 30,	Market Value	Actuarial Value*	Assumed Rate of Return
2003	1.8%	-2.2%	9.00%
2004	16.6	4.6	9.00
2005	9.9	1.8	9.00
2006	11.3	6.1	8.75
2007	17.0	10.7	8.75
2008	-4.5	10.1	8.75
2009	-19.9	-9.3	8.75
2010	13.8	12.9	8.25
2011	19.4	9.9	8.15
2012	0.2	2.4	8.10

Source: 2012 Actuarial Report for Market and Actuarial Value annual rates of return; annual Actuarial Valuation Reports prepared by Mercer Human Resources Consulting for Fiscal Years 2003-2006 and Cheiron for Fiscal Years 2007-2012 for Assumed Rates of Return.

* Net of Pension Adjustment Fund (PAF). See "*Pension Adjustment Fund*" below.

The Board's investment committee minutes of September 26, 2013 note that expected market value returns for Fiscal Year 2013 are approximately 12.08%. This figure has yet to be certified or audited.

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The following table sets forth as of the July 1st actuarial valuation date for the years 2003-2012 the actuarial and market value of assets in the Municipal Pension Fund and the actuarial value as a percentage of market value.

Table 19
Asset Smoothed Value of Assets vs. Market Value of Net Assets
(Amounts in Millions of USD)

Actuarial Valuation Date	Actuarial Value of Assets(1)	Market Value of Net Assets(2)	Actuarial Value as a Percentage of Market Value
7/1/2003	$ 4,548.1	$ 3,790.1	120.0%
7/1/2004	4,333.1	3,972.4	109.1
7/1/2005	4,159.5	4,100.6	101.4
7/1/2006	4,168.5	4,315.6	96.6
7/1/2007	4,421.7	4,850.9	91.2
7/1/2008	4,623.6	4,383.5	105.5
7/1/2009	4,042.1	3,368.4	120.0
7/1/2010(3)	4,380.9	3,650.7	120.0
7/1/2011(3)	4,719.1	4,259.2	110.8
7/1/2012(3)	4,716.8	4,151.8	113.6

Source: 2012 Actuarial Report for Actuarial Value of Assets; 2003-2012 Actuarial Reports for Market Value of Net Assets

(1) The Actuarial Value of Assets is calculated through use of an asset smoothing method. See "Funded Status of the Municipal Pension Fund" below regarding changes made to the asset smoothing method in response to the 2008/2009 market decline.
(2) The Market Value of Net Assets excludes the Pension Adjustment Fund which as of July 1, 2012 equaled $988,497.
(3) The July 1, 2010 actuarial and market values of assets include the $150 million deferred contribution from Fiscal Year 2010, and the July 1, 2011 and July 1, 2012 actuarial and market values of assets include the total deferred contribution of $230 million.

During the Board's meeting of December 5, 2013, the market value of pension fund assets as of October 31, 2013 was presented as $4,449,448,574. This figure has yet to be certified or audited.

The 2012 Actuarial Report notes that regardless of whether the Municipal Pension Fund achieves the assumed long-term rate of return of 7.95%, the funding ratio can be adversely impacted by volatile returns year by year. The 2012 Actuarial Report further notes that this component of funding risks is driven by negative cash flows (where benefit payments and expenses are greater than contributions) and that when a mature fund (such as the Municipal Pension Fund) pays out more than it receives in a year and returns are below the assumed rate of return, the assets that get paid out of the fund are no longer available in the fund during subsequent years of market recovery. The 2012 Actuarial Report includes projections with respect to the Municipal Pension Fund based upon assumed consistent annual returns of 7.95% each year and assumed varying returns that average 7.95%. See also *"Cash Flows of the Municipal Pension Fund"* below.

Cash Flows of the Municipal Pension Fund

The following table sets forth for the City's Fiscal Years 2008-2012, the cash inflows, including employee contributions, City contributions, investment earnings and miscellaneous income, and cash outflows, including benefit payments and administration expenses for the Municipal Pension Fund. Debt service payments on the Pension Related Bonds (defined below) are made from the City's General Fund and not made from the Municipal Pension Fund.

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Table 20
Cash Flow of the Municipal Pension Fund
Fiscal Years 2008-2012
(Amount in Thousands of USD)

	2008	2009	2010	2011	2012
Beginning Net Assets (Market Value)[1]	$ 4,899,355.1	$4,424,075.3	$3,375,767.1	$3,501,602.1	$4,030,215.9
Cash Inflows					
- Member Contributions	51,690.2	54,022.6	51,569.9	52,705.6	49,978.7
- City Contributions[2][3]	426,934.5	455,389.0	312,556.3	470,154.8	556,031.7
- Investment Income[4]	(224,906.4)	(849,377.7)	455,792.6	699,847.9	8,394.1
- Miscellaneous Income[5]	8,468.0	(13,887.5)	(1,367.6)	991.7	(636.4)
Total	$ 262,186.3	$ (353,853.6)	$ 818,551.2	$1,223,700.0	$ 613,768.0
Cash Outflow					
- Benefits and Refunds	(729,860.8)	(685,872.9)	(684,642.0)	(687,033.5)	(712,684.5)
- Administration	(7,605.3)	(8,581.8)	(8,074.1)	(8,052.7)	(8,482.6)
Total	$ (737,466.1)	$ (694,454.7)	$ (692,716.2)	$ (695,086.2)	$ (721,167.1)
Ending Net Assets (Market Value)[6]	$ 4,424,075.3	$3,375,767.1	$3,501,602.1	$4,030,215.9	$ 3,922,816.8

Source: 2008-2012 Actuarial Valuation Reports. Table may not add due to rounding.
(1) Includes the Pension Adjustment Fund which is not available for funding purposes.
(2) City Contributions include pension contributions from the Commonwealth which were in the amounts of $59.6 million, $59.6 million, $59.2 million, $61.8 million and $87.6 million for the City's 2008-2012 Fiscal Years, respectively.
(3) City contributions are the actual contributions for Fiscal Year 2010 and Fiscal Year 2011 which do not include deferred amounts of $150 million and $80 million, respectively.
(4) Investment income is shown net of fees and expenses.
(5) Miscellaneous income includes securities lending and other miscellaneous revenues.
(6) For Fiscal Year 2010, does not include the $150 million contribution receivable and for Fiscal Years 2011 and 2012 does not include the $230 million total contribution receivable that was paid back in October 2012.

Funded Status of the Municipal Pension Fund

Based on the 2012 Actuarial Report, the UAAL was $5.083 billion which equals a funding ratio of approximately 48.1% and a UAAL as a percentage of covered payroll of approximately 370%, each based on actuarial assets of $4.717 billion. The market value of the net assets in the Municipal Pension Fund was $4.152 billion as of July 1, 2012, and the funding ratio based on such market value was approximately 42.4%. During the Board's meeting of December 5, 2013, the market value of pension fund assets as of October 31, 2013 was presented as $4,449,448,574. This figure has yet to be certified or audited.

The amortization of the UAAL was determined in accordance with the provisions of the Pennsylvania Municipal Pension Plan Funding Standard and Recovery Act, 1984 ("Act 205"), as amended from time to time. Any increase or decrease in unfunded liabilities is amortized according to Act 205. Effective for the July 1, 2009 valuation, which defines the City's contribution obligation for the Fiscal Year ending on June 30, 2010, and subsequent valuations, which define the City's contribution obligation in subsequent fiscal years, and as further described below, the unfunded liability may be amortized over a fixed 30 year period as a level dollar amount pursuant to Act 44 which amends Act 205 to provide specific funding relief for the City.

As part of Act 44, which provided for a new method of determining municipal distress levels and alternative funding relief in response to the 2008/2009 market decline, the City adopted the fresh start amortization alternative of 30 years (previously 20 years remaining) and lowered the assumed rate of interest for funding valuation purposes from 8.75% to 8.25%. Along with these changes the asset smoothing method was changed from a five year period to a ten year period with the additional requirement that the actuarial asset value is not more than 120% nor less than 80% of the market value of assets. Additionally, the legislation allowed the City to defer a portion of its minimum municipal obligation payment in the amount of $150 million in Fiscal Year 2010 and $80 million in Fiscal Year 2011 to be paid (including interest due annually as accrued on the outstanding deferral) over the period ending in Fiscal Year 2014; $106 million was budgeted to be paid back in Fiscal Year 2013 with the balance of $124 million in Fiscal Year 2014. The City has applied the proceeds of certain bonds issued in October 2012, together with other available amounts, to repay the Municipal Pension Fund the entire outstanding $230.0 million of the deferred minimum municipal obligation payment and $5.6 million of interest due on such deferred contributions. The change in amortization period and the partial deferral were approved by the Pennsylvania General Assembly as part of Act 44.

On October 28, 2010, the Pension Board voted to further lower the Municipal Pension Fund's annual earnings assumption from 8.25% to 8.15%. In February of 2012, the Board of Pensions voted to lower the Municipal Pension Fund's annual earnings assumption from 8.15% to 8.10%. In March of 2013, the Board of Pensions voted to lower the Municipal Pension Fund's annual earnings assumption from 8.10% to 7.95%.

The following two tables set forth as of the July 1st actuarial valuation date for the years 2003-2012, the asset value, the actuarial accrued liability, the UAAL, the funded ratio, covered payroll and UAAL as a percentage of covered payroll for the Municipal Pension Fund on actuarial and market value bases, respectively. The July 1, 2012 valuation results in both tables reflect the Pension Board's decision to decrease the assumed rate of return to 7.95% from 8.10% and a reduction in the age-based salary scale assumption by 0.20% for all ages.

Table 21
Schedule of Funding Progress (Actuarial Value)
(Amount in Millions of USD)

Actuarial Valuation Date	Actuarial Value of Assets(1) (a)	Actuarial Accrued Liability (b)	UAAL (Actuarial Value) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
7/1/2003	$ 4,548.1	$ 7,188.3	$ 2,640.2	63.3%	$ 1,269.3	208.0%
7/1/2004	4,333.1	7,247.7	2,914.6	59.8	1,266.0	230.2
7/1/2005	4,159.5	7,851.5	3,692.0	53.0	1,270.7	290.5
7/1/2006	4,168.5	8,083.7	3,915.2	51.6	1,319.4	296.7
7/1/2007	4,421.7	8,197.2	3,775.5	53.9	1,351.8	279.3
7/1/2008	4,623.6	8,402.2	3,778.7	55.0	1,456.5	259.4
7/1/2009	4,042.1	8,975.0	4,932.9	45.0	1,463.3	337.1
7/1/2010	4,380.9	9,317.1	4,936.2	47.0	1,421.2	347.3
7/1/2011	4,719.1(2)	9,487.5	4,768.4	49.7	1,371.3	347.7
7/1/2012	4,716.8(2)	9,799.9	5,083.1	48.1	1,372.2	370.4

Source: 2012 Actuarial Report.
(1) The July 1, 2010 Actuarial Value of Assets includes the $150 million deferred contribution from Fiscal Year 2010 and each of the July 1, 2011 and July 1, 2012 Actuarial Value of Assets includes the total deferred contribution of $230 million.
(2) Reflects the assumed rate of return on deferred contributions at the time of the deferral.

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<u>Table 22</u>
Schedule of Funding Progress (Market Value)
(Amount in Millions of USD)

Actuarial Valuation Date	Market Value of Net Assets[(1)] (a)	Actuarial Accrued Liability (b)	UAAL (Market Value) (b-a)	Funded Ratio (Market Value) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (Market Value) [(b-a)/c]
7/1/2003	$ 3,790.1	$ 7,188.3	$ 3,398.2	52.7%	$1,269.3	267.7%
7/1/2004	3,972.4	7,247.7	3,275.3	54.8	1,266.0	258.7
7/1/2005	4,100.6	7,851.5	3,750.9	52.2	1,270.7	295.2
7/1/2006	4,315.6	8,083.7	3,768.1	53.4	1,319.4	285.6
7/1/2007	4,850.9	8,197.2	3,346.3	59.2	1,351.8	247.5
7/1/2008	4,383.5	8,402.2	4,018.7	52.2	1,456.5	275.9
7/1/2009	3,368.4	8,975.0	5,606.6	37.5	1,463.3	383.2
7/1/2010	3,650.7	9,317.0	5,666.3	39.2	1,421.2	398.7
7/1/2011	4,259.2	9,487.5	5,228.3	44.9	1,371.3	381.3
7/1/2012	4,151.8	9,799.9	5,648.1	42.4	1,372.2	411.6

Source: 2003-2012 Actuarial Valuation Reports
(1) The July 1, 2010 Market Value of Net Assets includes the $150 million deferred contribution from Fiscal Year 2010 and each of the July 1, 2011 and July 1, 2012 Market Value of Net Assets includes the total deferred contribution of $230 million.

The values of the Actuarial Value of Assets and Market Value of Net Assets included the deferred contributions as a receivable in accordance with Act 205 for valuation purposes so the Municipal Pension Fund did <u>not</u> increase due to the City's repayment of the $230 million of deferred contributions in October 2012.

Annual Required Contributions

The following table sets forth for the City's Fiscal Years 2003-2012, information related to the City's annual pension contributions including, among other information, the MMO, the ARC for the Municipal Pension Fund under the pension fund's funding policy, the percentage of the ARC contributed, General Fund total expenditures, and each of the MMO and the ARC under the pension fund's funding policy as a percentage of General Fund total expenditures. The ARC is the annual amount to be funded in accordance with the Municipal Pension Fund funding policy adopted by the Pension Board (the "Pension Board Funding Policy"). The City is not required under law or pursuant to contract to contribute to the Municipal Pension Plan in accordance with the Pension Board Funding Policy. Since 2004, the City has been making contributions to the Municipal Pension Fund based primarily upon the MMO rather than the Pension Board Funding Policy. See "*Comparison of State Law (MMO) and Pension Board Funding Policy Funding Methods*" below.

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<u>Table 23</u>
Annual City Contribution Status for the Municipal Pension Fund
(Amount in Millions of USD)

Fiscal Year	MMO	ARC	All City Funds Total Actual Contribution[1]	Percentage of ARC Contributed	General Fund Contribution	Commonwealth Contribution	City Interfund Transfers[2]	Total General Fund Expenditures	General Fund-Estimated portion of the MMO as % of Total General Fund Expenditures	ARC as % of Total General Fund Expenditures	General Fund-Estimated portion of the ARC as % of Total General Fund Expenditures
2003	$142.4	$195.5	$179.8	91.9%	$114.9	$40.3	$24.6	$3,153.18	3.7%	6.2%	5.4%
2004	195.8	253.8	193.1	76.1	124.2	42.8	26.1	3,248.18	5.2	7.8	6.8
2005	294.0	358.1	309.0	86.3	224.2	49.8	35.0	3,386.34	7.6	10.6	9.4
2006	306.9	395.0	331.8	84.0	231.2	57.3	43.3	3,426.05	7.7	11.5	10.0
2007	400.3	527.9	432.3	81.9	317.5	57.7	57.1	3,736.66	9.2	14.1	12.3
2008	412.4	536.9	426.9	79.5	305.5	59.6	61.8	3,919.84	8.9	13.7	11.7
2009	438.5	539.5	455.4	84.4	332.1	59.6	63.7	3,915.29	9.6	13.8	11.9
2010	447.4	581.1	312.6	53.8[3]	204.0	59.2	49.3	3,653.73	10.9	15.9	13.4
2011	511.0	715.5	470.2	65.7[3]	343.4	61.8	65.0	3,785.29	11.8	18.9	16.3
2012	507.0	722.5	556.0	77.0	376.9	95.0	84.1	3,484.88[4]	12.1	20.7	17.6

Source: 2003-2012 Actuarial Valuation Reports and the City.

(1) Includes amounts shown under Commonwealth Contribution and City Interfund Transfers columns. Does not include debt service on the 1999 Pension Obligation Bonds and certain debt incurred to refinance existing pension deferral repayment obligations (outstanding together in the aggregate principal amount of $1,294,825,350 on June 30, 2013). See also "Pension Obligation Bonds" and "Funded Status of the Municipal Pension Fund."

(2) Represents amounts contributed, or reimbursed, to the City's General Fund for pensions from the City's Water Operating Fund, Aviation Operating Fund and certain other City funds or agencies.

(3) Reflects the actual contributions contributed for Fiscal Year 2010 and Fiscal Year 2011 which does not include the deferred contributions authorized pursuant to Act 44. See "Funded Status of the Municipal Pension Fund" above for a discussion of pension contribution deferrals authorized pursuant to Act 44.

(4) In Fiscal Year 2012, reimbursed costs and corresponding revenues for services provided by DHS of approximately $495.1 million were moved from the General Fund to the Grants Revenue Fund.

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For Fiscal Year 2013, the City's All City Funds Total Actual Contribution to the Municipal Pension Fund (determined on a similar basis to the corresponding column in Table 23) was approximately \$513 million. Such contribution was intended to equal at least the MMO for Fiscal Year 2013 of \$492 million.

The amounts of Commonwealth Contributions and City Interfund transfers for pensions do not affect the MMO requirement, but can be and are counted toward the City's contribution to the MMO.

Comparison of State Law (MMO) and Pension Board Funding Policy Funding Methods

Pennsylvania state law (Act 205) and the Pension Board Funding Policy result in different contribution amounts based upon two different sets of rules for determining how the UAAL is funded. The state law method defines the MMO which is the City's minimum required contribution under Pennsylvania state law. A second method operates in accordance with the Pension Board Funding Policy which predates the Act 205 requirements and calls for contributions that are greater than the MMO until the Municipal Pension Fund's initial July 1, 1985 unfunded actuarial accrued liability is fully funded. Since 2004, the City has been making contributions to the Municipal Pension Fund based primarily upon the MMO rather than the Pension Board Funding Policy due to fiscal constraints while adhering to the requirements of state law. The City's Twenty-Second Five-Year Plan projects continued funding based upon the MMO level rather than the Pension Board Funding Policy level also due to fiscal constraints while adhering to the requirements of state law. Under both funding methods there are two components: the normal cost and the amortized UAAL. The amortization periods related to the UAAL are different under the MMO and the Pension Board Funding Policy. Due to the contribution deferrals in the City's Fiscal Years ended June 30, 2010 and June 30, 2011 pursuant to Act 44, there is an additional component to the MMO to include interest on deferred contributions and to repay these contributions beginning in the City's Fiscal Year ending June 30, 2013. The City repaid such deferred contributions and accrued interest thereon with proceeds of certain bonds issued in October 2012, together with certain other available amounts. Certain differences between the MMO and the Pension Board Funding Policy are:

- The Pension Board Funding Policy amortizes the initial July 1, 1985 unfunded actuarial accrued liability over 34 years. Act 44 allowed for the amortization of the entire unfunded actuarial accrued liability as of July 1, 2009 to be "fresh started" over a 30-year period for MMO purposes.
- The normal cost portion of the Pension Board Funding Policy payment is based on actual fiscal year payroll, whereas the MMO is based on the prior year's estimated payroll for that year.
- Interest does not accumulate on the MMO, as long as the payment is made by the end of the fiscal year.
- Both the Pension Board Funding Policy and the MMO utilize valuation results developed in the previous year (e.g., the July 1, 2012 valuation report determined contribution amounts for Fiscal Year 2013). However, no interest is added to the MMO for this delay.
- The MMO reflects amortization of prior years' City contributions above past MMOs as actuarial gains.
- Starting with Fiscal Years 2007-2008, the MMO recognized actuarial gains and losses every other year. Beginning with Fiscal Year 2012, gains and losses are recognized annually. The Pension Board Funding Policy recognizes actuarial gains and losses on an annual basis.

Annual Pension Cost and Net Pension Obligation

The following table sets forth for the City's Fiscal Years 2003-2012, the calculation of the annual pension cost and the Net Pension Obligation ("NPO") (or Net Pension Asset) for the Municipal Pension Fund. The NPO is the accumulated value of contribution deficiencies (or excesses) over required contributions between the annual pension cost and the employer's contribution. The annual pension cost is equal to the ARC, one year's interest on the NPO and an adjustment to the ARC to offset, approximately, the amount included in the ARC for amortization of past contribution deficiencies. See also "*Pension Obligation Bonds*" regarding the impact on the NPO (Net Pension Asset) due to the City's financing in Fiscal Year 1999 of a lump-sum contribution to the Municipal Pension Fund.

Table 24
Calculation of Annual Pension Cost
(Amounts in Thousands of USD)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
ARC	$195,514	$253,844	$358,141	$394,950	$527,925	$536,874	$539,464	$581,123	$715,544	$722,491
Interest on NPO	(103,330)	(98,392)	(90,448)	(82,068)	(71,541)	(60,685)	(48,957)	(39,899)	(14,155)	6,521
Adjustment to ARC	142,446	135,638	124,687	113,135	99,953	84,785	68,399	55,744	20,353	(9,435)
Annual Pension Cost	$234,630	$291,090	$392,380	$426,017	$556,337	$560,974	$558,906	$596,968	$721,742	$719,577
Contributions	179,757	202,827	299,266	331,765	432,267	426,934	455,389	312,556	470,155	555,690
Increase in NPO	$54,873	$88,263	$93,114	$94,252	$124,069	$134,040	$103,517	$284,412	$251,587	$163,887
NPO at beginning of the year	(1,148,116)	(1,093,243)	(1,004,980)	(911,866)	(817,614)	(693,545)	(559,505)	(455,987)	(171,575)	80,012
NPO at end of the year	$(1,093,243)	$(1,004,980)	$(911,866)	$(817,614)	$(693,545)	$(559,505)	$(455,987)	$(171,575)	$80,012	$243,898
Interest Rate	9.00%	9.00%	9.00%	9.00%	8.75%	8.75%	8.75%	8.75%	8.25%	8.15%

Source: 2012 Actuarial Report.

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Pension Obligation Bonds

In Fiscal Year 1999, PAID issued \$1.3 billion in pension funding bonds (the "1999 Pension Obligation Bonds") and in Fiscal Year 2013 issued the 2012 Service Agreement Revenue Refunding Bonds (hereinafter defined, and together with the 1999 Pension Obligation Bonds, the "Pension Related Bonds"), all on behalf of the City. The Pension Related Bonds are special, limited obligations of PAID and are secured by payments to be made by the City pursuant to service agreements. The City's service agreement payments with respect to the Pension Related Bonds are made from the City's General Fund. The City's payment obligations with respect to the Pension Related Bonds are not included within either the ARC or the MMO. Substantially all the net proceeds of the 1999 Pension Related Bonds were contributed, with other City funds, to make a contribution in Fiscal Year 1999 to the Municipal Pension Fund in the amount of approximately \$1.506 billion. Consequently, this contribution resulted in an increase in the City's net pension asset by approximately \$1.249 billion during Fiscal Year 1999. See Table 24 above for information regarding changes in the City's net pension obligations/(net pension assets) for Fiscal Years 2003 through 2012. See Section IV in the 2012 Actuarial Report for Pension Related Bond debt service shown allocated among the City's municipal, police and fire divisions. The 2012 Service Agreement Revenue Refunding Bonds refunded a portion of the 1999 Pension Obligation Bonds and financed a deposit of approximately \$22.7 million to the Municipal Pension Fund from the refunding savings.

Pension Adjustment Fund

Pursuant to §22-311 of the Philadelphia Code, the Pension Board has established a Pension Adjustment Fund (the "PAF"). In general, the PAF provides for additional benefit distributions to retirees and beneficiaries through the use of excess earnings of the Municipal Pension Fund. Benefit distributions may include a lump-sum bonus payment, monthly pension increases, ad-hoc cost of living adjustments, or other increases determined by the Pension Board. Each fiscal year, the Pension Board shall determine whether there are excess earnings available to be credited to the PAF. Excess earnings that may be transferred to the PAF are limited to 50% of the earnings in excess of a rate equal to the sum of the assumed rate of investment return for the Municipal Pension Fund (currently 7.95%) plus 1.0% and are limited to 2.5%. Currently, 50% of earnings in excess of 8.95% up to 13.95% would be subject to being credited to the PAF. The determination of whether excess earnings exist is based upon an adjusted market value of assets which uses a 5-year smoothing of gains and losses. The market value of assets in the PAF as of July 1, 2012 was \$988,497.

Projections of Funded Status

The following table shows the projected future funding status of the Municipal Pension Fund, including the actuarially determined contribution, the actuarial value of assets, the actuarial accrued liability, UAAL and funded ratio. The Actuary notes in the 2012 Actuarial Report certain assumptions upon which the following projections are based. Included among such assumptions are: (i) the rates of return for the Municipal Pension Fund over the projection period will equal 7.95% annually, (ii) MMO contributions will be made each year, and (iii) the provisions of Act 205 as amended by Act 44 will remain in force during the projection period without consideration of the sunset provisions. See "*Actuarial Methods and Assumptions*" below and the 2012 Actuarial Report for a further discussion of the assumptions and methodologies used by the Actuary in preparing the 2012 Actuarial Report and the following projections. **Projections and actuarial assessments are "forward looking" statements and based upon assumptions which may not be fully realized in the future and are subject to change, including changes based upon the future experience of the City's Municipal Pension Fund and Municipal Pension Plan.**

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Table 25
Prospective Funded Status of the Municipal Pension Fund(1)
(Amounts in Millions of USD)

Fiscal Year	Actuarially Determined Contribution	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio
2013	$ 523.4	$ 4,631.5	$ 9,842.9	$ 5,211.4	47.1%
2014	544.3	4,564.0	9,885.9	5,321.9	46.2%
2015	564.8	4,518.5	9,926.7	5,408.2	45.5%
2016	584.1	4,487.5	9,963.4	5,475.9	45.0%
2017	602.8	4,537.8	10,062.8	5,525.0	45.1%
2018	620.8	4,608.4	10,163.1	5,554.7	45.3%

Source: The Actuary.
(1) Values for actuarially determined contributions represent the MMO and do not reflect interest or principal amounts related to the deferred contribution of $230 million repaid in Fiscal Year 2013.

The 2012 Actuarial Report sets forth certain projections of the funded ratio of the Municipal Pension Fund to 2032. Such projections from the 2012 Actuarial Report indicate that funding at the MMO level, based on current assumptions and methods, will result in a slow improvement of funding after the full impact of the 2008/2009 investment losses are fully realized. Assuming varying returns on Municipal Pension Fund assets that average 7.95% annually, were the City to make annual contributions at the MMO level, the 2012 Actuarial Report projects that the Municipal Pension Fund's actuarial funded ratio would be at approximately 49% in 2023 and increase to 53% and 64% in 2028 and 2032, respectively. Based on the 2012 Actuarial Report, maintaining contributions at the MMO level would have the effect of increasing the Municipal Pension Fund's funded ratio at a slower rate, and to lower levels, than would be achieved were the City to make annual contributions in accordance with the Pension Board Funding Policy over the same projection period to 2032. No assurances can be given that the above-described projections set forth in the 2012 Actuarial Report will be realized or that actual results will not differ materially from such projections.

The 2012 Actuarial Report states with respect to the funded status of the Municipal Pension Fund that, "This historic trend emphasizing the relatively low funded status highlights the potential risk of insolvency, if contributions coupled with more stable and favorable investment returns relative to the long-term assumption are not realized in the near future." On June 24, 2013, the Actuary provided a written response (the "June 2013 Response") to a request from the City to provide more detail regarding this statement in which the Actuary states that all retirement systems are subject to solvency risk if there is an interruption of, or limitation on sufficient cash flows into a fund (i.e., contributions and investment income) and assets held by a fund to make cash flow payments out (i.e., benefits and expenses). The Actuary further states therein that "Because of the current funded status of the plan [i.e., the Municipal Pension Fund] (42.4% on a market asset value) and the relatively high portion of benefit payments to market asset value (15.6%), we believe it is appropriate to identify insolvency as a risk." The Actuary then notes certain factors specific to the Municipal Pension Fund that eliminate much of the risk of insolvency:

- "statutory required contributions under Act 205 with very significant cash incentives to preclude the City from failing to meet the [MMO] – in other words as long as the City makes [its] MMO there is no solvency risk";
- the continuous and gradual decrease of the discount rate resulting in higher required MMO amounts which the Actuary states has two impacts: lowering the long-term expected return on Municipal Pension Fund assets that has to be achieved and increasing the contribution from the City to offset the benefit payout cash flow; and
- "[t]he long history of the City contributing at least the MMO and for many years (until 2004) contributing in excess of the MMO."

The June 2013 Response concludes by providing that as long as the City continues to make its MMO payments, the Municipal Pension Fund "should remain solvent and capable of making the benefit payments called for under the [City's Municipal] Retirement System."

Actuarial Methods and Assumptions

The following is a summary of certain actuarial assumptions and methods utilized by the Actuary for the Municipal Pension Fund:

- The Entry Age Normal actuarial funding method is used for active employees whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement;
- The Municipal Pension Fund's UAAL as of July 1, 2009 was "fresh started" to be amortized over 30 years in level dollars;
- All future amortization periods will follow the Pension Board Funding Policy whereby actuarial gains and losses will be amortized over 20 years and assumption changes will be amortized over 15 years;
- The actuarial value of assets is determined using an adjusted market value recognizing investment gains or losses prior to July 1, 2009 over a five-year period, and beginning July 1, 2009, investment gains and losses are recognized over a 10-year period with adjustments so that the actuarial value of assets remains between 80% and 120% of market value (net of the PAF);
- Investment returns are assumed at 7.95% compounded annually, net of expenses;
- Total annual payroll growth is assumed to be 3.3% per year;
- Other than those provided from time to time by the PAF, there are no other post-retirement benefit increases; and
- Annual expected administrative expenses are expected to increase by 3.3% per year.

The Actuary's assumptions and methods are summarized in greater detail within Appendix C of the 2012 Actuarial Report and address, among other things, rates of termination, disability, mortality and retirement and family composition assumptions.

Other Post-Employment Benefits

The City self-administers a single employer, defined benefit plan and provides health care for five years subsequent to separation for eligible retirees who participate in the City Administered Plan. Eligible represented employees receive five years of coverage through their union's health fund. The City's funding obligation for such benefits is the same as for active employees. Certain union represented employees may defer their coverage until a later date. For some groups, 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, but for police and fire retirees, the City pays the cost of five years of coverage when the employee receives the benefits. 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 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 (other than police) and is self-insured for nonunion employees and union police employees.

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 Governmental Accounting Standards Board 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.

For Fiscal Year 2012, the City's ARC was $105.369 million and it contributed $76.344 million for OPEB expense; its net OPEB obligation for Fiscal Year 2012 was $109.019 million. As of July 1, 2012, the City's unfunded actuarial accrued liability for benefits was $1.2 billion.

Further information on the City's annual OPEB expense and net OPEB obligation for Fiscal Years 2010, 2011 and 2012 and the funded status of the OPEB benefits is contained in the Fiscal Year 2012 CAFR.

PGW Pension Plan

General

The City sponsors the Philadelphia Gas Works Pension Plan (the "PGW Pension Plan"), a single employer defined benefit plan, to provide pension benefits for all of PGW's employees and other eligible class employees of PFMC and the Philadelphia Gas Commission. As plan sponsor, the City, through its General Fund, could be responsible for plan liabilities if the PGW Pension Plan does not satisfy its payment obligations to PGW retirees. If a sale of PGW were to take place, it is expected that the PGW Pension Plan would be fully funded through sale proceeds.

Covered employees hired prior to May 21, 2011 (union employees) or prior to December 21, 2011 (non-union employees) are not required to contribute to the PGW Pension Plan. In December 2011, the PGW Pension Plan was amended by ordinance and a new deferred compensation plan was authorized by ordinance as well. Newly hired employees have an irrevocable option to join either a new deferred compensation plan created in accordance with Internal Revenue Code Section 401 or the existing defined benefit plan, modified to include employee contributions not previously required. The deferred compensation plan provides for an employer contribution equal to 5.5% of applicable wages. The defined benefit plan provides for a newly hired employee contribution equal to 6.0% of applicable wages. The amendments to the PGW Pension Plan did not affect the retirement benefits of active employees, current retirees and beneficiaries, or terminated employees entitled to benefits but not yet receiving them. The PGW Pension Plan provides for retirement payments for vested employees at age 65 or earlier under various options. The PGW Pension Plan also provides death and disability benefits. Retirement benefits vest after five years of credited service.

PGW is required by statute to contribute the amounts necessary to fund the PGW Pension Plan. The PGW Pension Plan is being funded with contributions by PGW to the Sinking Fund Commission of the City. Benefit and contribution provisions are established by City ordinance and may be amended only as allowed by City ordinance.

Pension Costs and Funding

Pension costs increased by $1.4 million to $24.0 million in PGW's 2012 fiscal year ended August 31, 2012 as compared to the prior fiscal year due to higher payments to retirees. Beneficiary payments of $40.1 million were made in PGW's 2012 fiscal year. Withdrawals from the pension assets of $16.0 million were utilized to meet these beneficiary payments.

The PGW Pension Plan funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. Actuarial assessments are "forward looking" statements and based upon assumptions which may not be fully realized in the future and are subject to change including changes based upon the future experience of the PGW Pension Plan. Level percentages of payroll employer contribution rates are determined using the Projected Unit Credit actuarial funding method. As of its September 1, 2011 actuarial valuation date, the PGW Pension Plan had an unfunded actuarial accrued liability of $150.241 million and a funded ratio of 73.7% based upon an actuarial value of assets of $421.949 million and an actuarial accrued liability of $572.190 million. The PGW Pension Plan's actuarial asset value is equal to the value of the plan's assets as reported by the City with no adjustments. The actuarial assumptions used for the September 1, 2011 valuation included a rate of return on the investment of present and future assets of 8.15% per year compounded annually. Subsequently, the PGW Pension Plan's assumed rate of return on the investment of pension plan assets was lowered to 7.95%. No assurances can be given that the PGW Pension Plan's assets will achieve the assumed rate of return for any particular time period. As of September 1, 2011, the covered payroll with respect to the PGW Pension Plan was $106.308 million and the UAAL as a percent of covered payroll was 141.3%. The UAAL is being amortized over 20 years.

PGW's annual pension cost is equal to its annual required contribution (ARC). PGW contributed 100% of the ARC for each of its 2010 through 2012 fiscal years in the annual amounts of $23.972 million, $22.597 million and $24.633 million, respectively. PGW had no net pension obligation as of the end of each of such fiscal years. PGW has budgeted $27.159 million for its pension contribution for its fiscal year ended August 31, 2013 which amount is intended to equal the ARC for such fiscal year.

Additional Information

The City issues a publicly available financial report that includes financial statements and required supplementary information for the PGW Pension Plan. The report is not incorporated into this Official Statement by reference. The report may be obtained by writing to the Office of the Director of Finance of the City.

Further information on the PGW Pension Plan, including with respect to its membership, plan description, funding policy, actuarial assumptions and funded status is contained in the City's Fiscal Year 2012 CAFR.

PGW Other Post-Employment Benefits

PGW provides post-employment healthcare and life insurance benefits to approximately 2,018 participating retirees and their beneficiaries and dependents in PGW's fiscal year ended August 31, 2012. The City, through its General Fund, could be responsible for costs associated with post-employment healthcare and life insurance benefits if PGW fails to satisfy its post-employment benefit obligations to PGW retirees or if PGW is sold to a purchaser and (1) the City retains the post-employment benefit obligation without fully funding the liability through sale proceeds or (2) the post-employment benefit obligation is transferred to a purchaser that subsequently fails to satisfy the benefit obligation.

PGW pays the full cost of medical, basic dental, and prescription coverage for employees who retired prior to December 1, 2001. Employees who retire after December 1, 2001 are provided a choice of three plans at PGW's expense and can elect to pay toward a more expensive plan. PGW pays 100% of the cost for the prescription drug plan after drug co-pays. Union employees hired prior to May 21, 2011 and non-union employees hired prior to December 21, 2011 who retire from active service to immediately begin receiving pension benefits are entitled to receive lifetime post-retirement medical, prescription, and dental benefits for themselves and, depending on their retirement plan elections, their dependents.. Employees hired on or after those dates are entitled to receive only five years of post-retirement benefits. Currently, PGW provides for the cost of healthcare and life insurance benefits for retirees and their beneficiaries on a pay-as-you-go-basis.

As part of a July 29, 2010, rate case settlement (the "Rate Settlement"), which provided for the establishment of an irrevocable trust for the deposit of funds derived through a rider from all customer classes to fund OPEB liabilities, PGW established the trust in July 2010 and began funding the trust in accordance with the settlement agreement in September 2010. The Rate Settlement provides that PGW shall deposit $15.0 million annually towards the ARC and an additional $3.5 million annually, which represents a 30-year amortization of the OPEB liability at August 31, 2010. These deposits will be funded primarily through increased rates of $16.0 million granted in the Rate Settlement.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excesses) over a period of 30 years.

The actuarial accrued liability for PGW's OPEB obligations as of August 31, 2012 was $444.0 million, assuming that PGW will continue to fund its OPEB obligations of $18.5 million per year pursuant to the Rate Settlement on an ongoing basis. The ratio of the unfunded actuarial accrued liability ($405.1 million) for PGW's OPEB obligations to the covered payroll was 381.1% as of August 31, 2012, and the funded ratio of the OPEB trust assets (actuarial value basis) to the actuarial accrued liability was 8.8% as of such date. The valuation was prepared utilizing an 8.0% discount rate for purposes of developing the liabilities and the ARC for PGW's fiscal year ended August 31, 2012. This rate is based on the expected return of the investments of the OPEB trust. Subsequently, the expected rate of return of the investments of the OPEB trust was lowered to 7.95%.

For PGW's fiscal year ended August 31, 2012, PGW's ARC was $47.071 million and it contributed $44.486 million for OPEB expense, consisting of approximately $24.5 million of healthcare expenses, $1.5 million of life insurance expenses, and $18.5 million contributed to the OPEB trust. The net OPEB obligation for PGW's fiscal year ended August 31, 2012 was $111.067 million. PGW contributed $44.623 million for its OPEB contribution for its fiscal year ending August 31, 2013, consisting of $18.5 million to meet its OPEB trust funding obligation and $26.123 million to provide for the cost of healthcare and life insurance benefits for retirees and their beneficiaries on a pay-as-you-go basis for such fiscal year.

Further information on PGW's annual OPEB expense, net OPEB obligation and the funded status of the OPEB benefits related to PGW is contained in the City's Fiscal Year 2012 CAFR.

Purchase of Services

The City accounts for a number of expenditures as purchase of services. The following table presents major purchases of services in the General Fund in Fiscal Years 2007 through 2014.

Table 26
Purchase of Service in the General Fund
Fiscal Years 2007-2014
(Amounts in Millions of USD)

	Actual					Actual [9]	Unaudited Actual[10]	Adopted Budget[11]	Current Estimate[12]
	2007	2008	2009	2010	2011	2012	2013	2014	2014
Human Services[1]	495.3	515.3	499.0	465.5	448.2	78.2	67.5	78.2	78.2
Public Health	65.5	65.1	67.9	64.7	66.1	63.0	62.9	60.9	60.9
Public Property[2]	156.3	139.5	142.6	136.2	138.7	139.5	139.5	141.1	141.1
Streets[3]	58.3	58.4	51.0	55.8	51.0	45.7	40.5	45.7	45.7
Sinking Fund - Lease Debt[4]	84.3	85.1	86.1	79.9	87.5	89.7	90.9	96.7	96.7
Legal Services[5]	35.4	37.3	37.3	35.9	36.6	37.3	38.7	40.1	40.1
First Judicial District	24.8	25.6	23.6	23.7	22.9	24.1	16.5	10.3	10.3
Licenses & Inspections[6]	11.4	11.9	9.6	8.2	4.1	7.0	7.1	7.1	7.1
Supportive Housing [7]	31.3	33.9	32.3	31.7	30.2	30.4	34.2	34.5	34.5
Prisons	87.5	93.6	110.7	106.4	106.6	104.0	105.4	104.2	104.2
All Other[8]	101.5	123.0	114.1	103.4	131.0	141.9	154.6	171.8	171.8
Total	1,151.6	1,188.7	1,174.2	1,111.4	1,127.9	760.8	757.8	790.6	790.6

(1) Includes payments for care of dependent and delinquent children.
(2) Includes payments for SEPTA, space rentals, utilities, and telecommunications. In Fiscal Year 2008, the telecommunications division was transferred to the Managing Director – Office of Innovation and Technology ("OIT"). Services purchased for OIT appear in the table under the category "All Other."
(3) Includes solid waste disposal costs.
(4) Includes, among other things, Justice Center, Neighborhood Transformation Initiative and Stadium lease debt.
(5) Includes payments to the Defender Association to provide legal representation for indigents.
(6) Includes payments for demolition in Fiscal Year 2007 through Fiscal Year 2012.
(7) Includes homeless shelter and boarding home payments.
(8) Includes payment for Convention Center Subsidy and Vehicle leasing.
(9) The reduction in Human Services purchases in Fiscal Year 2012 is largely the result of the transfer of the majority of DHS revenue and obligations to the Grants Revenue Fund.
(10) From the Annual Financial Report for Fiscal Year 2013 (unaudited) issued on 10/28/2013.
(11) From the estimates for the Adopted Fiscal Year 2014 Budget.
(12) From the 9/30/2013 QCMR.

Figures may not add up due to rounding.

City Payments to School District

In each fiscal year since Fiscal Year 1996, the City has made an annual grant of $15 million to the School District. Pursuant to negotiations with the Commonwealth to address the School District's current and future educational and fiscal situation, the Mayor and City Council agreed to provide the School District with an additional annual $20 million beginning in Fiscal Year 2002. In Fiscal Year 2008, the Mayor and City Council agreed to provide an additional $2 million, bringing the total contribution to $37 million. In Fiscal Year 2010, the City made a $38.5 million contribution. In Fiscal Year 2011, the City made a $38.6 million contribution. In Fiscal Year 2012, the

City made a contribution of $48.9 million, which included an additional contribution of $10 million over the previous fiscal year. In Fiscal Year 2013, the City's contribution included a contribution of $48.9 million along with an additional contribution of $20 million bringing the total contribution to $68.9 million. The additional contribution was coupled with an increase in the City portion of the property tax rate. The Approved Fiscal Year 2014 Budget includes a contribution of $69.1 million. In addition, beginning in Fiscal Year 2014, the City will forgive annual payment by the School District of $2.0 million for reimbursement of costs of the Office of Property Assessment. See "REVENUES OF THE CITY-Sales and Use Tax" for additional discussion related to City payments to the School District.

See "REVENUES OF THE CITY-Sales and Use Tax" for a discussion of changes and proposed changes in the funding to be provided to the School District by the City.

Section 696 of the School Code (commonly referred to as "Act 46") imposed on the City a maintenance of effort obligation with respect to the School District. For so long as the School District remains subject to a declaration of "distress" by the Secretary of Education, the City is obligated to continue paying over to the School District each year an amount at least equal to the amount paid over to the School District in the previous year; and is obligated to continue authorizing for the School District a rate of taxation at least equal to the rate of taxation authorized by the City for the School District in the previous year. The School District was declared distressed effective December 22, 2001. See "THE GOVERNMENT OF THE CITY OF PHILADELPHIA - Local Government Agencies - The School District."

See also "REVENUES OF THE CITY-Real Property Taxes" for a discussion of the transition to AVI.

PGW Annual Payments

In order to assist PGW, (i) the City agreed to forgo the $18 million annual payment in Fiscal Year 2004, (ii) for Fiscal Years 2005, 2006, 2007, 2008, 2009 and 2010 the City made a grant to PGW equal to the annual payment received from PGW in such fiscal years. In Fiscal Year 2011, PGW remitted to the City the required annual payment of $18,000,000. The City's Twentieth Five-Year Plan included the PGW annual payment of $18,000,000 to the City's General Fund but discontinued the City's grant back to PGW equal to the annual payment received from PGW for Fiscal Years 2012, 2013, 2014, 2015 and 2016. The City's Twenty-First Five-Year Plan included the PGW annual payment of $18,000,000 to the City's General Fund and discontinued the City's grant back to PGW equal to the annual payment received from PGW for Fiscal Years 2013, 2014, 2015, 2016 and 2017. The City's Twenty-Second Five-Year Plan includes the PGW annual payment of $18,000,000 to the City's General Fund and discontinues the City's grant back to PGW equal to the annual payment received from PGW for Fiscal Years 2014, 2015, 2016, 2017and 2018. The City is considering the sale of PGW to a private entity. See "THE GOVERNMENT OF THE CITY OF PHILADELPHIA-Government Services."

City Payments to SEPTA

The City made operating subsidy payments to SEPTA in Fiscal Years 2008, 2009, 2010 and 2011 of $61.3 million, $62.9 million, $64.2, and $65.9 million, respectively. The actual Fiscal Year 2012 operating subsidy payments to SEPTA was $66.4 million. The unaudited Fiscal Year 2013 operating subsidy payments to SEPTA was $65.3 million. The Twenty-Second Five-Year Plan projects operating subsidy payments to SEPTA of $67.1 million in Fiscal Year 2014 and that the City's contribution to SEPTA will increase to $71.9 million by Fiscal Year 2018.

City Payments to Convention Center Authority

In connection with the financing of the expansion to the Pennsylvania Convention Center and the refinancing of debt for the original Pennsylvania Convention Center construction, the Commonwealth, the City and the Convention Center Authority entered into an operating agreement in 2010, providing for the operation of the Convention Center by the Convention Center Authority and pursuant to which the City agreed to pay the Convention Center Authority an annual service fee of $15,000,000 in each Fiscal Year through Fiscal Year 2040 and specified percentages of the City's hotel room rental tax and hospitality promotion tax, subject to certain conditions.

CITY CASH MANAGEMENT AND INVESTMENT POLICIES

General Fund Cash Flow

Because the receipts of General Fund revenues lag behind expenditures during most of each fiscal year, the City issues notes in anticipation of General Fund revenues and makes payments from the Consolidated Cash Account to finance its on-going operations. The City has issued notes in anticipation of the receipt of income by the General Fund in each fiscal year since Fiscal Year 1972 (with a single exception). Each issue was repaid when due, prior to the end of the fiscal year.

The timing imbalance referred to above results from a number of factors, principally the following: (1) real property, business privilege tax and certain other taxes are not due until the latter part of the fiscal year; and (2) the City experiences lags in reimbursement from other governmental entities for expenditures initially made by the City in connection with programs funded by other governments.

The City issued $285 million of Tax and Revenue Anticipation Notes in July 2010. These notes were repaid on June 30, 2011. The City issued Tax and Revenue Anticipation Notes in the amount of $173 million in December 2011 which were repaid in June 2012. The City issued Tax and Revenue Anticipation Notes in the amount of $127 million in December 2012 which matured on June 26, 2013. The City issued Tax and Revenue Anticipation Notes in the amount of $100 million in December 2013 which will mature in June 2014. The City sold the notes on a competitive basis. The City pays the principal amount to a trust 30 days prior to maturity.

Consolidated Cash

The Act of the General Assembly of the Commonwealth of June 25, 1919, P.L. 581, Art. XVII, § 6, gives the City the authority to make temporary inter-fund loans between operating and capital funds.

The Consolidated Cash Account provides for the physical commingling of the cash of all City Funds, except those which, for legal or contractual reasons, cannot be commingled (e.g., the Municipal Pension Fund, sinking funds, sinking fund reserves, funds of PGW, the Water Fund, the Aviation Fund and certain other restricted purpose funds). A separate accounting is maintained for the equity of each member fund in the Consolidated Cash Account. The City manages the Consolidated Cash Account pursuant to the following procedures:

To the extent that any member fund temporarily experiences the equivalent of a cash deficiency, the required advance is made from the Consolidated Cash Account, in the amount necessary to result in a zero balance in the cash equivalent account of the borrowing fund. All subsequent net receipts of a borrowing fund are applied in repayment of the advance.

All advances are made within the budgetary constraints of the borrowing funds. Within the General Fund, this system of inter-fund advances has historically resulted in the temporary use of tax revenues or other operating revenues for capital purposes and the temporary use of capital funds for operating purposes. With the movement of the reimbursable component of DHS activities from the General Fund to the Grants Revenue Fund, a similar system of advances has resulted in the use of tax revenues or other operating revenues in the General Fund to make expenditures from the Grants Revenue Fund, which advances may be outstanding for multiple fiscal years, but which are expected to be reimbursed by the Commonwealth.

Procedures governing the City’s cash management operations require the General Fund-related operating fund to borrow initially from the General Fund-related capital fund, and only to the extent there is a deficiency in such fund may the General Fund-related operating fund borrow money from any other funds in the Consolidated Cash Account.

Investment Practices

Cash balances in each of the City’s funds are managed to maintain daily liquidity to pay expenses, and make investments that preserve principal while striving to obtain the maximum rate of return. In accordance with the

Home Rule Charter, the City Treasurer is the City Official responsible for managing cash collected into the City Treasury. The available cash balances in excess of daily expenses are placed in demand accounts, swept into money market mutual funds, or used to make investments directed by professional money managers. These investments are held in segregated trust accounts at a separate financial institution. Cash balances related to Revenue Bonds for Water and Sewer and the Airport are directly deposited and held separately in trust. A Fiscal Agent manages these cash balances per the related bond documents and the investment practice is guided by administrative direction of the City Treasurer per the Investment Committee and the Investment Policy. In addition, certain operating cash deposits (such as Community Behavioral Health, Special Gas/County Liquid and "911" surcharge) of the City are restricted by purpose and required to be segregated into accounts in compliance with Federal or State reporting.

Investment guidelines for the City are embodied in legislation approved by City Council appearing in the Philadelphia City Code, Chapter 19-202. In furtherance of the City, State, and Federal legislative guidelines, the Director of Finance adopted a written Investment Policy (the "Policy") that first went into effect in August 1994 and most recently was revised in January 2011. The Policy supplements other legal requirements and establishes a comprehensive investment policy for the overall administration and effective management of all monetary funds (except the Municipal Pension Fund and PGW Retirement Reserve Fund).

The Policy delineates the authorized investments as approved by City Council Ordinance and the funds to which the Policy applies. The authorized investments include U.S. government securities, U.S. treasuries, U.S. agencies, repurchase agreements, commercial paper, corporate bonds, money market mutual funds, obligations of the Commonwealth, collateralized banker's acceptances and certificates of deposit, and collateralized mortgage obligations and pass-through securities directly issued by a federal agency of the United States, all of investment grade rating or better.

U.S. government treasury and agency securities carry no limitation as to the percent of the total portfolio. Repurchase agreements, money market mutual funds, commercial paper, and corporate bonds are limited to investment of no more than 25% of the total portfolio. Obligations of the Commonwealth and collateralized banker's acceptances and certificates of deposit are limited to no more than 15% of the total portfolio. Collateralized mortgage obligations and pass-through securities directly issued by a federal agency of the United States are limited to no more than 5% of the total portfolio.

U.S. government treasury and agency securities carry no limitation as to the percent of the total portfolio per issuer. Repurchase agreements and money market mutual funds are limited to no more than 10% of the total portfolio per issuer. Commercial paper, corporate bonds, obligations of the Commonwealth, collateralized banker's acceptances and certificates of deposit, and collateralized mortgage obligations and pass-through securities directly issued by a federal agency of the United States are limited to no more than 3% of the total portfolio per issuer.

The Policy also restricts investments to those having a maximum maturity of two years. Daily liquidity is maintained through the use of SEC-registered money market mutual funds with the balance of funds invested by the City or money managers in accordance with the Policy.

The Policy provides for an ad hoc Investment Committee consisting of the Director of Finance and the City Treasurer with ex-officio membership of a representative of each of the principal operating and capital funds, i.e., Water Fund, Aviation Fund, PGW and PMA. The Investment Committee meets quarterly with each of the investment managers to review each manager's performance to date and to plan for the next quarter. Investment managers are given any changes in investment instructions at these meetings. The Investment Committee approves all modifications to the Policy.

The Policy expressly forbids the use of any derivative investment product as well as investments in any security whose yield or market value does not follow the normal swings in interest rates. Examples of these types of securities include, but are not limited to: structured notes, floating rate or inverse floating rate instruments, securities that could result in zero interest accrual if held to maturity, and mortgage derived interest and principal only strips. The City currently makes no investments in derivatives.

DEBT OF THE CITY

The Constitution of the Commonwealth provides that the authorized debt of the City "may be increased in such amount that the total debt of said City shall not exceed 13.5% of the average of the annual assessed valuations of the taxable realty therein, during the ten years immediately preceding the year in which such increase is made, but said City shall not increase its indebtedness to an amount exceeding 3.0% upon such average assessed valuation of realty, without the consent of the electors thereof at a public election held in such manner as shall be provided by law." It has been judicially determined that bond authorizations once approved by the voters will not be reduced as a result of a subsequent decline in the average assessed value of City property.

The Constitution of the Commonwealth further provides that there shall be excluded from the computation of debt for purposes of the Constitutional debt limit, debt (herein called "self-supporting debt") incurred for revenue-producing capital improvements that may reasonably be expected to yield revenue in excess of operating expenses sufficient to pay interest and sinking fund charges thereon. In the case of general obligation debt, the amount of such self-supporting debt to be so excluded must be determined by the Court of Common Pleas of Philadelphia County upon petition by the City. Self-supporting debt is general obligation debt of the City, with the only distinction from tax-supported debt being that it is not used in the calculation of the Constitutional debt limit. Self-supporting debt has no lien on any particular revenues.

As of January 1, 2014, the Constitutional debt limitation for tax-supported general obligation debt was approximately $1,669,996,000. This amount is based upon a formula of 13.5% of the assessed value of taxable real estate within the City on a 10 year rolling average for a 10 year period ending with the year immediately preceding the year in which the increase in debt occurs. The total amount of authorized debt applicable to the debt limit was $1,662,083,000, including $587,654,000 of authorized but unissued debt, leaving a legal debt margin of $7,913,000. The calculation of the legal debt margin is as follows:

Table 27
General Obligation Bonded Debt
January 1, 2014
(Amounts in Thousands)

Authorized, issued and outstanding	$1,435,195
Authorized and unissued	587,654
Total	2,022,849
Less: Self-supporting debt	(353,766)
Less: Serial bonds maturing within a year	(7,000)
Total amount of authorized debt applicable to debt limit	1,662,083
Legal debt limit	1,669,996
Legal debt margin	$ 7,913

As a result of the implementation of the City's Actual Value Initiative, see "REVENUES OF THE CITY−Real Property Taxes," the assessed value of taxable real estate within the City will increase substantially beginning with valuations for 2014. Such increase in assessed valuation along with the change in the methodology for calculating real estate taxes under AVI will increase substantially the Constitutional debt limitation for tax-supported general obligation debt starting in 2015 as the higher valuations are averaged into the formula described above over the following ten years. The increase in such Constitutional debt limitation could be more than approximately $1 billion annually over such ten-year period.

The City is also empowered by statute to issue revenue bonds and, as of December 31, 2013 had outstanding $1,877,305,000 aggregate principal amount of Water and Wastewater Revenue Bonds, $1,058,920,000 aggregate principal amount of Gas Works Revenue Bonds, and $1,315,455,000 aggregate principal amount of Airport Revenue Bonds. As of the close of business on December 31, 2013, the principal amount of PICA bonds outstanding was $409,280,000.

Short-Term Debt

The City has issued notes in anticipation of the receipt of income by the General Fund in each fiscal year since Fiscal Year 1972 (with a single exception). Each note issue was repaid when due prior to the end of the fiscal year of issuance. The City issued $100 million of Tax and Revenue Anticipation Notes on December 11, 2013, which mature on June 30, 2014. The Notes were sold on a competitive basis.

Long-Term Debt

The table below presents a synopsis of the bonded debt of the City and its component units as of the date indicated. In addition, for tables setting forth a ten-year historical summary of tax-supported debt of the City and School District and the debt service requirements to maturity of the City's outstanding bonded indebtedness as of June 30, 2012, see the Fiscal Year 2012 CAFR.

Of the total balance of City tax-supported general obligation bonds issued and outstanding on June 30, 2013, approximately 20% is scheduled to mature within five fiscal years and approximately 42% is scheduled to mature within ten fiscal years.

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Table 28
Bonded Debt -- City of Philadelphia and Component Units
as of December 31, 2013
(Amounts in Thousands)

(Unaudited)

General Obligation and PICA bonds		
General Obligation Bonds		$ 1,435,195
PA Intergovernmental Cooperation Authority		409,280
Subtotal: General Obligation and PICA bonds		1,844,475
Other Long-Term Debt-Related Obligations[1]		
Philadelphia Municipal Authority		
Municipal Services Building	$ 13,981	
Criminal Justice Center	85,050	
Juvenile Justice Center	95,355	
Energy Conservation	12,605	206,991
Philadelphia Authority for Industrial Development		
Pension Bonds	1,618,048	
Stadiums	302,105	
Library	7,690	
Cultural and Commercial Corridor	112,050	
One Parkway	41,405	2,081,298
Parking Authority		14,250
Redevelopment Authority		220,045
Subtotal		4,367,059
Revenue bonds		
Water Fund		1,877,305
Aviation Fund		1,315,455
Gas Works		1,058,920
Subtotal: Revenue bonds		4,251,680
Grand total		$ 8,618,739

[1] The principal amount outstanding relating to the PAID 1999 Pension Obligation Bonds, Series B (capital appreciation bonds) and the PMA Municipal Services Building Rental Bonds, Series 1990C (capital appreciation bonds) are reflected as the accreted value thereon as of December 31, 2013.

Source: Office of Director of Finance

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Table 29
City of Philadelphia
Annual Debt Service on General Fund-Supported Long-Term Debt[1]
As of July 31, 2013
(Amounts in Millions of USD)

Fiscal	General Obligation Bonds			Other Long-Term Obligations[2,5]			Total		
Year	Principal	Interest[3]	Total	Principal	Interest[3,4]	Total	Principal	Interest	Total
2014	50.91	70.38	121.29	206.43	141.34	347.77	257.33	211.72	469.06
2015	58.57	73.42	131.98	84.17	143.51	227.68	142.74	216.92	359.66
2016	58.31	70.62	128.92	84.04	139.89	223.93	142.34	210.51	352.86
2017	61.19	67.64	128.82	84.19	139.56	223.74	145.37	207.20	352.57
2018	64.17	64.44	128.61	89.61	138.77	228.38	153.78	203.21	356.99
2019	67.43	61.07	128.50	74.59	138.02	212.60	142.02	199.09	341.11
2020	69.42	57.61	127.03	64.09	137.79	201.88	133.50	195.40	328.91
2021	62.44	54.35	166.79	79.21	122.70	201.91	141.65	177.05	318.70
2022	65.27	51.17	116.44	76.97	124.98	201.95	142.24	176.15	318.39
2023	69.64	47.69	117.33	114.34	87.64	201.98	183.97	135.33	319.30
2024	73.20	43.96	117.15	114.29	87.72	202.01	187.49	131.68	319.17
2025	76.86	40.04	116.90	118.76	83.30	202.05	195.62	123.34	318.96
2026	73.27	36.16	109.43	134.38	66.88	201.26	207.65	103.04	310.69
2027	76.89	32.24	109.13	160.04	43.88	203.92	236.93	76.12	313.05
2028	81.27	28.26	109.53	165.25	34.60	199.85	246.52	62.86	309.38
2029	54.91	24.94	79.85	277.50	17.61	295.11	332.41	42.55	374.96
2030	70.92	21.77	92.69	53.73	7.81	61.53	124.65	29.58	154.23
2031	74.73	18.07	92.79	56.27	5.32	61.58	130.99	23.39	154.38
2032	78.72	14.16	92.87	13.63	3.21	16.84	92.35	17.37	109.72
2033	43.05	10.92	53.97	4.90	2.71	7.61	47.95	13.63	61.58
2034	30.40	8.79	39.18	5.22	2.39	7.61	35.61	11.18	46.79
2035	15.71	7.36	23.07	5.56	2.06	7.61	21.27	9.42	30.68
2036	16.80	6.28	23.07	5.92	1.69	7.61	22.71	7.97	30.68
2037	17.96	5.12	23.07	6.30	1.31	7.61	24.26	6.43	30.68
2038	19.22	3.85	23.07	6.71	0.90	7.61	25.93	4.75	30.68
2039	20.59	2.48	23.07	7.15	0.46	7.61	27.74	2.95	30.68
2040	8.52	1.50	10.02	--	--	--	8.52	1.50	10.02
2041	9.10	0.93	10.02	--	--	--	9.10	0.93	10.02
2042	9.71	0.32	10.02	--	--	--	9.71	0.32	10.02
TOTAL	1,479.10	925.54	2,404.64	2,093.21	1,676.08	3,769.28	3,572.31	2,601.62	6,173.92

[1] Does not include PICA bonds.
[2] Includes PAID, PMA, Parking Authority, and Redevelopment Authority bonds and does not reflect the October 2013 PMA refunding.
[3] Assumes interest rate to be fixed swap rate on hedged variable rate bonds.
[4] Net of capitalized interest on the 2012 Service Agreement Revenue Refunding Bonds.
[5] Fiscal Year 2014 includes payments on debt incurred to refinance existing pension deferral repayment obligations due in such Fiscal Years. See "EXPENDITURES OF THE CITY−Municipal Pension Fund−Funded Status of the Municipal Pension Fund."

Other Long-Term Debt Related Obligations

The City has entered into other contracts and leases to support the issuance of debt by public authorities related to the City pursuant to which the City is required to budget and appropriate tax or other general revenues to satisfy such obligations, as shown on Table 28. The City budgets all other long-term debt-related obligations as a single budget item with the exception of the Parking Authority which has a budget of $1,336,200 for Fiscal Year 2014.

The Hospitals Authority and the State Public School Building Authority have issued bonds on behalf of the Community College of Philadelphia ("CCP"). Under the Community College Act, each community college must have a local sponsor, which for CCP is the City. As the local sponsor, the City is obligated to pay up to 50% of the annual capital expenses of CCP, which includes debt service. The remaining 50% is paid by the Commonwealth.

Additionally, the City annually appropriates funds for a portion of CCP's operating costs (less tuition and less the Commonwealth's payment). The total payment to CCP in Fiscal Year 2008 was $24,467,924. The amount paid in Fiscal Year 2009 and Fiscal Year 2010 was $26,467,924 each year. The amount paid in Fiscal Year 2011, Fiscal Year 2012 and Fiscal Year 2013 was $25,409,207. The budgeted amount for Fiscal Year 2014 is $26,409,207. This amount represents the portion of operating costs (less student tuition and the Commonwealth payment) and up to half of the annual capital expenses for the year.

PICA Bonds

PICA has previously issued 11 series of bonds. Under the PICA Act, PICA no longer has the authority to issue bonds for new money purposes, but may refund bonds previously issued. Two series remain outstanding: (i) Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 2009 issued in the original aggregate principal amount of $354,925,000, having a final stated maturity date of June 15, 2023 and (ii) Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 2010 in the original principal amount of $206,960,000, having a final stated maturity date of June 15, 2022. As of the close of business on November 30, 2013, the principal amount of PICA bonds outstanding was $409,280,000.

The proceeds of the previous series of bonds issued by PICA were used (a) to make grants to the City to fund its General Fund deficits, to fund the costs of certain City capital projects, to provide other financial assistance to the City to enhance operational productivity, and to defease certain City general obligation bonds, (b) to refund other PICA bonds and (c) to pay costs of issuance.

The PICA Act authorized the City to impose a tax for the sole and exclusive purposes of PICA. In connection with the adoption of the Fiscal Year 1992 budget and the adoption of the first Five-Year Plan, the City reduced the wage, earnings, and net profits taxes on City residents by 1.5% and enacted a new tax of 1.5% on wages, earnings and net profits of City residents (the "PICA Tax"). Proceeds of the PICA Tax are solely the property of PICA. The PICA Tax, collected by the City's Department of Revenue, is deposited in the Pennsylvania Intergovernmental Cooperation Authority Tax Fund (the "PICA Tax Fund") of which the State Treasurer is custodian. The PICA Tax Fund is not subject to appropriation by City Council or the General Assembly of the Commonwealth.

The PICA Act authorizes PICA to pledge the PICA Tax to secure its bonds and prohibits the Commonwealth and the City from repealing the PICA Tax or reducing its rate while any PICA bonds are outstanding. PICA bonds are payable from PICA revenues, including the PICA Tax, pledged to secure PICA's bonds, the Bond Payment Account (as described below) and any debt service reserve fund established for such bonds and have no claim on any revenues of the Commonwealth or the City.

The PICA Act requires that proceeds of the PICA Tax in excess of amounts required for (i) debt service, (ii) replenishment of any debt service reserve fund for bonds issued by PICA, and (iii) certain PICA operating expenses, be deposited in a trust fund established exclusively to benefit the City and designated the "City Account." Amounts in the City Account are required to be remitted to the City not less often than monthly, unless PICA certifies the City's non-compliance with the then-current five-year financial plan.

The PICA Act establishes a "Bond Payment Account" for PICA as a trust fund for the benefit of PICA bondholders and authorizes the creation of a debt service reserve fund for bonds issued by PICA. Since PICA has issued bonds secured by the PICA Tax, the PICA Act requires that the State Treasurer pay the proceeds of the PICA Tax held in the PICA Tax Fund directly to the Bond Payment Account.

The total amount of PICA Tax remitted to PICA by the State Treasurer (which is net of the costs of the State Treasurer in collecting the PICA Tax) for each of the Fiscal Years 2003 through 2013 and the Adopted Budget and current estimate for Fiscal Year 2014 are set forth below.

Table 30
Summary of PICA Tax Remitted by the State Treasurer to PICA
and Net Taxes Remitted by PICA to the City
(Amounts in Millions of USD)

Year	PICA Tax	PICA Annual Debt Service and Investment Expenses	Net taxes remitted to the City[1]
2003	281.5	79.2	202.3
2004	285.0	78.9	206.1
2005	300.2	85.9	214.3
2006	309.9	87.1	222.8
2007	327.9	86.0	241.9
2008	341.8	86.4	255.4
2009	348.5	86.4	262.1
2010	343.3	68.9	274.4
2011	358.7	64.9	293.8
2012	357.5	62.3	295.2
2013 (Unaudited Actual)[2]	376.5	62.6	313.9
2014 (Adopted Budget)[3]	391.0	65.9	325.1
2014 (Current Estimate)[4]	391.0	65.9	325.1

(1) Does not include additional one-time grants to the City from PICA reserves in certain years.
(2) From the Annual Financial Report for Fiscal Year 2013 (unaudited) issued on 10/28/2013.
(3) From the estimates for the Adopted Fiscal Year 2014 Budget.
(4) From the 9/30/2013 QCMR.

OTHER FINANCING RELATED MATTERS

Swap Information

The City has entered into various swaps related to its outstanding General Fund supported bonds as detailed in the following table:

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Table 31
Summary of Swap Information
for General Fund Supported Bonds
as of November 30, 2013

City Entity	City GO	City Lease - PAID	City Lease -PAID	City Lease - PAID
Related Bond Series	2009B[1]	2001 (Stadium)	2007B (Stadium)	2007B (Stadium)
Initial Notional Amount	$313,505,000	$298,485,000	$217,275,000	$72,400,000
Current Notional Amount	$100,000,000	$193,520,000	$217,275,000	$72,400,000
Termination Date	8/1/2031	10/1/2030	10/1/2030	10/1/2030
Product	Fixed Payer Swap	Basis Swap[2]	Fixed Payer Swap	Fixed Payer Swap
Rate Paid by Dealer	SIFMA	67% 1-month LIBOR + 0.20%, plus fixed annuity	SIFMA	SIFMA
Rate Paid by City Entity	3.829%	SIFMA	3.9713%	3.9713%
Dealer	Royal Bank of Canada	Merrill Lynch Capital Services, Inc.	JPMorgan Chase Bank, N.A.	Merrill Lynch Capital Services, Inc.
Fair Value[3]	($12,483,919)	($8,285,102)	($30,611,337)	($10,200,540)

(1) On July 28, 2009, the City terminated a portion of the swap in the amount of $213,505,000 in conjunction with the refunding of its Series 2007B bonds with the Series 2009A fixed rate bonds and the Series 2009B variable rate bonds. The City made a termination payment of $15,450,000.

(2) PAID received annual fixed payments of $1,216,500 from July 1, 2004 through July 1, 2013. As the result of an amendment on July 14, 2006, $104,965,000 of the total notional amount was restructured as a constant maturity swap (the rate received by PAID on that portion was converted from a percentage of 1-month LIBOR to a percentage of the 5-year LIBOR swap rate from October 1, 2006 to October 1, 2020). The constant maturity swap was terminated in December 2009. The City received a termination payment of $3,049,000.

(3) Fair values are as of November 30, 2013, and are shown from the City's perspective and include accrued interest.

While the City is party to several interest rate swap agreements, for which there is General Fund exposure and on which the swaps currently have a negative mark against the City, the City has no obligation to post collateral on these swaps while the City's underlying ratings are investment grade.

For more information related to certain swaps entered into in connection with revenue bonds issued for PGW, Water and the Airport, see the Fiscal Year 2012 CAFR. In addition, PICA has entered into swaps which are detailed in the Fiscal Year 2012 CAFR.

Letter of Credit and Liquidity Agreements

The City has entered into various letter of credit and standby agreements related to its General Fund supported bonds as detailed in the table below. Under the terms of such letter of credit and standby agreements, following a purchase of the applicable bonds, the City may be required to amortize such bonds more quickly than as originally scheduled at issuance.

Table 32
Summary of Letter of Credit and Standby Agreements
for General Fund Supported Bonds
as of May 31, 2013

Variable Rate Bond Series	Amount Outstanding	Provider	Expiration Date
General Obligation Bonds, Series 2009B	$ 100,000,000	Bank of New York Mellon	03/07/2016
PAID Multi-Modal Lease Revenue Refunding Bonds, Series 2007B-1	117,275,000	JPMorgan	05/24/2014
PAID Multi-Modal Lease Revenue Refunding Bonds, Series 2007B-2	72,400,000	TD Bank	05/29/2015
PAID Multi-Modal Lease Revenue Refunding Bonds, Series 2007B-3	44,605,000	PNC Bank	05/23/2014

Recent and Upcoming Financings

In the first quarter of 2014, the City anticipates issuing, through a conduit authority, City Service Agreement Revenue Bonds or Notes for a portion of the costs of construction of a new Police Headquarters Building, the estimated debt service for which is provided for in the Twenty-Second Five Year Plan.

In the first quarter of 2014, the City anticipates issuing, together with PGW, commercial paper notes or bonds in the estimated amount of $120 million.

In Fiscal Year 2014, the City may issue up to $50 million of bonds for the benefit of the School District which may be repaid from Sales and Use Tax receipts in Fiscal Years 2015 through 2018. See "REVENUES OF THE CITY-Sales and Use Tax."

From time to time, the City considers additional new money and/or refunding financings as market opportunities arise.

The following is a list of financings that the City has entered into since the close of Fiscal Year 2012:

In January 2014, the City issued Water and Wastewater Revenue Bonds in the amount of $123,170,000.

In December 2013, the City issued Tax and Revenue Anticipation Notes in the amount of $100 million.

In October 2013, the City, through the Philadelphia Municipal Authority, issued its City Agreement Revenue Refunding Bonds, 2013 Series A, in the amount of $85.05 million.

In August 2013, the City, together with the Philadelphia Water Department, issued Water and Wastewater Revenue Bonds, Series 2013A in the amount of $170 million.

In August 2013, the City issued its $208.360 million General Obligation Bonds, Series 2013A.

In May 2013, the City, together with the Philadelphia Water Department, converted its existing Water and Wastewater Revenue Bonds, Series 2005B to an Index Mode.

In January 2013, the City together with Philadelphia International Airport closed on its Aviation Revenue Commercial Paper Notes, consisting of Tax Exempt (non-AMT), Tax-Exempt (AMT), and Federally Taxable notes, in the amount of $350 million.

In December 2012, the City issued Tax and Revenue Anticipation Notes in the amount of $127 million.

In December 2012, the City, through Philadelphia Authority for Industrial Development, issued its City Service Agreement Refunding Revenue Bonds, Series 2012 (Federally Taxable), in the amount of $299.805 million (the "2012 Service Agreement Revenue Refunding Bonds").

In October 2012, the City, through the Philadelphia Authority for Industrial Development, issued its City Service Agreement Revenue Bonds, Series 2012 (Federally Taxable), in the amount of $231.185 million to repay a deferred obligation to the Municipal Pension Fund.

In October 2012, the City together with Philadelphia Water Department, issued Water and Wastewater Refunding Revenue Bonds, Series 2012 in the amount of $70.370 million.

CITY CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program for Fiscal Years 2014-2019 contemplates a total budget of $10,006,625,000, of which $2,338,132,000 is to be provided from Federal, Commonwealth, and other sources and the remainder through City funding. The following table shows the amounts budgeted each year from various sources of funds for capital projects. City Council adopted the Capital Improvement Program for Fiscal Years 2014-2019 on June 20, 2013.

Table 33
Fiscal Years 2014-2019
Capital Program
(Amounts in Thousands of USD)

City Funds – Tax Supported	2014	2015	2016	2017	2018	2019	2014-2019
Carried-forward Loans	303,897	0	0	0	0	0	303,897
Operating Revenue	29,855	3,464	2,964	1,764	1,764	1,764	41,575
New Loans	91,097	90,367	95,720	95,037	94,978	111,024	578,223
Pre-financed Loans	16,346	0	0	0	0	0	16,346
PICA Pre-financed Loans	12,858	0	0	0	0	0	12,858
Tax-supported Subtotal	454,053	93,831	98,684	96,801	96,742	112,788	952,899
City Funds – Self-Sustaining							
Carried-forward Loans	1,138,430	0	0	0	0	0	1,138,430
Operating	163,289	59,017	69,163	74,066	76,227	78,639	520,401
New Loans	765,680	756,431	692,412	1,036,669	897,243	840,328	4,988,763
Self-Sustaining Subtotal	2,067,399	815,448	761,575	1,110,735	973,470	918,967	6,647,594
Revolving Funds	18,000	0	0	0	0	0	18,000
Other Than City Funds							
Carried-Forward Other Government	19,485	0	0	0	0	0	19,485
Other Governments Off Budget	634	724	949	934	1,050	1,217	5,508
Other Governments/Agencies	60	0	0	0	0	0	60
Carried-Forward State	93,978	0	0	0	0	0	93,978
State Off Budget	74,904	90,059	135,981	136,936	140,022	148,083	725,985
State	29,973	23,138	20,375	20,125	21,925	15,300	130,836
Carried-Forward Private	141,896	0	0	0	0	0	141,896
Private	61,670	34,470	32,120	28,370	33,370	20,370	210,370
Carried-Forward Federal	265,307	0	0	0	0	0	265,307
Federal Off Budget	77,140	63,838	57,251	41,998	41,943	17,998	300,168
Federal	128,614	74,550	87,550	81,750	66,975	55,100	494,539
Other Than City Funds Subtotal	893,661	286,779	334,226	310,113	305,285	258,068	2,338,132
TOTAL	$3,433,113	$1,196,058	$1,194,485	$1,517,649	$1,375,497	$1,289,823	$10,006,625

LITIGATION

Generally, judgments and settlements on claims against the City are payable from the General Fund, except for claims against the Water Department, the Division of Aviation, and the Gas Works. Claims against the Water Department are paid first from the Water Fund and only secondarily from the General Fund. Claims against the Division of Aviation, to the extent not covered by insurance, are paid first from the Aviation Fund and only secondarily from the General Fund. Claims against the Gas Works, to the extent not covered by insurance, are paid first from Gas Works revenues and only secondarily from the General Fund.

The Act of October 5, 1980, P.L. 693, No. 142, known as the “Political Subdivision Tort Claims Act,” (the “Tort Claims Act”) establishes a $500,000 aggregate limitation on damages for injury to a person or property arising from the same cause of action or transaction or occurrence or series of causes of action, transactions or occurrences with respect to governmental units in the Commonwealth such as the City. The constitutionality of that aggregate limitation has been repeatedly upheld by the Pennsylvania Supreme Court. In February 1987, an appeal of a decision upholding such constitutionality to the United States Supreme Court was dismissed for want of jurisdiction. However, under Pennsylvania Rule of Civil Procedure 238, delay damages in State Court cases are not subject to the $500,000 limitation. Moreover, the limit on damages is inapplicable to any suit against the City which does not arise under state tort law such as claims made against the City under Federal civil rights laws.

The aggregate loss resulting from general and special litigation claims was $24.5 million for Fiscal Year 2004, $27.5 million for Fiscal Year 2005, $23.0 million for Fiscal Year 2006, $26.6 million for Fiscal Year 2007, $29.8 million for Fiscal Year 2008, $34.5 million for Fiscal Year 2009, $32.7 million for Fiscal Year 2010, $33.7 million for Fiscal Year 2011, $32.6 million for Fiscal Year 2012, and $30.3 million for Fiscal Year 2013. Estimates of settlements and judgments from the General Fund are $32.5 million for Fiscal Year 2014 (based on the Operating Budget for Fiscal Year 2014 and expenditures to date, the actual amount for Fiscal Year 2014 may increase by an amount that cannot yet be determined), and $32.5 million for each of the Fiscal Years 2015 through 2018, respectively (based on the Twenty-Second Five-Year Plan). In budgeting for settlements and judgments in the annual Operating Budget and projecting settlements and judgments for each Five-Year Plan, the City bases its estimates on past experience and on an analysis of estimated potential liabilities and the timing of outcomes, to the extent a proceeding is sufficiently advanced to permit a projection of the timing of a result. General and special litigation claims are budgeted separately from back-pay awards and similar settlements relating to labor disputes. Usually, some of the costs arising from labor litigation are reported as part of current payroll expenses. For Fiscal Year 2011, payments for claims arising from labor settlements in the General Fund were $807,629 of which $751,022 was paid from the Indemnities account, and $56,607 from the operating budgets of the affected departments. For Fiscal Year 2012, payments for claims arising from labor settlements in the General Fund were $1.25 million and were paid from the Indemnities account. Actual claims paid out from the General Fund for settlements and judgments averaged $32.76 million per year over the five years from Fiscal Year 2009 through Fiscal Year 2013.

In addition to routine litigation incidental to performance of the City's governmental functions and litigation arising in the ordinary course relating to contract and tort claims and alleged violations of law, certain special litigation matters are currently being litigated and/or appealed and adverse final outcomes of such litigation could have a substantial or long-term adverse effect on the City's General Fund. These proceedings involve: environmental-related actions and proceedings in which it has been or may be alleged that the City is liable for damages, including but not limited to property damage and bodily injury, or that the City should pay fines or penalties or the costs of response or remediation, because of the alleged generation, transport, or disposal of toxic or otherwise hazardous substances by the City, or the alleged disposal of such substances on or to City-owned property; contract disputes and other commercial litigation; and union arbitrations and other employment-related litigation. The ultimate outcome and fiscal impact, if any, on the City's General Fund of the claims and proceedings described in this paragraph are not currently predictable.

Various claims in addition to the lawsuits described in the preceding paragraph have been asserted against the Water Department and in some cases lawsuits have been instituted. Many of these Water Department claims have been reduced to judgment or otherwise settled in a manner requiring payment by the Water Department. The aggregate loss for Fiscal Year 2010 which resulted from these claims and lawsuits was $4.0 million, $5.4 million in Fiscal Year 2011, $2.1 million in Fiscal Year 2012, and $1.3 million in Fiscal Year 2013. The Water Fund's budget for Fiscal Year 2014 contains an appropriation for Water Department claims in the amount of $6.5 million, although the current estimate, based on the prior four fiscal years' expenditures, is for only $3.1 million in Fiscal Year 2014. The Water Fund is the first source of payment for any of the claims against the Water Department.

In addition, various claims have been asserted against the Division of Aviation and in some cases lawsuits have been instituted. Many of these Division of Aviation claims have been reduced to judgment or otherwise settled in a manner requiring payment by the Division of Aviation. The aggregate loss for Fiscal Year 2010 which resulted from these claims and lawsuits was $1.2 million, $1.7 million for Fiscal Year 2011, $1.2 million in Fiscal Year 2012, and $1.1 million in Fiscal Year 2013. The Indemnities budget for Aviation Fund claims for Fiscal Year 2014 contains an appropriation in the amount of $2.5 million, although the current estimate, based on the prior four fiscal years' expenditures, is only $1.7 million in Fiscal Year 2014. The Division of Aviation is the first source of payment for any of the claims against the Division of Aviation.

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APPENDIX B

City Socioeconomic Information

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APPENDIX B

CITY SOCIOECONOMIC INFORMATION

INTRODUCTION

The City of Philadelphia (the "City" or "Philadelphia") is the fifth-largest city in the nation, with the third largest residential downtown, and is at the center of the United States' sixth largest metropolitan statistical area. The Philadelphia MSA (further described below) includes the fourth largest retail sales market in the nation, as well as a diverse network of business suppliers and complementary industries. The Philadelphia MSA plus Mercer County, New Jersey, has the second largest concentration of students on the East Coast in a metropolitan statistical area with 101 degree granting institutions of higher education and a total enrollment of 300,000 students of whom approximately 155,000 live within the geographic boundaries of the City. Some of the City's top priorities include attracting and retaining knowledge workers, increasing educational attainment among Philadelphians, attracting development, and promoting Philadelphia as a desirable location for business.

According to the 2010 U.S. Census, the City increased its population by 0.6% in the ten years since 2000 to 1.526 million residents, ending six decades of population decline. Although the change was modest, it was an indicator of the growth and development that Philadelphia has witnessed throughout the last two decades. From 2010 to 2012, the City increased its population by 1.4% to 1.548 million residents, which exceeds the rate of population growth projected by the Philadelphia City Planning Commission in its 2011 comprehensive plan. The City is positioned for continued growth, given its diverse economy.

Since 2008, substantial private and public investment aggregating over $8.8 billion (based on building permit information) has led to a revitalization of the City. Philadelphia continues to capitalize on its assets to realize its economic priorities. The City benefits from its strategic geographical location, relative affordability, cultural and recreational amenities, and its growing strength in key industries. The City is a major business and personal services center with strengths in professional services like insurance, law, finance, healthcare and higher education, and leisure and hospitality. Philadelphia's cost of living is relatively moderate compared to other major metropolitan areas. In addition, the City, as one of the country's education centers, offers the business community a large and diverse labor pool.

Geography

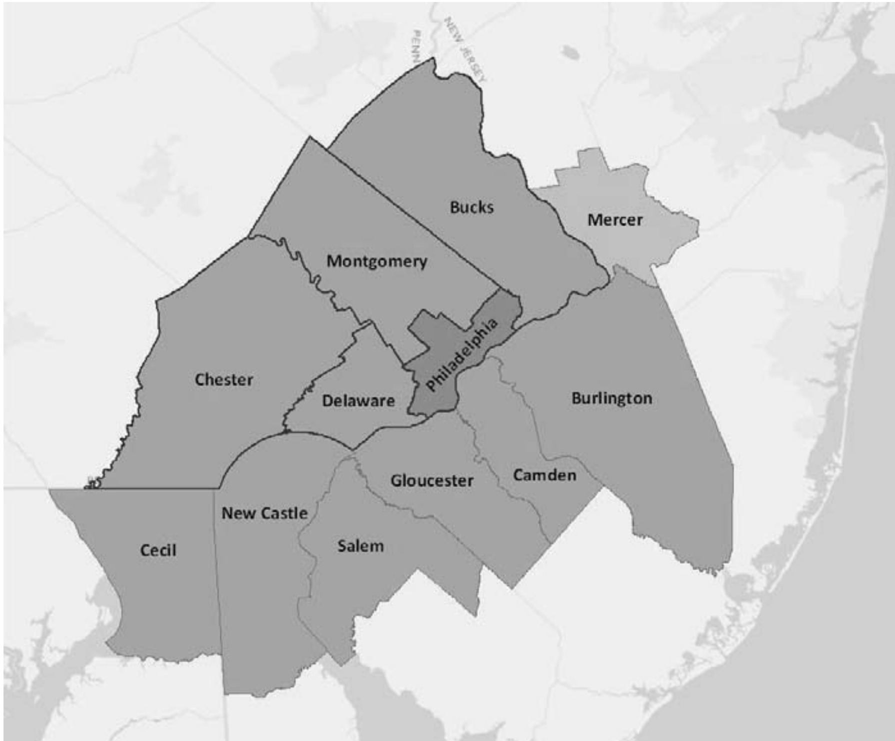
The City includes within its boundaries an area of approximately 134 square miles along the southeastern border of the Commonwealth of Pennsylvania (the "Commonwealth") and is located at the confluence of the Delaware and Schuylkill Rivers. The City, highlighted in orange in Figure 1, lies at the geographical and economic center of the MSA and PMSA (described below). Philadelphia is the largest city in the Commonwealth, co-terminous with the County of Philadelphia.

Philadelphia Metropolitan Statistical Area (MSA), highlighted in blue, is the eleven-county area named the Philadelphia-Camden-Wilmington metropolitan statistical area, representing an area of approximately 5,118 square miles with approximately 6,018,800 residents.[1]

Philadelphia Primary Metropolitan Statistical Area (PMSA), outlined in grey, is a 5-county area that is within the Philadelphia MSA that lies in the Commonwealth. Sometimes called the Philadelphia Metropolitan Division, in this discussion it is referred to as the Philadelphia Primary Statistical Area (PMSA). The counties of Bucks, Chester, Delaware, and Montgomery are referred to as the Suburban PMSA herein.

[1] Due to its close proximity and impact on the region's economy, Mercer County, NJ, highlighted in green, is included in the MSA by many regional agencies, although it is not included in the area defined by the U.S. Office of Management and Budget.

Figure 1. Map of Philadelphia Region, including the MSA, PMSA, and Mercer County, NJ
Source: 2009 TIGER County Shapefiles



Strategic Location

An hour from New York City and less than two hours from Washington, D.C. by high-speed rail, Philadelphia is centrally located along the East Coast. The City is within a day's drive of 50% of the nation's population and accessible to regional and international markets, due to the transportation infrastructure centered in the City, including the Philadelphia International Airport ("PHL" or the "Airport"), AMTRAK's Northeast Corridor service, major interstate highway access, regional SEPTA service and the Port of Philadelphia.

City Identified Peer Group

Certain information about the City in this Appendix is presented in comparison to certain other cities determined by the City. The City has chosen its comparison cities based on a variety of factors, with some cities falling into multiple categories, including comparable population size, similar industrial history, similar assets such as a port or a redeveloped military base, comparable geography along the Northeast corridor and similar socio-economic statistics. Comparison cities are: Baltimore, Boston, Chicago, Cleveland, Detroit, Houston, Los Angeles, Memphis, Milwaukee, Phoenix, San Antonio, San Diego and Washington, DC.

POPULATION AND DEMOGRAPHICS

Philadelphia is the nation's fifth largest city, with 1.548 million residents, based on 2012 U.S. Census estimates. The City's population gain from 2000 to 2010, while modest, was its first in 60 years. In the two years following the 2010 Census, the City's population grew by an additional 1.4 %, adding an additional 21,601 residents according to 2012 Census estimates.

From 2006 to 2012, the share of the population represented by citizens age 20 to 34 grew from 20% to 26%, to become the largest share of Philadelphia's population. This demographic tends to be better educated than the City's adult population as a whole, with 37.5% of 25 to 34-year olds having a bachelor degree or higher while 23.6% of adult Philadelphians are college graduates. Nationally 31.5% of 20 to 34-year olds have a bachelor degree or higher. The City's many universities and diverse employment bases are likely draws for residents in the 20 to 34 age group. In addition to young people, as noted in Pew Charitable Trusts Philadelphia Research Initiative report, *A City Transformed: the Racial and Ethnic Changes in Philadelphia Over the Last 20 Years*, the City's immigrant population also grew significantly, with the City's Asian population increasing 126.6% and the Hispanic or Latino population growing by 110.3%.

Table 1
Population
City, MSA, Pennsylvania & Nation

	1990	2000	2010	2012	% Change 2000-2010	% Change 2010-2012
Philadelphia	**1,585,577**	**1,517,550**	**1,526,006**	**1,547,607**	**0.60%**	**1.40%**
Philadelphia-Camden-Wilmington MSA	5,437,468	5,687,147	5,965,343	6,018,800	4.89%	0.90%
Pennsylvania	11,881,643	12,281,054	12,702,379	12,763,536	3.40%	0.50%
United States	248,709,873	281,421,906	308,745,538	313,914,040	9.70%	1.70%

Source: U.S. Census Bureau, American Community Survey 2012, Census 2010, Census 2000, Census 1990.

Philadelphia exceeds most cities in its share of students who are enrolled in an undergraduate, graduate or professional education program. Four of the top six peer cities that have the largest share of students in higher education are located in the Northeast region. However, because of the population differences of these cities, Philadelphia has 38,453 more students in higher education than top ranked Boston. Philadelphia has the sixth highest share of its residents in higher education of the selected cities shown in Table 2 below and the fourth largest university student population.

Table 2
2012 Total Number of Students, and as a Percent of Total Population of Selected Cities, Ranked by Percent of Total Population enrolled in Higher Education

City	Total Number of Students Enrolled in School (all years)	Total Number of Students Enrolled in Higher Education	Percent of All Students Enrolled in Higher Education	Percent of Total Population enrolled in Higher Education
Boston, MA	198,917	114,025	57.32%	18.15%
Washington, DC	159,181	74,618	46.88%	12.06%
San Diego, CA	376,585	152,416	40.47%	11.53%
Baltimore, MD	165,703	63,070	38.06%	10.16%
Milwaukee, WI	189,317	60,609	32.01%	10.15%
Philadelphia, PA	**423,644**	**152,478**	**35.99%**	**9.91%**
Los Angeles, CA	1,042,248	347,495	33.34%	9.08%
Chicago, IL	720,798	235,032	32.61%	8.69%
Memphis, TN	180,158	54,216	30.09%	8.32%
San Antonio, TX	395,313	111,320	28.16%	8.20%
Detroit, MI	203,863	54,598	26.78%	7.73%
Cleveland, OH	105,503	29,728	28.18%	7.56%
Houston, TX	574,449	153,929	26.80%	7.23%
Phoenix, AZ	408,955	101,234	24.75%	6.90%
United States	**82,921,961**	**23,770,304**	**28.67%**	**7.63%**

Source: 2012 American Community Survey, 3-Year Estimates

ECONOMIC DEVELOPMENT

Mission and Goals of the City of Philadelphia Economic Development Strategy

The goal of the City's economic development strategy is to create, maintain, and develop: (1) jobs by fostering an improved business environment; (2) increases in population; and (3) enhanced quality of life within the City—all in order to grow the City's tax base and market competitiveness. Strategic public and private investments, as well as location-based assets, have created a stable economic base and positioned Philadelphia for growth. This economic development infrastructure strives to make Philadelphia a place of choice by increasing jobs and population in the City.

Notable Districts

Several key areas within the City have been instrumental in the economic development of Philadelphia over the past two decades and the population growth since 2000. Much of the real estate development referenced throughout this document has occurred in these districts.

Center City - An area that has seen a resurgence over the last two decades, Center City is Philadelphia's central business and office region within the City. Center City is the strongest employment area in the city, accounting for 38% of all jobs found in Philadelphia. In addition, the area contains a sizeable residential population and provides ample access to retail, dining, arts and culture, entertainment, and mass transportation services, to both residents and daily commuters. It is estimated that approximately 295,500 riders take public transportation into Center City daily. The professional services and leisure and hospitality sectors play significant roles in the Center City area.

Greater Center City - The areas of greater Center City result from a growing desire for urban living among people who find these areas more affordable than Center City. Like Center City, these areas have experienced increased population, educational attainment, and family income within the last decade.

University City – Located west of Center City, University City is a hub for the health care, life sciences, and higher education sectors and accounts for 11% of the City's employment. It includes the campuses of the University of Pennsylvania, Drexel University, University of the Sciences, the University of Pennsylvania Health System, the Children's Hospital of Philadelphia and the Wistar Institute, as well as the University City Science Center, a biomedical incubator.

The Navy Yard - Deeded to the City by the U.S. Navy in 2000 as a result of the federal Base Realignment and Closure Act, the 1,000-acre Philadelphia Navy Yard represents a successful transition of a former naval property with a 125-year history as an active military base to a growing hub for business. Largely through the work of the Philadelphia Industrial Development Corporation ("PIDC"), the City invests in infrastructure at the Navy Yard, providing an urban alternative to suburban office parks and a base for the rejuvenation of the industrial sector. With the arrival of GlaxoSmithKline, the Navy Yard surpassed 10,000 employees in February 2013, making the Navy Yard a growing employment area with 1% of the City's jobs.

Economic Development Infrastructure

The Deputy Mayor for Economic Development and Commerce Director manages a portfolio of City and quasi-public agencies that work together to advance economic development strategies within the City. These agencies serve a variety of functions, including economic development, land use and planning, housing development and historical preservation and regulatory oversight, each discussed below. Furthermore, the City provides additional programs to businesses and individuals as incentive to relocate and/or develop within the City. These programs include tax incentives such as the City's real estate tax abatement program and access to designated Keystone Opportunity Zones. Finally, the City has found the private sector to be a valuable partner in advancing the overall economic development initiatives within the City, including but not limited to investment in Center City, the Parkway District, the Avenue of the Arts District and the Navy Yard.

Economic Development

The Philadelphia Department of Commerce oversees and implements policies to help both small businesses and major corporations in Philadelphia thrive. The Department coordinates activities along neighborhood commercial corridors, with small businesses and entrepreneurs, major real estate development projects, large-scale business attraction and retention efforts, as well as efforts to increase minority-owned business contracting opportunities. The City works closely with economic development partners like PIDC, maintaining a relationship that is fully coordinated on business attraction and retention activities and development issues. At the direction of the Department of Commerce, PIDC plans and implements real estate and financing transactions that attract investment, jobs and tax ratables to the City.

Land Use and Planning

The Philadelphia City Planning Commission is responsible for the City's land use and strategic planning policies. The Commission maintains the City's comprehensive plan and monitors land use by applying the zoning code to proposed development. After four years of work, a revised zoning code was adopted by City Council in December 2011 and went into effect August, 2012. The new, streamlined code is designed to increase efficiency in the development process by expanding what is allowable by right; thus, limiting the number of variance requests. When variances are needed, the Zoning Board of Adjustment is the appointed arbiter of those land use requests.

Housing Development

The Office of Housing and Community Development (OHCD) manages planning, policy and investment in low income housing through several assistance programs. Most significantly, OHCD creates and manages implementation of the Consolidated Plan, a federally-mandated plan and budget that must be updated yearly in order to receive federal Community Development Block Grant funding. The Philadelphia Redevelopment Authority (PRA) is the public government agency charged with the redevelopment of the City. The PRA focuses on planning and developing balanced, mixed-use communities to create thriving, well-served neighborhoods. The PRA manages disposition of City-owned land. Philadelphia Housing Development Corporation (PHDC) focuses on service to Philadelphia's low- and moderate-income households through development of new housing and rehabilitation of existing homes in partnership with community development corporations. The Philadelphia Housing Authority (PHA) is funded primarily by the federal government and is the largest landlord in Pennsylvania. PHA develops, acquires, leases and operates affordable housing for City residents with limited incomes. PHA works in partnership with the City and state governments, as well as private investors.

Historical Preservation and Regulatory Oversight

The City is home to historic resources documenting more than three centuries of local, regional, and national history. The Philadelphia Historical Commission is the City's regulatory agency responsible for ensuring the preservation of that collection of historic resources including buildings, structures, sites, objects, interiors, and districts. The Philadelphia Art Commission is the City's charter-mandated design review board for architecture and public art. The City of Philadelphia has one of the largest collections of public art of any major city in the world, with more than 4,500 cataloged pieces.

The Department of Licenses & Inspections reviews construction plans and conducts building inspections to ensure the safety of workers and the public. Building permits are required before beginning projects to enlarge, repair, change, add to or demolish a structure, and to install equipment or systems in a structure. The Department also issues licenses, permits and certificates to conduct certain business operations.

Lending, Land Use and Employer-Based Strategies to Expand Business and Investment

As the City's landholding and financing arm, the Philadelphia Industrial Development Corporation (PIDC) manages public and private resources that are used to leverage even greater investments from a diverse range of governmental, for-profit and non-profit clients throughout Philadelphia. Since its founding in 1958, PIDC has placed more than $10 billion of PIDC financing and conveyed more than 3,000 acres of land in commercial and industrial projects. These transactions have leveraged $19 billion in total project investment and attracted or retained more than 400,000 jobs.

Through PIDC, the City offers a broad range of financing incentives, including below-market loans, grants, and tax-exempt financing designed to encourage economic growth in Philadelphia. Generally, financing is targeted to capital projects (building acquisition and renovation, new construction, machinery and equipment) that retain or grow employment in Philadelphia where the borrower is not otherwise able to fully fund the project with private-sector debt and equity. PIDC also offers financial assistance for working capital associated with business growth and employee training and additional capital programs for construction projects that incorporate sustainability measures. Incentives are capitalized by federal, state and local governmental resources, as well as private sector funds, and are available to for-profit and non-profit corporations both small and large.

The City also utilizes several place-based economic development strategies to spur development in Philadelphia. These strategies include: (i) a 10-year real estate tax abatement on all construction, as well as on improvements to existing properties; (ii) Commonwealth-designated Keystone Opportunity Zones (KOZ) in which eligible businesses may be exempt from all state and local business taxes until a specified date; (iii) Commonwealth-designated Keystone Innovation Zones (KIZ) in which energy, defense, technology, and life-sciences companies may be eligible for saleable tax credits worth $100,000 annually for the first eight years of operations; (iv) tax increment financing; and (v) commercial corridor revitalization through support of Business Development Districts (BIDs) and reimbursement for certain storefront improvements.

The City also supports business formation and job creation incentives in a variety of ways, including use of a Job Creation Tax Credit which may be applied against the City's Business Income and Receipts Tax liability. The City works with the Philadelphia business community to build internal and external alliances with minority, women and disabled owned business enterprises, and with private industries to help develop and promote these companies. The City also fosters entrepreneurship and small business formation through a dedicated office, the Office of Business Services. With the growth of Philadelphia's immigrant population, the City has actively pursued multilingual business outreach programming.

Key Development Achievements

Over the last two decades the efforts of these agencies, and others, have spurred significant economic changes. Today, Philadelphia is experiencing a construction boom, with over 32 major projects under construction concurrently, representing over $2.6 billion in combined public and private investment. Of those projects, 16 received no public funding. Higher education and health care institutions are currently most actively engaged in development, with $1.3 billion being invested across nine projects, the majority of which are concentrated in the University City and North Broad neighborhoods, while $429 million in new residential projects are currently under construction across various neighborhoods throughout the City. Table 3 reflects major real estate developments under construction as of December 2013. Since May of 2013, 21 projects representing over $1.5 billion were completed. In addition to the projects listed on Table 3, Comcast Corporation recently announced that it expects to break ground in the summer of 2014 on a 59-story, $1.2 billion office tower adjacent to its headquarters building in Center City.

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Table 3
Selected Major Development Investments Under Construction

Project Name, by Neighborhood	*Project Type*	*Cost in Millions*	*Est. Completion Date*
Center City		**$608.5**	
2400 South	Residential	$31.0	Q4 2013
William Way	Residential	$19.5	Q4 2013
2040 Market	Residential	$75.0	Q1 2014
Dilworth Plaza	Public	$55.0	Q4 2014
Franklin Institute Expansion	Non-Profit	$24.0	Q2 2014
Family Court	Public	$200.0	Q2 2014
Mormon Temple	Religious	$70.0	Q2 2014
South Star Lofts	Mixed Use	$32.0	Q2 2014
1900 Arch	Residential	$50.0	Q4 2014
Rittenhouse Hill	Residential	$52.0	Q1 2014
University City		**$1,234.5**	
Perelman Center - South Pavillion	Health Care	$100.0	Q1 2014
Wistar Institute	University	$102.0	Q2 2014
Penn Presbyterian Medical Center	Health Care	$92.0	Q1 2015
Science & Technology Center II University of the Sciences	University	$20.0	Q2 2014
3737 Science Center	Commercial	$92.0	Q2 2014
Cira Centre South - Chestnut Street	Mixed Use, inc. University	$158.5	Q3 2014
Buerger Center for Advanced Pediatric Care	Health Care	$500.0	Q1 2015
Lancaster Square	University Residential	$170.0	Q3 2015
North Broad		**$304.5**	
PA Ballet Sidewalk Vault at 321 N. Broad St.	Commercial	$17.5	Q1 2014
Science, Education, & Research Center - Temple	University	$137.0	Q2 2014
Wanamaker Plaza - North Tower	Residential	$150.0	Q3 2014
Navy Yard		**$104.5**	
Marriott Courtyard	Hotel	$34.0	Q4 2013
Building 661	Commercial	$30.0	Q1 2014
Vincera Institute/Building 489	Commercial	$7.0	Q1 2014
Franklin Square Capital	Commercial	$33.5	Q1 2015
Other Neighborhoods		**$146.2**	
Edison Square	Commercial	$12.6	Q4 2013
Station at Manayunk	Residential	$40.0	Q4 2013
9th St. Marketplace	Commercial	$12.0	Q1 2014
Belmont Mansion	Non-Profit	$1.4	Q1 2014
Fringe Arts Facility	Non-Profit	$7.8	Q2 2014
Oxford Mills	Mixed Use	$37.8	Q2 2014
The Croyden	Residential	$11.8	Q2 2014
New Courtland Senior Health Center	Health Care	$10.0	Q3 2013
The Falls Center	Mixed Use	$12.8	Q3 2013
Total		**$2,644.0**	

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Table 4 below presents the trend of total value of building permits issued with a "Passed" final inspection by the City. The values shown include both new construction development as well as redevelopment of existing property.

Table 4
Total Building Permit Value with a "Passed" Final Inspection, by Year Completed

Calendar Year	Commercial	Residential	Institutional	Miscellaneous Site Work	Total
2008	$ 1,355,637,811	$ 424,677,243	$ 61,761,053	$ 92,882,179	**$ 1,934,958,286**
2009	1,023,643,944	647,304,077	398,496,674	97,336,048	**2,166,780,743**
2010	1,686,672,510	467,037,405	184,365,000	62,458,142	**2,400,533,058**
2011	984,851,222	524,312,029	242,804,057	68,149,412	**1,820,116,720**
2012	1,180,525,597	452,504,784	31,668,474	63,768,982	**1,728,467,836**
2013*	1,559,101,112	326,679,411	8,855,000	76,777,671	**1,971,413,193**
Total	**$ 7,790,432,196**	**$ 2,842,514,949**	**$ 927,950,258**	**$ 461,372,434**	**$ 12,022,269,836**

*Permits through November 4, 2013.
Source: City of Philadelphia Department of Licenses & Inspections

Convention, Hospitality and Tourism Achievements

Chief among Philadelphia's development achievements is the expansion of the City's hospitality sector since 1993. Beyond driving growth in employment, development of amenities and cultural assets improve the tourist experience as well as quality of life for Philadelphia residents.

With Philadelphia's historic assets, the City has natural appeal as a tourist destination. The City continues to invest and work to grow development and employment in the leisure and hospitality sector. In 1993, with support from the Commonwealth, the Pennsylvania Convention Center was completed, providing a total of 624,000 square feet of saleable space across its four exhibit halls, ballroom and banquet spaces. In 2011, a $786 million expansion, across 20 acres of central Philadelphia real estate, increased the facility to 2.3 million square feet. It is the largest single public works project in Pennsylvania history. In June 2013, the Pennsylvania Convention Center Authority selected SMG to manage and operate the Pennsylvania Convention Center.

The Pennsylvania Convention Center booked 225 meetings and conventions in 2012, with over 565,000 total hotel room nights, and an estimated economic impact of more than $813 million. Over 2.9 million room nights were sold in Center City in 2012, exceeding the previous all-time high, set in 2011, by 200,000 rooms.

The Pennsylvania Convention Center expects an average annual growth of five percent in hotel rooms booked each year from 2012 to 2018. In 2012, the Convention and Group segment of travelers purchased over one million rooms.

The number of hotel rooms available in the City in 1993 was 5,613, with annual demand of 1,331,684 hotel rooms, representing 65% occupancy. By the end of 2012, the City's hotel room inventory was 10,813 rooms, with an average occupancy at 73.4%. In 2013, an additional 400 rooms were added to Philadelphia's inventory, while the City continues to support and encourage private hotel industry investment to build an additional 700 hotel rooms as an anchor to the Pennsylvania Convention Center. Table 5 lists notable hotel developments since 2008, representing $417 million dollars in investment.

Table 5
Notable Hotel Developments since 2008, in Millions

Four Points by Sheraton	$14.0 (Estimate)
Le Meridien	61.0 (Estimate)
Kimpton Hotel Palomar	94.0
Homewood Suites University City	43.0
Marriott Courtyard, Navy Yard	31.0
Hotel Monaco by Kimpton	88.0
Hilton Home2 Suites	60.0
Residence Inn by Marriott (Opening 2014)	26.0 (Estimate)
Total	***$417.0 million***

Source: City of Philadelphia Commerce Department and PIDC

Despite a drop during the national recession beginning in 2008, employment in the leisure and hospitality sector exceeded pre-recession levels by 2011, with 60,684 people employed in the City within the sector in 2011 and 62,600 people employed in 2012. The Bureau of Labor Statistics reports that employment in this sector grew 3.3% in 2012, and 18.3% from 2003 to 2012.

In 2010, the City formed the Mayor's Hospitality Advisory Board, a collaborative effort between public, private, and nonprofit entities working to grow the hospitality sector in Philadelphia. The board proactively addresses issues such as customer experience and quality of life, hotel development, and marketing, including international marketing. Beyond working to increase convention business, the City and its regional partners work to increase leisure travelers as well. According to a 2012 report by the Greater Philadelphia Tourism and Marketing Corporation, since 1997, overnight leisure hotel stays have grown 80%. This can be attributed to a number of factors, notably, an increased supply of hotel rooms and marketing of the region. The City, through the Greater Philadelphia Tourism and Marketing Corporation, supports domestic marketing efforts.

The City supports international marketing efforts through the Philadelphia Convention and Visitors Bureau (PHL CVB). The U.S. Office of Travel and Tourism Industries reported that international visitors to Philadelphia in 2012 numbered more than 595,000. Table 6 shows the Greater Philadelphia Region's visitation growth from 1997 to 2012.

Table 6
Greater Philadelphia† Visitation Growth, 1997-2012
(in millions)

	1997	*2012*	*Net Change*	*Percent Growth*
Total Visitation	**26.7**	**38.8**	**12.1**	**45%**
Day - Leisure	15.5	21.0	5.5	35%
Overnight - Leisure	7.3	13.1	5.8	80%
Day - Business	2.5	2.6	0.1	3%
Overnight - Business	1.4	2.1	0.7	50%

†Bucks, Chester, Delaware, Montgomery and Philadelphia counties.
Source: Greater Philadelphia Tourism and Marketing Corporation, Tourism Economics, Longwoods International

Crucial to tourism is the City's robust arts and culture sector. The Center City District reports that one-in-three tourists who come to Center City Philadelphia cite museums and cultural events as the primary reason for their visit. In 2011, Travel + Leisure magazine ranked Philadelphia as the number one city for arts and culture in the United States. Center City museums and attractions saw a 6.7% increase in attendance between 2011 and 2012.

Organizations like the Philadelphia Museum of Art, the Kimmel Center, FringeArts, and the more than 400 smaller cultural organizations throughout the City help improve the quality of life for residents and visitors, as well as contribute to the estimated $580 million in revenue that the Philadelphia MSA's cultural organizations generated in 2010. Part of the wider economic impact generated by this revenue is demonstrated in the over 48,900 creative jobs that the sector supports within Philadelphia.

Table 7 lists attendance levels for many key attractions in Philadelphia. In 2012 these destinations had more than 15 million visitors.

Table 7
2012 Attendance Levels Philadelphia Visitor Center & Select Attractions

Visitor Center/Attraction	***Attendance***
Reading Terminal Market	6,425,376
Independence Visitor Center	2,427,585
Liberty Bell Center	2,006,157
Philadelphia Zoo	1,230,087
Franklin Institute	894,334
Franklin Square	856,630
Philadelphia Museum of Art	836,275
National Constitution Center	828,208
Independence Hall	686,788
Please Touch Museum	583,071
Eastern State Penitentiary	254,623
Academy of Natural Sciences	206,175
University of Pennsylvania Museum of Archaeology and Anthropology	197,397

Source: Philadelphia Area Hospitality Snapshot, PKF Consulting; Greater Philadelphia Tourism Marketing Corporation, 2012.

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Historic District Investments

Key to the City's leisure and hospitality growth is the maintenance and investment in the City's extraordinary historic assets. As the birthplace of the country, Philadelphia remains a major tourist destination year-round, particularly the City's Historic District, which includes such national treasures as the Liberty Bell, Independence Hall, Carpenters' Hall, Betsy Ross' house and Elfreth's Alley, the nation's oldest residential street. The City continues to invest in the maintenance and expansion of the Historic District's tourist experience.

Since 2001, $613 million worth of improvements and construction have occurred in Philadelphia's historic district, with an additional $100 million either under construction or planned over the next three years. Table 8 lists certain key attractions, the investment in which have complemented the City's notable existing historic assets. Coupled with proposed developments, public and private, this district is expected to remain competitive in the national and international tourism markets for years to come.

Table 8
Select Historic District Investments since 2001

Select Completed Investments	***Estimated Cost (Millions)***
Independence Visitors Center	$38.0
Independence National Historic Park Landscaping	18.0
National Constitution Center	185.0
Liberty Bell Center	13.0
Presidents House	8.2
Historic Philadelphia Franklin Square	10.0
Independence Park Institute	2.0
National Museum of Jewish American History	150.0
Hotel Monaco by Kimpton	88.0
Independence Hall Tower Investments	4.8
Franklin Court Museum	21.0
Penn Medicine at Washington Square	$75.0
Select Completed Investment Total	***$613.0***
Select Future Investments	
National Center For the American Revolution (Planned)	100.0
Select Future Investment Total	***$100.0***
Total	***$713.0***

Source: City of Philadelphia Department of Commerce and PIDC

Avenue of the Arts and North Broad Street Investment

The Avenue of the Arts is located along a mile-long section of South Broad Street between City Hall and Washington Avenue, in the heart of Philadelphia's Center City. Reinventing South Broad Street as the Avenue of the Arts, a world class cultural destination, has been a civic goal in Philadelphia for nearly two decades. Serious consideration of a performing arts district began with the work of the Central Philadelphia Development Corporation and others in the early 1980s. Cultural institutions, the William Penn Foundation, local property owners and civic leaders advanced the idea of a performing arts district on South Broad Street anchored by the Academy of Music and modeled after successful performing arts districts around the country. The transformation of South Broad Street into the Avenue of the Arts progressed in the 1990s. The Avenue of the Arts became a key element of the City's strategy to strengthen Center City as the region's premier cultural destination and an important element in the City's bid to expand its convention and tourism industries. Table 9 provides an overview of investment to date in this district.

Table 9
Avenue of the Arts Completed and Planned Development Projects

Selected Completed Investments	***Estimated Cost (Millions)***
Academy of Music Upgrades 1994-2002	$30.0
Wilma Theater 1996	8.0
Philadelphia High School for the Creative and Performing Arts (CAPA) 1997	25.0
Ritz Carlton Hotel 2000	88.0
Kimmel Center 2001	235.0
University of the Arts 2008	3.0
Symphony House Condominiums 2008	165.0
Philadelphia Theatre Company 2007	19.5
Brandywine Workshop Upgrades 2009	1.0
Philadelphia Clef Club Upgrades 2009	0.5
Dranoff Residential/Restaurant/Retail 777 N. Broad 2009 / 2010	60.0
Residences at the Ritz 2010	175.0
Union League Civil War Museum 2011	2.4
Marine Club Condo	20.0
Rock School/PA Ballet	2.0
Broad Street Improvements	6.3
Kimmel Center Improvements	14.0
Selected Completed Investment Total	***$854.7***
Select Future Investments	
Academy of Music Upgrades (Underway)	2.2
South Star Lofts, Mixed-use Development (Underway)	32.0
260 S. Broad St (Proposed)	-
Avenue Place, Mixed-use Development (Proposed)	-
Selected Future Investment Total	***$34.2***
Total	***$888.9***

Source: City of Philadelphia Department of Commerce and PIDC

The 2011 expansion of the Pennsylvania Convention Center reignited development efforts along the key corridor of Broad Street north of City Hall (North Broad Street). Improvements include Lenfest Plaza, which is adjacent to the Pennsylvania Academy of Fine Arts (PAFA) and across from the Pennsylvania Convention Center expansion's entrance. Lenfest Plaza is also home to Paint Torch, a sculpture by world-renowned American artist Claes Oldenburg. Further north at Broad and Wood Streets, the Pennsylvania Ballet is poised to build their new $17.5 million headquarters, which will house rehearsal spaces and corporate offices when it opens in 2014.

At Spring Garden Street, the former State office building as well as the former headquarters of the Philadelphia Inquirer and Philadelphia Daily News have been sold and are slated for housing and commercial development. Just north of Spring Garden, previously closed commercial businesses have been redeveloped to include 101 new residential lofts, new restaurants and a catering facility. The redevelopment of this block was initiated with the conversion of an empty building into a mixed use development with 250 fully-leased apartments.

Temple University has undergone a significant transformation over the past three decades from a university with a mostly commuter-based enrollment to one in which on- and near-campus housing is now in high demand. To meet the increasingly residential nature of its student population, Temple University has invested heavily in the renovation of its various existing student housing inventory as well as, most recently, the development of the new state-of-the art 33-story Morgan Hall residence facility, which houses approximately 1,275 students in a combination of singles, four-bed and five-bed apartment-suites. Morgan Hall opened in summer of 2013. Temple University has also actively partnered with private developers in the expansion of on-campus housing alternatives for students. There are currently an estimated 12,000 students living on or around the Temple University campus, not including its satellite regional campuses or international campuses in Rome, Italy and Tokyo, Japan. Temple University has begun $1.2 billion of investment, which will occur over the next decade, to further develop its North Broad Street frontage. Planned upgrades include a new student recreation facility, new academic buildings such as a 21st Century Library and a new science research lab.

Tying the corridor together is a planned streetscape enhancement project featuring trees, landscaping and decorative light masts, funded with a mix of federal, state and City funding. Table 10 is a list of recent, planned, and proposed, projects on the North Broad Street corridor.

Table 10
North Broad Street Development Projects

Development Project	***Estimated Cost (Millions)***
Pennsylvania Academy of the Fine Arts Hamilton Bldg 2005	$21.0
School District Administration Building Renovation 2005	92.0
640 N. Broad Apts/Retail 2006	50.0
Pennsylvania Convention Center Expansion 2011	786.0
PAFA Lenfest Plaza 2011	3.5
600 N. Broad Apts/Retail 2011	43.0
Ave Arts N. Beech (1600 N. Broad)	20.0
Progress Plaza/Fresh Grocer	14.0
1220 N. Broad Apt. Building Renovations	2.3
Beech Int'l House	22.0
Community Legal Services N. HQ	8.0
Paseo Verde Residential 2013	48.0
Morgan Hall (Temple University Student Residence) 2013	148.0
Tower Place 2013	70.0
Selected Completed Investment Total	***$1,327.8***
Select Future Investments	
PA Ballet (Underway)	17.0
Science, Education, & Research Center – Temple University (Underway)	137.0
Avenue of the Arts N. Streetscape Improvements (Planned)	12.0
Uptown Theatre (Proposed)	2.0
Inquirer Building Development (Proposed)	100.0
Blue Horizon Development (Proposed)	14.0
Divine Lorraine (Proposed)	42.0
Hannover North Broad (Proposed)	-
Selected Future Investment Total	***$324.0***
Total	***$1,651.8***

Source: City of Philadelphia Department of Commerce and PIDC

Parkway Investments

Complementing the Avenue of the Arts theater district developments, the Philadelphia Parkway is a signature public investment. Conceived as early as 1871, and opening in 1929, the Benjamin Franklin Parkway was originally designed to ease traffic and beautify the City. It runs from the area of City Hall to the Philadelphia Museum of Art and is at the heart of the City's museum district. Today it is central public space and is a principal tourist attraction. Key Parkway features include the Philadelphia Museum of Art, the Rodin Museum, the Franklin Institute, The Barnes Foundation, the Free Library of Philadelphia, the Academy of Natural History, the Swann Memorial Fountain, Cathedral Basilica of Saints Peter and Paul on Logan Square, and numerous pieces of public art.

As detailed in Table 11, since 2004 the Parkway has undergone additional transformation, improving streetscape and pedestrian access, and adding additional amenities that serve citizens of Philadelphia and visitors alike. Improvements include parks and open space and additions to the City's inventory of arts assets: Sister Cities Park, The Barnes Foundation Philadelphia Campus, and improvements to the Rodin Museum.

Table 11
Select Parkway Investments Since 2004

Select Investments	***Estimated Cost (Millions)***
Art Museum Renovations and Improvements	$141.0
Sister Cities Plaza, Café Cret, Aviator Park & Other Improvements	17.2
Perelman Wing – Philadelphia Museum of Art	90.0
Franklin Institute	50.0
Waterworks	5.8
Rodin Museum Renovations	20.9
The Barnes Foundation	100.0
Philadelphia Museum of Art Loading Dock	81.0
Paines Skate Park	5.0
Select Completed Investment Total	***$510.9***
Select Future Investments	
Mormon Temple (Underway)	70.0
Free Library Renovations (Underway)	20.0
Dilworth Plaza Renovation (Underway)	55.0
Franklin Institute (Underway)	65.0
Philadelphia Museum of Art Expansion (Planned)	419.0
Holocaust Memorial (Planned)	3.5
Select Future Investment Total	***$632.5***
Total	***$1,143.4***

Source: City of Philadelphia Department of Commerce and PIDC

Opened in May 2012, The Barnes Foundation is a welcome addition to the City's impressive roster of arts facilities, and has already had a significant impact on the City's leisure and hospitality industry. In its first year of operations, total attendance at The Barnes Foundation was more than 300,000, and with membership over 25,000, it is ranked among the top institutions of its kind in the country.

Of overnight visitors, arts and culture visitors represent 17%, or about 1.36 million, of visitors to Philadelphia annually. According to a 2011 report from the Greater Philadelphia Tourism Marketing Corporation, arts and culture visitors spend 54% more than the average visitor, stay longer, and are more likely to stay in a hotel.

South Philadelphia Sports Complex

Another key element of Philadelphia's hospitality industry is professional sports. Philadelphia is the only city to have a professional hockey, basketball, baseball, and football team playing in a single district within a city, the Sports Complex Special Services District, created by the City in 2000.

Today, the South Philadelphia Sports Complex houses three professional sports facilities: The Wells Fargo Center opened in 1996 and is home to the Philadelphia Flyers (NHL) and Philadelphia 76ers (NBA); Lincoln Financial Field opened in 2003 and is home to the Philadelphia Eagles (NFL); and Citizens Bank Park opened in 2004 and is home to the Philadelphia Phillies (MLB). The City leveraged its $300 million investment to obtain $200 million in State funding, and significant team contributions to new stadium development, $172 million from the Phillies and $310 million from the Eagles; the total project represents $1.01 billion in total investment. The Phillies and the Eagles are contractually obligated to play in Philadelphia for 30 years and each team is required to make a $30 million contribution to the Fund for Children established by The Philadelphia Foundation.

The Phillies have enjoyed one of the strongest home attendance figures of any team in Major League Baseball. In the 2009 through 2012 seasons, the Phillies had a paid home season attendance in excess of 100% of actual seating at Citizen's Bank Park. In 2010, the Phillies had the second highest attendance of any team in Major League Baseball and in both 2011 and 2012 the Phillies registered the highest home attendance of any team in Major League Baseball. Paid home season attendance for the Eagles in Lincoln Financial Field has exceeded 100% of actual seating, since its opening in 2003.

The most recent development for the area is Xfinity Live! Philadelphia, a 50,000 square foot sports entertainment and dining complex which opened in March 2012. The privately funded, $60 million venue includes a miniature sports field, hosting free concerts and other activities, an outdoor theater accommodating sports games and family films, and a dozen dining and bar establishments. The complex, a Comcast-Spectacor and Cordish owned company, also hosts the first ever, NBC Sports Arena, featuring a 32-foot LED HD television, displaying the NBC Sports Ticker, and in-game promotions. The entire complex is open year-round and sustains 276 full-time equivalent jobs.

Gaming

Legislation enacted by the Pennsylvania General Assembly currently authorizes 15 casinos with both slot machines and tables games, including two stand-alone licenses for the City. Philadelphia's first casino, SugarHouse, opened in September 2010. SugarHouse Casino sits on the Delaware River waterfront offering an array of slot machines, table games and dining options. In 2012 the casino's total revenue was $274,133,869, and it employed 1,098 people. While average monthly revenue per slot machine is commensurate with competing casinos at $9,882, SugarHouse's average monthly revenue per table game is nearly double that of its top competitors in Pennsylvania and Atlantic City, NJ, at $128,007. After previously receiving local approval for an expansion plan, in May 2013, SugarHouse received approval from the Pennsylvania Gaming Control Board to expand its operations, including additional parking and a larger gaming floor.

The Pennsylvania Gaming Control Board is also reviewing five applications to award a second casino license in Philadelphia County. An announcement of the winning proposal is expected in spring 2014. Pennsylvania ranks behind only Nevada in terms of total gambling revenue and total slot machine revenue. Gross slot terminal revenues for SugarHouse increased by 60.1% from 2011 to 2012, while gross table game revenue increased by 54.5% over the same period.

Waterfront Developments

Taking advantage of the City's geographic assets, the Schuylkill River and the Delaware River, the City is redeveloping its waterfront to accommodate a variety of developments, including mixed-use projects and housing, parks and recreational trails, and hotels. These projects improve quality of life for residents and improve the visitor experience, but also are a catalyst for environmental remediation and private development of former industrial property within the City.

Delaware River Waterfront Corporation. The Delaware River has historically been a center of activity, industry, and commerce, bounded at its north and south ends by active port facilities. The Master Plan for the Central Delaware, adopted by the City in 2011, recognizes this character and aims to create region-serving amenities while also reconnecting the City's residents and visitors with the waterfront. Delaware River Waterfront Corporation (DRWC), in partnership with the City, is a nonprofit corporation that works to transform the central Delaware River waterfront into a vibrant destination for recreational, cultural, and commercial activities, and serves as a catalyst for investment in public parks, trails, maritime, residential, retail, hotel and other improvements that create a vibrant amenity for residents and visitors. In January 2014, the DRWC will publish a plan for redevelopment of Penn's Landing, a major public space along the Delaware River waterfront. The plan will call for a combination of public and private investment for the two million square foot development program.

Schuylkill River Development Corporation. Redevelopment along the Schuylkill River is managed by a partnership between the Schuylkill River Development Corporation (SRDC), the Department of Parks & Recreation, and the Department of Commerce. SRDC works with federal, state, City and private agencies to coordinate, plan and implement economic, recreational, environmental and cultural improvements and tourism initiatives on the Schuylkill River. From 1992 to 2012, SRDC worked with the City to create 1.8 miles of riverfront trails within 17 acres of premiere park space in the heart of the City, and added amenities to the Schuylkill River Park such as floating docks, fishing piers, and composting toilets. SRDC continues to work towards meeting its goal of creating and maintaining 10 miles of trail and 70 acres of green space along the tidal Schuylkill River in Philadelphia. Since 2005, Philadelphia has benefitted from more than $1 billion in development along the Schuylkill River, with more planned by private developers, universities, and healthcare institutions.

Penn Park. Although not publically funded, the University of Pennsylvania's Penn Park is a significant piece of infrastructure that strengthens the connection between University City and Center City, improving the resident and visitor experience. It lies along the west bank of the Schuylkill River, and complements the work of the SRDC.

The University of Pennsylvania opened Penn Park in 2011, increasing the University's green space by 20%. The park includes 24 acres of playing fields, open recreational space and pedestrian walkways located between Walnut and South Streets. Formerly parking lots, the park embraces sustainable features, including underground basins that capture rainwater and mitigate storm water overflow into the Schuylkill River. 45,000 cubic yards of soil, 2,200 pilings and more than 500 trees were installed to create canopied hills and picnic areas.

Strategic Business Improvement Districts

Starting in 1990, the City began working with business owners, residents, and non-profit organizations to revitalize commercial corridors through the successful creation of key business improvement districts (BIDs). BIDs provide an agreed-upon set of business services and improvements to businesses within an established boundary in exchange for a mandatory annual assessment from those businesses. BIDs are authorized by City Council. Currently, Philadelphia has twelve BIDs/Special Services Districts and two voluntary services districts in neighborhoods throughout the City. Since their inception, these districts have seen population growth, increased property values, lowered vacancy rates, and are some of the most desirable places to live and work in Philadelphia.

The Center City District and the University City District are the largest business improvement districts in the City which have played a pivotal role in the resurgence of their service areas,

The Center City District was founded in 1990 as a private-sector business improvement district. The district encompasses 120 blocks and more than 4,500 individual properties in an area that extends beyond the central business district, roughly from Vine Street to Spruce Street and 30th Street to 4th Street. Center City District provides security, cleaning and promotional services that supplement, but do not replace, basic services provided by the City and the fundamental responsibilities of property owners. Center City District also makes physical improvements to the downtown, installing and maintaining lighting, signs, banners, trees and landscape elements. The type of improvements managed by the Center City District are often credited with the area's increased desirability as a place to live and work, attracting a population with higher educational attainment and higher household income than national averages. At 28% of the population, greater Center City has more than twice the national average of residents ages 25-34, and 66% of Center City residents 25 and older had a Bachelor of Arts degree or higher, compared to the national average of 28%. From 2000 to 2010, household income in Center City increased 49% to $59,345 from $39,715.

The University City District, founded in 1997, is Philadelphia's second largest business improvement district by area, population, and employment. The 2.2 square mile area holds 64,893 jobs, with an economy centered on its universities and hospitals. Like the Center City District, the University City District provides security, cleaning and promotional services. The District serves as an economic development entity through assisting both start-up and established businesses with regulatory compliance and in applying for grants, coordinating technical resources with neighborhood commercial corridors, and providing career networking opportunities for its residents. University City District works with city agencies in planning and implementing improvements for public spaces and transportation infrastructure.

Office Market and New Development

Philadelphia currently has approximately 41.9 million square feet of office space in the central business district. Total net absorption throughout 2013 was negative, mostly due to GlaxoSmithKline's move from downtown Philadelphia to a new facility in the Navy Yard. Two of the City's top corporate tenants continue to grow downtown. In July 2013, Independence Blue Cross renewed its long-term lease of over 800,000 sq. ft. until 2033. Comcast Corporation also took an additional 60,000 sq. ft. of office space at Three Logan Square, bringing the company's total occupancy at Three Logan Square to 200,000 sq. ft., in addition to Comcast's 1.2 million sq. ft. headquarters building.

Comcast Corporation recently announced that it expects to break ground in the summer of 2014 on a 59-story, $1.2 billion Comcast Innovation and Technology Center (CITC) office tower adjacent to its headquarters building, which will enable it to consolidate employees currently scattered at several sites (in both Philadelphia and the surrounding suburbs) at a single location. The facility will also create a media center in the heart of the City by becoming home to the operations of local broadcast television stations NBC 10/WCAU and Telemundo 62/WWSI and offer space for local technology startups. The tower, when completed, will also serve as the new home to the Four Seasons Hotel, which will occupy the tower's top floors with approximately 200 rooms. The mixed-use tower is expected to be the tallest building in the United States outside of New York and Chicago and will be one of the largest private development projects in the history of Pennsylvania.

In the third quarter of 2013, Cushman & Wakefield ranked Philadelphia's downtown office market as having the twelfth best vacancy rate among the twenty largest downtown office markets in the United States, with a vacancy rate of 14.7%. Direct asking rental rates in Philadelphia's central business district continued to rise throughout the year, increasing 1.4% from the third quarter of 2012 to the third quarter of 2013 to $25.87 per sq. ft.

Table 12
Comparative Office Vacancy Rates, 20 Largest Office Markets
Third Quarter 2013

Manhattan (Midtown South)	6.50%
Pittsburgh	8.20%
San Francisco	8.60%
Manhattan (Midtown)	9.20%
Houston	11.90%
Cleveland	12.00%
Portland	12.30%
Washington DC	12.50%
Denver	13.00%
Boston	13.20%
Orange County	14.50%
Philadelphia	**14.70%**
Seattle	14.80%
Chicago	16.40%
Minneapolis	17.50%
Los Angeles	17.80%

Atlanta	18.80%
Dallas	18.90%
Phoenix	21.70%
Detroit	22.40%
All Markets	**14.70%**

Source: Cushman Wakefield US Market Office Snapshot, Third Quarter 2013

Navy Yard

Acquired in 2000 by PIDC through the Base Realignment and Closure process of the federal government, the Philadelphia Navy Yard represents the successful transition of a former naval property with a 125-year history as an active military base to a growing industrial asset. The Navy Yard is a 1,200 acre mixed-use office, research and industrial park, serving more than 130 companies. Currently 10,000 people work on site, supporting diverse tenants such as: the Aker Philadelphia Shipyard, one of the world's most advanced commercial shipbuilding facilities, the corporate headquarters for retailer Urban Outfitters, a new 205,000 square foot, LEED certified office building for pharmaceutical company GlaxoSmithKline, and a LEED-Silver certified baking facility for the Tasty Baking Company. In excess of 6.0 million square feet of space is currently occupied with significant additional capacity available for office, industrial, retail and residential development. In 2014, Urban Outfitters is expected to expand its existing headquarters to Building 18, a 92,000 sq. ft. former boiler and blacksmith shop that is undergoing a full renovation.

The Navy Yard is also home to the Energy Efficient Buildings Hub (EEB Hub), a consortium of universities, businesses, and economic development groups, working to develop energy efficient building technologies. The EEB Hub is the recipient of $160 million in State and Federal funding and part of a U.S. Department of Energy program to create national Energy Innovation Hubs. In spring 2014, the EEB Hub plans to relocate to The Center for Building Energy Science (Building 661). The 38,000 sq. ft. building serves as a demonstration laboratory to showcase energy efficiency research. In summer 2014, the EEB Hub in collaboration with Pennsylvania State University, plans to open a newly constructed 25,000 sq., ft. educational facility, The Center for Building Energy Education & Innovation.

In February of 2013, PIDC released an updated Navy Yard master plan, detailing a new, comprehensive vision for the Navy Yard. The plan calls for adding over 12 million square feet of new construction and historic renovation supporting office, R&D, industrial and residential development, complemented with commercial retail amenities, open spaces and expanded mass transit. At full build, The Navy Yard will support more than 20,000 employees and over $2 billion in private investment. Beyond buildings currently under construction, four projects are scheduled to begin construction in 2014, bringing the Navy Yard closer to its strategic targets: an 80,000 sq. ft. headquarters for Franklin Square Partners, an investment firm; EcoSave, an Australian based energy and water efficiency company, will take 20,000 sq. ft. for their North American headquarters in a new 75,000 sq. ft. flex building; a new five-acre, $9.4 million park breaks ground in summer 2014 and will open in 2015; and restauranteur Mark Vetri will open a 150-seat restaurant in summer 2014 in a 4,700-square-foot former gatehouse. Current and upcoming construction of these developments is valued at almost $134 million.

Retail Market

Philadelphia continues to establish itself as a retail destination. In October of 2013, Colliers International reported that the fastest rising retail rents in the nation were on Philadelphia's Walnut Street, with 33.8% growth since October 2012. Throughout Philadelphia's downtown, the tenant mix continues to move toward national brands that can support growing rents. Recent additions include Stuart Weitzman, Madewell, Theory, Ulta, Intermix, and Suit Supply, the European chain's fifth US store. Japanese retailer Uniqlo is scheduled to open its first Philadelphia location in Center City in the fall of 2014. Other luxury retailers will soon follow; Barney's New York and Nordstrom Rack are expected to open in 2014.

Plans to revitalize East Market Street continue. In April 2013, the Pennsylvania Real Estate Investment Trust (PREIT) acquired 430,000 square feet of retail and commercial space at 907 Market Street, giving a single entity ownership of The Gallery at Market East, a 130-store retail mall complex. Within a block, Marshalls opened a 60,000 square foot store in October 2012, also on East Market Street. Revitalizing East Market Street is a priority for the City, and City officials are working closely with PREIT to bring additional commercial and retail tenants to the area.

Data from the Bureau of Labor Statistics show that 48,418 people were employed in retail trades and 44,465 in food service and drinking establishments in 2012. The number of private retail establishments and private food services and drinking establishments has recovered from pre-recession levels, increasing by 203 and 180 establishments, respectively, from 2007 to 2012.

Table 13 reflects taxable retail sales for the City from Fiscal Years 2007 to 2012.

Table 13
Taxable Retail Sales 2007-2012
(Amounts in Thousands of USD)

Fiscal Year	Taxable Sales
2007	13,643,582
2008	13,704,958
2009	13,211,446
2010	13,050,202
2011	12,403,442
2012	12,721,337

Source: Figures determined by dividing the City's local sales tax reported by the Pennsylvania Department of Revenue by the applicable local sales tax rate.

Food and Dining

Philadelphia has experienced a revival in restaurant establishments especially in the Center City District, indicating an improved quality of life and vibrancy of that area. The Center City District's investment in the beautification of the area as well as the City's support in making the area more welcoming to visitors and diners sparked a significant increase in the number of indoor/outdoor dining establishments throughout the Center City District and other neighborhoods throughout the City. In 1995 no sidewalk cafes existed in Center City. By 2012 the same area had 296 sidewalk cafes. Additionally. from 1992 to 2010, the number of fine dining establishments within the Center City District increased 322%. Rapid development is also reflected in South Philadelphia, where East Passyunk was named a Top Ten Best Foodie Street in America by Food and Wine Magazine in May 2013.

Airport

The Airport System consists of Philadelphia International Airport (the "Airport" or "PHL") and the Northeast Philadelphia Airport ("PNE") and is owned by the City and operated by the Division of Aviation.

Since 2000, $1.5 billion has been invested in capital improvements at PHL. The Airport completed a 10-year planning and environmental review process in January 2011 as the Federal Aviation Administration (the "FAA") issued a Record of Decision approving the Airport's Capacity Enhancement Program (the "CEP") and in September 2011 awarded a $466.5 million letter of intent to provide funding for certain elements of the CEP. The CEP provides for a new runway, which will allow independent simultaneous aircraft operations in poor weather conditions, to significantly reduce delays; two runway extensions; enlarging and reconfiguring the existing terminal complex; relocating several off-airport facilities; developing a centralized ground transportation center; developing additional parking facilities; and constructing an automated people mover for the transport of passengers between terminals that will interface with the existing SEPTA rail line. In 2010, the cost of the CEP was estimated to be $6.4 billion and the total period for the phased construction is anticipated to be approximately 13 calendar years, lasting from 2013 through 2025. A portion of the funding for this longer-term capital program will require the issuance of additional airport revenue bonds.

US Airways Group and American Airlines AMR Corp. completed their merger in December, 2013. Following the merger, US Airways plans to continue with a hub at PHL and retain all 6,600 local employees. In March 2014, US Airways is expected to join the "oneworld" alliance, which allows passengers to book domestic and international flights on oneworld partner airlines.

Port of Philadelphia

The Port of Philadelphia is located on the Delaware River within the City limits. Philadelphia's Port facilities are serviced by three Class I railroads (CP Rail, CSX and Norfolk Southern) and provide service to major eastern Canadian points as well as Midwestern, southern and southeastern U.S. destinations. Terminal facilities, encompassing four million square feet of warehousing, are located in close proximity to I-95 and I-76. Over 300 local trucking companies operate in the MSA, with a combined total of over 15,000 trucks.

The Philadelphia Regional Port Authority is working to increase the Port's competitiveness with increased capacity. The Port of Philadelphia is 60% complete in deepening the main navigation channel of the Delaware River from 40 to 45 feet. Future plans also include the construction of the Southport facility, a container terminal that will be located at the east end of The Navy Yard. Southport will be the first new terminal in Philadelphia in 50 years. Construction of Southport is scheduled to begin in late 2014 and the first component of the project is projected to begin operating in 2018.

The Port of Philadelphia moved 609 vessels carrying 4,418,674 metric tons of cargo in 2012, and is in the midst of an $120 million expansion project which will ultimately increase cargo capacity in the MSA. The Port of Philadelphia is the top ranked port for meat importing in the United States, and is among the nation's leaders for fruit, cocoa, forest products and steel. In 2012 the port handled 197,854 tons of steel, an increase of 21%. The port is also a major hub for Hyundai and KIA automobiles, moving over 143,000 of these vehicles in 2012.

ECONOMIC BASE AND EMPLOYMENT

The Philadelphia Economy

The City's economy is composed of diverse industries, with virtually all classes of industrial and commercial businesses represented. The City is the major regional business and personal services center with strengths in insurance, law, finance, health, education, utilities, and the arts. As of 2010, there were approximately 174,000 residents of Philadelphia's four suburban counties (Bucks, Chester, Delaware, and Montgomery) working within the City, and an additional 117,000 from counties outside the five-county region. The City also provides a destination for entertainment, arts, dining and sports for residents of the suburban counties, as well as for those residents of the counties comprising the extended Philadelphia MSA. (See Philadelphia Metropolitan Statistical Area -MSA- herein for further information.)

The cost of living in the City is relatively moderate compared to other major metropolitan areas. The City, as one of the country's education centers, offers the business community a large, diverse, and industrious labor pool.

Key Industries

Philadelphia has developed an increasingly diverse economy centered on healthcare, higher education, professional and business services, and leisure and hospitality. In its January 2012 Monthly Labor Review, the Bureau of Labor Statistics predicted that these sectors would grow nationally in the decade between 2010 and 2020. Healthcare and social assistance is predicted to grow 3% annually, educational services 2.3% annually, and professional and business services 2.1% annually, while financial activities and leisure and hospitality are predicted to both see a 1% annual gain.

In 2012 these sectors - health services, higher education, professional and business services, financial services and leisure and hospitality - collectively represented 63% of total employment in the City, and 66% of total private sector wages. Philadelphia has recovered 14,500 private sector jobs since the peak of the recession in 2009, and the 2012 annual average total employment is now slightly higher than it was in 2005. As reflected in Table 17, employment has generally trended upwards in education and health services and leisure and hospitality over the period shown. These sectors provide stability to the City's overall economy.

Compared to the nation, Philadelphia demonstrates concentrations in seven sectors: educational services, health care and social assistance, management of companies and enterprises, finance and insurance, professional and technical services, arts, entertainment, and recreation, and transportation and warehousing. Of these seven sectors, the City has a higher concentration of employment than the Commonwealth of Pennsylvania in five sectors: education services, health care and social assistance, finance and insurance, professional and technical services, and arts, entertainment and recreation.

The concentration of education services not only provides stable support to the local economy, but also generates a steady and educated workforce, especially fueling the City's professional services and healthcare industries. The City is capitalizing on the region's assets to become a leader in research generated by life sciences and educational institutions. Several sites now foster incubator facilities, including the Navy Yard, the Science Center in West Philadelphia and the west bank of the Schuylkill River bordered by the University of Pennsylvania, Children's Hospital of Pennsylvania and Drexel University.

The City's economy also enjoys a large market share of for-profit creative industry companies which are entrepreneurial and technology-driven, known as businesses representing the "creative economy." The sector includes architecture, communications, design and merchandising, digital media, engineering, fashion design, graphic arts, information technology, interior and industrial design, marketing, music, film and video production, multimedia design, photography, planning product design and software development.

In September of 2012, the third largest national venture capital firm by volume, First Round Capital, moved its headquarters from West Conshohocken, PA to a 10,000 square foot facility in Philadelphia that includes incubator and co-working space. The move follows other large suburban firms, Bentley Systems and Fiberlink that have opened "satellite" offices in close proximity to Philadelphia universities. Also citing access to talent as a key driver, rapid growth companies like brand.com and Bulogics have taken larger steps, relocating their headquarters in the last year to Philadelphia. In December 2013, national seed-stage accelerator DreamIt Ventures announced it will open a 17,500 sq. ft. headquarters in University City in collaboration with the University City Science Center, Drexel University, and the City of Philadelphia.

Philadelphia entrepreneurs can access a burgeoning network of incubator, multi-tenant, and co-working spaces across the city. More than 44 organizations house a diverse range of startups from fashion and video gaming, to bio-tech and clean energy. Other incubators and advocates like Ben Franklin Technology Partners, DreamIt Ventures, Philly Startup Leaders, University City Science Center, and Technically Philly provide networking opportunities and access to venture capital. Capitalizing on this momentum, the City launched an initiative called Startup PHL in partnership with PIDC in October of 2012. The initiative includes a $6 million seed-stage investment fund managed by First Round Capital, and grants to organizations that offer programming to entrepreneurs.

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Table 14
Ratio of Philadelphia and Pennsylvania Industry Concentrations Compared to the United States

Industry	Pennsylvania	Philadelphia County
Educational Services	1.59	4.68
Health Care and Social Assistance	1.24	1.74
Management of Companies and Enterprises	1.46	1.28
Finance and Insurance	1.02	1.16
Professional and Technical Services	0.91	1.12
Arts, Entertainment, and Recreation	1.07	1.14
Transportation and Warehousing	1.13	1.08

Source BLS: 2012 Location Quotient, Quarterly Census of Employment and Wages Data. Ratio of analysis-industry employment in the analysis area to base-industry employment in the analysis area divided by the ratio of analysis-industry employment in the base area to base-industry employment in the base area.

Educational Institutions

The Philadelphia MSA plus Mercer County, New Jersey, has the second largest concentration of students on the East Coast with 101 degree granting institutions of higher education and a total enrollment of over 300,000 students. Included among these institutions are the University of Pennsylvania, Temple University, Drexel University, St. Joseph's University, and LaSalle University. Within a short drive from the City are such schools as Villanova University, Bryn Mawr College, Haverford College, Swarthmore College, Lincoln University, and the Camden Campus of Rutgers University.

Hospitals and Medical Centers

The City is a center for health, education, research and science facilities with the nation's largest concentration of healthcare resources within a 100-mile radius. There are presently more than 30 hospitals, five medical schools, two dental schools, two pharmacy schools, as well as schools of optometry, podiatry and veterinary medicine, and the Philadelphia Center for Health Care Sciences in West Philadelphia. The City is one of the largest health care and health care education centers in the world, and a number of the nation's largest pharmaceutical companies are located in the Philadelphia area.

Major research facilities are also located in the City, including those located at its universities, its medical schools, The Wistar Institute, the Fox Chase Cancer Center, and the University City Science Center. The Children's Hospital of Philadelphia has recently completed the construction of a new $400 million biomedical research facility located within the Philadelphia Center for Health Care Sciences in West Philadelphia. Philadelphia is home to two of the nation's 41 National Cancer Institute-designated Comprehensive Cancer Centers (the Abramson Cancer Center at the University of Pennsylvania and Fox Chase Cancer Center, which is part of the Temple University Health System). Additionally, Philadelphia is also home to two NCI-designated Cancer Centers (Kimmel Cancer Center and the Wistar Institute Cancer Center).

Table 15 lists the number of beds in each of the major hospitals and medical centers in the City, as of June 2012, and does not reflect any mergers, consolidations or closures that have occurred since that date.

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Table 15
Hospitals and Medical Centers as of June 2012

Institution Name	Total Beds
Aria Health[1]	485
Belmont Center for Comprehensive Treatment	147
Chestnut Hill Hospital	119
Einstein Medical Center-Philadelphia	514
Fox Chase Cancer Center	100
Girard Medical Center/Continuing Care Hospital of Philadelphia	51
Hahnemann University Hospital	510
Hospital of the University of Pennsylvania	784
Jeanes Hospital	160
Kensington Hospital	35
Magee Rehabilitation Hospital	96
Mercy Philadelphia Hospital	180
Methodist Hospital Division - TJUH	165
Nazareth Hospital	193
Penn Presbyterian Medical Center	272
Pennsylvania Hospital	435
Roxborough Memorial Hospital	140
St. Joseph's Hospital	121
St. Mary Medical Center	301
St. Christopher's Hospital for Children	175
Shriners Hospitals for Children - Philadelphia	39
Temple University Hospital[2]	740
The Children's Hospital of Philadelphia	486
Thomas Jefferson University Hospital	738

Source: Delaware Valley Healthcare Council of HAP, Monthly Utilization Report, June 2012.
[1]Aria Health System includes data for all three divisions - Frankford, Torresdale and Bucks County.
[2]Temple includes data for Episcopal Hospital.

Children's Hospital Expansion. Top ranked Children's Hospital of Philadelphia (CHOP) is one of the largest and oldest children's hospitals in the world. Since 2002, CHOP has invested over $2.6 billion in its expansion in Philadelphia, which is one of the largest hospital expansions in the U.S. The $500 million Ruth and Tristram Colket, Jr. Translational Research Building opened in 2010. The Trustees of CHOP recently approved an additional investment of $2.7 billion in CHOP's ambitious expansion in Philadelphia through 2017. The $500 million, 700,000 square foot Buerger Center for Advanced Pediatric Care is currently under construction and is scheduled to open in 2015. Future proposals include a nine-acre, 1.5 million square foot medical research campus along on the east banks of the Schuylkill River.

University of Pennsylvania. The University of Pennsylvania, a private Ivy League institution, sits on a 300 acre campus in West Philadelphia across the river from downtown Philadelphia. Its more than 20,000 undergraduate, graduate and professional full time students attend more than 12 graduate and professional schools on its single campus within the City. The University and its health system is the largest private sector employer in Philadelphia employing over 30,000 staff with an annual budget of $6 billion. In 2011 the University completed a $400 million medical research building, the Smilow Center for Translational Research, and has since invested additional amounts to fit out three floors in the facility. In 2011, the University broke ground on the Krishna P. Singh Center for Nanotechnology, an $88 million nanotechnology research facility combining expertise from both its School of Arts and Sciences and its School of Engineering and Applied Science. This newest research facility opened in October 2013.

The Wistar Institute. The Wistar Institute was founded in 1892 and was the nation's first independent biomedical research facility. The Institute has started construction on a $100 million expansion and renovation project that will significantly increase its ability to carry out its mission.

Drexel University. Founded in 1891 as the Drexel Institute of Science, Art and Industry, the University occupies a 74-acre University City Main Campus. Drexel's student body has grown considerably in the past two decades, from 4,500 in 1996 to over 10,000 students today, resulting in expansion of both curriculum and campus. Drexel's 2007 Master Plan not only lays the foundation for the expansion of its institutional facilities and student housing, but calls for considerable investment in green space, streetscape improvements, and mixed-use development that includes retail.

To date, $232 million is allocated for construction already in progress, and an estimated $300 million will be allocated for projected construction projects through 2016. In September, 2011 Drexel University opened the doors to its new $69-million science building, the Constantine N. Papadakis Integrated Sciences Building. The University recently completed construction of a $92 million 12-story facility for its LeBow School of Business and a new mixed use residential and retail project on Chestnut Street. Design is also complete for a $44 million renovation of a 161,000 square foot building housing the College of Media Arts and Design.

Principal Employers in the City

Table 16 lists Philadelphia's 16 largest employers, by wage tax revenue. Six are hospitals and providers of other medical services, four are renowned universities, and three are in the finance and insurance industry. Other sectors represented include food services, bio-tech, information, and leisure and hospitality: GlaxoSmithKline LLC, an international researcher and manufacturer of pharmaceuticals, the headquarters for Comcast Corporation, one of the country's largest IT and communications providers, and Aramark Corporation, an employer of food service workers are among Philadelphia's largest wage tax contributors. This list highlights Philadelphia's strength in its centers of medicine and higher learning.

Two of the City's largest employers, Aramark Corporation and Comcast Corporation are also Fortune 500 companies. Although not among the largest employers, other Fortune 500 companies found in Philadelphia are Crown Holdings Inc., Cigna Corporation, and Sunoco Inc. A number of Fortune 1000 companies are also within the City: FMC Corporation, Urban Outfitters Inc., and Radian Group Inc.

Table 16
Principal Employers by Wage Tax Revenue, Summer 2013

Employer	***Sector***	***Employees within Philadelphia***
University of Pennsylvania	Education	15,626
University of Pennsylvania Health System	Health	15,448
Children's Hospital of Philadelphia	Health	9,788
Drexel University	Education	9,356
Thomas Jefferson University Hospitals	Health	7,899
Temple University	Education	7,878
Aramark Corporation	Food Service	6,535
Albert Einstein Medical	Health	5,900
Temple University Hospital, Inc.	Health	5,414
Thomas Jefferson University	Education	4,192
Independence Blue Cross	Insurance	3,534
Comcast Corporation	Communications	3,250+
Tenet Healthsystems Hahnemann LLC	Health	2,782
Ace Insurance Company	Insurance	1,409
GlaxoSmithKline LLC	Bio-tech	1,300*
Radian Group, Inc.	Insurance	585
	Total	100,896

Source: City of Philadelphia Department of Commerce
* Estimate as of January 2012
+As of January 2012

The Labor Force

The City demonstrates strength in education and health services relative to its surrounding Pennsylvania suburbs. Just under a third of Philadelphia's employment is in education and health services. While considerable in suburban counties, this sector represents under one-fifth of their combined economy.

Both Philadelphia and its surrounding suburbs experienced employment losses during the economic contraction in the early 2000's and as a result of the 2008 subprime mortgage crisis and the recession that followed. Associated with the housing bubble years of 2004 and 2008, both Philadelphia and its surrounding suburbs experienced employment gains.

Table 17 shows non-farm payroll employment in the City over the last decade by industry sectors.

Table 17
Philadelphia
Non-Farm Payroll Employment[(1)]
(Amounts in Thousands)

Sector	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Change from 2003	Average Annual % Change	Share of Total Employment
Construction & Mining	12.3	11.4	12.0	12.4	11.9	12.1	10.1	10.0	10.0	10.3	-16.3%	-1.6%	1.6%
Manufacturing	34.0	32.6	31.2	29.9	28.5	27.8	25.7	24.7	23.7	23.3	-31.5%	-3.4%	3.5%
Trade, Transportation, & Utilities	95.8	90.9	90.0	88.5	87.8	87.6	85.9	86.6	87.4	89.2	-6.9%	-0.6%	13.5%
Information	15.9	13.6	13.2	12.8	12.6	12.5	12.6	12.2	12.0	11.9	-25.2%	-2.6%	1.8%
Financial Activities	50.7	49.0	48.2	47.7	47.1	46.5	44.9	42.6	41.6	41.1	-18.9%	-1.9%	6.2%
Professional & Business Services	80.9	80.3	82.4	84.2	85.8	85.3	80.1	81.6	83.0	83.3	3.0%	0.3%	12.6%
Education & Health Services	185.3	184.1	186.8	192.2	197.1	201.6	204.8	207.7	212.0	213.7	15.3%	1.3%	32.3%
Leisure & Hospitality	52.9	54.6	56.6	58.0	58.0	57.9	56.9	58.4	60.6	62.6	18.3%	1.5%	9.5%
Other Services	29.0	28.5	28.5	28.2	28.0	27.8	26.6	26.5	26.4	26.7	-7.9%	-0.7%	4.0%
Private Sector Total	556.8	544.9	548.9	553.9	556.8	559.0	547.6	550.3	556.6	562.1	1.0%	0.1%	85.0%
Government	114.7	113.0	111.4	108.6	105.9	104.3	105.1	106.8	103.4	99.3	-13.4%	-1.3%	15.0%
Total	671.5	657.9	660.3	662.5	662.7	663.3	652.7	657.1	660.0	661.4	-1.5%	-0.1%	100.0%

Source: Bureau of Labor Statistics (BLS) 2012.
(1) Includes persons employed within the City, without regard to residency.

Unemployment

Philadelphia continues to experience unemployment at a rate higher than the national average. However at the start of the recession, from 2008 to 2009, Philadelphia's unemployment rate increased by 2.5%, a full percent lower than the overall increase in unemployment for the country during the same period. Mayor Nutter has made lowering unemployment a top priority in his second term. To that end, the City has created a Jobs Commission, which in January 2013 released a strategic plan to lower unemployment.

Table 18 below shows five years of unemployment information for Philadelphia, the MSA, the Commonwealth and the United States.

Table 18
Unemployment
Five-Year Unemployment in Selected Geographical Areas, 2008-2012

Geographical Area	2008	2009	2010	2011	2012	*Change 2008-2012*
United States	5.8%	9.3%	9.6%	8.9%	8.1%	2.3%
Pennsylvania	5.4	7.9	7.9	7.9	7.9	2.5
Philadelphia-Camden-Wilimington MSA	5.3	8.2	8.6	8.6	8.5	3.2
Philadelphia	**7.1**	**9.6**	**10.8**	**10.8**	**10.8**	**3.7**

Source: Local Area Unemployment Statistics, Bureau of Labor Statistics

Throughout the 1990s and as late as 2009, Philadelphia narrowed the gap between its unemployment levels and national levels. The effects of the recession are reflected in 2010 and 2011.

Median and Average Household Income

Table 19 and 20 show median family income, which includes related people living together, and median household income, which includes unrelated individuals living together, for Philadelphia, the MSA, the Commonwealth and the United States. Table 21 shows the average household income for the same areas. Over the period 2005-2012, median family income for Philadelphia increased by 10.1%, while average household income increased by 29.6% over the period 2005-2011 as a result of an influx of higher income households.

Table 19
Median Family Income* for Selected Geographical Areas, 2005-2012

Geographical Area	2005	2006	2007	2008	2009	2010	2011	2012	*Change 2005-2012*
United States	$55,832	$58,526	$60,374	$63,211	$62,367	$62,112	$62,735	$63,105	$7,273
Pennsylvania	55,904	58,148	60,243	63,071	62,772	63,040	64,331	65,050	9,146
Philadelphia-Camden-Wilmington MSA	67,830	70,781	73,536	76,978	76,812	76,710	78,083	77,791	9,961
Philadelphia	**40,534**	**43,049**	**44,134**	**46,365**	**45,826**	**45,148**	**45,044**	**44,621**	**4,087**

*Includes related people living together.
Source: American Community Survey, Annual and 3-Year Estimates

Table 20
Median Household Income* for Selected Geographical Areas, 2005-2012

Geographical Area	2005	2006	2007	2008	2009	2010	2011	2012	*Change 2005 - 2012*
United States	$46,242	$48,451	$50,007	$52,175	$51,369	$51,222	$51,484	**$51,771**	**$5,529**
Pennsylvania	44,537	46,259	47,913	50,272	50,028	50,289	51,016	51,402	6,865
Philadelphia-Camden-Wilmington MSA	53,555	55,593	57,831	60,331	60,232	60,037	60,625	60,444	6,889
Philadelphia	**32,753**	**33,229**	**34,767**	**36,222**	**36,725**	**35,952**	**35,956**	**35,581**	**2,828**

*Includes unrelated people living together.
Source: American Community Survey, Annual and 3-Year Estimates

Given the City's high percentage of knowledge-based industries, including higher education, healthcare and other professional services, such as law, accounting and finance, the average household income within the City is materially higher than the median household income. Also contributing to this effect is the fact that Philadelphia has the fifth largest college and graduate program enrolled population among major U.S. cities. These individuals, numbering approximately 152,500, or 10% of the City's overall population, generally have very low or no income, as they are either unemployed or working only part-time while they complete their education. The City's large student population has also historically led to an overstatement of the City's percentage of residents living at or below the poverty level. Average household income, which more accurately adjusts for the City's large student population and strong, well-paying knowledge-based industries, is summarized in Table 21 below.

Table 21
Average Household Income for Selected Geographical Areas
2000-2011

Year	City of Philadelphia	Philadelphia-Camden-Wilmington MSA	Pennsylvania	United States	Philadelphia as % of US
2000	$ 63,975	$ 91,695	$ 77,278	$ 79,979	79.99%
2001	65,744	93,854	78,414	81,858	80.31
2002	69,410	96,609	80,121	82,472	84.16
2003	72,077	99,382	82,135	84,241	85.56
2004	74,191	103,811	85,426	88,626	83.71
2005	76,764	107,515	88,016	92,565	82.93
2006	81,298	115,487	94,112	98,442	82.58
2007	85,595	119,561	98,745	102,911	83.17
2008	90,461	124,272	102,787	107,153	84.42
2009	89,759	119,819	99,086	101,927	88.06
2010	95,131	123,645	102,422	105,199	90.43
2011	99,513	128,864	107,237	109,465	90.91

Source: IHS Global Insight

Consumer Price Index

Philadelphia has the second lowest consumer price index among major cities along the Northeast Corridor, as shown in Table 22 below. The City markets its relatively low labor costs and cost of living to attract businesses considering locating to the region. Additionally, the City intends to resume reductions in the Wage, Earnings, and Net Profits Tax in 2014, which will further incentivize both business and residents to relocate into the City.

Table 22
2012 Consumer Price Index of Cities in the Northeastern U.S.

Metropolitan Area	CPI
New York-Northern New Jersey-Long Island	150.75
Washington-Arlington-Alexandria	141.48
Boston-Cambridge-Quincy	139.4
Philadelphia-Camden-Wilmington	122.57
Baltimore-Towson	116.6

Source: Select Greater Philadelphia, 2012 ACCRA Cost of Living Index

HOUSING

The 2012 American Community Survey reported 668,947 housing units in Philadelphia, with 576,889 occupied and 92,058 vacant, representing a vacancy rate of 13.8%. Of occupied housing units, 53.4% were owner-occupied and 46.6% were renter-occupied. The homeowner vacancy rate was just 3.1% while rental vacancy rate was 7.6%.

Home sales volume increased slightly in the third quarter of 2013, to 3,728 from 3,715 in the previous quarter, and is up 14% from the previous summer. Third quarter prices citywide are up 1.4% from the previous year, at a median sales price of $129,500, and show a modest recovery from previously weaker performance, according to a Real Estate Value Trends Report published by Econsult Solutions. Consistent with demographic shifts of population growth in Greater Center City, districts that had the largest annual increase in median sales price are areas adjacent to Center City: Lower North at 25.1% and South Philadelphia at 13.3%. Philadelphia's housing market continues to outperform the Philadelphia Metropolitan Area and national averages.

KEY CITY-RELATED SERVICES AND BUSINESSES

Transportation

The residents of the City and surrounding counties are served by a commuter transportation system operated by SEPTA. This system includes two subway lines, a network of buses and trolleys, and a commuter rail network joining Center City and other areas of the City to PHL and to the surrounding counties. A high speed train line (PATCO) runs from southern New Jersey to Center City and is operated by the Delaware River Port Authority. An important addition to the area's transportation system was the opening of the airport high speed line between Center City and the Airport in 1985. The line places PHL less than 25 minutes from the City's central business district and connects directly with the commuter rail network and the Pennsylvania Convention Center. The opening of the commuter rail tunnel in 1984 provided a unified City transportation system linking the commuter rail system, the SEPTA bus, trolley, and subway lines, the high speed line to New Jersey, and the airport high speed line. More than 100 truck lines serve the Philadelphia area.

Amtrak, SEPTA, Norfolk Southern, CSX Transportation, Conrail and the Canadian Pacific provide inter-city commuter and freight rail services connecting the City to the other major cities and markets in the United States. According to Amtrak, Philadelphia's 30th Street Station is the 3rd busiest station in the United States. Structural improvements of $30 million were recently completed to the station, and an additional $60 million restoration project is awaiting federal approval.

The City now has one of the most accessible downtown areas in the nation with respect to highway transportation by virtue of I-95; the Vine Street Expressway (I-676), running east-to-west through the Central Business District between I-76 and I-95; and the "Blue Route" (I-476) in suburban Delaware and Montgomery Counties which connects the Pennsylvania Turnpike and I-95 and connects to the Schuylkill Expressway (I-76) which runs to Center City Philadelphia.

The Airport was opened in 1940, is owned by the City and operated by the Division of Aviation, and serves residents of and visitors to a broad geographic area that includes portions of four states: Pennsylvania, New Jersey, Delaware and Maryland. The primary service region of the Airport consists of the Philadelphia and Wilmington Metropolitan Statistical Areas. The Airport is located partly in the southwestern section of the City and partly in the northeastern section of Delaware County 7.2 miles from Center City Philadelphia. PHL is situated over 2,300 acres of land. It is adjacent to I-95 and is served by a SEPTA commuter rail line with direct service to Center City Philadelphia. Philadelphia Northeast Airport (PNE), located on the northeast part of the City, provides for general aviation, air taxi, corporate, and occasional military use. PNE currently has no scheduled commercial service.

PHL is classified as a large air traffic hub by the Federal Aviation Administration (the "FAA"). According to the Airport Council International, in calendar year 2010, the Airport was ranked 18th in passenger traffic among U.S. airports and served a total of approximately 30.8 million passengers. According to Airport Council International Traffic Movements 2011, with 448,129 aircraft movements in 2011, PHL ranked the 14th busiest airport in the world in terms of aircraft movements. Origin-destination traffic for Fiscal Year 2011 accounted for approximately 56% of annual passengers, with the remaining 44% being passengers who connected between flights. As of 2012, the airlines serving the Airport provided a total of 600 average daily departures to 124 cities, including 86 domestic and 38 international destinations.

Water and Wastewater

The water and wastewater systems of the City are owned by the City and operated by the City's Water Department. The water system provides water to the City (134 square mile service area), to Aqua Pennsylvania, Inc., formerly Philadelphia Suburban Water Company, and to the Bucks County Water and Sewer Authority. The City obtains approximately 58% of its water from the Delaware River and the balance from the Schuylkill River. The water system serves approximately 483,955 retail customers through 3,172 miles of mains, 3 water treatment plants, 15 pumping stations and provides fire protection through 25,321 fire hydrants. The water treatment plants continue to meet and /or exceed their Safe Drinking Water Act as well as partnership for Safe Water standards.

The wastewater system services a total of 364 square miles of which 134 square miles are within the City and 230 square miles are in suburban areas. The total number of retail customer accounts is approximately 528,938, including approximately 49,993 storm water only accounts. The wastewater and storm water systems contain three water pollution control plants, a biosolids processing facility, 19 pumping stations, and approximately 3,719 miles of sewers. The wastewater treatment plants continue to meet and/or exceed their National Pollutant Discharge Elimination System permit limits.

Solid Waste Disposal

The City is responsible for collecting solid waste, including recycling, from residential households and some commercial establishments. On average, approximately 2,400 tons of solid waste per day are collected by the City. Municipal solid waste is disposed of through a combination of recycling processing facilities, private and City transfer stations within the City limits, and at various landfills operated outside the City limits.

Parks

The City was originally designed by William Penn and Thomas Holme around five urban parks, each of which remains in Center City to this day. The City's parklands total over 10,300 acres, and include Fairmount Park, the world's largest landscaped urban park at 9,200 acres, Pennypack Park, and the Philadelphia Zoo, the country's first zoo. The City also offers its residents and visitors America's most historic square mile, which includes Independence Hall and the Liberty Bell.

Libraries

The Free Library of Philadelphia, the City's public library system, is one of the pre-eminent libraries in the world, comprised of 54 branches and an extensive online resource system.

Streets and Sanitation

The Philadelphia Streets Department and the divisions within it are responsible for the City's large network of streets and roadways. The Department is also responsible for the ongoing collection and disposal of residential trash and recyclables, as well as the construction, cleanliness and maintenance of the street system. The streets system in Philadelphia totals 2,575 miles - 2,180 miles of city streets, 35 miles of Fairmount Park roads and 360 miles of state highways. The Highway Unit and Sanitation Division annually collects and disposes of approximately 700,000 tons of rubbish and 100,000 tons of recycling, completes over 42,000 miles of mechanical street cleaning, clears 1,500 major illegal dump sites, and removes over 150,000 abandoned tires.

Sustainability and Green Initiatives

The Mayor has stated one of his top priorities is to make Philadelphia the greenest and most sustainable city in America. To aid in achieving this goal, the newly created Philadelphia Energy Authority has been tasked with improving energy sustainability and affordability in the City and with educating consumers on their energy choices. The City is also actively evaluating options and investing in green infrastructure to better manage storm water reclamation and reduce pollution of the City's public waters. There has been extensive investment in creating more and better public green spaces, such as Love Park in Center City as well as green spaces along both the Delaware and Schuylkill Rivers. Finally, the City has been taking steps to further reduce automobile traffic, congestion and pollution by making Philadelphia's streets increasingly friendly to bicyclists. Philadelphia is on-track to introduce its new bicycle sharing system in fall 2014. Bicycle share programs have been successfully implemented in other cities worldwide. The new program will have over 600 new bicycles in its first phase and up to 2,000 bicycles once fully implemented.

APPENDIX C

Comprehensive Annual Financial Report of The City of Philadelphia for the Year Ended June 30, 2012

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City of Philadelphia

PENNSYLVANIA

Founded 1682

Love Park

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2012

City of Philadelphia
PENNSYLVANIA

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2012

Michael Nutter
Mayor

Prepared by:

Office of the Director of Finance

Rob Dubow
Director of Finance

Joseph Oswald
Accounting Director

Office of the Director of Finance • 1330 MSB • Philadelphia, PA 19102

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Cover photo courtesy of Charlie Jones, Sinking Fund Commission

City of Philadelphia

OFFICE OF THE DIRECTOR OF FINANCE
1401 John F. Kennedy Blvd.
Suite 1330, Municipal Services Bldg.
Philadelphia, Pennsylvania 19102-1693

ROB DUBOW
Director of Finance

February 21, 2013

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

The Comprehensive Annual Financial Report of the City of Philadelphia for the fiscal year ended June 30, 2012, is hereby submitted. The financial statements were prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City.

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

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

PROFILE OF THE GOVERNMENT

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

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

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

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

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

FACTORS AFFECTING FINANCIAL CONDITION

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

Local Economy

Philadelphia is showing progress on several fronts, despite continued fiscal challenges that arise from the demographic and economic changes that have occurred over the last half century. After 50 years of losing residents, the City has experienced new investment in many of its neighborhoods spurred by the relative affordability of housing and the City's extensive array of cultural amenities. Still, significant challenges remain. The City's tax base is under pressure as personal income levels remain relatively low in comparison to the region and poverty in the region has become increasingly concentrated in the City.

As is the case with municipalities across the country, the City experienced significant tax revenue declines during the deep world-wide recession of 2007-2009. The economic recovery has been slow and while tax revenues are rebounding, revenue from some taxes have yet to hit the level they attained before the recession. Since October of 2008, the City has implemented significant actions to balance the budget and its five year plans, including: reducing General Fund employee headcount; implementing a temporary five year sales tax increase and a real estate tax increase; pension funding changes; freezing City funded wage tax and business income and receipts tax reductions until fiscal 2014; and, instituting spending cuts throughout the government. As a result of these actions as well as several one-time revenues, the City's fund balance on a legally enacted basis increased from $92,000 in fiscal 2011 to $146.8 million in fiscal 2012. The City's current projection for the fund balance level at the end of fiscal 2013 is $117.9 million.

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

The table below shows how Philadelphia's local economy has trended in the past five years, characterized by population fluctuations, increases in total compensation and high unemployment rates.

Calendar Year	Population	Personal Income (thousands of USD)	Per Capita Personal Income (USD)	Unemployment Rate
2007	1,530,031	50,672,227	33,118	6.0%
2008	1,540,351	54,262,716	35,228	7.1%
2009	1,547,297	54,061,223	34,939	9.6%
2010	1,526,006	56,970,074	37,333	10.8%
2011	1,536,471	60,035,440	39,074	10.8%

Long Term Financial Planning

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

Some of the largest and fastest growing expenditures in the City's budget include employee health and pension benefits. In fiscal 2012, employee benefits (13%) and pensions (16%) combined, will comprise 29% of the proposed budget expenditures.

In order to address the challenges these long term structural costs present, the City has made changes to its labor contracts in the areas of health and pension benefits and is continuing to seek changes in its open contracts. The City has already made changes in the City-administered programs to reduce the cost to the City, implement efficiency savings and increase employee contributions. The City's 2008 contracts with the Fraternal Order of Police (FOP) and International Association of Fire Fighters (IAFF) reduced the amount the City pays monthly to the respective union-controlled health funds. In addition, the City made additional changes to the health care related to the FOP as a result of the December 18, 2009 Act 111 arbitration award. These changes include lowering the cost to the City, increasing the share paid by employees, changing the funding structure and providing financial incentives to the health fund to keep costs down.

In the area of pensions, the City has sought to reduce its costs, reduce its risk and increase employee contributions. The 2009 FOP interest arbitration introduced a new hybrid pension plan with defined benefit and defined contribution components for police officers and gave new hires the option of participating in this new plan or paying an additional 1% of pay to enter the existing plan. The City was awarded similar pension changes in the October 12, 2010 Act 111 arbitration award with the IAFF. While the economic provisions of the award are being appealed by the City, the award's pension provisions are not under appeal by the City or the IAFF and have been implemented. A 2011 interest arbitration award involving the employees of the Sheriff's Office and Register of Wills included a new hybrid pension plan with defined benefit and defined contribution components for new hires as well. For employees of the Register of Wills, this new plan is mandatory for new hires, while employees of the Sheriff's Office have a choice between the existing plan with a higher employee contribution or the new plan. Interest arbitration awards issued in 2012 covering more than 2,000 prison guards represented by District Council 33 and a unit of court employees represented by District Council 47 require all new hires to enter into the hybrid plan. The interest arbitration covering the prison guards also increased the employee contribution for pensions for current employees. The City has proposed similar changes to exempt and non-represented employees, elected officials and employees represented by Local 2186 of District Council 47. Implementation of these pension changes for prison guards, courts employees, and the latter groups awaits City Council passage of the applicable ordinances. The City is seeking similar changes with the remaining bargaining units whose contracts expired in July of 2009.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded its prestigious Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011. This was the thirty second consecutive year that the City of Philadelphia has received this prestigious award. The City received this recognition by publishing a report that was well organized and readable and satisfied both generally accepted accounting principles and applicable legal requirements.

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

Respectfully submitted,

ROB DUBOW
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Philadelphia Pennsylvania

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011

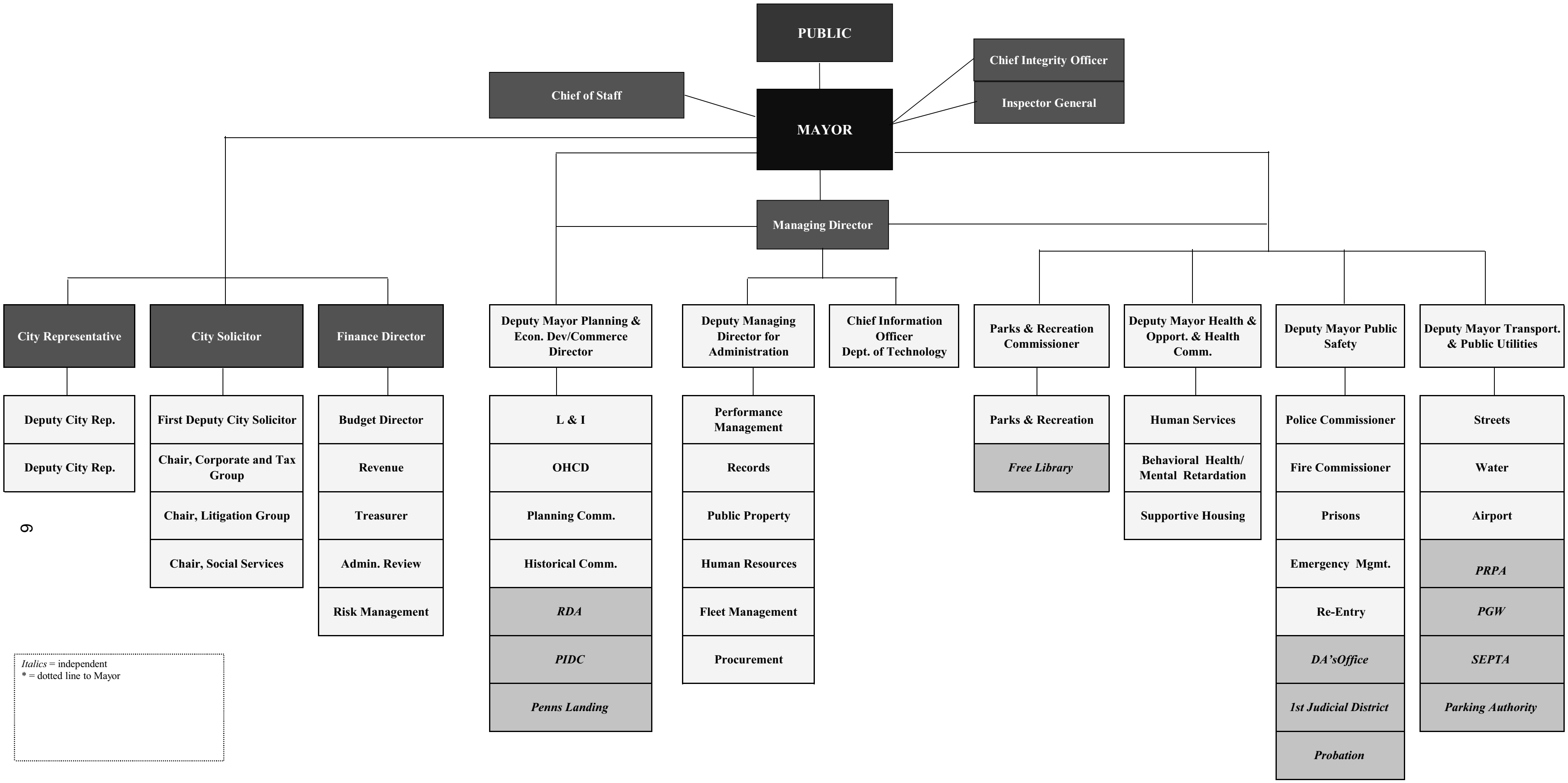
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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

Christopher P Morrill

President

Jeffrey R. Esser

Executive Director


PUBLIC
Chief of Staff
MAYOR
Chief Integrity Officer
Inspector General
Managing Director
City Representative
Deputy City Rep.
Deputy City Rep.
City Solicitor
First Deputy City Solicitor
Chair, Corporate and Tax Group
Chair, Litigation Group
Chair, Social Services
Finance Director
Budget Director
Revenue
Treasurer
Admin. Review
Risk Management
Deputy Mayor Planning & Econ. Dev/Commerce Director
L & I
OHCD
Planning Comm.
Historical Comm.
RDA
PIDC
Penns Landing
Deputy Managing Director for Administration
Performance Management
Records
Public Property
Human Resources
Fleet Management
Procurement
Chief Information Officer Dept. of Technology
Parks & Recreation Commissioner
Parks & Recreation
Free Library
Deputy Mayor Health & Opport. & Health Comm.
Human Services
Behavioral Health/ Mental Retardation
Supportive Housing
Deputy Mayor Public Safety
Police Commissioner
Fire Commissioner
Prisons
Emergency Mgmt.
Re-Entry
DA'sOffice
1st Judicial District
Probation
Deputy Mayor Transport. & Public Utilities
Streets
Water
Airport
PRPA
PGW
SEPTA
Parking Authority
Italics = independent
* = dotted line to Mayor

Elected Officials

Mayor	Michael A. Nutter
City Council	
President, 5th District	Darrell L. Clarke
1st District	Mark Squilla
2nd District	Kenyatta Johnson
3rd District	Jannie L. Blackwell
4th District	Curtis Jones, Jr.
6th District	Bobby Henon
7th District	Maria D. Quinones-Sanchez
8th District	Cindy Bass
9th District	Marian B. Tasco
10th District	Brian J. O'Neill
At-Large	Blondell Reynolds Brown
At-Large	W. Wilson Goode, Jr.
At-Large	William K. Greenlee
At-Large	David Oh
At-Large	James F. Kenney
At-Large	Bill Green
At-Large	Dennis O’Brien
District Attorney	Seth Williams
City Controller	Alan Butkovitz
City Commissioners	
Chairman	Anthony Clark
Vice Chairman	Al Schmidt
Commissioner	Stephanie Singer
Register of Wills	Ronald R. Donatucci
Sheriff	Jewell Williams
First Judicial District of Pennsylvania	
President Judge, Court of Common Pleas	Pamela P. Dembe
President Judge, Municipal Court	Marsha H. Neifield
President Judge, Traffic Court	Vacant

Appointed Officials

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

CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER
1230 Municipal Services Building
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ALAN BUTKOVITZ
City Controller

GERALD V. MICCIULLA
Deputy City Controller

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Philadelphia, Pennsylvania, as of and for the year ended June 30, 2012, which collectively comprise the City of Philadelphia, Pennsylvania's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Philadelphia, Pennsylvania's management. Our responsibility is to express opinions on these financial statements based on our audit. With the exception of the School District of Philadelphia, we did not audit the financial statements of the blended component units and the discretely presented component units listed in Note I.1, as well as the Municipal Pension Fund, the Gas Works Retirement Reserve Fund, and the Departmental and Permanent Funds. Those financial statements representing 31% and 17% of the total assets and revenues, respectively, were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those component units and funds, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Philadelphia, Pennsylvania, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note IV.8.A.5 to the financial statements, commencing July 1, 2011 the City of Philadelphia prospectively changed the accounting for the Act 148 Children and Youth program, which costs are reimbursed by the Commonwealth of Pennsylvania. Expenditures and related revenues for reimbursed program activities that were previously accounted for within the general fund are now accounted for within the grants revenue fund.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 24, and the major funds budgetary comparison schedules, the pension plans and other post employment benefits - schedule of funding progress, and the related notes to required supplementary information, on pages 114 through 118 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the above required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit for the year ended June 30, 2012 was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Philadelphia, Pennsylvania's basic financial statements. The accompanying Introductory Section, Other Supplementary Information, and the Statistical Section for the year ended June 30, 2012 as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Other Supplementary Information has been subjected to the auditing procedures applied in the audits of the basic financial statements for the year ended June 30, 2012, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described previously, and the reports of other auditors, the Other Supplementary Information is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2012. The Introductory Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the City of Philadelphia, Pennsylvania as of and for the year ended June 30, 2011 (not presented herein), and have issued our report thereon dated February 21, 2012, which contained unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information. The 2011 amounts included in the individual fund schedules of Budgetary Actual and Estimated Revenues and Obligations for the year ended June 30, 2011 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2011 financial statements. The 2011 amounts included in the individual fund schedules of Budgetary Actual and Estimated Revenues and Obligations have been subjected to the auditing procedures applied in the audit of the 2011 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, 2011 amounts included in the individual fund schedules of Budgetary Actual and Estimated Revenues and Obligations are fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2011.

Gerald V. Micciulla

February 21, 2013

GERALD V. MICCIULLA, CPA
Deputy City Controller

City of Philadelphia
PENNSYLVANIA

Management's Discussion & Analysis

This narrative overview and analysis of the financial statements of the City of Philadelphia, Pennsylvania for the fiscal year ended June 30, 2012 has been prepared by the city's management. The information presented here should be read in conjunction with additional information contained in our letter of transmittal, which can be found beginning on page 1, and the city's financial statements immediately following this discussion and analysis.

Financial Highlights

- At the end of the current fiscal year, the City of Philadelphia's *net liabilities* were $34.9 million resulting from an excess of its liabilities over its assets. Its *unrestricted net assets* showed a deficit of $2,220.3 million. This deficiency will have to be funded from resources generated in future years.

- During the current fiscal year the city's total net assets increased by $88.5 million. The governmental activities of the city experienced a decrease of $19.0 million, while the business type activities had an increase of $107.5 million.

- For the current fiscal year, the city's governmental funds reported a combined ending fund balance of $546.7 million, a decrease of $201.1 million from last year. Primarily, this was due to a $157.9 million decrease in the Grants Revenue Fund and a $19.4 decrease in the Health Choices Behavioral Health fund. The *unassigned fund balance* of the governmental funds ended the fiscal year with a deficit of $181.6 million, a decrease of $97.6 million from last year.

- The overall unassigned fund balance of the city's General fund ended the fiscal year with a zero balance, an increase from last year of $45.7 million. At June 30, 2012 total encumbrances exceeded unassigned fund balance and, in accordance with GASB 54, the difference is reported as assigned fund balance.

- On the legally enacted budgetary basis, the city's general fund ended the fiscal year with a surplus fund balance of $146.8 million, as compared to a 0.1 million surplus last year. This increase of $146.7 million was due to cost containment measures that resulted in an operating surplus of $106.5 million, the cancellations of prior year obligations further increased the fund balance and the receipt of one-time revenue from three sources: $34.9 million from the state for Act 205; $11.0 million from Philadelphia Parking Authority for the Love Park garage, and $12.5 million from Philadelphia Authority for Industrial Development for repayment of the Parametric Garage loan. Also, beginning with fiscal year 2012, the city altered its budgeting of the Act 148 program to include only the unreimbursable portion of the program's costs in the general fund. Historically, Act 148 revenues are not received in the same fiscal period that costs were recorded, resulting in the general fund's fund balance being understated, in previous fiscal periods.

Overview of the Financial Statements

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

- Government-wide financial statements which provide both long-term and short-term information about the city's overall financial condition.
- Fund financial statements which provide a more detailed look at major individual portions, or funds, of the city.

- Notes to the financial statements which explain some of the information contained in the financial statements and provide more detailed data.
- Other supplementary information which further explains and supports the information in the financial statements.

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

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

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

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

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

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

These two activities comprise the primary government of Philadelphia.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Government-wide Financial Analysis

Net assets. As noted earlier, net assets are useful indicators of a government's financial position. At the close of the current fiscal year, the City of Philadelphia's liabilities exceeded its assets by $34.9 million.

Capital assets (land, buildings, roads, bridges and equipment), less any outstanding debt issued to acquire these assets, comprise a large portion of the City of Philadelphia's net assets, $971.7 million. Although these capital assets assist the city in providing services to its citizens, they are generally not available to fund the operations of future periods.

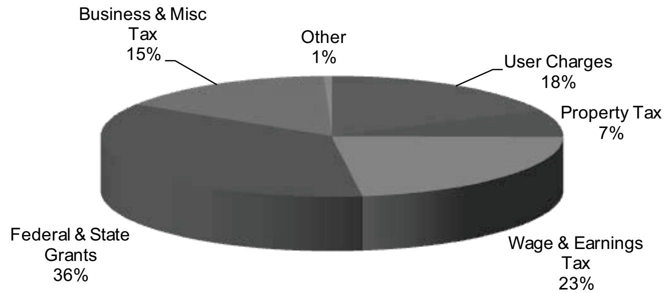
A portion of the city's net assets, $1,213.7 million, are subject to external restrictions as to how they may be used. The remaining component of net assets is unrestricted. Unrestricted net assets ended the fiscal year with a deficit of $2,220.3 million. The governmental activities reported negative *unrestricted net assets* of $2,478.2 million. The business type activities reported an unrestricted net assets surplus of $257.9 million. Any deficits will have to be funded from future revenues

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

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

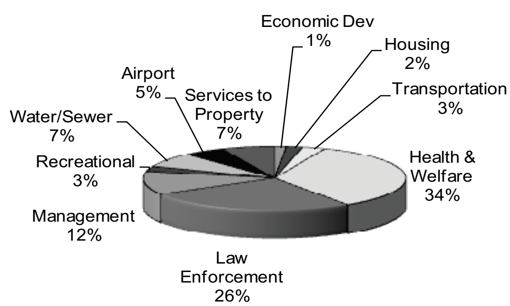
	Governmental Activities		%	Business-type Activities		%	Total Primary Government		%
	2012	2011	Change	2012	2011	Change	2012	2011	Change
Current and other assets	1,967.6	2,022.7	-2.72%	1,530.6	1,475.8	3.71%	3,498.2	3,498.5	-0.01%
Capital assets	2,200.3	2,147.2	2.47%	3,706.5	3,612.6	2.60%	5,906.8	5,759.8	2.55%
Total assets	**4,167.9**	**4,169.9**	-0.05%	**5,237.1**	**5,088.4**	2.92%	**9,405.0**	**9,258.3**	1.58%
Long-term liabilities	5,049.9	5,007.4	0.85%	3,271.4	3,246.8	0.76%	8,321.3	8,254.2	0.81%
Other liabilities	890.5	915.9	-2.77%	228.1	211.6	7.80%	1,118.6	1,127.5	-0.79%
Total liabilities	**5,940.4**	**5,923.3**	0.29%	**3,499.6**	**3,458.4**	1.19%	**9,439.9**	**9,381.7**	0.62%
Net assets:									
Invested in capital assets, net of related debt	83.9	(47.5)	-276.63%	887.8	845.1	5.05%	971.7	797.6	21.83%
Restricted	621.9	789.6	-21.24%	591.8	550.6	7.48%	1,213.7	1,340.2	-9.44%
Unrestricted	(2,478.2)	(2,495.5)	0.69%	257.9	234.3	10.07%	(2,220.3)	(2,261.2)	1.81%
Total net assets	**(1,772.4)**	**(1,753.4)**	-1.08%	**1,737.5**	**1,630.0**	6.60%	**(34.9)**	**(123.4)**	71.72%

Changes in net assets. The city's total revenues this year, $6,851.1 million, exceeded total costs of $6,762.6 million by $88.5 million. Approximately 45% of all revenue came from wage and earnings taxes, property taxes and miscellaneous taxes. State, Federal and local grants account for another 36%, with the remainder of the revenue coming from user charges, fines, fees and various other sources. The City's expenses cover a wide range of services, of which approximately 67% are related to the health, welfare and safety of the general public.



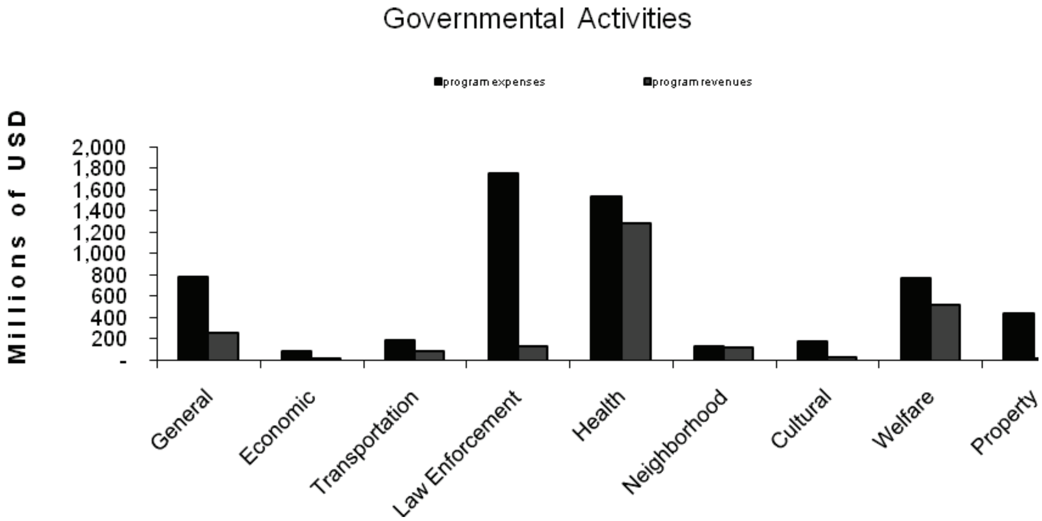
Overall, net assets for the city increased by $88.5 million. Total revenues increased by $80.4 million, total expenses increased by $66.1 million over last year. This resulted in the Change in Net Assets being $14.3 million higher than in the previous year. Net assets were decreased by $124.4 million from Operating grants and $0.4 million from Contributions, and increased by $60.1 million from Charges for Services, $47.1 million for Wage and Earning taxes, $52.9 million from Other taxes and $52.2 million from Unrestricted grants and contributions.

Expense increases by $66.1 million with increases for General Management of $117.4 million and $53.6 million in Judiciary and Law Enforcement and decreases of $21.9 million in Transportation, $29.4 in Conservation of Health, $36.2 million in Improvement in General Welfare, and decreased $29.4 million in Water and Waste Water.



Governmental Activities

The governmental activities of the City resulted in a $19.0 million decrease in net assets. The following chart reflects program expenses and program revenue. The difference (net cost) must be funded by Taxes, Grants & Contributions and Other revenues.



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

(millions of USD)	Program Costs		%	Program Revenues		%	Net Cost		%
	2012	2011	Change	2012	2011	Change	2012	2011	Change
General Welfare	776.3	812.5	-4.5%	520.8	668.4	-22.1%	255.5	144.1	77.3%
Judiciary & Law Enforcement	1,757.1	1,703.5	3.1%	139.9	122.6	14.1%	1,617.2	1,580.9	2.3%
Public Health	1,548.5	1,577.9	-1.9%	1,293.2	1,371.6	-5.7%	255.3	206.3	23.8%
General Governmental	790.5	697.4	13.3%	262.0	198.9	31.7%	528.5	498.5	6.0%
Services to Property	445.4	429.0	3.8%	20.3	15.5	31.0%	425.1	413.5	2.8%
Housing, Economic & Cultural	610.9	618.1	-1.2%	274.2	228.2	20.2%	336.7	389.9	-13.6%
	5,928.7	**5,838.4**	1.5%	**2,510.4**	**2,605.2**	-3.6%	**3,418.3**	**3,233.2**	5.7%

The cost of all governmental activities this year was $5,928.7 million; the amount that taxpayers paid for these programs through tax payments was $3,115.4 million. The federal and state governments and other charitable organizations subsidized certain programs with grants and contributions in the amount of $2,145.3 million while those who benefited from the programs paid $365.1 million through fees and charges. Unrestricted grants and contributions and other general types of revenues accounted for the balance of revenues in the amount of $283.9 million. The deficit of $19.0 million will have to be funded in future fiscal periods.

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

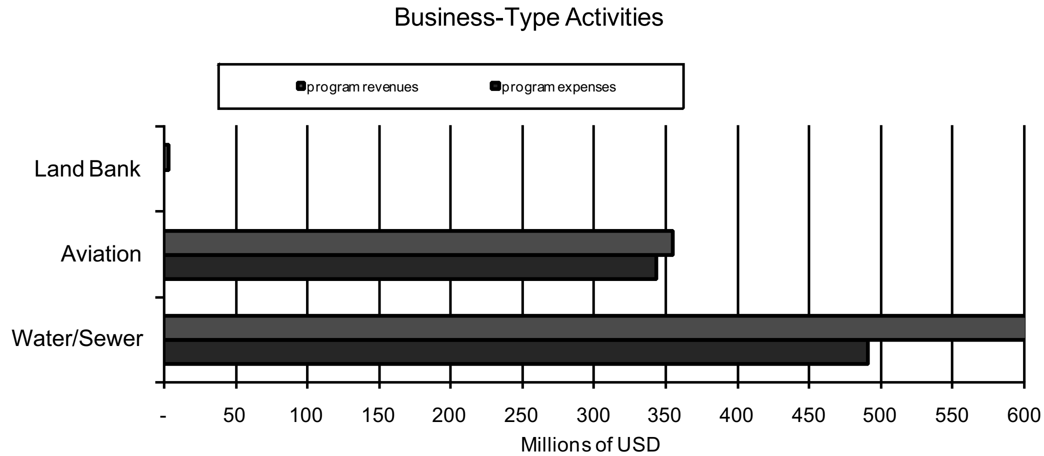
City of Philadelphia-Net Assets

(millions of USD)	Governmental Activities 2012	Governmental Activities 2011	Business-type Activities 2012	Business-type Activities 2011	Total 2012	Total 2011	% Change
Revenues:							
Program revenues:							
Charges for services	365.1	349.7	861.8	817.1	1,226.9	1,166.8	5.2%
Operating grants and contributions	2,102.1	2,223.5	3.5	6.9	2,105.6	2,230.4	-5.6%
Capital grants and contributions	43.2	32.0	91.7	103.7	134.9	135.7	-0.6%
General revenues:							
Wage and earnings taxes	1,551.7	1,504.6	-	-	1,551.7	1,504.6	3.1%
Property taxes	500.8	506.6	-	-	500.8	506.6	-1.2%
Other taxes	1,062.9	1,010.0	-	-	1,062.9	1,010.0	5.2%
Unrestricted grants and contributions	223.1	173.8	2.9	-	226.0	173.8	30.0%
Unrestricted Interest	33.3	35.9	9.0	6.9	42.3	42.8	-1.2%
Total revenues	**5,882.2**	**5,836.1**	**968.9**	**934.6**	**6,851.1**	**6,770.7**	1.2%
Expenses:							
Economic development	96.5	92.3	-	-	96.5	92.3	4.6%
Transportation	189.6	211.5	-	-	189.6	211.5	-10.4%
Judiciary & law enforcement	1,757.1	1,703.5	-	-	1,757.1	1,703.5	3.1%
Conservation of health	1,548.5	1,577.9	-	-	1,548.5	1,577.9	-1.9%
Housing & neighborhood development	137.7	126.1	-	-	137.7	126.1	9.2%
Cultural & recreational	187.1	188.3	-	-	187.1	188.3	-0.6%
Improvement of the general welfare	776.3	812.5	-	-	776.3	812.5	-4.5%
Services to taxpayer property	445.4	429.0	-	-	445.4	429.0	3.8%
General management	678.4	561.0	-	-	678.4	561.0	20.9%
Interest on long term debt	112.1	136.3	-	-	112.1	136.3	-17.8%
Water & waste water	-	-	490.8	520.2	490.8	520.2	-5.7%
Airport	-	-	343.1	336.0	343.1	336.0	2.1%
Industrial land bank	-	-	-	1.9	-	1.9	-100.0%
Total expenses	**5,928.7**	**5,838.4**	**833.9**	**858.1**	**6,762.6**	**6,696.5**	1.0%
Increase (decrease) in net assets before transfers & special items	(46.4)	(2.3)	135.0	76.5	88.5	74.2	
Transfers	27.5	24.9	(27.5)	(24.9)	-	-	
Increase (decrease) in Net Assets	**(19.0)**	**22.6**	**107.5**	**51.6**	**88.5**	**74.2**	
Net Assets - Beginning	(1,753.4)	(1,776.0)	1,630.0	1,578.4	(123.4)	(197.6)	-37.6%
Adjustment	-	-	-	-	-	-	
Net Assets - End	**(1,772.4)**	**(1,753.4)**	**1,737.5**	**1,630.0**	**(34.9)**	**(123.4)**	-71.7%

Business-type Activities

Business-type activities caused the city's net assets to increase by $107.5 million. This increase was comprised of an increase in net assets for water/wastewater of $87.3 million, an increase to aviation of $17.1 million and an increase for industrial & commercial development operations of $3.1 million. Some of the key reasons for these changes are:

- Increased airport rental concession income and a reduction in Debt Service Interest, in the Aviation Fund.
- Increased user related charges, decreased Debt Service Interest and decreased Other Expenses, in the Water Fund.

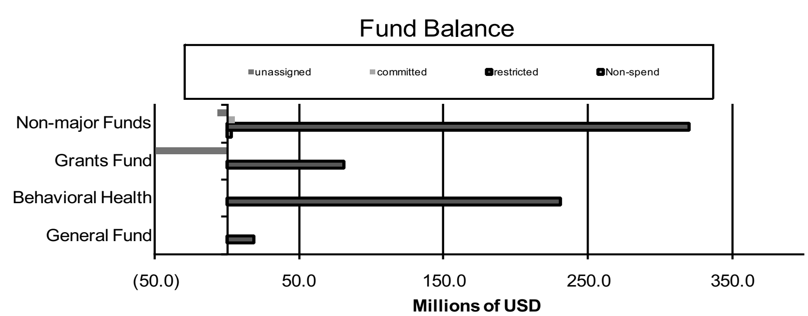


Financial Analysis of the Government's Funds

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

At the end of the fiscal year the city's governmental funds reported a *combined fund balance* of $546.7 million a decrease of $201.1 million over last year. Of the total fund balance, $2.6 million represents *nonspendable fund balance* for amounts that cannot be spent. In addition, $650.1 million represents *restricted fund balance* due to externally imposed constraints by outside parties, or law, to: revitalize neighborhoods ($51.6 million); pay debt service ($82.4 million); support programs funded by independent agencies ($40.5 million); fund a portion of the city's managed care programs ($230.7 million); fund a portion of new sports stadiums ($6.9 million); fund the 9-1-1 emergency phone system ($29.6 million); fund a portion of the central library renovation project ($2.3 million), cultural and commercial corridor project ($15.3 million); and trusts ($8.3 million); fund economic development programs ($10.3 million); improve streets and highways ($23.2 million); fund housing and neighborhood development ($10.5 million); provide health services ($9.5 million); preserve parks, libraries and museums ($.5 million); and support capital projects ($128.5 million). The fund balance is further broken down as to committed fund balance for Prisons ($4.2 million) and Parks and Recreation ($.9 million). The difference between the non-spendable, restricted, committed and combined fund balance is a deficit of $181.6 million which constitutes *unassigned fund balance,* this deficit must be funded by future budgets.

The general fund, the primary operating fund of the city, reported an *unassigned fund balance* of zero at the end of the fiscal year.



Overall, the total fund balance of the general fund increased by $112.5 million during the current fiscal year. This Increase was due to an excess of revenues and other financing sources over expenditures, for the fiscal year. Some of the key factors contributing to this change are:

Revenue:
- One time payments during the fiscal year for: Act 205 for $34.9 million; $11 million from PPA for the Love Park Garage; and, $12.5 million from PAID for the Parametric Garage loan.
- An increase resulting from Bond Defeasance for $102.6 million.

The Health Choices Behavioral Health fund ended the fiscal year with a total fund balance of $230.7 million, the entire amount million is reserved for a contractually required equity reserve and reinvestment initiatives. The total fund balance decreased during the fiscal year by $19.4 million.

The Grants Revenue fund has a total fund balance deficit of $94.0 million which is comprised of a positive restricted fund balance of $81.1 million (earmarked for neighborhood revitalization for $51.6 million and emergency telephone system programs for $29.5 million) and a deficit unassigned fund balance of $175.1 million. Because most programs accounted for in the grants revenue fund are reimbursement based, it is not unusual for the grants revenue fund to end the fiscal year with a deficit unassigned fund balance. The overall fund balance of the grants revenue fund experienced a decrease of $157.9 million during the current fiscal year due primarily to the Act 148 program being included in this fund beginning with fiscal year 2012. With Act 148 in the Grants Revenue Fund, revenue increased by $296.4 million but expenditures also increased by $428.8 million.

Proprietary funds. The city's proprietary funds provide the same type of financial information found in the government-wide financial statements, but in slightly more detail. The *total net assets* of the proprietary funds increased by $107.5 million during the current fiscal year. This overall increase is attributable to the water/wastewater system which had an increase of $87.3 million, airport operations which experienced an increase of $17.1 million, while industrial & commercial development operations experienced an increase of $3.1 million.

The proprietary funds reported an *unrestricted nets assets* surplus of $257.9 million, comprised of $182.2 million for the water and waste water operations, $55.9 million for the airport and $19.8 million for the industrial & commercial development activities. These unrestricted net assets represent an overall increase of $23.6 million over the previous year, comprised of an increase of $34.4 million for the water and waste water operations, a decrease of $13.9 million for the airport and an increase of $3.1 million for the Land Bank. The change in the water fund unrestricted is the result of an increase in Charges for Goods and Services of $38.4 million.

General Fund Budgetary Highlights

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

General Fund at June 30….	Fund Balance Available for Appropriation	Increase (Decrease) (millions of USD)
2012	146.8	146.7
2011	0.1	114.1
2010	(114.0)	23.2
2009	(137.2)	(256.7)
2008	119.5	(178.4)

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

- $39.6 million for Office of the Director of Finance for Employee Benefits
- $4.4 million for Prisons personal services
- $1.7 million for Police personal services
- $1.5 million for Sheriff's Office personal services

The general fund's budgetary fund balance surplus of $146.8 million differs from the general fund's fund financial statement deficit of $11.1 million by $157.9 million, which represents the business privilege tax receipts of $157.9 million. Business privilege tax receipts are received prior to being earned but have no effect on budgeted cash receipts. The positive assigned fund balance for encumbrances was offset against the negative unassigned fund balance, in accordance with GASB Statement No. 54.

Capital Asset and Debt Administration

Capital assets. The City of Philadelphia's investment in capital assets for its governmental and business-type activities amounts to $5.9 billion, net of accumulated depreciation, at the end of the current fiscal year. These capital assets include items such as roads, runways, bridges, water and sewer mains, streets and street lighting, land, buildings, improvements, sports stadiums, vehicles, commuter trains, machinery, computers and general office equipment. Major capital asset events for which capital expenditures have been incurred during the current fiscal year include the following:

- Water and Wastewater Improvements of $62.0 million
- Infrastructure improvements for Streets, Highways and Bridges $61.8 million
- Airport terminal and airfield improvements in the amount of $96.7 million.
- City Hall exterior renovations in the amount of $5.6 million.
- Ben Franklin Parkway improvements $3.1 million.

The following table shows the capital assets by category.

City of Philadelphia's Capital Assets-Net of Depreciation

(millions of USD)

	Governmental activities 2012	Governmental activities 2011	Inc (Dec)	Business-type activities 2012	Business-type activities 2011	Inc (Dec)	Total 2012	Total 2011	Inc (Dec)
Land	779.1	762.0	17.1	125.9	105.0	20.9	905.0	867.0	38.0
Fine Arts	1.0	1.0	-	0.0	0.0	-	1.0	1.0	-
Buildings	679.1	704.0	(24.9)	1,532.8	1,673.0	(140.2)	2,211.9	2,377.0	(165.1)
Improvements other than buildings	96.0	96.0	-	121.0	125.0	(4.0)	217.0	221.0	(4.0)
Machinery & equipment	78.0	92.0	(14.0)	24.0	24.0	-	102.0	116.0	(14.0)
Infrastructure	395.1	364.0	31.1	1,313.8	1,270.5	43.3	1,708.9	1,634.5	74.4
Construction in progress	96.0	47.0	49.0	582.0	406.0	176.0	678.0	453.0	225.0
Transit	76.0	81.2	(5.2)	0.0	0.0	-	76.0	81.2	(5.2)
Intangible Assets	0.0	0.0	-	7.0	9.1	(2.1)	7.0	9.1	(2.1)
Total	**2,200.3**	**2,147.2**	**53.1**	**3,706.5**	**3,612.6**	**93.9**	**5,906.8**	**5,759.8**	**147.0**

The city's governmental activities experienced an overall increase in capital assets of $53.1 million (net of accumulated depreciation) during the current fiscal year. During the fiscal year there were increases in: land ($17.1 million); infrastructure ($31.1 million); construction in process ($49.0 million); that were offset by increases in depreciation for: buildings ($24.9 million); equipment ($14.0 million) and transit ($5.2 million).

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

Long-term debt. At year end the city had $8.3 billion in long term debt outstanding. Of this amount, $5.2 billion represents bonds outstanding (comprised of $2.0 billion of debt backed by the full faith and credit of the city, and $3.2 billion of debt secured solely by specific revenue sources) while $3.1 billion represents other long term obligations. The following schedule shows a summary of all long term debt outstanding.

City of Philadelphia's Long Term Debt Outstanding

	Governmental activities		Business-type activities		Total	
(millions of USD)	2012	2011	2012	2011	2012	2011
Bonds Outstanding:						
General obligation bonds	2,039.5	2,121.7	-	1.0	2,039.5	2,122.7
Revenue bonds	-	-	3,203.0	3,189.0	3,203.0	3,189.0
Total Bonds Outstanding	**2,039.5**	**2,121.7**	**3,203.0**	**3,190.0**	**5,242.5**	**5,311.7**
Other Long Term Obligations:						
Service agreements	2,103.6	2,161.3	-	-	2,103.6	2,161.3
Employee related obligations	814.5	625.4	61.1	46.3	875.6	671.7
Indemnities	51.6	47.3	7.0	10.2	58.6	57.5
Leases	40.7	51.7	-	-	40.7	51.7
Other	-	-	0.3	0.3	0.3	0.3
Total Other Long Term Obligations	**3,010.4**	**2,885.7**	**68.4**	**56.8**	**3,078.8**	**2,942.5**
Total Long Term Debt Outstanding	**5,049.9**	**5,007.4**	**3,271.4**	**3,246.8**	**8,321.3**	**8,254.2**

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

- The City has statutory authorizations to negotiate temporary loans for periods not to extend beyond the fiscal year. The City borrows funds to pay debt service and required pension contributions due before the receipt of the real estate taxes. The City borrowed and repaid $173.0 million in Tax and Revenue Anticipation Notes by June 2012 plus interest. In accordance with statute there are no temporary loans outstanding at year end.

- In May 2012, the City issued General Obligation Refunding Bonds, Series 2012A in the amount of $21.3 million. The bonds have a fixed interest rate of 5% and mature on September 15, 2014 ($1.4 million); September 15, 2019 ($9.9 million); and, September 15, 2021 ($10.0 million). Proceeds will be used to currently refund Series 1998 General Obligation Refunding Bonds maturing on May 15, 2020 in the amount of $10.7 million; currently refund Series 2001 General Obligation Bonds maturing on September 15, 2021 in the amount of $11.2 million; advance refund Series 2003A General Obligation Bonds maturing on February 15, 2015 in the amount of $2.4 million, and, pay the costs of issuing the

2012 bonds. Proceeds of the 2012 bonds will be applied, on the date of issuance, to the payment of the redemption price of the 1998 and 2001 bonds which are being optionally redeemed on such date.

- In May 2012, PMA issued $12.6 million of City Agreement Revenue Bonds, Series 2012 for the Government Building Energy Conservation Project. The bonds consist of: $6.3 million of Tax-Exempt Bonds, Series 2012A, and $6.3 million of Federally Taxable Qualified Energy Conservation Bonds Series 2012B. Interest will be paid semi-annually on March 15 and September 15 commencing on September 15, 2012. The Series 2012A serial bonds will mature on March 15, 2022, and the Series 2012B term bonds mature on March 15, 2024 ($2.1 million) and March 15, 2028 ($4.2 million). Proceeds will be used to finance the evaluation and implementation of energy conservation and efficiency measures at four (4) properties owned or leased, and operated by the city (City Hall, Criminal Justice Center, Municipal Services Building and One Parkway Building).

- Effective August 4, 2011 the city remarketed the General Obligation Multi-Modal Refunding Bonds, Series 2009B ($100.0 million), and entered into a letter of credit substitution with the Royal Bank of Canada (RBC). The 2009B Bonds are also payable from the proceeds of funds drawn by the U.S. Bank National Association, as fiscal agent, under an irrevocable, direct-pay letter of credit, issued by RBC. The Letter of Credit (LOC) will permit the fiscal agent to draw up to $101.8 million for principal and unpaid interest on the 2009B bonds and will expire on August 4, 2014, unless earlier cancelled, terminated or renewed. The LOC will constitute both a Credit Facility and Credit Provider and RBC a Liquidity Facility and Liquidity Provider for the 2009B bonds.

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

- As of June 30, 2012, **PMA**'s Statement of Net Assets disclosed $15.7 million of accretion to its bond principal payments for fiscal years 2013 through 2015. Capitalized interest relates entirely to MSB 1990 Series Capital Appreciation Bonds. Accretion value represents the cumulative compounded interest due and payable at bond maturity.

- In November 2011, the City issued Water and Wastewater Revenue Bonds Series 2011A in the amount of $135.0 million, and Water and Wastewater Revenue Refunding Bonds Series 2011B in the amount of $49.9 million. Serial bonds were issued in the amount of $49.9 million with interest rates ranging from 4.0% to 5.0%, and have a maturity date of 2026. Term bonds were issued in the following amounts (1) $2.6 million with an interest rate of 4.5% and mature in 2036; (2) $50.2 million with an interest rate of 5.0% and mature in 2036; (3) $82.2 million with an interest rate of 5.0% and mature in 2041. The proceeds of the bonds together with other available funds of the water department will be used to fund capital improvements to the City's water and wastewater system, advance refunding of a portion of the 2001A and 2007A bonds, fund capitalized interest, the required deposit into the Debt Reserve account of the Sinking Fund and pay various bond issuance costs.

- In December 2011, the City issued Airport Revenue Bond Series 2011 in the amount of $233.8 million. The Series 2011A bonds (AMT) were issued as serial bonds in the amount of $199.0 million with interest rates ranging from 2% to 5% and mature in 2028. The Series 2011B bonds were issued as serial bonds in the amount of $34.8 million, with interest rates ranging from 2% to 5% and mature in 2031. The plan is to: (i) refund a portion of the International Terminal Bonds; (ii) refund all of the City's outstanding Airport Revenue Bonds, Series 2001B; and (iii) pay the issuance costs of the bonds. The proceeds from the 2011A bonds will be used to refund the entire principal amount of $149.3 million for the Airport Revenue Bond, Series 2001A. In addition, the 2011B bonds will be used to refund a portion of the Airport Revenue Bond Series 1998B (currently outstanding aggregate principal amount of $57.1 million).

- In July 2010, the City of Philadelphia Water Department received approval from the Pennsylvania State Infrastructure Financing Authority ("PENNVEST") for the Green Infrastructure Project (Series 2010B), bringing the total financing from PENNVEST to $214.9 million. During fiscal year 2012, PENNVEST drawdowns totaled $43.7 million, which represents an increase in bond issuances. The funding is through low interest loans of 1.193% during the construction period and for the first five years of amortization (interest only payment are due during the construction period up to three years) and 2.107% for the remaining fifteen years.

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

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

The City is subject to a statutory limitation established by the Commonwealth of Pennsylvania as to the amount of tax supported general obligation debt it may issue. The limitation is equal to 13% of the average assessed valuations of properties over the past ten years. As of June 30, 2012 the legal debt limit was $1,622.3 million. There is $1,542.5 million of outstanding tax supported debt leaving a legal debt margin of $79.8 million.

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

Economic Factors and Next Year's Budgets and Rates

The following factors have been considered in preparing the City of Philadelphia's budget for the 2013 fiscal year:

- Philadelphia entered FY13 with a fund balance of $146.8 million. For FY 2013 Wage and Earnings Tax revenue are projected to grow 3.4%, Sale Tax revenue are projected to grow by 3.7% and Real Estate transfer tax is projected to grow by 5.2%, while the Business Income and Receipts tax is projected to grow by 0.9%.

- The current five year plan (FY 2013 to 2017) includes a resumption of the wage and business tax cuts in FY 2014, previously suspended in the FY 2010 plan.

- Workforce reductions were implemented throughout FY10 through the use of layoffs and by not replacing vacant positions. Spending on supplies and equipment was curtailed in FY 10.

- Union contracts for three of the City's four major bargaining units are still outstanding, despite having expired in July 2009. Any awarded or negotiated wage or benefit increases will increase costs for the City unless offset by savings included elsewhere in the collective bargaining agreements.

- To control rising pension plan costs the city introduced a new hybrid pension plan that contains both a defined benefit and a voluntary defined contribution component. Uniformed employees not electing to participate in the hybrid plan must increase their pension contribution percentage.

- The country entered its most recent recession in December 2007. It was the longest recession in the post-WWII period.

- Economists expect a slow and long recovery from the current recession. Philadelphia's recovery, like that of other local governments, is expected to take longer than the nation due to high urban unemployment and lagging tax revenue collections.

Requests for information

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

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

City of Philadelphia
PENNSYLVANIA

Basic Financial Statements

City of Philadelphia **Exhibit I**

Statement of Net Assets

June 30, 2012

Amounts in thousands of USD

	Primary Government			
	Governmental Activities	Business Type Activities	Total	Component Units
Assets				
Cash on Deposit and on Hand	82,649	30	82,679	310,248
Equity in Pooled Cash and Investments	-	-	-	40,022
Equity in Treasurer's Account	731,802	195,634	927,436	-
Investments	109,377	-	109,377	112,841
Due from Component Units	69,246	-	69,246	-
Due from Primary Government	-	-	-	69,617
Amounts Held by Fiscal Agent	56,965	-	56,965	109,544
Notes Receivable - Net	-	-	-	34,324
Accounts Receivable - Net	337,269	153,729	490,998	335,973
Interest and Dividends Receivable	1,440	-	1,440	20,438
Due from Other Governments - Net	457,737	1,910	459,647	113,670
Inventories	16,808	30,508	47,316	118,398
Other Assets	4,295	-	4,295	215,406
Deferred Outflow - Derivative Instruments	100,025	44,204	144,229	-
Restricted Assets:				
Cash and Cash Equivalents	-	241,769	241,769	211,148
Other Assets	-	862,766	862,766	310,368
Capital Assets:				
Land and Other Non-Depreciated Assets	876,752	707,217	1,583,969	319,888
Other Capital Assets (Net of Depreciation)	1,323,569	2,999,321	4,322,890	3,213,653
Total Capital Assets, Net	2,200,320	3,706,538	5,906,858	3,533,541
Total Assets	4,167,934	5,237,088	9,405,022	5,535,538
Liabilities				
Notes Payable	-	-	-	123,100
Vouchers Payable	45,203	8,654	53,857	67,414
Accounts Payable	196,434	100,366	296,800	142,076
Salaries and Wages Payable	54,126	5,456	59,582	63,513
Accrued Expenses	43,027	25,410	68,437	293,837
Due to Agency Funds	826	-	826	-
Due to Primary Government	-	-	-	43,500
Due to Component Units	49,043	-	49,043	-
Funds Held in Escrow	42,310	2,095	44,405	13,198
Due to Other Governments	-	-	-	32,786
Deferred Revenue	247,400	42,020	289,420	150,259
Overpayment of Taxes	110,814	-	110,814	8,601
Other Current Liabilities	-	-	-	119,723
Derivative Instrument Liability	101,363	44,204	145,567	22,087
Non-Current Liabilities:				
Due within one year	364,382	173,234	537,616	325,365
Due in more than one year	4,685,478	3,098,122	7,783,600	4,903,520
Total Liabilities	5,940,406	3,499,561	9,439,967	6,308,979
Net Assets				
Invested in Capital Assets, Net of Related Debt	83,919	887,768	971,687	(14,634)
Restricted For:				
Capital Projects	128,484	177,682	306,166	4,757
Debt Service	81,846	248,236	330,082	235,012
Behavioral Health	230,681	-	230,681	18,375
Neighborhood Revitalization	51,565	-	51,565	-
Stadium Financing	500	-	500	-
Central Library Project	2,331	-	2,331	-
Cultural & Commercial Corridor Project	15,273	-	15,273	-
Grant Programs	56,323	-	56,323	41,827
Rate Stabilization	-	165,907	165,907	-
Libraries & Parks:				
Expendable	3,027	-	3,027	-
Non-Expendable	2,414	-	2,414	-
Educational Programs	-	-	-	6,305
Other	49,382	-	49,382	286
Unrestricted(Deficit)	(2,478,217)	257,934	(2,220,283)	(1,065,369)
Total Net Assets	(1,772,472)	1,737,527	(34,945)	(773,441)

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

Statement of Activities

For the Fiscal Year Ended June 30, 2012

Amounts in thousands of USD

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
					Primary Government			
			Operating	Capital				
		Charges for	Grants and	Grants and	Governmental	Business Type		Component
Functions	Expenses	Services	Contributions	Contributions	Activities	Activities	Total	Units
Primary Government:								
Governmental Activities:								
Economic Development	96,534	1,101	16,620	779	(78,034)		(78,034)	
Transportation:								
Streets & Highways	115,626	5,234	52,875	36,886	(20,631)		(20,631)	
Mass Transit	73,955	1,348	359	-	(72,248)		(72,248)	
Judiciary and Law Enforcement:								
Police	1,094,157	5,578	14,230	-	(1,074,349)		(1,074,349)	
Prisons	336,743	875	480	-	(335,388)		(335,388)	
Courts	326,209	60,680	58,104	-	(207,425)		(207,425)	
Conservation of Health:								
Emergency Medical Services	48,414	27,451	583	-	(20,380)		(20,380)	
Health Services	1,500,067	14,807	1,250,299	-	(234,961)		(234,961)	
Housing and Neighborhood Development	137,673	28,590	97,324	-	(11,759)		(11,759)	
Cultural and Recreational:								
Recreation	97,288	2,218	8,946	1,321	(84,803)		(84,803)	
Parks	8,973	4,761	792	4,184	764		764	
Libraries and Museums	80,826	1,164	9,718	-	(69,944)		(69,944)	
Improvements to General Welfare:								
Social Services	675,457	5,151	465,441	-	(204,865)		(204,865)	
Education	74,339	-	-	-	(74,339)		(74,339)	
Inspections and Demolitions	26,494	49,965	181	-	23,652		23,652	
Service to Property:								
Sanitation	153,209	15,919	2,488	-	(134,802)		(134,802)	
Fire	292,228	284	1,599	-	(290,345)		(290,345)	
General Management and Support	678,394	139,709	122,026	-	(416,659)		(416,659)	
Interest on Long Term Debt	112,115	281	-	-	(111,834)		(111,834)	
Total Governmental Activities	5,928,702	365,116	2,102,065	43,170	(3,418,351)		(3,418,351)	
Business Type Activities:								
Water and Sewer	490,818	598,320	3,481	-	-	110,983	110,983	
Aviation	343,083	263,165	-	88,984	-	9,066	9,066	
Industrial and Commercial Development	-	412	-	2,690	-	3,102	3,102	
Total Business Type Activities	833,901	861,897	3,481	91,674	-	123,151	123,151	
Total Primary Government	6,762,603	1,227,013	2,105,546	134,844	(3,418,351)	123,151	(3,295,200)	
Component Units:								
Gas Operations	735,322	757,668	12,959	-				35,305
Housing	63,299	2,413	68,238	-				7,352
Parking	225,676	230,269	-	-				4,593
Education	3,024,935	35,965	930,552	-				(2,058,418)
Health	794,588	-	794,588	-				-
Economic Development	193,205	34,277	157,261	-				(1,667)
Total Component Units	5,037,025	1,060,592	1,963,598	-				(2,012,835)
General Revenues:								
Taxes:								
Property Taxes					500,759	-	500,759	658,540
Wage & Earnings Taxes					1,551,738	-	1,551,738	-
Business Taxes					399,249	-	399,249	-
Other Taxes					663,637	-	663,637	195,848
Grants & Contributions Not Restricted to Specific Programs					223,172	2,856	226,028	1,117,947
Unrestricted Interest & Investment Earnings					33,304	8,991	42,295	8,697
Miscellaneous					-	-	-	4,067
Special Items					-	-	-	7,790
Transfers					27,460	(27,460)	-	-
Total General Revenues, Special Items and Transfers					3,399,319	(15,613)	3,383,706	1,992,889
Change in Net Assets					(19,032)	107,538	88,506	(19,946)
Net Assets - July 1, 2011					(1,753,440)	1,629,989	(123,451)	(747,104)
Adjustment					-	-	-	(6,391)
Net Assets Adjusted - July 1, 2011					(1,753,440)	1,629,989	(123,451)	(753,495)
Net Assets - June 30, 2012					(1,772,472)	1,737,527	(34,945)	(773,441)

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

City of Philadelphia **Exhibit III**
Balance Sheet
Governmental Funds
June 30, 2012

Amounts in thousands of USD

	General Fund	HealthChoices Behavioral Health Fund	Grants Revenue Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash on Deposit and on Hand	10,090	-	104	72,455	82,649
Equity in Treasurer's Account	299,406	220,330	33,325	178,741	731,802
Investments	-	-	-	109,377	109,377
Due from Other Funds	7,531	-	-	460	7,991
Due from Component Units	69,246	-	-	-	69,246
Amounts Held by Fiscal Agent	18,104	-	38,861	-	56,965
Taxes Receivable	586,447	-	-	12,682	599,129
Accounts Receivable	361,520	-	1,187	9,340	372,047
Due from Other Governmental Units	127,622	60,941	232,071	37,103	457,737
Allowance for Doubtful Accounts	(634,381)	-	-	(2,087)	(636,468)
Interest and Dividends Receivable	63	1,321	-	55	1,439
Other Assets	-	-	-	568	568
Total Assets	845,648	282,592	305,548	418,694	1,852,482
Liabilities and Fund Balances					
Liabilities:					
Vouchers Payable	23,078	304	14,656	7,165	45,203
Accounts Payable	41,208	7,042	102,766	45,417	196,433
Salaries and Wages Payable	50,475	-	3,339	312	54,126
Due to Other Funds	800	-	-	8,017	8,817
Due to Component Units	-	44,565	3,376	1,102	49,043
Funds Held in Escrow	39,256	-	-	3,054	42,310
Deferred Revenue	491,407	-	275,364	32,263	799,034
Overpayment of Taxes	110,814	-	-	-	110,814
Total Liabilities	757,038	51,911	399,501	97,330	1,305,780
Fund Balances:					
Nonspendable	-	-	-	2,614	2,614
Restricted	18,104	230,681	81,129	320,145	650,059
Committed	-	-	-	5,090	5,090
Assigned	70,506	-	-	-	70,506
Unassigned	-	-	(175,082)	(6,485)	(181,567)
Total Fund Balances	88,610	230,681	(93,953)	321,364	546,702
Total Liabilities and Fund Balances	845,648	282,592	305,548	418,694	

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

a. Capital Assets used in governmental activities are not reported in the funds	2,200,320
b. Unearned Receivables are deferred in the funds	551,634
c. Long Term Liabilities, including bonds payable are not reported in the funds	(5,049,860)
d. Derivatives are not reported in the funds	(1,338)
e. Other	(19,930)
Net Assets of Governmental Activities	(1,772,472)

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

City of Philadelphia **Exhibit IV**
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2012

Amounts in thousands of USD

	General Fund	HealthChoices Behavioral Health Fund	Grants Revenue Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Tax Revenue	2,562,434	-	-	550,073	3,112,507
Locally Generated Non-Tax Revenue	256,654	812	40,589	38,429	336,484
Revenue from Other Governments	413,199	799,872	904,883	108,206	2,226,160
Other Revenues	17,319	-	-	10,153	27,472
Total Revenues	3,249,606	800,684	945,472	706,861	5,702,623
Expenditures					
Current Operating:					
Economic Development	27,302	-	17,642	43,914	88,858
Transportation:					
Streets & Highways	49,455	-	1,217	24,900	75,572
Mass Transit	67,315	-	359	-	67,674
Judiciary and Law Enforcement:					
Police	1,006,333	-	13,689	-	1,020,022
Prisons	316,147	-	695	1,388	318,230
Courts	262,890	-	49,439	-	312,329
Conservation of Health:					
Emergency Medical Services	46,095	-	563	-	46,658
Health Services	146,781	820,120	390,450	135,330	1,492,681
Housing and Neighborhood Development	2,665	-	64,390	66,746	133,801
Cultural and Recreational:					
Recreation	77,246	-	8,676	-	85,922
Parks	36	-	792	5,246	6,074
Libraries and Museums	61,938	-	9,754	236	71,928
Improvements to General Welfare:					
Social Services	187,897	-	486,398	-	674,295
Education	74,339	-	-	-	74,339
Inspections and Demolitions	26,540	-	5,682	-	32,222
Service to Property:					
Sanitation	143,734	-	2,488	-	146,222
Fire	266,617	-	1,174	-	267,791
General Management and Support	553,795	-	19,349	46,005	619,149
Capital Outlay	-	-	-	201,984	201,984
Debt Service:					
Principal	-	-	-	103,107	103,107
Interest	-	-	-	105,220	105,220
Bond Issuance Cost	1,090	-	-	549	1,639
Total Expenditures	3,318,215	820,120	1,072,757	734,625	5,945,717
Excess (Deficiency) of Revenues Over (Under) Expenditures	(68,609)	(19,436)	(127,285)	(27,764)	(243,094)
Other Financing Sources (Uses)					
Issuance of Debt	-	-	-	12,605	12,605
Issuance of Refunding Bonds	91,305	-	-	21,295	112,600
Bond Issuance Premium	12,387	-	-	4,200	16,587
Bond Defeasance	(102,602)	-	-	(24,670)	(127,272)
Transfers In	333,694	-	1,552	265,531	600,777
Transfers Out	(153,665)	-	(32,130)	(387,522)	(573,317)
Total Other Financing Sources (Uses)	181,119	-	(30,578)	(108,561)	41,980
Net Change in Fund Balance	112,510	(19,436)	(157,863)	(136,325)	(201,114)
Fund Balance - July 1, 2011	(23,900)	250,117	63,910	457,689	747,816
Fund Balance - June 30, 2012	88,610	230,681	(93,953)	321,364	546,702

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

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2012

Amounts in thousands of USD

Net Change in Fund Balances - Total Governmental Funds..	(201,114)
Amounts reported for governmental activities in the statement of activities are different because:	
a. Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (189,782) exceeded depreciation (133,723) in the current period...	56,059
b. Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds..	166,538
c. Proceeds from debt obligations provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments (219,395) exceeded proceeds (131)..	219,264
d. The increase in the Net Pension Obligation reported in the statement of activities does not require the use of current financial resources and therefore is not reported as an expenditure in governmental funds..	(147,072)
e. Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds......	(112,707)
Change in Net Assets of governmental activities..	(19,032)

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

City of Philadelphia **Exhibit VI**
Statement of Fund Net Assets
Proprietary Funds
June 30, 2012

Amounts in thousands of USD

	Business Type Activities - Enterprise Funds			
			Other Non-Major	
Assets	Water and Sewer	Aviation	Industrial & Commercial Development	Total
Current Assets:				
Cash on Deposit and on Hand	30	-	-	30
Equity in Treasurer's Account	80,624	111,235	3,775	195,634
Due from Other Governments	519	1,391	-	1,910
Accounts Receivable	260,095	14,144	1,972	276,211
Allowance for Doubtful Accounts	(121,212)	(1,270)	-	(122,482)
Inventories	13,456	2,964	14,088	30,508
Total Current Assets	233,512	128,464	19,835	381,811
Deferred Outflow - Derivative Instruments	12,018	32,186	-	44,204
Non-Current Assets:				
Restricted Assets:				
Equity in Treasurer's Account	477,997	384,769	-	862,766
Amounts Held by Fiscal Agent	-	341	-	341
Sinking Funds and Reserves	152,570	63,419	-	215,989
Grants for Capital Purposes	-	17,389	-	17,389
Receivables	1,393	6,657	-	8,050
Total Restricted Assets	631,960	472,575	-	1,104,535
Capital Assets:				
Land	5,919	120,293	-	126,212
Infrastructure	2,087,956	886,622	-	2,974,578
Construction in Progress	314,162	266,843	-	581,005
Buildings and Equipment	1,572,818	1,832,433	-	3,405,251
Less: Accumulated Depreciation	(2,042,854)	(1,337,654)	-	(3,380,508)
Total Capital Assets, Net	1,938,001	1,768,537	-	3,706,538
Total Non-Current Assets	2,569,961	2,241,112	-	4,811,073
Total Assets	2,815,491	2,401,762	19,835	5,237,088
Liabilities				
Current Liabilities:				
Vouchers Payable	6,871	1,783	-	8,654
Accounts Payable	12,304	13,541	-	25,845
Salaries and Wages Payable	3,947	1,509	-	5,456
Construction Contracts Payable	25,299	49,222	-	74,521
Accrued Expenses	21,470	3,940	-	25,410
Funds Held in Escrow	2,095	-	-	2,095
Deferred Revenue	6,626	35,394	-	42,020
Bonds Payable-Current	121,769	51,465	-	173,234
Total Current Liabilities	200,381	156,854	-	357,235
Derivative Instrument Liability	12,018	32,186	-	44,204
Net Pension Liability	11,801	15,659	-	27,460
Non-Current Liabilities:				
Bonds Payable	1,698,122	1,331,605	-	3,029,727
Other Non-Current Liabilities	27,849	13,086	-	40,935
Total Non-Current Liabilities	1,725,971	1,344,691	-	3,070,662
Total Liabilities	1,950,171	1,549,390	-	3,499,561
Net Assets				
Invested in Capital Assets, Net of Related Debt	243,997	643,771	-	887,768
Restricted For:				
Capital Projects	120,608	57,074	-	177,682
Debt Service	152,569	95,667	-	248,236
Rate Stabilization	165,907	-	-	165,907
Unrestricted	182,239	55,860	19,835	257,934
Total Net Assets	865,320	852,372	19,835	1,737,527

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

City of Philadelphia **Exhibit VII**

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds

For the Fiscal Year Ended June 30, 2012

Amounts in thousands of USD

	Business-Type Activities - Enterprise Funds			
	Water and Sewer	Aviation	Other Non-Major Industrial & Commercial Development	Totals
Operating Revenues:				
Charges for Goods and Services	591,571	78,331	-	669,902
Rentals and Concessions	-	179,203	-	179,203
Operating Grants	3,481	-	-	3,481
Miscellaneous Operating Revenues	6,749	5,631	412	12,792
Total Operating Revenues	601,801	263,165	412	865,378
Operating Expenses:				
Personal Services	105,448	60,503	-	165,951
Purchase of Services	73,962	81,734	-	155,696
Materials and Supplies	37,050	6,729	-	43,779
Employee Benefits	83,706	45,030	-	128,736
Indemnities and Taxes	663	1,899	-	2,562
Depreciation	92,113	100,593	-	192,706
Total Operating Expenses	392,942	296,488	-	689,430
Operating Income (Loss)	208,859	(33,323)	412	175,948
Non-Operating Revenues (Expenses):				
Federal, State and Local Grants	479	2,377	-	2,856
Passenger Facility Charges	-	59,742	-	59,742
Interest Income	3,334	5,655	2	8,991
Net Pension Obligation	(11,259)	(5,556)	-	(16,815)
Debt Service - Interest	(85,374)	(40,631)	-	(126,005)
Other Revenue (Expenses)	(1,243)	(408)	-	(1,651)
Total Non-Operating Revenues (Expenses)	(94,063)	21,179	2	(72,882)
Income (Loss) Before Contributions & Transfers	114,796	(12,144)	414	103,066
Transfers In/(Out)	(27,460)	-	-	(27,460)
Capital Contributions	-	29,242	2,690	31,932
Change in Net Assets	87,336	17,098	3,104	107,538
Net Assets - July 1, 2011	777,984	835,274	16,731	1,629,989
Net Assets - June 30, 2012	865,320	852,372	19,835	1,737,527

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

City of Philadelphia **Exhibit VIII**

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2012

Amounts in thousands of USD

	Business Type Activities - Enterprise Funds			
			Other Non-Major	
	Water and Sewer	Aviation	Industrial & Commercial Development	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	587,703	263,178	-	850,881
Payments to Suppliers	(108,742)	(85,992)	-	(194,734)
Payments to Employees	(194,763)	(101,137)	-	(295,900)
Internal Activity-Payments to Other Funds	-	(6,635)	-	(6,635)
Claims Paid	(3,047)	-	-	(3,047)
Other Receipts (Payments)	-	947	412	1,359
Net Cash Provided (Used)	281,151	70,361	412	351,924
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating Grants Received	3,481	2,377	-	5,858
Operating Subsidies and Transfers from Other Funds	(27,460)	-	-	(27,460)
Net Cash Provided (Used)	(23,979)	2,377	-	(21,602)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from Debt Issuance	168,227	243,623	-	411,850
Capital Grants & Contributions Received	479	25,721	-	26,200
Acquisition and Construction of Capital Assets	(136,123)	(126,814)	-	(262,937)
Interest Paid on Debt Instruments	(82,555)	(49,843)	-	(132,398)
Principal Paid on Debt Instruments	(109,868)	(307,840)	-	(417,708)
Passenger Facility Charges	-	59,938	-	59,938
Net Cash Provided (Used)	(159,840)	(155,215)	-	(315,055)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sale and Maturities of Investments	-	10,271	-	10,271
Interest and Dividends on Investments	(6,077)	6,261	5	189
Net Cash Provided (Used)	(6,077)	16,532	5	10,460
Net Increase (Decrease) in Cash and Cash Equivalents	91,255	(65,945)	417	25,727
Cash and Cash Equivalents, July 1 (including $406.4 mil for Water & Sewer and $442.3 mil for Aviation reported in restricted accounts)	467,396	562,290	3,358	1,033,044
Cash and Cash Equivalents, June 30 (including $478.0 mil for Water & Sewer and $385.1 mil for Aviation reported in restricted accounts)	558,651	496,345	3,775	1,058,771
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	208,859	(33,323)	412	175,948
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	92,113	100,593	-	192,706
Changes in Assets and Liabilities:				
Receivables, Net	(12,028)	2,290	-	(9,738)
Deferred Revenue	(3,137)	(1,483)	-	(4,620)
Inventories	(264)	101	-	(163)
Accounts and Other Payables	3,469	2,183	-	5,652
Accrued Expenses	(7,861)	-	-	(7,861)
Net Cash Provided by Operating Activities	281,151	70,361	412	351,924

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

City of Philadelphia **Exhibit IX**
Statement of Net Assets
Fiduciary Funds
June 30, 2012

Amounts in thousands of USD

	Pension Trust Funds	Agency Funds
Assets		
Cash on Deposit and on Hand	-	104,934
Equity in Treasurer's Account	4,349,076	42,235
Investments	-	9,676
Securities Lending Collective Investment Pool	416,484	-
Allowance for Unrealized Loss	(1,860)	-
Accounts Receivable	3,052	-
Due from Brokers for Securities Sold	248,114	-
Interest and Dividends Receivable	19,437	-
Due from Other Governmental Units	2,442	-
Due from Other Funds	-	826
Total Assets	5,036,745	157,671
Liabilities		
Vouchers Payable	9	3,132
Accounts Payable	4,829	-
Salaries and Wages Payable	57	-
Payroll Taxes Payable	-	14,589
Funds Held in Escrow	9	139,950
Due on Return of Securities Loaned	416,484	-
Due to Brokers for Securities Purchased	256,284	-
Accrued Expenses	13,523	-
Deferred Revenue	2,004	-
Other Liabilities	456	-
Total Liabilities	693,655	157,671
Net Assets Held in Trust for Pension Benefits	4,343,090	-

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

City of Philadelphia **Exhibit X**
Statement of Changes in Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2012

Amounts in thousands of USD

	Pension Trust Funds
Additions:	
Contributions:	
Employers' Contributions	579,833
Employees' Contributions	50,014
Total Contributions	629,847
Investment Income:	
Interest and Dividends	98,967
Net Decline in Fair Value of Investments	(68,527)
(Less) Investments Expenses	(15,438)
Securities Lending Revenue	2,076
Securities Lending Unrealized Loss	(1,860)
(Less) Securities Lending Expenses	(852)
Net Investment Gain	14,366
Total Additions	644,213
Deductions	
Pension Benefits	746,028
Refunds of Members' Contributions	6,500
Administrative Expenses Paid	1,007
Other Operating Expenses	15,246
Total Deductions	768,781
Change in Net Assets	(124,568)
Net Assets - July 1, 2011	4,467,658
Net Assets - June 30, 2012	4,343,090

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

City of Philadelphia **Exhibit XI**
Statement of Net Assets
Component Units
June 30, 2012

Amounts in thousands of USD

	Philadelphia Gas Works*	Philadelphia Redevelopment Authority	Philadelphia Parking Authority*	School District of Philadelphia	Community College of Philadelphia	Community Behavioral Health*	Delaware River Waterfront Corporation	Philadelphia Authority for Industrial Development*	Total
Assets									
Cash on Deposit and on Hand	105,386	71,113	92,441	529	11,664	23,336	5,779	-	310,248
Equity in Pooled Cash and Investments	-	-	-	40,022	-	-	-	-	40,022
Investments	-	-	75,705	-	37,136	-	-	-	112,841
Due from Primary Government	-	5,024	-	-	-	64,593	-	-	69,617
Amounts Held by Fiscal Agent	-	-	-	109,544	-	-	-	-	109,544
Notes Receivable	-	34,208	-	-		116	-	-	34,324
Taxes Receivable	-	-	-	180,665	-	-	-	-	180,665
Accounts Receivable-Net	98,925	1,149	1,091	10,340	6,707	-	5,622	31,474	155,308
Interest and Dividends Receivable	-	19,989	249	150	50	-	-	-	20,438
Due from Other Governments	-	203	-	65,487	2,609	-	-	45,371	113,670
Inventories	85,993	28,787	-	3,618	-	-	-	-	118,398
Other Assets	181,121	341	2,251	29,213	1,137	747	512	84	215,406
Restricted Assets:									
Cash and Cash Equivalents	-	10,563	-	177,549	-	-	-	23,036	211,148
Other Assets	236,966	25,114	-	18,375	4,234	-	-	25,679	310,368
Capital Assets:		-							
Land and Other Non-Depreciated Assets	46,149	-	15,980	198,078	46,367	-	1,898	11,416	319,888
Other Capital Assets (Net of Depreciation)	1,064,929	852	180,107	1,760,693	133,117	1,526	7,816	64,613	3,213,653
Total Capital Assets	1,111,078	852	196,087	1,958,771	179,484	1,526	9,714	76,029	3,533,541
Total Assets	1,819,469	197,343	367,824	2,594,263	243,021	90,318	21,627	201,673	5,535,538
Liabilities									
Notes Payable	-	21,894	10,985	-	90,221	-	-	-	123,100
Vouchers Payable	55,893	-	-	-	11,521	-	-	-	67,414
Accounts Payable	-	3,212	15,371	114,408	-	2,800	2,306	3,979	142,076
Salaries and Wages Payable	5,095	-	-	50,106	2,876	5,436	-	-	63,513
Accrued Expenses	217,065	3,968	776	-	1,298	70,266	464	-	293,837
Funds Held in Escrow	-	12,451	-	-	123	-	-	624	13,198
Due to Other Governments	-	-	14,745	3,462	2,419	-	-	12,160	32,786
Due to Primary Government	-	1,500	30,773	-	-	-	-	11,227	43,500
Deferred Revenue	11,161	37,914	2,033	18,844	2,568	7,900	7,535	62,304	150,259
Overpayment of Taxes	.	.	.	8,601	.	.	.	.	8,601
Other Current Liabilities	-	-	-	115,772	-	3,916	35	-	119,723
Derivative Instrument Liability	-	-	-	22,087	-	-	-	-	22,087
Non-Current Liabilities:									
Due within one year	48,513	3,748	10,520	260,442	2,142	-	-	-	325,365
Due in more than one year	1,172,002	34,005	177,909	3,437,147	35,263	-	2,354	44,840	4,903,520
Total Liabilities	1,509,729	118,692	263,112	4,030,869	148,431	90,318	12,694	135,134	6,308,979
Net Assets									
Invested in Capital Assets, Net of Related Debt	15,869	219	58,683	(208,522)	86,331	-	-	32,786	(14,634)
Restricted For:									
Capital Projects	-	-	-	-	4,757	-	-	-	4,757
Debt Service	114,634	8,423	2,411	109,544	-	-	-	-	235,012
Behavioral Health	-	-	-	18,375	-	-	-	-	18,375
Educational Programs	-	-	-	6,305	-	-	-	-	6,305
Grant Programs	-	-	-	-	6,761	-	-	35,066	41,827
Other	-	-	-	286	-	-	-	-	286
Unrestricted	179,237	70,009	43,618	(1,362,594)	(3,259)	-	8,933	(1,313)	(1,065,369)
Total Net Assets	309,740	78,651	104,712	(1,436,606)	94,590	-	8,933	66,539	(773,441)

* The Philadelphia Gas Works is presented as of the close of their fiscal year, August 31, 2011. Community Behavioral Health and the Philadelphia Authority for Industrial Development are presented as of the close of their fiscal year, December 31, 2011. The Philadelphia Parking Authority is presented as of the close of their fiscal year, March 31, 2012.

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

City of Philadelphia **Exhibit XII**
Statement of Activities
Component Units
For the Fiscal Year Ended June 30, 2012

Amounts in thousands of USD

Functions	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Philadelphia Gas Works*	Philadelphia Redevelopment Authority	Philadelphia Parking Authority*	School District of Philadelphia	Community College of Philadelphia	Community Behavioral Health*	Delaware River Waterfront Corporation	Philadelphia Authority for Industrial Development*	Total
Gas Operations													
Gas Works	735,322	757,668	12,959	-	35,305								35,305
Housing													
Redevelopment Authority	63,299	2,413	68,238	-		7,352							7,352
Parking													
Parking Authority	225,676	230,269	-	-			4,593			-			4,593
Education													
School District	2,862,971	3,957	865,838					(1,993,176)					(1,993,176)
Community College	161,964	32,008	64,714	-					(65,242)				(65,242)
Total	3,024,935	35,965	930,552	-									
Health													
Community Behavioral Health	794,588	-	794,588	-						-			-
Economic Development													
Convention Center Authority	-	-	-	-									-
Delaware River Waterfront Corp.	12,877	7,489	5,174	-							(214)		(214)
Authority for Ind. Development	180,328	26,788	152,087	-								(1,453)	(1,453)
Total	193,205	34,277	157,261	-									
Total Component Units	5,037,025	1,060,592	1,963,598	-									(2,012,835)
General Revenues:													
Property Taxes					-	-	-	658,540	-	-	-	-	658,540
Other Taxes					-	-	-	195,848	-	-	-	-	195,848
Grants & Contributions Not Restricted to Specific Programs					-	-	-	1,058,288	59,966	-	-	(307)	1,117,947
Unrestricted Interest & Investment Earnings					-	945	2,419	4,170	1,118	-	45	-	8,697
Miscellaneous					-	-	-	-	4,067		-	-	4,067
Special Item-Gain (Loss) on Sale of Capital Assets					-	-	-	-	-	-	-	7,790	7,790
Total General Revenue ,Special items and Transfers					-	945	2,419	1,916,846	65,151	-	45	7,483	1,992,889
Change in Net Assets					35,305	8,297	7,012	(76,330)	(91)	-	(169)	6,030	(19,946)
Net Assets - July 1, 2011					274,435	70,354	97,700	(1,353,885)	94,681	-	9,102	60,509	(747,104)
Adjustment					-	-	-	(6,391)	-		-	-	(6,391)
Net Assets Adjusted - July 1, 2011					274,435	70,354	97,700	(1,360,276)	94,681	-	9,102	60,509	(753,495)
Net Assets - June 30, 2012					309,740	78,651	104,712	(1,436,606)	94,590	-	8,933	66,539	(773,441)

* The Philadelphia Gas Works is presented as of the close of their fiscal year, August 31, 2011. Community Behavioral Health and the Philadelphia Authority for Industrial Development are presented as of the close of their fiscal year, December 31, 2011. The Philadelphia Parking Authority is presented as of the close of their fiscal year, March 31, 2012.

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

City of Philadelphia
PENNSYLVANIA

Notes to the Financial Statements
FYE 06/30/2012

Table of Contents

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Philadelphia have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

1. REPORTING ENTITY

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

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

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

A. BLENDED COMPONENT UNITS

Pennsylvania Intergovernmental Cooperation Authority (PICA) – 1500 Walnut St., Philadelphia, PA 19102
PICA was established by act of the Commonwealth of Pennsylvania to provide financial assistance to cities of the first class and is governed by a five member board appointed by the Commonwealth. Currently, the City of Philadelphia is the only city of the first class. The activities of PICA are reflected in two of the governmental fund types (Special Revenue and Debt Service).

Philadelphia Municipal Authority (PMA) – 1515 Arch St., Philadelphia, PA 19102
PMA is governed by a five member board appointed by the City and was established to issue tax exempt bonds for the acquisition and use of certain equipment and facilities for the City. The activities of PMA are reflected in three of the governmental fund types (Special Revenue, Debt Service and Capital Improvement).

B. DISCRETELY PRESENTED COMPONENT UNITS

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

Community College of Philadelphia (CCP) – 1700 Spring Garden St., Philadelphia, PA 19130
CCP was established by the City to provide two year post-secondary education programs for its residents. It is governed by a Board appointed by the City, receives substantial subsidies from the City, and its budgets must be submitted to the City for review and approval.

Delaware River Waterfront Corp. (DRWC) – 121 N. Columbus Blvd., Philadelphia, PA 19106
The 16 member board, is headed by the Mayors’ Deputy Director for Economic Development and Planning, and is comprised of appointed City officials and private sector experts in design, finance, and real estate development. The group will focus on the development of the seven-mile stretch of water front property between Allegheny and Oregon Avenues.

Philadelphia Parking Authority (PPA) – 3101 Market St., Philadelphia, PA 19104
PPA was established by the City to coordinate a system of parking facilities and on-street parking on behalf of the City. Its fiscal year ends on March 31. The City has guaranteed debt payments for PPA. A voting majority of PPA's governing board is not appointed by the City however, the significance of the City's relationship with PPA is such that exclusion from the City's financial report would be misleading.

Philadelphia Redevelopment Authority (PRA) – 1234 Market St., Philadelphia, PA 19107
PRA was established to rehabilitate blighted sections of the City. It is governed by a five-member board appointed by the City and must submit its budgets to the City for review and approval.

School District of Philadelphia (SDP) – 440 N. Broad St., Philadelphia, PA 19130
SDP was established by the Educational Supplement to the Philadelphia Home Rule Charter to provide free public education for the City's residents. A voting majority of the SDP governing board is not appointed by the City, however, the significance of the City's relationship with SDP is such that exclusion from the City's financial report would be misleading.

Community Behavioral Health (CBH) – 801 Market St., Philadelphia, PA 19107
CBH is a not-for-profit organization established by the City's Department of Public Health to provide for and administer all behavioral health services required by the Commonwealth of Pennsylvania. Its board is made up of City officials and City appointees. Any change in funding would present a financial burden to the City.

Philadelphia Authority for Industrial Development (PAID) – 2600 Centre Sq. West, Philadelphia, PA 19102
PAID was formed under the Industrial Development Authority Law to issue debt to finance eligible industrial and commercial development projects. PAID is the delegate agency responsible for administration of certain state grants and acts in the City's behalf on major development projects in the City. The City appoints a voting majority of PAID's board and is responsible for funding PAID's debt service.

Philadelphia Gas Works (PGW) – 800 W. Montgomery Ave., Philadelphia, PA 19122
PGW was established by the City to provide gas service to residential and commercial customers within the City of Philadelphia. The City appoints a voting majority of PGW's board and has the ability to modify or approve their budget.

2. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

Separate *fund* financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the *government wide* financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the *fund* financial statements.

3. BASIS OF ACCOUNTING, MEASUREMENT FOCUS AND FINANCIAL STATEMENTS

A. PRIMARY GOVERNMENT

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

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

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

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

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

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

The City reports the following major governmental funds:

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

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

The City reports *on the following fiduciary funds:*

- The Municipal Pension Fund accumulates resources to provide pension benefit payments to qualified employees of the City and certain other quasi-governmental organizations.
- The Philadelphia Gas Works Retirement Reserve Fund accumulates resources to provide pension benefit payments to qualified employees of the Philadelphia Gas Works.

- The Escrow Fund accounts for funds held in escrow for various purposes.
- The Employees Health & Welfare Fund accounts for funds deducted from employees' salaries for payment to various organizations.
- The Departmental Custodial Accounts account for funds held in custody by various City Departments.

The City reports the following major proprietary funds:

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

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

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

B. COMPONENT UNITS

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

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

4. DEPOSITS AND INVESTMENTS

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

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

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

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

5. INVENTORIES

A. PRIMARY GOVERNMENT

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

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

B. COMPONENT UNITS

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

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

6. CAPITAL ASSETS

A. PRIMARY GOVERNMENT

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

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

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

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

Collections of art and historical treasures meet the definition of a capital asset and normally should be reported in the financial statements. However, the requirement for capitalization is waived for collections that meet certain criteria. The City has collections of art, historical treasures and statuary that are not capitalized as they meet all of the waiver requirements which are: (1) the collections are held solely for public exhibition, (2) the collections are protected, preserved and cared for and (3) should any items be sold, the proceeds are used only to acquire other items for the collections. Among the City's collections are historical artifacts at the Ryers Museum & Library, Loudoun Mansion, Fort Mifflin, Atwater Kent Museum and the Betsy Ross House. The city also has sculptures, paintings, murals and other works of art on display on public property and buildings throughout the City.

B. COMPONENT UNITS

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

7. BONDS AND RELATED PREMIUMS, DISCOUNTS & ISSUANCE COSTS

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

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

8. INSURANCE

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

9. RECEIVABLE AND PAYABLES

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

All trade and property receivables in the *governmental wide* financial statements are shown net of allowance for uncollectibles. The real estate tax receivable allowance is equal to 30.55% of outstanding real estate taxes at June 30. Property taxes are levied on a calendar year basis. The City's property taxes, levied on assessed valuation as of January 1, are due and payable on or before March 31. Taxes levied are intended to finance the fiscal year in which they become due. Current real estate rates are $9.432 on each $100 assessment; $5.309 for the SDP and $4.123 for the City. Delinquent charges are assessed at 1.5% per month on all unpaid balances as of April 1. Real estate tax delinquents are subject to lien as of the following January 1. The City has established real estate improvement programs that abate, for limited periods, tax increases that result from higher assessments for improved properties. Certain incremental tax assessments are earmarked to repay loans from the City to developers who improve properties under Tax Increment Financing agreements.

10. DEFERRED REVENUES

A. PRIMARY GOVERNMENT

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

B. COMPONENT UNITS

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

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

11. COMPENSATED ABSENCES

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

12. CLAIMS AND JUDGMENTS

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

II. LEGAL COMPLIANCE

1. BUDGETARY INFORMATION

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

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

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

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

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

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS

1. DEPOSITS AND INVESTMENTS

Deposits

State statutes require banks to collateralize City deposits at amounts equal to or in excess of the City's balance. Such collateral is to be held by the Federal Reserve Bank or the trust department of a commercial bank other than the pledging bank. At year-end, the carrying amount (book balance) of deposits for the City and the bank balances were $404.2 million and $404.2 million respectively. All of the collateralized securities were held in the City's name except for $60.5 million which was collateralized but held in the pledging institutions name.

Investments

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

As of June 30, 2012 the City's Investments consisted of:

(amounts in thousands of USD)

Classifications	Fair Value	% of Total
Corporate Equities	1,745,706	27.29%
Corporate Bonds	900,314	14.07%
U.S. Government Agency Securities	863,478	13.50%
Miscellaneous - Limited Partnership	739,073	11.55%
U.S. Government Securities	720,264	11.26%
Other Bonds and Investments	421,599	6.59%
Mutual Funds	361,789	5.66%
Commercial Paper	309,068	4.83%
Short-Term Investment Pools	257,360	4.02%
Collateralized Mortgage Obligations	52,973	0.83%
Financial Agreement	21,047	0.33%
Certificate of Deposit	5,000	0.08%
Grand Total	6,397,670	100.00%

City excluding Pension Trust Funds

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

(amount in thousands of USD)

Classifications	Less than 1 Year	1 - 3 Years	More than 3 Years
U.S. Government Securities	8,500	509,417	0
Corporate Bonds	13,310	283,226	0
U.S. Government Agency Securities	43,468	698,736	0
Commerical Papers	94,541	214,527	0
Total	159,819	1,705,906	0

Credit Risk: The City's policy to limit credit risks is to invest in US Government securities (11.26%) or US Government Agency obligations (13.50%). The US Government Agency obligations must be rated AAA by Standard & Poor's Corp or Aaa by Moody's Investor Services. All US Government Securities meet the criteria. The City's investment in Commercial paper (4.83%) must be rated A1 by Standard & Poor's Corp. (S&P) and/or M1G1 by Moody's Investor's Services, Inc (Moody's) and the senior long-term debt of the issuer must not be rated lower than A by S&P and/or Moody's. Commercial Paper is also limited to 25% of the portfolio. All commercial paper investments meet the criteria. Of the corporate bonds held by the City, 15.8% had a Standard & Poor's rating of AAA to AA. Cash accounts are swept nightly and idle cash invested in money market funds (short term investment pools). Short Term Investment Pools are rated AAA by Standard & Poor's Corp and Aaa by Moody's Investor Services. The Short Term Investment Pools' Fair Value is the same as the value of the pool shares. The City limits its foreign currency risk by investing in certificates of deposit and bankers acceptances issued or endorsed by non-domestic banks that are denominated in US dollars providing that the banking institution has assets of not less than $100 million and has a Thompson's Bank Watch Service "Peer Group Rating" not lower than II. At the end of the fiscal year, the City did not have any investments of that nature.

Municipal Pension Fund

Credit Risk: Credit Risk: Currently, the Municipal Pension Fund owns approximately 57.6% of all investments and is invested primarily in equity securities (44%). The fund's resources are put in the hands of investment managers with different investment styles who invest according to specific objectives developed for each manager. The Chief Investment Officer of the Municipal Pension fund is charged with reviewing the portfolios for compliance with those objectives and guidelines. Of the fixed income type investments held by the pension fund, 56% had Standard & Poor ratings of AAA to A; and 60% had Moody's rating of AAA to A1.

The investments are held by the managers in the Pension Fund's name. The investments are diversified with only the investment in the JP Morgan Chase Bank Index Fund exceeding 5% of the total investment (6.6%). The fair value of the investment in the JP Morgan Chase Bank Fund was $205.7 million at fiscal year end. The fund's exposure to foreign currency risk derives from its position in foreign currency-denominated equity securities and fixed income investments. The foreign currency investment in equity securities is 40% of the total investment in equities.

Municipal Pension Fund

Equity Securities subject to Foreign Currency Risk

Currency	Fair Value (thousands of USD)	
Euro Currency	135,856	22.14%
Japanese Yen	87,656	14.28%
Pound Sterling	97,963	15.96%
Austrailian Dollar	22,324	3.64%
All Others	269,861	43.98%
	613,660	100.00%

Fixed Income Securities and Other Investments subject to Foreign Currency Risk

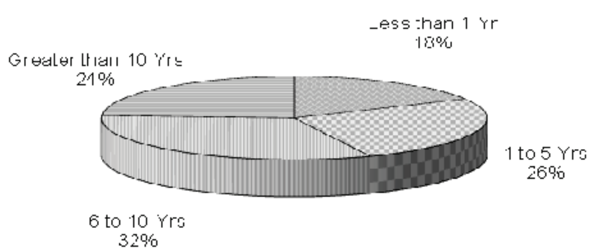
(thousands of USD)

	Currency	Fair Value
Currency	Euro Currency	5,104
Currency	Japanese Yen	(676)
Currency	All Others	4,291
Fixed Income	Euro	27,200
Fixed Income	Pound Sterling	37,378
Fixed Income	Mexican Pesso	11,712
Fixed Income	All Others	183,313
Real Estate and Private Equity	Euro	42,726
		311,048

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

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

Municipal Pension Fund Exposure to Credit Risk



Philadelphia Gas Works Retirement Reserve (PGWRR)

Credit Risk: Currently, the **PGWRR** owns approximately 6.75% of all investments and is primarily invested in equity securities (63%). The long-term goals of the fund are to manage the assets to produce investment results which meet the Fund's actuarially assumed rate of return and protect the assets from any erosion of inflation adjusted value. The fund's resources are put in the hands of investment managers with different investment styles who invest according to specific objectives developed for each manager. The Chief Investment Officer of the **PGWRR** is charged with reviewing the portfolios for compliance with those objectives and guidelines. To protect against credit risk, the fund requires that all domestic bonds must be rated investment grade by at least two ratings agencies (Standard & Poor's, Moody's or Fitch). The portfolio managers' Average Credit Quality ranges from AAA to AA.

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

(thousands of USD)	Maturity Length				
Investment Type	Less than 1 yr.	1-3 yrs	3-5 yrs	5-10 yrs	More than 10 yrs
Short-Term Investment Pools	10,447	-	-	-	-
U.S. Government Agency Securities	-	3,096	4,892	1,030	490
U.S. Government Securities	2,117	5,828	3,612	6,357	3,205
MTG Pass Thrus	-	-	-	292	2,719
Municipal Securities	-	-	810	1,003	1,581
Asset Backed Securities	-	-	185	5,543	30,484
Corporate bonds	2,794	9,224	12,615	37,377	10,305
	15,358	18,148	22,114	51,602	48,784

Blended Component Units

A. PICA

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

At June 30, 2012 the carrying amount of **PICA'**s deposits with financial institutions (including certificates of deposit and shares in US government money market funds) and other short-term investments was $91 million. Statement balances were insured or collateralized as follows:

	(thousands of USD)
Insured	3,691
Uninsured and uncollateralized	87,318
Total:	91,009

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

Investment Derivative Instruments

As of June 30, 2012, PICA's basis caps did not meet the criteria for effectiveness as a hedging instrument. Therefore, they are reported as investment derivative instruments.

(amounts in thousands of USD)

	Changes in Fair Value		Fair Value at June 30, 2012		
	Classification	Amount	Classification	Amount	Notional
Governmental Activities					
Investment Derivatives:					
Basis Caps	Investment Revenue	3,806	Investment	3,412	358,540

a. PICA Series of 2003 and 1999 Basis Cap Agreements

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

2003 Basis Cap

Beginning July 15, 2003, the counterparty pays the Authority a fixed rate each month of .40% per year and the Authority will pay to the counterparty a variable rate based on the greater of (a) the average of the BMA for the month divided by the one-month LIBOR, less 70%, multiplied by the one-month LIBOR, times the notional amount times the day count fraction or (b) zero. The agreement matures June 15, 2022.

1999 Basis Cap

Beginning July 15, 2009, the counterparty pays the Authority a fixed rate each month of .46% per year and the Authority will pay to the counterparty a variable rate based on the greater of (a) the average of the BMA for the month divided by the one-month LIBOR, less 70%, multiplied by the one-month LIBOR, times the notional amount times the day count fraction or (b) zero. The notional agreement matures June 15, 2023.

Fair Value: As of June 30, 2012, the 2003 Basis Cap had a positive fair value of $773,069. This means that **PICA** would receive this amount to terminate the 2003 basis cap. As of June 30, 2012, the 1999 Basis Cap had a positive fair value of $2,638,778. This means that PICA would receive this amount to terminate the 1999 basis cap.

B. PHILADELPHIA MUNICIPAL AUTHORITY

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

	(thousands of USD)	
	Fair Value	**Cost**
Money Market Funds	40,514	40,514
U.S. Treasury & Agency obligation	4,400	4,399
U.S. Treasury bonds & notes	2,501	2,506
Certificates of Deposit	100	100
Corporate bond & debts	372	378
	47,887	47,897

All investments were uninsured and collateralized with securities held by the pledging financial institution's trust department but not in the Authority's name at June 30, 2012.

The Authority does not have a formally adopted investment policy related to credit risk, but generally follows the practices of the City. As of June 30, 2012 the Authority's investments in U.S. Government Securities were rated

AAA, and investments in corporate and foreign debt were rated AA+ or AAA, by Standard & Poor's. Investments in money market funds and certificates of deposit were not rated. Depository cash accounts consisted of $405,598 on deposit with two local banks. Amounts are insured by the FDIC up to $250,000. Deposits in excess of the FDIC limit are collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name.

Discretely Presented Component Units

a. Philadelphia Authority for Industrial Development Basis Swap

As of June 30, 2012, **PAID's** basis swap did not meet the criteria for effectiveness as a hedging instrument. Therefore, it is reported as an investment derivative instrument.

(amounts in thousands)

	Changes in Fair Value		Fair Value at June 30, 2012		
	Classification	Amount	Classification	Amount	Notional
Governmental Activities					
Investment Derivatives:					
Basis Swap	Investment Revenue	935	Investment	(4,750)	193,520

Objective: **PAID** entered into a basis swap that became effective on July 1, 2004, that provides **PAID** with ten equal payments of $1.2 million with the first payment due on July 1, 2004. **PAID** executed the basis swap to create a benefit similar to entering into a synthetic refunding, using a swap based on a percentage of LIBOR, without having to issue bonds or eliminate future advance refunding opportunities. In July, 2006, a portion of the existing basis swap was restructured such that the variable rate received by **PAID** was converted from a percentage of one month LIBOR to a percentage of the five year LIBOR swap rate, on a forward starting basis. This provides for potentially significant long-term savings while also providing for a diversification of the City's variable rate index on its entire swap portfolio.

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

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

As of June 30, 2012, the notional amount on the portion of the swap that was not amended was $193.5 million.

Fair Value: As of June 30, 2012, the swap had a negative fair value of ($4.8 million). This means that **PAID** would have to pay this amount to terminate the swap.

Risks: As of June 30, 2012, **PAID** is not exposed to credit risk because the swap had a negative fair value. Should interest rates change and the fair value of the swap become positive, **PAID** would be exposed to credit risk in the amount of the swaps' fair value. The swap includes an additional termination event based on credit ratings. The swap may be terminated by **PAID** if the ratings of MLCS's guarantor (Merrill Lynch & Co.) falls below Baa3 or BBB- or the swap may be terminated by MLCS if the City's rating falls below Baa3 or BBB-. There is a 3-day cure period to these termination events.

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

b. School District of Philadelphia Basis Swaps

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

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

As of June 30, 2012, the School District's basis swaps are considered to be investment derivative instruments with the following maturities (amounts in thousands):

		Investment Maturities (in years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Investment Derivative Instruments	$ (22,087)				$ (22,087)

Interest rate risk - The School District's two pay variable interest rate basis swaps have a total notional amount of $500,000,000. The School District makes payments to the counterparty based on the SIFMA swap index and receives 67% of LIBOR plus .2788%. The basis swaps were executed November 30, 2006 and mature May 15, 2033. At June 30, 2012, the fair value of the swaps is $(22,086,780). The swap agreements contain varying collateral agreements with the counterparties. The swaps require collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds.

Credit risk - As of June 30, 2012, the School District was not exposed to credit risk on any of its outstanding basis swaps because the swaps had negative fair values of $22,086,780. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps.

The notional amounts and credit ratings of the bank counterparties on the outstanding swaps as of June 30, 2012 are as follows:

		Credit Rating		
Initial Notional	Bank Counterparty	Moody's	S&P	Fitch
$150,000,000	Wells Fargo	Aa3	AA-	AA-
$350,000,000	JP Morgan Chase Bank	Aa3	A+	A+

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

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

2. SECURITIES LENDING

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

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

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

3. AMOUNTS HELD BY FISCAL AGENT

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

A. GOVERNMENTAL FUNDS

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

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

B. PROPRIETARY FUNDS

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

4. INTERFUND RECEIVABLES AND PAYABLES

A. PRIMARY GOVERNMENT

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

(Amounts in Thousands of USD)	Interfund Receivables Due to:				
		Non major Governmental			
	General	**Special Revenue**	**Debt Service**	**Other Funds**	**Total**
Interfund Payables Due From:					
General	-	-	-	800	800
Non major Special Revenue Funds	7,531	-	-	487	8,018
Non major Debt Service Funds	-	-	-	-	-
Total	7,531	-	-	1,287	8,818

B. COMPONENT UNITS

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

(Amounts in Thousands of USD)	Receivables Due to:					
	General	**Aviation**	**CBH**	**PRA**	**Timing Difference**	**Total**
Payables Due From:						
Behavioral Health	-	-	44,565	-	-	44,565
Grants Revenue	-	-	-	3,377	-	3,377
Non-major Funds	-	-	-	1,102	-	1,102
PPA	9,283	23,708	-	-	(2,218)	30,773
PAID	50,691	-	-	-	(39,464)	11,227
PRA	-	-	-	-	1,500	1,500
PGW	16,500				(16,500)	
School District of Phila	4,000				(4,000)	
Timing Difference	(11,227)	(23,708)	20,028	545	-	(14,362)
Total	69,247	-	64,593	5,024	(60,682)	78,182

5. CAPITAL ASSET ACTIVITY

A. PRIMARY GOVERNMENT

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

(Amounts In Millions of USD)

Governmental Activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	762	17	-	779
Fine Arts	1	-	-	1
Construction In Process	47	53	(4)	96
Total capital assets not being depreciated	810	70	(4)	876
Capital assets being depreciated:				
Buildings	1,848	33	-	1,881
Other Improvements	304	9	-	313
Equipment	462	14	(16)	460
Infrastructure	1,342	66	-	1,408
Transit	292	-	-	292
Total capital assets being depreciated	4,248	122	(16)	4,354
Less accumulated depreciation for:				
Buildings	(1,144)	(58)	-	(1,202)
Other Improvements	(208)	(9)	-	(217)
Equipment	(370)	(25)	13	(382)
Infrastructure	(978)	(35)	-	(1,013)
Transit	(211)	(5)	-	(216)
Total accumulated depreciation	(2,911)	(132)	13	(3,030)
Total capital assets being depreciated, net	1,337	(10)	(3)	1,324
Governmental activities capital assets, net	2,147	60	(7)	2,200

(Amounts In Millions of USD)

Business-type activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	124	2	-	126
Intangible Assets	2	-	(2)	-
Construction In Process	406	278	(102)	582
Total capital assets not being depreciated	532	280	(104)	708
Capital assets being depreciated:				
Buildings	2,982	57	-	3,039
Other Improvements	241	3	-	244
Equipment	117	23	(18)	122
Intangible Assets	11	1	-	12
Infrastructure	2,926	43	(6)	2,963
Total capital assets being depreciated	6,277	127	(24)	6,380
Less accumulated depreciation for:				
Buildings	(1,414)	(92)	-	(1,506)
Other Improvements	(110)	(13)	-	(123)
Equipment	(93)	(6)	1	(98)
Intangible Assets	(4)	(1)	-	(5)
Infrastructure	(1,575)	(81)	7	(1,649)
Total accumulated depreciation	(3,196)	(193)	8	(3,381)
Total capital assets being depreciated, net	3,081	(66)	(16)	2,999
Business-type activities capital assets, net	3,613	214	(120)	3,707

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

	(Amounts in Millions of USD)
Governmental Activities:	
Economic Development	3
Transportation:	
Streets & Highways	37
Mass Transit	6
Judiciary and Law Enforcement:	
Police	9
Prisons	6
Conservation of Health:	
Health Services	2
Cultural and Recreational:	
Recreation	11
Parks	10
Libraries and Museums	10
Improvements to General Welfare:	
Social Services	1
Service to Property:	
Fire	6
General Management & Support	31
Total Governmental Activities	132
Business Type Activities:	
Water and Sewer	92
Aviation	101
Total Business Type Activities	193

B. DISCRETELY PRESENTED COMPONENT UNITS

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

(Amounts In Millions of USD)

Governmental Activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	132	-	-	132
Art	8	-	-	8
Construction In Process	101	-	(43)	58
Total capital assets not being depreciated	241	-	(43)	198
Capital assets being depreciated:				
Buildings	1,690	63	-	1,753
Other Improvements	1,146	39	-	1,185
Intangible Assets	44	2	-	46
Equipment	293	24	(46)	271
Infrastructure	1	-	-	1
Total capital assets being depreciated	3,174	129	(46)	3,257
Less accumulated depreciation for:				
Buildings	(578)	(31)	-	(609)
Other Improvements	(615)	(56)	-	(671)
Intangible Property	(32)	(2)		(34)
Equipment	(197)	(28)	44	(181)
Infrastructure	(1)	-	-	(1)
Total accumulated depreciation	(1,423)	(117)	44	(1,496)
Total capital assets being depreciated, net	1,751	12	(2)	1,761
Capital assets, net	1,992	12	(45)	1,959

Business-type Activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	36	3	-	39
Fine Arts	3	20	(32)	(9)
Construction In Process	98	73	(100)	71
Total capital assets not being depreciated	137	96	(132)	101
Capital assets being depreciated:				
Buildings	610	37	-	647
Other Improvements	38	4	(17)	25
Equipment	403	42	(4)	441
Infrastructure	1,443	51	(12)	1,482
Total capital assets being depreciated	2,494	134	(33)	2,595
Less accumulated depreciation for:				
Buildings	(252)	(17)	-	(269)
Other Improvements	(34)	(3)	9	(28)
Equipment	(124)	(29)	4	(149)
Infrastructure	(645)	(33)	4	(674)
Total accumulated depreciation	(1,055)	(82)	17	(1,120)
Total capital assets being depreciated, net	1,437	52	(16)	1,475
Capital assets, net	1,574	148	(148)	1,576

6. NOTES PAYABLE

PGW, pursuant to the provisions of certain ordinances and resolutions, may sell short-term notes in a principal amount which, together with the interest thereon, will not exceed $150 million outstanding at any one time. These notes are intended to provide additional working capital. They are supported by an irrevocable letter of credit and a subordinated security interest in the **PGW**'s revenues. There were no notes outstanding at year-end (August 31, 2011).

In prior years, **CCP** has entered into various loan agreements with the State Public School Building Authority and the Hospitals & Higher Education Facilities Authority for loans totaling approximately $90.2 million. The loans have interest rates ranging from 2.50% to 6.25%, mature through 2028 and will be used for various capital projects, the upgrading of network infrastructures and various deferred maintenance cost.

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

Period		Amount
2013	$	8,257,274
2014		7,789,962
2015		5,557,893
2016		5,518,993
2017		5,491,851
2018-2022		27,115,000
2023-2027		25,035,000
2028		5,455,000
Total	$	90,220,973

PPA, in prior years, borrowed a total of $34 million in the form of bank notes ranging in maturity from 5-15 years and in interest rates from 4.06 to 6.5%. The proceeds of these loans were used to finance various capital projects, the acquisition of capital assets, building improvements, installation of Multi-Space parking meters and the development of a records department.

The total outstanding principal balance of these notes at March 31, 2012 was $10,986,436 subject to the following repayment schedule:

Fiscal Year		Amount
2013	$	5,092,722
2014		4,012,974
2015		484,569
2016		504,512
2017		525,584
2018-2022		366,075
Total	$	10,986,436

7. DEBT PAYABLE

A. PRIMARY GOVERNMENT LONG-TERM DEBT PAYABLE

(1) Governmental Debt Payable

The City is subject to a statutory limitation established by the Commonwealth of Pennsylvania for bonded indebtedness (General Obligation Bonds) payable principally from property taxes. As of June 30, 2012 the statutory limit for the City is $1.6 billion, the General Obligation Debt net of deductions authorized by law is $1.5 billion, leaving a legal debt borrowing capacity of $79.8 million. Termination Compensation costs and Worker's Compensation claims are paid by whichever governmental fund incurs them. Indemnity claims, Net Pension Obligation and OPEB are typically paid by the General Fund.

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

(Amounts In Millions of USD)

Governmental Activity	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable					
Term Bonds	844.2	6.3	(41.8)	808.7	43.6
Refunding Bonds	831.6	21.3	(31.1)	821.8	31.7
Serial Bonds	447.5	6.3	(55.1)	398.7	39.6
Add: Bond Premium	100.8	16.1	(9.1)	107.8	-
Less: Deferred Amounts					
Unamortized Issuance Expenses	(55.2)	(1.4)	3.0	(53.6)	-
Unamortized Discount and Loss	(47.2)	(0.6)	3.9	(43.9)	-
Total Bonds Payable	2,121.7	48.0	(130.2)	2,039.5	114.9
Obligations Under Lease & Service Agreements					
Pension Service Agreement	1,407.3	62.0	(90.0)	1,379.3	95.0
Neighborhood Transformation	246.0	91.3	(109.7)	227.6	7.5
One Parkway	45.1	-	(1.6)	43.5	2.1
Sports Stadia	331.5	-	(5.9)	325.6	11.4
Library	8.6	-	(0.4)	8.2	0.5
Cultural Corridor Bonds	122.8	-	(3.4)	119.4	3.6
Arbitrage	-	-	-	-	-
Indemnity Claims	47.3	37.5	(33.2)	51.6	17.5
Worker's Compensation Claims	275.3	61.4	(57.3)	279.4	35.0
Termination Compensation Payable	201.2	28.9	(20.4)	209.7	28.9
Net Pension Obligation	69.4	147.0	-	216.4	-
OPEB Obligation	79.5	29.5	-	109.0	36.3
Leases	51.7	-	(11.1)	40.6	11.7
Governmental Activity Long-term Liabilities	5,007.4	505.6	(463.2)	5,049.8	364.4

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

(Amounts In Millions of USD)

	Interest Rates					Principal	Due Dates			
Governmental Funds:										
City	2.00	%	to	7.125	%	1,326.1	Fiscal	2013	to	2042
PMA	2.00	%	to	7.50	%	250.2	Fiscal	2013	to	2039
PICA	3.00	%	to	5.00	%	452.9	Fiscal	2013	to	2023
						2,029.2				

- In May 2012, the City issued General Obligation Refunding Bonds, Series 2012A in the amount of $21.3 million. The bonds have a fixed interest rate of 5% and mature on September 15, 2014 ($1.4 million); September 15, 2019 ($9.9 million); and, September 15, 2021 ($10.0 million). Proceeds will be used to currently refund Series 1998 General Obligation Refunding Bonds maturing on May 15, 2020 in the amount of $10.7 million; currently refund Series 2001 General Obligation Bonds maturing on September 15, 2021 in the amount of $11.1 million; advance refund Series 2003A General Obligation Bonds maturing on February 15, 2015 in the amount of $2.4 million; and, pay the costs of issuing the 2012 bonds. Proceeds of the 2012 bonds will be applied, on the date of issuance, to the payment of the redemption price of the 1998 and 2001 bonds which are being optionally redeemed on such date.

- In May 2012, **PMA** issued $12.6 million of City Agreement Revenue Bonds, Series 2012 for the Government Building Energy Conservation Project. The bonds consist of: $6.4 million of Tax-Exempt Bonds, Series 2012A, and $6.3 million of Federally Taxable Qualified Energy Conservation Bonds Series 2012B. Interest will be paid semi-annually on March 15 and September 15 commencing on September 15, 2012. The Series 2012A serial bonds will mature on March 15, 2022, and the Series 2012B term bonds mature on March 15, 2024 ($2.1 million) and March 15, 2028 ($4.2 million). Proceeds will be used to finance the evaluation and implementation of energy conservation and efficiency measures at four (4) properties owned or leased, and operated by the city (City Hall, Criminal Justice Center, Municipal Services Building and One Parkway Building).

- Effective August 4, 2011 the city remarketed the General Obligation Multi-Modal Refunding Bonds, Series 2009B ($100.0 million), and entered into a letter of credit substitution with the Royal Bank of Canada (RBC). The 2009B Bonds are also payable from the proceeds of funds drawn by the U.S. Bank National Association, as fiscal agent, under an irrevocable, direct-pay letter of credit, issued by RBC. The Letter of Credit (LOC) will permit the fiscal agent to draw up to $101.8 million for principal and unpaid interest on the 2009B bonds and will expire on August 4, 2014, unless earlier cancelled, terminated or renewed. The LOC will constitute both a Credit Facility and Credit Provider and RBC a Liquidity Facility and Liquidity Provider for the 2009B bonds.

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

- As of June 30, 2012, **PMA's** Statement of Net Assets disclosed $15.7 million of accretion to its bond principal payments for fiscal years 2013-2015. Capitalized interest rates entirely to MSB 1990 Series Capital Appreciation Bonds. Accretion value represents cumulative compounded interest due and payable at bond maturity.

The City has General Obligation Bonds authorized and un-issued at year-end of $267.0 million for Governmental Funds. The debt service through maturity for the Governmental GO Debt is as follows:

(Amounts In Millions of USD)

	City Fund		Blended Component Units			
Fiscal	General Fund		PMA		PICA	
Year	Principal	Interest	Principal	Interest	Principal	Interest
2013	48.5	68.2	22.7	14.1	43.6	22.5
2014	50.7	66.1	25.1	12.5	45.6	20.4
2015	52.5	63.4	26.6	11.0	47.7	18.1
2016	52.0	60.8	20.6	9.6	49.9	15.8
2017	54.6	58.2	21.6	8.6	52.2	13.3
2018-2022	290.2	246.6	50.5	30.3	191.9	32.7
2023-2027	320.5	168.9	19.8	24.1	22.0	1.1
2028-2032	296.7	90.5	21.5	17.7	-	-
2033-2037	93.3	36.8	27.9	10.2	-	-
2038-2042	67.1	9.1	13.9	1.4	-	-
Totals	1,326.1	868.6	250.2	139.5	452.9	123.9

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

(Amounts In Millions of USD)

	Lease & Service Agreements											
Fiscal	Pension Service Agreement		Neighborhood Transformation		One Parkway		Sports Stadium		Central Library		Cultural Corridors	
Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	90.3	34.4	7.6	10.9	2.1	2.0	11.5	13.8	0.5	0.3	3.6	5.6
2014	85.8	40.2	7.6	10.9	2.1	2.0	12.0	13.3	0.5	0.3	3.8	5.4
2015	84.6	46.4	7.9	10.6	2.3	1.8	12.4	12.7	0.5	0.3	3.9	5.3
2016	82.1	52.7	8.3	10.2	2.4	1.7	13.0	12.0	0.6	0.3	4.1	5.1
2017	76.9	57.9	8.7	9.8	2.5	1.6	13.6	11.3	0.6	0.3	4.4	4.8
2018-2022	316.5	356.9	50.7	41.9	14.2	6.3	76.9	45.3	3.2	0.9	25.5	20.7
2023-2027	304.2	370.6	66.1	28.0	17.9	2.6	94.8	27.9	2.3	0.2	32.7	13.5
2028-2032	338.9	29.3	70.7	9.1	-		91.4	7.4	-	-	41.4	4.8
Totals	1,379.3	988.4	227.6	131.4	43.5	18.0	325.6	143.7	8.2	2.6	119.4	65.2

(2) Business Type Debt Payable

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

(Amounts In Millions of USD)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-Type Activity					
Bonds Payable					
General Obligation Bonds	1.0	-	(1.0)	-	-
Revenue Bonds	3,254.3	462.4	(468.7)	3,248.0	173.2
Add: Bond Premium	9.9	6.3	-	16.2	-
Less: Deferred Amounts					
Unamortized Discounts and Loss	(75.2)	-	14.0	(61.2)	-
Total Bonds Payable	3,190.0	468.7	(455.7)	3,203.0	173.2
Indemnity Claims	10.2	1.1	(4.3)	7.0	-
Worker's Compensation Claims	20.7	4.1	(7.0)	17.8	-
Termination Compensation Payable	15.0	3.4	(2.6)	15.8	-
Net Pension Obligation	10.6	16.9	-	27.5	-
Arbitrage	0.3	-	-	0.3	-
Business-type Activity Long-term Liabilities	3,246.8	494.2	(469.6)	3,271.4	173.2

The Enterprise Funds have no debt that is classified on their respective balance sheets as General Obligation debt payable as of June 30, 2012.

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

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

(Amounts In Millions of USD)

	Interest Rates						Principal	Due Dates			
Water Fund	0.17	%	to	6.25	%		1,881.1	Fiscal	2013	to	2041
Aviation Fund	2.00	%	to	5.375	%		1,366.9	Fiscal	2013	to	2040
Total Revenue Debt Payable							3,248.0				

- In November 2011, the City issued Water and Wastewater Revenue Bonds Series 2011A in the amount of $135.0 million, and Water and Wastewater Revenue Refunding Bonds Series 2011B in the amount of $49.9 million. Serial bonds were issued in the amount of $49.9 million with interest rates ranging from 4.0% to 5.0%, and have a maturity date of 2026. Term bonds were issued in the following amounts (1) $2.6 million with an interest rate of 4.5% and mature in 2036; (2) $50.2 million with an interest rate of 5.0% and mature in 2036; (3) $82.2 million with an interest rate of 5.0% and mature in 2041. The proceeds of the bonds together with other available funds of the water department will be used to fund capital improvements to the City's water and wastewater system, advance refunding of a portion of the 2001A and 2007A bonds, fund capitalized interest, the required deposit into the Debt Reserve account of the Sinking Fund and pay various bond issuance costs.

- In December 2011, the City issued Airport Revenue Bond Series 2011 in the amount of $233.8 million. The Series 2011A bonds (AMT) were issued as serial bonds in the amount of $199.0 million with interest rates ranging from 2% to 5% and mature in 2028. The Series 2011B bonds were issued as serial bonds in the amount of $34.8 million, with interest rates ranging from 2% to 5% and mature in 2031. The plan is to: (i) refund a portion of the International Terminal Bonds; (ii) refund all of the City's outstanding Airport Revenue Bonds, Series 2001B; and (iii) pay the issuance costs of the bonds. The proceeds from the 2011A bonds will be used to refund the entire principal amount of $149.3 million for the Airport Revenue Bond, Series 2001A. In addition, the 2011B bonds will be used to refund a portion of the Airport Revenue Bond Series 1998B (currently outstanding aggregate principal amount of $57.1 million).

- In July 2010, the City of Philadelphia Water Department received approval from the Pennsylvania State Infrastructure Financing Authority ("PENNVEST") for the Green Infrastructure Project (Series 2010B), bringing the total financing from PENNVEST to $214.9 million. During fiscal year 2012, PENNVEST drawdowns totaled $43.7 million, which represents an increase in bond issuances. The funding is through low interest loans of 1.193% during the construction period and for the first five years of amortization (interest only payment are due during the construction period up to three years) and 2.107% for the remaining fifteen years. Individual loan information is as follows:

Date	Series	Maximum Loan Amount	Estimated Project Costs	Amt Requested thru 6/30/2012	Amt Rec'd Yes/No	Purpose
Oct. 2009	2009B	42,886,030	42,339,199	22,827,986	Yes	Water Plant Improvements
Oct. 2009	2009C	57,268,193	56,264,382	35,666,542	Yes	Water Main Replacements
Mar. 2010	2009D	84,759,263	84,404,754	64,380,070	Yes	Sewer Projects
Jul. 2010	2010B	30,000,000	31,376,846	8,111,482	Yes	Green Infrastructure Project
	Totals:	214,913,486	214,385,181	130,986,080		

- Effective September 1, 2011 the city remarketed the Water and Wastewater Revenue Bonds, Variable Rate Series 1997B ($70.1 million), and entered into an irrevocable, direct-pay letter of credit (LOC) with TD Bank, N.A. The U.S. Bank National Association, as fiscal agent, will be entitled to draw up to an amount equal to the principal of and 48 day's accrued interest to pay the principal or redemption price of and interest on the 1997B bonds when due. The LOC will expire on September 1, 2015 unless earlier terminated or extended. Unless the LOC is extended or replaced, the 1997B bonds will be subject to mandatory tender for purchase prior to the termination of the LOC. The LOC will constitute both a Credit Facility and Liquidity Facility, and TD Bank a Credit Provider and Liquidity Provider for the 1997B bonds.

- Effective December 23, 2011 the city delivered Letters of Credit (LOC) from TD Bank and the Royal Bank of Canada (RBC) to the U.S. Bank National Association (fiscal agent) to provide credit enhancement and liquidity support for the Airport Revenue Refunding Bonds, Series 2005C bonds. With the delivery of each LOC, the 2005C bonds will become subject to mandatory tender for purchase. Each LOC constitutes both a Credit Facility and Liquidity Facility and the banks will be both Credit Provider's and Liquidity Provider's under the agreement. TD Bank issued a LOC effective December 23 2011 with a stated expiration date of December 23, 2016 unless extended or terminated, to pay the principal of, interest on and purchase price of the 2005 C-1 bonds (currently outstanding principal of $81.3 million) from the proceeds of an irrevocable direct pay letter of credit. In addition, the RBC issued a LOC effective December 23, 2011 with a stated expiration date of December 23, 2014 unless extended or terminated, to pay the principal of, interest on and purchase price of the 2005 C-2 bonds (currently outstanding principal of $81.3 million) from the proceeds of an irrevocable direct pay letter of credit.

The debt service through maturity for the Revenue Debt Payable is as follows:
(Amounts In Millions of USD)

Fiscal	Water Fund		Aviation Fund	
Year	Principal	Interest	Principal	Interest
2013	121.8	83.1	51.5	67.8
2014	129.0	76.4	59.2	65.2
2015	127.0	70.4	62.4	62.0
2016	132.1	65.6	60.2	58.6
2017	116.9	58.7	63.5	55.4
2018-2022	343.2	235.9	324.8	228.3
2023-2027	284.1	177.8	369.0	145.8
2028-2032	328.7	115.0	181.9	71.4
2033-2037	199.5	50.6	143.6	33.6
2038-2042	98.8	11.9	50.8	5.2
Totals	1,881.1	945.4	1,366.9	793.3

(3) Defeased Debt

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

	(Amounts In Millions of USD)
Governmental Funds:	
General Obligation Bonds	2.4
Enterprise Funds:	
Water Fund Revenue Bonds	222.9
	225.3

(4) Short -Term Borrowings

The City has statutory authorizations to negotiate temporary loans for periods not to extend beyond the fiscal year. The City borrows funds to pay debt service and required pension contributions due before the receipt of the real estate taxes. The city borrowed and repaid $173.0 million in Tax Revenue Anticipation Notes by June 2012 plus interest. In accordance with statute, there are no temporary loans outstanding at year-end.

	(Amounts In Millions of USD)
Tax Revenue Anticipation Notes:	
Balance July 1, 2011	-
Additions	173.0
Deletions	(173.0)
Balance June 30, 2012	-

(5) Arbitrage Liability

The City has several series of General Obligation and Revenue Bonds subject to federal arbitrage requirements. Federal tax legislation requires that the accumulated net excess of interest income on the proceeds of these issues over interest expense paid on the bonds be paid to the federal government at the end of a five-year period. At June 30, 2012, the Aviation Fund and the Water Fund had recorded liabilities of $0.2 million and $0.1 million, respectively.

(6) Derivative Instruments

Beginning in FY 2010, the City of Philadelphia adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2012, classified by type, and the changes in fair value of such derivatives are as follows:

(amounts in thousands)

	Changes in Fair Value		Fair Value at June 30, 2012		
	Classification	Amount	Classification	Amount	Notional
Governmental Activities					
Cash Flow Hedges:					
Pay fixed interest rate swaps	Deferred Outflow	(17,552)	Debt	(27,016)	100,000
	Deferred Outflow	(26,758)	Debt	(52,202)	217,275
	Deferred Outflow	(8,917)	Debt	(17,395)	72,400
Business Type Activities:					
Cash Flow Hedges:					
Pay fixed interest rate swaps	Deferred Outflow	(6,130)	Debt	(32,186)	155,900
	Deferred Outflow	501	Debt	(12,018)	82,445

The following table displays the objective and terms of the City's hedging derivative instruments outstanding at June 30, 2012, along with the credit rating of the associated counterparty.

(amounts in thousands)

Agency	Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
City GO (a)	Pay Fixed Interest Rate Swap	Hedge changes in cash flow on the 2009 Series B bonds	100,000	12/20/2007	8/1/2031	City pays 3.829%; receives SIFMA Municipal Swap Index	Aa3/AA-
City Lease PAID (b)	Pay Fixed Interest Rate Swap	Hedge changes in cash flow on the 2007 Series B bonds	217,275	10/25/2007	10/1/2030	City pays 3.9713%; receives SIFMA Municipal Swap Index	Aa3/A+
City Lease PAID (b)	Pay Fixed Interest Rate Swap	Hedge changes in cash flow on the 2007 Series B bonds	72,400	10/25/2007	10/1/2030	City pays 3.9713%; receives SIFMA Municipal Swap Index	Baa2/A-
Airport (c)	Pay Fixed Interest Rate Swap	Hedge changes in cash flow on the 2005 Series C bonds	155,900	6/15/2005	6/15/2025	Airport pays multiple fixed swap rates; receives SIFMA Municipal Swap Index	Aa3/A+
Water (d)	Pay Fixed Interest Rate Swap	Hedge changes in cash flow on the 2005 Series bonds	82,445	5/4/2005	8/1/2018	City pays 4.53%; receives bond rate/68.5% 1 Month LIBOR	Baa2/A-

a. City of Philadelphia 2009B General Obligation Bond Swap

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

Terms: The swap was originally executed with Royal Bank of Canada (RBC), commenced on December 20, 2007, and will terminate on August 1, 2031. Under the swap, the City pays a fixed rate of 3.829% and receives the SIFMA Municipal Swap Index. The payments are based on an amortizing notional schedule (with an original notional amount of $ 313.5 million). The swap confirmation was amended and restated effective August 13, 2009 to reflect the principal amount of the 2009B bonds, with all other terms remaining the same. As of June 30, 2012, the swap had a notional amount of $100 million and the associated variable rate bonds had a $100 million principal amount. The bonds mature in August, 2031.

Fair Value: As of June 30, 2012, the swap had a negative fair value of ($27.02 million). This means that the City would have to pay this amount to terminate the swap.

Risk: As of June 30, 2012, the City was not exposed to credit risk because the swap has a negative fair value. Should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. The City is exposed to traditional basis risk should the relationship between SIFMA and the bonds change; if SIFMA resets at a rate below the variable rate bond coupon payments, the synthetic interest rate on the bonds will increase.

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

As of June 30, 2012, the rates were:

	Terms	Rates	
Interest Rate Swap			
Fixed payment to RBC under swap	Fixed	3.82900	%
Variable rate payment from RBC under swap	SIFMA	(0.18000)	%
Net interest rate swap payments		3.64900	%
Variable Rate bond coupon payments	Weekly reset	0.16000	%
Synthetic interest rate on bonds		3.80900	%

Swap payments and associated debt: As of June 30, 2012, 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 June 30	Variable Rate Bonds Principal	Variable Rate Bonds Interest	Interest Rate Swaps Net	Total Interest
2013	$ -	$ 160,000	$ 3,649,000	$ 3,809,000
2014	-	160,000	3,649,000	3,809,000
2015	-	160,000	3,649,000	3,809,000
2016	-	160,000	3,649,000	3,809,000
2017	-	160,000	3,649,000	3,809,000
2018-2022	-	800,000	18,245,000	19,045,000
2023-2027	-	800,000	18,245,000	19,045,000
2028	100,000,000	443,392	10,112,109	10,555,501
Total:	$ 100,000,000	$ 2,843,392	$ 64,847,109	$ 67,690,501

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

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

Terms: The total original notional amount of the two swaps was $289.7 million which matched the principal amount of the 2007B bonds issued ($289.7 million). One swap, with a notional amount of $217.3 million, was executed with JP Morgan Chase Bank. The other swap, with a notional amount of $72.4 million was executed with Merrill Lynch Capital Services, Inc. Both swaps commenced on October 25, 2007 and will terminate on October 1, 2030. Under the swaps, **PAID** pays a fixed rate of 3.9713% and receives the SIFMA Municipal Swap Index. The payments are based on an amortizing notional schedule. As of June 30, 2012, the swaps together had a notional amount of $289.7 million which matched the principal amount of the associated variable rate bond deal. Payments under these swaps are lease rental obligations of the City.

Fair Value: As of June 30, 2012, the swap with JP Morgan Chase Bank had a negative fair value of ($52.2 million) and the swap with Merrill Lynch Capital Services, Inc. has a negative fair value of ($17.4 million). This means that **PAID** would have to pay these amounts to terminate the swaps.

Risks: As of June 30, 2012, **PAID** was not exposed to credit risk because the swap had a negative fair value. Should interest rates change and the fair value of the swaps become positive, **PAID** would be exposed to credit risk in the amount of the swaps' fair value. The City is subject to traditional basis risk should the relationship between SIFMA and the bonds change; if SIFMA resets at a rate below the variable rate bond coupon payments, the synthetic interest rate on the bonds will increase.

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

As of June 30, 2012, the rates for the $217.3 million notional swap with JP Morgan Chase Bank were:

	Terms	Rates
Interest Rate Swap		
Fixed payment to JPMorgan under Swap	Fixed	3.97130 %
Variable rate payment from JPMorgan under Swap	SIFMA	(0.18000) %
Net interest rate swap payments		3.79130 %
Variable Rate bond coupon payments	Weighted Average Weekly resets	0.55283 %
Synthetic interest rate on bonds		4.34413 %

As of June 30, 2012, the rates for the $72.4 million notional swap with Merrill Lynch Capital Services, Inc. were:

	Terms	Rates
Interest Rate Swap		
Fixed payment to Merrill Lynch under Swap	Fixed	3.97130 %
Variable rate payment from Merrill Lynch under Swap	SIFMA	(0.18000) %
Net interest rate swap payments		3.79130 %
Variable Rate bond coupon payments	Weekly resets	0.15000 %
Synthetic interest rate on bonds		3.94130 %

Swap payments and associated debt: As of June 30, 2012, debt service requirements of the variable-rate debt and net swap payments for their term, assuming the current interest rates remain the same, were as follows:

Fiscal Year Ending June 30	Variable Rate Bonds Principal	Variable Rate Bonds Interest	Interest Rate Swaps Net	Total Interest
2013	$ -	$ 1,201,559	$ 8,247,784	$ 9,449,342
2014	-	1,201,559	8,247,784	9,449,342
2015	-	1,201,559	8,247,784	9,449,342
2016	12,990,000	1,201,559	8,247,784	9,449,342
2017	13,550,000	976,832	7,755,294	8,732,125
2018-2022	62,345,000	1,920,901	31,145,719	33,066,620
2023-2027	65,495,000	776,633	19,629,645	20,406,278
2028-2031	63,165,000	241,815	6,111,955	6,353,770
Total:	$ 217,545,000	$ 8,722,417	$ 97,633,749	$ 106,356,161

Swap payments and associated debt: As of June 30, 2012, debt service requirements of the variable-rate debt and net swap payments for their term, assuming the current interest rates remain the same, were as follows:

Fiscal Year Ending June 30	Variable Rate Bonds Principal	Variable Rate Bonds Interest	Interest Rate Swaps Net	Total Interest
2013	$ -	$ 108,195	$ 2,734,665	$ 2,842,860
2014	-	108,195	2,734,665	2,842,860
2015	-	108,195	2,734,665	2,842,860
2016	-	108,195	2,734,665	2,842,860
2017	-	108,195	2,734,665	2,842,860
2018-2022	14,575,000	520,133	13,146,522	13,666,655
2023-2027	29,285,000	347,505	8,783,305	9,130,810
2028-2031	28,270,000	108,225	2,735,423	2,843,648
Total:	$ 72,130,000	$ 1,516,838	$ 38,338,575	$ 39,855,413

c. Philadelphia Airport Swap

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

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

As of June 30, 2012, the swap had a notional amount of $155.9 million and the associated variable-rate bonds had a $155.9 million principal amount. The bonds' variable-rate coupons are not based on an index but on remarketing performance. The bonds mature on June 15, 2025. The swap will terminate on June 15, 2025 if not previously terminated by JP Morgan Chase.

Fair Value: As of June 30, 2012, the swap had a negative fair value of ($32.2 million). This means that if the swap terminated today, the Airport would have to pay this amount to JP Morgan Chase.

Risk: As of June 30, 2012, the Airport was not exposed to credit risk because the swap had a negative fair value. Should interest rates change and the fair value of the swap become positive, the Airport would be exposed to credit risk in the amount of the swap's fair value. In addition, the Airport is subject to basis risk should the relationship between SIFMA and the bonds change; if SIFMA resets at a rate below the variable bond rate, the synthetic interest rate will be greater than anticipated. The swap includes an additional termination event based on downgrades in credit ratings. The swap may be terminated by the Airport if JP Morgan's ratings fall below A- or A3, or by JP Morgan Chase if the Airport's ratings fall below BBB or Baa2. No termination event based on the Airport's ratings can occur as long as National Public Finance Guarantee Corporation (formerly MBIA) is rated at least A- or A3.

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As of June 30, 2012, the rates were:

	Terms	Rates	
Interest Rate Swap			
Fixed payment to JP Morgan under swap	Fixed	5.17750	%
Variable rate payment from JP Morgan under swap	SIFMA	(0.18000)	%
Net interest rate swap payments		4.99750	%
Variable Rate bond coupon payments	Weekly resets	0.16000	%
Synthetic interest rate on bonds		5.15750	%

Swap payments and associated debt: As of June 30, 2012, 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
2013	$ 7,500,000	$ 249,440	$ 7,791,103	$ 8,040,543
2014	8,200,000	237,440	7,416,290	7,653,730
2015	9,000,000	224,320	7,006,495	7,230,815
2016	9,800,000	209,920	6,556,720	6,766,640
2017	10,700,000	194,240	6,066,965	6,261,205
2018-2022	64,600,000	690,560	21,569,210	22,259,770
2023-2025	46,100,000	148,960	4,652,673	4,801,633
Total:	$ 155,900,000	$ 1,954,880	$ 61,059,456	$ 63,014,336

d. City of Philadelphia, 2005 Water & Sewer Swap

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

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

As of June 30, 2012, the swap had a notional amount of $82.4 million and the associated variable-rate bond had an $82.4 million principal amount. The bonds' variable-rate coupons are not based on an index but on remarketing performance. The bonds mature on August 1, 2018 and the related swap agreement terminates on August 1, 2018.

Fair value: As of June 30, 2012, the swap had a negative fair value of ($12.0 million). This means that the Water Department would have to pay this amount if the swap terminated.

Risk: As of June 30, 2012 the City is not exposed to credit risk because the swap had a negative fair value. Should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. Since the City is now receiving 68.5% of one month LIBOR, the City is exposed to (i) basis risk, as reflected by the relationship between the variable-rate bond coupon payments and 68.5% of one month LIBOR received on the swap, and (ii) tax risk, a form of basis risk, where the City is exposed to a potential additional interest cost in the event that changes in the federal tax system or in marginal tax rates cause the rate paid on the outstanding bonds to be greater than the 68.5% of LIBOR received on the swap. The swap includes an additional termination event based on credit ratings. The swap may be terminated by the City if the ratings of Citigroup or its Credit Support Provider fall below A3 and A-, or by Citigroup if the rating of the City's water and wastewater revenue bonds falls below A3 or A-.There are 30-day cure periods to these termination events. However, because the City's swap payments are insured by Assured Guaranty Municipal Corporation (formerly FSA), no termination event based on the City's water and wastewater revenue bond ratings can occur as long as Assured is rated at least A or A2.

As of June 30, 2012, the rates were:

	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	(0.16834)	%
Net interest rate swap payments		4.36166	%
Variable Rate bond coupon payments	Weekly resets	0.22000	%
Synthetic interest rate on bonds		4.58166	%

Swap payments and associated debt: As of June 30, 2012, 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 June 30	Variable Rate Bonds Principal	Variable Rate Bonds Interest	Interest Rate Swaps Net	Total Interest
2013	$ 450,000	$ 181,379	$ 3,595,972	$ 3,777,351
2014	14,820,000	180,389	3,576,344	3,756,733
2015	15,535,000	147,785	2,929,946	3,077,731
2016	16,315,000	113,608	2,252,362	2,365,970
2017	17,145,000	77,715	1,540,757	1,618,472
2018-2019	18,180,000	40,359	800,147	840,506
Total:	$ 82,445,000	$ 741,235	$ 14,695,528	$ 15,436,763

(7) Pension Service Agreement

In Fiscal 1999, the Philadelphia Authority for Industrial Development issued $1.3 billion in Pension Funding Bonds. These bonds were issued pursuant to the provisions of the Pennsylvania Economic Development Financing Law and the Municipal Pension Plan Funding Standard and Recovery Act (Act 205). The bonds are special and limited obligations of **PAID**. The City entered into a Service Agreement with **PAID** agreeing to make yearly payments equal to the debt service on the bonds. **PAID** assigned its interest in the service agreement to the parties providing the financing and in accordance with GASB Interpretation #2, **PAID** treats this as conduit debt and does not include conduit debt transactions in its financial statements. The Pension Service Agreement of $1.4 billion is reflected in the City's financial statements in Other Long Term Obligations. The net proceeds of the bond sale of $1.3 billion were deposited with the Municipal Pension Fund. The deposit of the proceeds reduced the Unfunded Actuarial Accrued Liability by that same amount. The deposit resulted in reductions to the City's actuarially determined pension plan payments. The fiscal year 2012 Pension Funding Bonds liability of $1,379.3 million is reflected in the City's financial statements as another Long Term Obligation.

(8) Neighborhood Transformation Initiative Service Agreement

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

In March, 2005, **PRA** issued additional City of Philadelphia Neighborhood Transformation Initiative (NTI) bonds to finance a portion of the initiative previously undertaken by the Authority and the City. Taxable Revenue Bonds Series 2005A issued in the amount of $25.5 million are term bonds with interest rates ranging from 4.150% to 4.680% maturing through 2016. Qualified Revenue Bonds Series 2005B were issued in the amount of $ 44.0 million, with interest rates ranging from 4.75 through 5% and mature through 2027. Revenue Bonds Series 2005C with an interest rate of 5% were issued for $81.3 million and mature through 2031.

In Fiscal 2012, **PRA** issued $91.3 million City of Philadelphia Neighborhood Transformation Initiative (NTI) Revenue Refunding Series 2012 Bonds. These bonds were issued to refund the City of Philadelphia Revenue Bonds, Series 2002A, originally issued in the aggregate principal amount of $124 million. The bonds will be initially issued in the name of Cede & Co., as nominee for The Depository Trust Company (DTC), which will act as securities depository. The bonds are subject to optional redemption prior to maturity. Interest on the series bonds range from 2% to 5% and is payable on April 15 and October 15 each year until maturity in 2026. The fiscal year 2012 NTI Service Agreement liability of $227.6 million is reflected in the City's financial statements as another Long Term Obligation.

(9) Sports Stadium Financing Agreement

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

In October, 2007 **PAID** issued Lease Revenue Refunding Bonds Series A and B of 2007. The proceeds from the bonds were used to refund the Series 2001B Stadium Bonds. **PAID** assigned its interest in the lease agreements to the parties providing the financing and in accordance with GASB Interpretation #2, **PAID** treats this as conduit debt and therefore does not include these transactions on its financial statements. In fiscal 2012, the Sports Stadium Financing Agreement liability of $325.6 million is reflected in the City's financial statements as Other Long Term Liabilities.

(10) Cultural and Commercial Corridors Program Financing Agreement

In December, 2006, **PAID** issued $135.5 million in Revenue Bonds, Series A and B. The proceeds from the bonds will be used to finance a portion of the cost of various commercial and cultural infrastructure programs and administrative and bond issuance cost. The City and **PAID** signed a service agreement, whereby **PAID** manages a portion of the funds and the City makes payments equal to the yearly debt service. **PAID** will distribute some of the proceeds and some will flow through the City's capital project fund. In accordance with GASB Interpretation #2, **PAID** treats this as conduit debt, and therefore, does not include these transactions in its statements. In fiscal 2012 the liability of $119.4 million is reflected in the City's financial statements as Other Long Term Liabilities.

(11) Forward Purchase Agreements

On June 6, 2000 PICA entered into a debt service reserve forward delivery agreement, which would begin on June 15, 2010 and expires on June 15, 2023. **PICA** received a premium of $1,970,000 on June 6, 2000 for the debt service reserve fund in exchange for future earnings from the debt service reserve fund investments. The premium amounts were deferred and are being recognized ratably as revenue over the term of respective agreements.

(12) Net Pension Liability

Net Pension Liabilities at June 30, 2011 was $69.4 million and $10.6 million for the Governmental and Business Type Activities, respectively. The increase in the Governmental Activities' Net Pension Obligations (NPO) during fiscal year 2012 of $147 million resulted in Net Pension Liabilities of $216.4 million. During FY 2012, the Business Type Activities' NPO increased by $16.9 million resulting in a Net Pension Liability of $27.5 million.

B. COMPONENT UNIT LONG-TERM DEBT PAYABLE

(1) Governmental Debt Payable

The School District has debt that is classified as General Obligation debt payable. The General Obligation Bonds outstanding at year end total $3,038.5 million in principal, with interest rates from 2.0% to 6.765% and have due dates from 2013 to 2040 The following schedule reflects the changes in long-term liabilities for the School District:

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable	2,980.9	254.4	(91.1)	3,144.2	114.2
Add: Bond Premium	108.0	4.7	(11.8)	100.9	7.8
Less: Bond Refunding Losses	(182.3)	(7.0)	22.0	(167.3)	(13.2)
Less: Bond Discounts	(10.6)	(0.3)	0.6	(10.3)	(0.5)
Total Bonds Payable	2,896.0	251.8	(80.3)	3,067.5	108.3
Termination Compensation Payable	306.6	6.2	(59.3)	253.5	31.5
Severance Payable	188.5	1.1	(22.7)	166.9	13.7
Interfund Loan	9.1	-	(2.0)	7.1	-
Other Liabilities	117.7	67.1	(48.3)	136.5	37.8
Incurred But Not Reported (IBNR) Payable	13.5	-	(1.5)	12.0	12.0
Deferred Reimbursement	45.3	-	-	45.3	45.3
DHS Liability	-	4.0	-	4.0	0.5
OPEB Liability	-	0.1	-	0.1	0.1
Arbitrage Liability	3.7	-	(3.4)	0.3	0.3
Early Retirement Incentive	28.6	-	(17.2)	11.4	10.9
Total	3,609.0	330.3	(234.7)	3,704.6	260.4

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

Fiscal Year	Principal	Interest
2013	114.2	143.7
2014	112.9	137.4
2015	109.7	133.4
2016	116.2	128.4
2017	119.9	123.3
2018-2022	642.3	534.4
2023-2027	694.5	395.4
2028-2032	754.2	249.8
2033-2037	401.3	70.8
2038-2040	79.0	7.9
Totals	3,144.2	1,924.5

Refunding Bonds:

On December 20, 2011, the School District issued General Obligation Refunding Bonds Series C of 2011 in the aggregate amount of $41,185,000 to refund General Obligation Refunding Notes, Series A of 2011 with a net premium of $3.6 million. Bond proceeds of $266,700 were utilized for underwriting fees, and other issuance costs.

Securities for the issue were deposited in a separate irrevocable trust with an escrow agent to provide for all future debt service payments for the refunded notes. The net proceeds were used by the escrow agent to purchase State Local Government Securities of $44.5 million which were used to retire the General Obligation Refunding Notes, Series A of 2011.

On December 20, 2011, the School District issued General Obligation Refunding Bonds Series D of 2011 in the aggregate amount of $16,330,000 with net premiums of $0.7 million to refund certain maturities of the outstanding General Obligation Refunding Notes, Series B of 2011. Bond proceeds of $116,900 were utilized for underwriting fees, and other issuance costs.

Securities for the issue were deposited in a separate irrevocable trust with an escrow agent to provide for all future debt service payments for the refunded bonds. The net proceeds were used by the escrow agent to purchase State Local Government Securities of $16.9 million which were used to retire the General Obligation Refunding Notes, Series B of 2011.

The cash flow required to service the new debt for the restructuring is $10.0 million more than the cash flow required to service the old debt. This restructuring was done to provide debt service savings of $61.1 million in Fiscal Year 2012. The final maturity was identical to the original maturity schedule. In addition, there was an economic gain (difference between the present value of the debt service payments on the old and new debt) of $0.4 million to the School District.

For accounting purposes, the advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $ 3.7 million. This difference is being amortized through the operations in the District-wide statements until the year 2022.

(2) Business Type Debt Payable

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

(Amounts In Millions of USD)

	Interest Rates			Principal	Due Dates			
PGW	2.00 %	to	6.80 %	1,195.8	Fiscal	2012	to	2040
PPA	3.00 %	to	5.25 %	177.6	Fiscal	2013	to	2029
PRA	4.55 %	to	4.75 %	16.1	Fiscal	2013	to	2028
Total Revenue Debt Payable				1,389.5				

In May 2012 the city made an agreement with JP Morgan Chase Bank and National Association to issue a new direct pay letter of credit for the benefit of the Gas Works Variable Rate Demand Revenue Bonds, Fifth Series A-2 (1998 General Ordinance) pursuant to a Letter of Credit and Reimbursement Agreement dated as of June 1, 2012 in the amount of 30 million dollars. The Letter of Credit will expire December 31, 2014 unless terminated earlier or extended.

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

(Amounts in Millions of USD)

Fiscal Year	Philadelphia Gas Works † Principal	Philadelphia Gas Works † Interest	Philadelphia Parking Authority Principal	Philadelphia Parking Authority Interest	Philadelphia Redevelopment Authority Principal	Philadelphia Redevelopment Authority Interest
2012	48.5	55.0	-	-	-	-
2013	48.0	53.3	10.5	8.6	-	0.8
2014	50.0	50.9	11.0	8.1	-	0.8
2015	51.3	48.3	11.4	7.5	-	0.8
2016	49.2	45.6	12.0	7.0	0.2	0.8
2017-2021	253.7	191.3	80.7	28.3	1.7	4.0
2022-2026	270.1	130.6	43.6	6.5	4.5	2.8
2027-2031	223.9	72.9	8.4	0.8	9.7	0.6
2032-2036	141.5	30.3	-	-	-	-
2037-2041	59.6	6.1	-	-	-	-
Totals	1,195.8	684.3	177.6	66.8	16.1	10.6

(3) Defeased Debt

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

	(Amounts In Millions of USD)
Philadelphia Gas Works †	70.0
School District of Philadelphia	648.9
Total	718.9

† - Gas Works amounts are presented as of August 31, 2011

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

The assets pledged, primarily noncallable U.S. Government securities, had a market value of $74.9 million at August 31, 2011, bearing interest on face value from 0.0% to 6.7%.

As in prior years, the School District defeased certain general obligation bonds by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded debt. As such, the trust account assets and liability for the defeased bonds are not included in the School District's financial statements. As of June 30, 2012, $635.6 million of bonds outstanding are considered to be totally defeased and the liability has been removed from long-term liabilities.

In addition, the QZAB Bond Series 2004E of $19.3 million, issued September 2004, and due September 1, 2018 is considered partially defeased in substance for accounting and financial reporting purposes. The School District irrevocably places $1.4 million in trust with its fiscal agent each September 1st. These amounts are invested in a forward purchase agreement to be used solely for satisfying a scheduled payment of the defeased debt in 2018. As of June 30, 2012, $9.7 million is considered partially defeased in substance for accounting and financial reporting purposes.

The QZABs Bond Series 2007C and 2007D of $13.5 million and $28.2 million, respectively, were issued December 28, 2007, and are due December 28, 2022 and are considered partially defeased in substance for accounting and financial reporting purposes. The School District irrevocably places $0.9 million in trust with its fiscal agent each December 15th for Series 2007C. These amounts are invested in a forward purchase agreement to be used solely for satisfying a scheduled payment of the defeased debt in 2022. As of June 30, 2012, $3.6 million is considered partially defeased in substance for accounting and financial reporting purposes.

(4) Arbitrage

Federal arbitrage regulations are applicable to any issuer of tax-exempt bonds. It is necessary to rebate arbitrage earnings when the investment earnings on the bond proceeds from the sale of tax-exempt securities exceed the bond yield paid to investors. As of June 30, 2012, the arbitrage rebate calculation indicates a liability totaling $286,173 related to the Series A and B Bonds of 2006 issued through the State Public School Building Authority. The School District has restricted this amount under the fund balance of the Capital Projects Fund. In addition, a contingent liability has been accounted for in the governmental activities column of the government-wide statement of net assets. This amount is required to be paid when the remaining project funds are expended. The actual amount payable may be less than the amount recorded as a liability as of June 30, 2012. Per IRS regulations, a payment of $3,144,929.38 was made on January 23, 2012 which is within 60 days of the fifth anniversary of issuance.

(5) Derivative Instruments

a. PGW Interest Rate Swap Agreement

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

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

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

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

As of August 31, 2011, the swaps had a notional amount of $255,000,000 and the associated variable rate debt had a $255,000,000 principal amount, broken down by series as follows:

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

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

Fair value – As of August 31, 2011, the swaps had a combined negative fair value for all series of $51,671,000. The fair values of the interest rate swaps were estimated using the zero coupon method. That method calculates the future net settlement payments required by the swap, assuming current forward rates are implied by the current yield curve for hypothetical zero coupon bonds due on the date of each future net settlement on the swaps.

Risks – As of August 31, 2011, the City is not exposed to credit risk because the swaps had a negative fair value. Should interest rates change and the fair value of the swaps become positive, the City would be exposed to credit risk in the amount of the swaps' fair value. The swaps include a termination event additional to those in the standard ISDA master agreement based on credit ratings. The swaps may be terminated by the City if the rating of the counterparty falls below A3 or A- (Moody's/S&P), unless the counterparty has: (i) assigned or transferred the swap to a party acceptable to the City; (ii) provided a credit support provider acceptable to the City whose obligations are pursuant to a credit support document acceptable to the City; or (iii) executed a credit support annex, in form and substance acceptable to the City, providing for the collateralization by the counterparty of its obligations under the swaps.

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

The City is exposed to (i) basis risk, as reflected by the relationship between the rate payable on the bonds and 70.0% of one month LIBOR received on the swap, and (ii) tax risk, a form of basis risk, where the City is exposed to a potential additional interest cost in the event that changes in the federal tax system or in marginal tax rates cause the rate paid on the outstanding bonds to be greater than the 70.0% of one month LIBOR received on the swap.

The impact of the interest rate swaps on the financial statements for the year ended August 31, 2011 and 2010 is as follows (thousands of dollars):

		Interest rate swap liability	Deferred outflow of resources
Balance August 31, 2010	$	52,217	25,906
Change in fair value through August 31, 2011		(546)	(546)
Balance August 31, 2011	$	51,671	25,360

		Interest rate swap liability	Deferred outflow of resources
Balance August 31, 2009	$	27,555	1,244
Change in fair value through August 20, 2010		24,662	24,662
Balance August 31, 2010	$	52,217	25,906

The interest rate swap liability is included in other liabilities and deferred credits and deferred outflow of resources is included in other assets and deferred debits on the balance sheet.

There are no collateral posting requirements associated with the swap agreements.

b. School District of Philadelphia Swap Agreements

The School District adopted, in Fiscal Year 2010, the provisions of Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2012, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2012 financial statements are as follows (amounts in thousands; debit (credit)):

	Change in Fair Value		Fair Value at June 30, 2012		
Governmental Activities	Classification	Amount	Classification	Amount	Notional
Investment derivatives:					
Pays-variable Interest rate swaps	Investment revenue	$ 4,170	Investment	$ (22,087)	$ 500,000
				$ (22,087)	

As of June 30, 2012, the School District determined that the pay variable interest rate swaps listed as investment derivatives do not meet the criteria for effectiveness as a hedging instrument. It is therefore reported within the investment revenue classification. The basis swaps produced net positive receipts of $1,492,086.

Hedging Derivatives

Objectives and Terms

The School District did not have any hedging derivative instruments outstanding at June 30, 2012 due to the maturity and retirement of the bonds during Fiscal Year 2012 for the pay-fixed interest rate swaps. The pay-fixed interest rate swap that matured on September 1, 2011 is listed below.

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

When this swap-related variable rate debt matured on September 1, 2011, the net swap payments for the year ended June 30, 2012 were as follows:

	Variable Rate Bonds		Change In	
Year Ending June 30	Principal	Interest (1)	Fair Value	Total
2012	2,150,000	(844)	33,231	2,182,387

(1) Actual interest earned exceeded interest payments

Discussion of Risks:

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

As of June 30, 2012, the School District was no longer exposed to credit risk because all of its pay-fixed interest rate swaps either matured or were terminated. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. Fair values are estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market’s best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps.

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

Interest rate risk - The School District is no longer exposed to interest rate risk on its interest rate swaps since they matured.

Basis risk - The basis risk on the fixed-to-floating swaps is the risk that the interest rate paid by the School District on a series of related variable rate bonds to bondholders differs from the variable swap rate received from the applicable counterparty on the related swap. The School District no longer bears basis risk on its fixed-to-floating swaps since they matured.

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

Other Risks - The School District is no longer exposed to any rollover risk, market-access risk, or foreign currency risk.

8. LEASE COMMITMENTS AND LEASED ASSETS

A. CITY AS LESSOR

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

(Amounts In Thousands of USD)	Primary Government: Governmental Funds	Primary Government: Proprietary Funds	Component Units
Minimum Rentals	6,390	27,030	3,619
Additional Rentals	-	148,058	180
Sublease	12,646	-	1,446
Total Rental Income	19,036	175,088	5,245

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

(Amounts In Thousands of USD)

Fiscal Year Ending June 30	Primary Government: Governmental Funds	Primary Government: Proprietary Funds	Component Units
2013	4,208	14,495	3,733
2014	4,288	7,496	3,044
2015	4,319	7,413	2,661
2016	4,411	6,682	2,477
2017	4,506	6,196	1,503
2018-2022	24,042	25,921	3,117
2023-2027	26,826	15,973	1,751
2028-2032	30,007	12,066	1,039
2033-2037	33,641	5,877	717
2038-2042	-	-	717
2043-2047	-	-	717
2048-2052	-	-	717
2053-2057	-	-	717
2058-2062	-	-	717
2063-2067	-	-	717
2068-2072	-	-	717
2073-2077	-	-	717
2078-2082	-	-	717
2083-2087	-	-	630
2088-2092	-	-	249
Total	136,248	102,119	27,374

B. CITY AS LESSEE

1) OPERATING LEASES

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

(Amounts In Thousands of USD)	Primary Government		Component Units
	Governmental Funds	Proprietary Funds	
Minimum Rentals	170,424	27,945	15,624
Additional	-	-	68
Sublease	489	-	1,446
Total Rental Expense	170,913	27,945	17,138

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

(Amounts In Thousands of USD)

	Primary Government		Component Units
Fiscal Year Ending June 30	**Governmental Funds**	**Proprietary Funds**	
2013	31,269	516	13,520
2014	26,635	97	9,355
2015	25,057	49	5,024
2016	24,228	-	4,747
2017	22,023	-	2,312
2018-2022	94,425	-	3,376
2023-2027	39,993	-	-
2028-2032	18,488	-	-
2033-2037	18,277	-	-
Total	300,395	662	38,334

2) CAPITAL LEASES

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

(Amounts In Thousands of USD)

Fiscal Year Ending June 30	Component Units
2013	2,142
2014	2,036
2015	1,457
2016	1,242
2017	1,052
2018-2022	3,059
2023	249
Future Minimum Rental Payments	11,237
Interest Portion of Payments	(1,190)
Obligation Under Capital Leases	10,047

9. DEFERRED COMPENSATION PLANS

A. PRIMARY GOVERNMENT

The City offers its employees a deferred compensation plan in accordance with Internal Revenue Code section 457. As required by the Code and Pennsylvania laws in effect at June 30, 2012, the assets of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries. In accordance with GASB Statement No.32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the City does not include the assets or activity of the plan in its financial statements.

B. COMPONENT UNITS

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

10. FUND BALANCE PRESENTATION

The City adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54)*, which became effective during FY2011. GASB 54 provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purpose for which resources can be used:

1. Non-Spendable Fund Balance ─ Includes amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The Departmental Funds ($.2M) and Permanent Funds ($2.4M) were non-spendable.

2. Restricted Fund Balance ─ Includes amounts for which constraints have been placed on the use of resources which are either (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The General Fund had a restricted fund balance of $18.1M at June 30, 2012. The fund balances in the following Special Revenue Funds were restricted: HealthChoices Behavioral Health ($230.7M); Grants Revenue ($81.1M); County Liquid Fuels ($2.6M); Special Gasoline Tax ($20.6M); Hotel Room Rental Tax ($10.3M); Car Rental Tax ($6.4M); Housing Trust ($10.5M); Acute Care Hospital Assessment ($9.5M); Departmental ($5.7M); Municipal Authority Administrative ($.3M); PICA Administrative ($40.2M). The entire fund balances of the Debt Service ($82.4M) and Capital Improvement ($128.5M) funds were restricted. The Permanent Fund had a restricted fund balance of $3M at June 30, 2012.

3. Committed Fund Balance – Includes amounts that can only be used for specific purposes pursuant to constraints imposed by an ordinance passed by Philadelphia's City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the ordinance that was employed when the funds were initially committed. The fund balances in the following Special Revenue Funds were committed: Philadelphia Prisons ($4.2M) and Departmental ($.9M).

4. Assigned Fund Balance ─ Includes amounts that are constrained by management's intent to be used for a specific purpose but are neither restricted nor committed. The intent may be expressed by the Director of Finance, or other authorized department heads. The General fund reported an assigned fund balance of $70.5M at June 30, 2012 that was arrived at by netting a negative $11.1 million unassigned fund balance against encumbrances of $81.6 million.

5. Unassigned Fund Balance – This classification is the residual fund balance for the General Fund. It also represents fund balance that has not been classified as assigned, committed or restricted or nonspendable. The General Fund had a negative $11.1 million unassigned fund balance at June 30, 2012. Within the Special Revenue Funds the Grants Revenue fund had a negative fund balance of $175.1M and the Community Development fund had a negative fund balance of $6.5M at June 30, 2012.

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

Table below presents a more detailed breakdown of the City's fund balances at June 30, 2012:

(Amounts In Thousands of USD)	General Fund	HealthChoices Behavioral Health Fund	Grants Revenue Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:					
Permanent Fund (Principal)	0	0	0	2,614	2,614
Subtotal Nonspendable:	0	0	0	2,614	2,614
Restricted for:					
Neighborhood Revitalization	0	0	51,564	0	51,564
Economic Development	0	0	0	10,301	10,301
Public Safety Emergency Phone System	0	0	29,565	0	29,565
Streets & Highways	0	0	0	23,166	23,166
Housing & Neighborhood Dev	0	0	0	10,529	10,529
Health Services	0	0	0	9,471	9,471
Behavioral Health	0	230,681	0	0	230,681
Parks & Recreation	0	0	0	355	355
Libraries & Museums	0	0	0	108	108
Intergovernmental Financing (PICA)	0	0	0	21,662	21,662
Intergovernmentally Financed Programs	0	0	0	18,880	18,880
Central Library Project	2,331	0	0	0	2,331
Stadium Financing	500	0	0	6,436	6,936
Cultural & Commercial Corridor Project	15,273	0	0	0	15,273
Debt Service Reserve	0	0	0	82,446	82,446
Capital Projects	0	0	0	128,484	128,484
Trust Purposes	0	0	0	8,307	8,307
Subtotal Restricted	18,104	230,681	81,129	320,145	650,059
Committed, reported in:					
Social Services	0	0	0	34	34
Prisons	0	0	0	4,200	4,200
Parks & Recreation	0	0	0	856	856
Subtotal Committed	0	0	0	5,090	5,090
Assigned, reported in:					
General Fund	70,506	0	0	0	70,506
Subtotal Assigned:	70,506	0	0	0	70,506
Unassigned Fund Balance:	0	0	(175,082)	(6,485)	(181,567)
Total Fund Balances	88,610	230,681	(93,953)	321,364	546,702

11. INTERFUND TRANSACTIONS

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

Transfers between fund types during the year were:

(Amounts in Thousands of USD)	Governmental	Transfers To: Non major Governmental				
Transfers From:	**General**	**PMA**	**Special Revenue**	**Debt Service**	**Capital Improvement**	**Total**
General	-	-	12,609	140,027	1,029	153,665
Grants	29,936	-	2,167	-	28	32,131
Non major Special Revenue Funds	302,672	-	-	63,736	9,114	375,522
City Capital Improvement	-	12,000	-	-	-	12,000
Water Fund	1,086	1,928	24,445	-	-	27,459
Total	333,694	13,928	39,221	203,763	10,171	600,777

12. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

	(Amounts in Millions of USD)
Bonds Payable	2,039.5
Service Agreements	2,103.6
Employee Related Obligations	598.1
Indemnities	51.6
Arbitrage	-
Leases	40.6
Net Pension Obligation	216.4
Total Adjustment	5,049.8

13. PRIOR PERIOD ADJUSTMENTS

COMPONENT UNITS

- The **SDP** net assets beginning balances were decreased by $6,391,188.This decrease was a result of adjustments for capital assets and deferred charges. Capital asset beginning balances were decreased by $7,270,311. This adjustment involved a correction of Capital Asset Balances for an understatement of $1,579,332 in accumulated depreciation for buildings and $5,690,979 in accumulated depreciation for improvements. The net asset balance for deferred charges was increased by $879,123. This adjustment consisted of an understatement of $901,851 for the beginning refunding charge balance and an overstatement of $22,728 for beginning bond issuance cost balance.

- In addition, the **SDP** processed two reclassifications that netted to zero. The first was a reclassification of $44,078,437of improvement assets and $32,371,675 of related accumulated depreciation to the intangible asset classification due to GASB 51 requirements. The second reclassification involved specific identification of $48,663,069 of construction in progress assets to $16,747,089 of building assets and $31,915,980 of improvement asset.

14. NET ASSETS RESTRICTED BY ENABLING LEGISLATION

The government-wide statement of net assets reports $1,213.7 million of restricted net assets, of which $59.9 million is restricted by enabling legislation as follows:

(Amounts in Thousands of USD)	Restricted Net Assets	Restricted by Enabling Legislation
Capital Projects	306,166	-
Debt Service	330,082	-
Behavioral Health	230,681	-
Neighborhood Revitalization	51,565	-
Stadium Financing	500	-
Central Library Project	2,331	-
CCC Project	15,273	-
Grant Programs	56,323	10,529
Rate Stabilization	165,907	-
Libraries & Parks:		
Expendable	3,027	-
Non-Expendable	2,414	-
Other	49,382	49,374
Total	1,213,651	59,903

15. FUND DEFICITS

- The Grants Revenue fund, which is a Special Revenue Fund, has a Fund Balance Deficit at year end of $94.0 million. The deficit was primarily caused due to the recording of reimbursed costs and corresponding revenues for services provided by the Department of Human Services to the grants fund, and the delay of billing and receiving reimbursements from the state.

- The Community Development Fund, which is a Special Revenue fund, has a Fund Balance Deficit at year end of $6.5 million.

16. ADVANCE SERVICE CHARGE

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

During the current fiscal year 353 disconnection permits were issued resulting in a refund or final credit of approximately $201,674 and 2,530 new connection permits were issued resulting in additional advance service charges of approximately $894,865.

IV. OTHER INFORMATION

1. PENSION PLANS

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

A. SINGLE EMPLOYER PLANS

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

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

(1) City Plan

a. Plan Description

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

Retirement Benefits

An employee who meets the age and service requirements of the particular division in which he participates is entitled to an annual benefit, payable monthly for life, equal to the employee's average final compensation multiplied by a percentage that is determined by the employee's years of credited service. The formula for determining the percentage is different for each division. If fund earnings exceed the actuarial assumed rate by a sufficient amount, an enhanced benefit distribution to retirees, their beneficiaries, and their survivors shall be considered. A deferred vested benefit is available to an employee who has 10 years of credited service, has not withdrawn contributions to the system and has attained the appropriate service retirement age. Members of both plans may opt for early retirement with a reduced benefit. The **Deferred Retirement Option Plan** (DROP) was initiated on October 1, 1999. Under this plan employees that reach retirement age may accumulate their monthly service retirement benefit in an interest bearing account at the Board of Pensions for up to four (4) years and continue to be employed by the City of Philadelphia.

Death Benefits

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

Disability Benefits

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

Membership

Membership in the plan as of July 1, 2011 was as follows:

Retirees and beneficiaries currently receiving benefits	36,354
Terminated members entitled to benefits but not yet receiving them	1,324
Active members	26,671
Total Members	64,349

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

b. Funding Policy

Employee contributions are required by City Ordinance. For Plan 67 members, employees contribute 3¾% of their total compensation that is subject to FICA and 6% of compensation not subject to FICA. Plan 87 contribution rates are defined for the membership as a whole by Council ordinance. Rates for individuals are then determined annually by the actuary so that total individual contributions satisfy the overall rate set by Council.

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

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

Under the City's current funding policy, the total required employer contribution for the current year amounted to $706.3 million or 50.9% of the covered payroll of $1,387.1 million. The City's actual contribution was $539.5 million. The City's contribution did meet the Minimum Municipal Obligation (MMO) as required by the Commonwealth of Pennsylvania's Acts 205 and 189.

In Fiscal Year 2011 the City made several changes to the pension plan based on Act 44, which provided a new method of determining municipal distress levels and alternative funding relief in response to the 2008/2009 market decline. The City adopted fresh start amortization, alternating to 30 years and lowered the assumed rate of interest from 8.15% to 8.10% assuming a partial deferral of the pension payments in fiscal years 2010 and 2011 of $150 million and $80 million respectively, which must be repaid by fiscal year 2014. The change in amortization period and the partial deferral were approved by the Commonwealth of Pennsylvania General Assembly's Act 44. Act 44 also allowed the City to temporarily impose an additional local sales tax of 1.0% to fund future MMO Payments.

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

(Millions of USD)

Fiscal Year Ended June 30	Annual Pension Cost	Percentage Contributed	Net Pension Obligation
2010	597.0	52.36%	(171.6)
2011	721.7	65.14%	80.0
2012	719.6	77.22%	243.9

The actuarial valuation used to compute the current year's required contribution was performed as of July 1, 2011. Methods and assumptions used for that valuation include:

- the individual entry age actuarial cost method
- a ten-year smoothed market value method for valuing investments
- a level percentage closed method for amortizing the unfunded liability
- an annual investment rate of return of 8.10%
- projected annual salary increases based on new age based scale
- payroll growth rate is 3.5%
- no post-retirement benefit increases

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

c. Funding Status

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

(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 Percent of Covered Payroll
	(a)	(b)	(b - a)	(a / b)	(c)	(b - a) / c
07/01/2009	4,042.1	8,975.0	4,932.9	45.04%	1,463.3	337.11%
07/01/2010	4,380.9	9,317.0	4,936.1	47.02%	1,421.2	347.32%
07/01/2011	4,489.1	9,487.5	4,998.4	47.32%	1,371.3	364.50%

d. Net Pension Obligation

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

(Amounts in Thousands of USD)

Annual Required Contribution (ARC)		722,491
Interest on Net Pension Obligation (NPO)		6,521
Adjustment to ARC		(9,435)
	Annual Pension Cost	719,577
Contributions Made		(555,690)
	Increase in NPO	163,887
NPO at beginning of year		80,011
NPO at end of year		243,898
Interest Rate		8.15%
15 Year amortization Factor (EOY)		8.48%

e. Derivative Instruments

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

The City of Philadelphia Municipal Pension Fund (Pension Fund) enters into a variety of financial contracts which include options, futures, forwards and swap agreements to gain exposure to certain sectors of the equity and fixed income markets; collateralized mortgage obligations (CMO's); other forward contracts, and U.S. Treasury strips. The contracts are used primarily to enhance performance and reduce volatility of the portfolio. The Pension Fund is exposed to credit risk in the event of non performance by counterparties to financial instruments. The Pension Fund generally enters into transactions only with high quality institutions. Legal risk is mitigated through selection of executing brokers and review of all documentation. The Pension Fund is exposed to market risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed in accordance with risk limits set by Board approved guidelines, through buying or selling instruments or entering into offsetting positions. The notional or contractual amounts of derivatives indicate the extent of the Pension Fund's involvement in the various types and 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, 2012:

List of Derivatives Aggregated by Investment Type

	Changes in Fair Value		Fair Value at June 30, 2012		
	Classification	Amount	Classification	Amount	Notional
Investment Derivatives					
Forward Currency Contracts	Net appreciation/(depreciation) in investments	$ 2,362,305	Accrued expenses and other liabilities	$ (293,483)	$ 469,518,219
Futures	Net appreciation/(depreciation) in investments	(3,341,717)	Accrued interest and other receivables	125,230	117
Swaps	Net appreciation/(depreciation) in investments	331,407	Accrued expenses and other liabilities	(284,636)	9,363,000
Grand Totals		**$(648,005)**		**$(452,889)**	

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

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

Concentration of Credit Risk: Currently, the Fund is invested primarily in equity securities (44%). The Fund's resources are put in the hands of investment managers with different investment styles who invest according to specific objectives developed for each manager. The Chief Investment Officer of the Fund is charged with reviewing the portfolios for compliance with those objectives and guidelines. Of the fixed income type investments held by the pension fund, 56% had Standard & Poors ratings of AAA to A and 60% had Moody's rating of AAA to A1.

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

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

The aggregate fair value of hedging derivative instruments in asset positions at June 30, 2012, was $125,230. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. This maximum exposure is reduced by ($578,119) of collateral or liabilities included in netting arrangements with those counterparties, resulting in a net exposure to credit risk of $452,889.

Interest Rate Swap Agreements. provide for periodic payments at predetermined future dates between parties based on the change in value of underlying securities, indexes or interest rates. During the year ended June 30, 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 were 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. The net payment on the swap increases.

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.

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.

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 counterparty has the option to terminate the contract if the SIFMA swap index exceeds 12 percent. If at the time of termination, a hedging derivative instrument is in a liability position, the city would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

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.

In addition, the Pension Fund also was involved in other financial instruments such as rights that were worth $3,993 and warrants that were $19,626,337.

f. Summary of Significant Accounting Policies

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

(2) Gas Works Plan

a. Plan Description

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

- 1.25% of the first $6,600 of Final Average Earnings plus 1.75% of the excess of Final Average Earnings over $6,600, times years of credited service, with a maximum of 60% of the highest annual earnings during the last 10 years of credited service, applicable to all participants, or

- 2% of total earnings received during the period of credited service plus 22.5% of the first $1,200 of such amount, applicable only to participants who were employees on or prior to March 24, 1967.

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

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

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

b. Funding Policy

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

The funding policy of the **PGW** Plan provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. Level percentage of employer contribution rates are based on the actuarial accrued liability as determined by using the Projected Unit Credit actuarial funding method. The actuarial asset value is equal to the value of fund assets. The unfunded actuarial accrued liability is being amortized using the open method. Contributions of $22.6 million (approximately 21% of covered payroll) were made to the PGW Plan during the year.

Beneficiary payments in FY 2011 were made from operating funds. Instead, the Company set up a receivable to draw the FY 2010 funds of $11.1 million in FY 2011, which is recorded in other current assets and deferred debits on the balance sheet. The withdrawals from the pension assets in FY 2010 of $15.4 million were utilized to meet beneficiary payment obligations.

c. Funding Status

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

(Amounts In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Entry Age (b)	Unfunded/ (Over Funded) AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll (b - a) / c
09/01/2010	$381,975	$533,630	$151,655	71.6%	$106,125	142.9%
09/01/2009	$355,499	$519,773	$164,274	68.4%	$106,003	155.0%
09/01/2008	$430,390	$495,155	$64,765	86.9%	$107,918	60.0%
09/01/2007	$416,183	$482,380	$66,197	86.3%	$105,596	62.7%

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

Amortization Method	Level percent open
Remaining Amortization Period	20 years

d. Annual Pension Cost

PGW's annual pension cost for the current year of $22.6 million is equal to its required contribution. The annual required contribution for the current year was determined based on an actuarial study or updates thereto, using the projected unit credit method. Significant actuarial assumptions used include an annual rate of return on investments of 8.25%, compounded annually, projected salary increases of 3.00% of the salary at the beginning of the next three years, then 4.25% of the salary at the beginning of the fourth and subsequent year, and retirements that are assumed to occur prior to age 62, at a rate of 10% at 55 to 61 and 100% at age 62. The assumptions did not include post retirement benefit increases.

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

(Amounts in Millions of USD)

Fiscal Year Ended August 31	Annual Required Contribution	Percentage Contributed
2011	22.6	100%
2010	24.6	100%
2009	15.4	100%

e. Summary of Significant Accounting Policies

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

2. ACCUMULATED UNPAID SICK LEAVE

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

3. OTHER POST EMPLOYMENT BENEFITS (OPEB)

A. PRIMARY GOVERNMENT

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

Funding Policy: The City funds its retiree benefits on a pay-as-you-go basis. To provide health care coverage, the City pays a negotiated monthly premium for retirees covered by union contracts and is self insured for non-union employees. For fiscal year 2012, the City paid $76.3 million for retiree healthcare.

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

City of Philadelphia OPEB

	(Amounts in Thousands of USD)
Annual required contribution	105,369
Interest on net OPEB obligation	3,577
Adjustment to ARC	(3,064)
Annual OPEB cost	105,882
Payments made	(76,344)
Increase/(Decrease) in net OPEB Obligation	29,538
Net OPEB obligation - beginning of year	79,481
Net OPEB obligation - end of year	109,019

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, 2012 was as follows:

(amounts in thousands USD)

Fiscal Year Ended		Annual OPEB Cost	Percentage of Annual OPEB Contributed		Net OPEB Obligation
6/30/2012	$	105,369	72%	$	109,019
6/30/2011	$	101,713	64%	$	79,481
6/30/2010	$	93,844	76%	$	43,301

Funded Status and Funding Progress: As of July 1, 2011, the most recent actuarial valuation date, the City is funding OPEB on a pay as you go basis and accordingly, the unfunded actuarial accrued liability for benefits was $1.2 billion. The covered annual payroll was $ 1.469 billion and the ratio of the UAAL to the covered payroll was 82.5 percent.

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

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

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

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

B. COMPONENT UNITS

School District of Philadelphia (SDP) OPEB

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

Plan Description:

The **SDP** provides up to $2,000 of life insurance coverage for retired and disabled employees in a single-employer plan. A retired employee is eligible for this benefit if covered for ten years as an active employee and retired at age 60 with 30 years of service or age 62 with 10 years of service or 35 years of service regardless of age. A disabled employee's eligibility is determined by the insurance company providing the coverage. An unaudited copy of the life insurance benefit plan can be obtained by writing to The **SDP** of Philadelphia, 440 North Broad Street, Philadelphia, PA 19130; Attention: Employee Benefits Management.

Funding Policy:

The **SDP** is not required by law or contractual agreement to provide funding for the life insurance benefits other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible disabled employees. The number of eligible participants enrolled to receive such benefits as of June 30, 2012, the effective date of the most recent biennial OPEB valuation, is below. There have been no significant changes in the number covered or the type of coverage since that date.

	Number of Employees	Average Age
Active:		
Represented	13,907	45.9
Non-represented	848	48.4
Retirees	9,758	76.3
Disabled	120	58.6
Total	24,633	55.9

Annual OPEB Cost and Net OPEB Obligation:

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

Year Ended June 30	Annual OPEB Cost (APC)	Percentage of APC Contributed	Net OPEB Obligation
2010	$659,317	100%	$0
2011	673,167	100%	0
2012	810,749	83.9%	130,344

Basis of Accounting:

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

Funded Status and Funding Progress:

As of June 30, 2012, the most recent actuarial valuation date, the plan was 0.0% funded. The actuarial accrued liability of $18.1 million and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $18.1 million.

Active	$4,088,289
Inactive	$14,026,106
Total	$18,114,395

Actuarial Methods and Assumptions:

The actuarial assumptions used in the June 30, 2012 OPEB actuarial valuations are those specific to the OPEB valuations. Actuarial valuations involve estimates of the values of reported amounts, assumptions about the probability of events far into the future, and are subject to continual revision. Actuarial calculations reflect a long-term perspective.

- Discount Rate: 3.25% per year, compounded annually.
- Payroll Growth: Payroll is assumed to increase at an average rate of 3.25% per year considering inflation.
- Mortality: Pre-termination and post-termination healthy annuitant rates are projected on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date.

  Pre-termination: RP-2000 Employee Mortality Table for Males and Females.

  Post-termination Healthy Lives: RP-2000 Healthy Annuitant mortality table for males and females.

Post-termination Disabled Lives: RP-2000 Disabled Annuitant mortality table for males and females. No provision was made for future mortality improvements for disabled lives.

- Termination: Rates which vary by age and years of services were used. Sample rates are shown below:

If less than 5 years of Service		If 5 or more Years of Service	
Years of Service	Rate	Age	Rate
Less than one year	24.49%	25	24.75%
1 - 2	25.23%	30	18.01%
2 - 3	16.54%	35	10.98%
3 - 4	14.07%	40	7.91%
4 - 5	10.88%	45	6.71%
		50	4.03%
		55	3.81%
		60	6.40%

- Retirement: Retirement rates are the rates utilized in the June 30, 2011 Actuarial Valuation for the Pennsylvania Public School Employees' Retirement System and vary by age, service, and gender. Members are eligible for early retirement at age 55 with 25 years of service. Class T-C and T-D members are eligible for superannuation retirement at the earlier of (1) age 62 with 3 years of service, (2) age 60 with 30 years of service, or (3) any age with 35 years of service. Class T-E and T-F members are eligible for superannuation retirement at the earlier of (1) age 65 with 3 years of service or (2) any combination of age and service that totals 92 with at least 35 years of service. Sample rates are shown below.

Sample Early Retirement Rates

Age	Male	Female
55	15%	15%
60	12	15

Sample Superannuation Retirement Rates

Age	Male	Female
55	30%	30%
60	28	30
65	20	25
74	100	100

- Disability: Disability rates are the rates utilized in the June 30, 2011 Actuarial Valuation for the Pennsylvania Public School Employees' Retirement System and vary by age and gender. In addition, no disabilities are assumed to occur at age 60 or later. Sample rates are shown below

Attained	**Percentage Disability Incidence**	
Age	**Male**	**Female**
25	0.024%	0.030%
30	0.024%	0.040%
35	0.100%	0.060%
40	0.180%	0.100%
45	0.180%	0.150%
50	0.280%	0.200%
55	0.430%	0.380%

- Life Insurance Benefits Claimed: All life insurance benefits are assumed to be claimed upon the retiree's death.
- Life Insurance Coverage while Disabled: The maximum amount of life insurance of $45,000 for non-represented employees or $25,000 for represented employees was assumed to be in effect for future disabled retirees prior to age 65. Actual amounts were used for current disabled retirees prior to age 65.
- Life Insurance Coverage while Employed: Only active employees who have life insurance coverage as of June 30, 2012 are included in this valuation. This valuation assumes they will continue to have life insurance coverage until retirement or disability and be eligible for the postretirement life insurance coverage upon retirement or disability. Any current active employee without life insurance coverage is assumed not to elect to have life insurance coverage prior to retirement or disability.
- Benefits Not Valued: The accelerated death benefit was not valued as the estimated liability impact was de minimus as only disabled retirees prior to age 65 can elect this benefit.
- Special Data Adjustments: Male was assumed for 555 retirees for whom gender was not provided. Active members hired after June 30, 2011 were assumed to be in Class T-E or T-F in PSERS; otherwise Class T-C or T-D was assumed.

Philadelphia Gas Works (PGW) OPEB

Plan description: **PGW** provides certain health care and life insurance benefits for approximately 2,002 retired employees and their dependents. **PGW** recognizes the cost of providing these benefits by charging the annual insurance premiums to expense.

***Funding Policy**:* **PGW** pays 100% of premiums for basic medical, hospitalization, and prescription drugs incurred by retirees and their dependents. The company also pays a portion of the premium for life insurance for each eligible retiree. **PGW** currently provides for the cost of healthcare and life insurance benefits for retirees and their beneficiaries on a pay-as-you-go basis. Additionally, in FY2011 the company began funding an OPEB Trust. Total expenses incurred for health care amounted to $42.3 million, of which approximately 47.2% relates to retirees and their dependents. Total premiums for group life insurance amounted to $1.98 million of which approximately 77.8% relates to retirees.

Actuarial Valuation and Assumptions: **PGW** engaged an actuarial consulting firm to provide an actuarial valuation of its OPEB obligations as of August 31, 2011. The actuarial valuations involve estimates of the value of reported amounts and the assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision, as actual results are compared to past expectations, and new estimates are made about the future. The calculations were based on the types of benefits provided under the terms of the substantive plan at the time of the valuation.

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

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

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

The report utilized an 8.0% discount rate for purposes of developing the liabilities and ARC on the Plan for FY 2011. This rate is based on the expected return of investments of the OPEB Trust.

	Healthcare cost trend rates			
	Medical (pre-65)	Medical (post-65)	Prescription	Dental
Year:				
1	11.0%	9.0%	9.0%	4.5%
2	10.0	8.0	8.0	4.5
3	9.0	7.0	7.0	4.5
4	8.0	6.0	6.0	4.5
5	7.0	5.0	5.0	4.5
6	6.5	4.5	4.5	4.5
7	6.0	4.5	4.5	4.5
8	5.5	4.5	4.5	4.5
9	5.0	4.5	4.5	4.5
10 and beyond	4.5	4.5	4.5	4.5

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

Annual OPEB Cost and Net OPEB Obligation: In FY2011 **PGW** paid retiree benefits in the amount of $41.7 million, which consisted of $21.8 million in healthcare expenses and $1.4 million in life insurance expenses and $18.5 million contributed to the OPEB trust. The difference between the ARC and the expenses paid resulted in an increase in the OPEB liability of $3.97 million. As of August 2011, the actuarial accrued liability for benefits was $485.72 million and the ratio of the unfunded actuarial accrued liability to the covered payroll was 457.7%

The following table shows the calculation of **PGW's** OPEB liability for FY2011. The difference between the annual OPEB cost and contributions made is recorded as other postemployment benefits expense on the statement of revenues and expenses. Contributions made are allocated to operating expense line items along with salaries and other employee benefit costs.

	(Amounts in Thousands)
Annual required contribution	46,622
Interest on net OPEB obligation	8,438
Adj to annual required contribution	(9,369)
Annual OPEB cost	45,691
Payments made	(41,719)
Increase/(Decrease) in net OPEB obligation	3,972
Net OPEB obligation - beginning of year	105,476
Net OPEB obligation - end of year	109,448

PGW's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for FY2011 and the preceding years is as follows:

(Amounts in Thousands of USD)

Fiscal Year Ended		Annual OPEB Cost	Percentage of Annual OPEB Contributed		Net OPEB Obligation
8/31/2011	$	45,691	91.31%	$	109,448
8/31/2010		48,975	44.32%		105,476
8/31/2009		46,009	43.59%		78,207

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

4. PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

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

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

PICA bonds are payable from the proceeds of a **PICA** tax on the wages and income earned by City residents. The City has reduced the amount of wage and earnings tax that it levies on City residents by an amount equal to the **PICA** tax so that the total tax remains the same. **PICA** returns to the City any portion of the tax not required to meet their debt service and operating expenses. In Fiscal 2012 this transfer amounted to $295.2 million.

5. RELATED PARTY TRANSACTIONS

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

A. SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY (SEPTA)

During the year the City provided an operating subsidy of $66.4 million to SEPTA.

B. OTHER ORGANIZATIONS

The City provides varying levels of subsidy and other support payments (which totaled $112.6 million during the year) to the following organizations:

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

6. RISK MANAGEMENT

A. PRIMARY GOVERNMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City (except for Aviation Fund operations, the Municipal Authority and PICA) is self-insured for fire damage, casualty losses, public liability, 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 covers all claim settlements and judgments, except for those discussed above, out of the resources of the fund associated with the claim. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include: an estimate of claims that have been incurred but not reported; the effects of specific, incremental claims adjustment expenditures, salvage, and subrogation; and unallocated claims adjustment expenditures.

At June 30, the amount of these liabilities was $355.8 million for the Primary Government. This liability is the City's best estimate based on available information. Changes in the reported liability since June 30, 2010 resulted from the following:

(Amounts in Millions of USD)

	Beginning Liability	Current Year Claims and Changes In Estimates	Claim Payments	Ending Liability
Fiscal 2010	309.3	156.5	(94.5)	371.3
Fiscal 2011	371.3	82.0	(99.8)	353.5
Fiscal 2012	353.5	102.1	(99.8)	355.8

The City's Unemployment Compensation and Workers' Compensation coverages are provided through its General Fund. Unemployment Compensation and Workers' Compensation coverages are funded by a pro rata charge to the various funds. Payments for the year were $5.8 million for Unemployment Compensation claims and $62.2 million for Workers' Compensation claims.

The City's estimated outstanding workers' compensation liabilities are $297.2 million discounted at 3.5%. On an undiscounted basis, these liabilities total $395.6 million. These liabilities include provisions for indemnity, medical and allocated loss adjustment expense (ALAE). Excluding the ALAE, the respective liabilities for indemnity and medical payments relating to workers' compensation total $270.4 million (discounted) and $359.5 million (undiscounted).

During the last four (4) fiscal years, no claim settlements have exceeded the level of insurance coverage for operations using third party carriers. None of the City's insured losses have been settled with the purchase of annuity contracts.

B. COMPONENT UNITS

The City's Component Units are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The **SDP** is self-insured for most of its risks including casualty losses, public liability, unemployment and weekly indemnity. Workers' Compensation is covered by excess insurance over a $5.0 million self-insured retention. **SDP** does purchase certain other insurance. Most Component Units are principally insured through insurance carriers. Each entity has coverage considered by management to be sufficient to satisfy loss claims. These losses include: an estimate of claims that have been incurred but not reported; the effects of specific, incremental claims adjustment expenditures, salvage, and subrogation; and unallocated claims adjustment expenditures.
At June 30, the combined amount of these liabilities was $199.8 million for the City's Component Units. This liability is the best estimate based on available information. Changes in the reported liability since June 30, 2011 resulted from the following:

(Amounts in Millions of USD)

	Beginning Liability	Current Year Claims and Changes In Estimates	Claim Payments	Ending Liability
Fiscal 2011	157.0	253.6	(225.8)	184.8
Fiscal 2012	184.8	283.0	(268.0)	199.8

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

The **SDP** maintains additional property (real and personal, valuable papers and records, fine arts, vehicles on premises and property under construction) insurance to cover losses with a deductible of $500,000 and a limit of $250.0 million. Also, certain insurance coverages including employee performance bonds and fire insurance are obtained.

7. COMMITMENTS

COMPONENT UNITS

- The **SDP's** outstanding contractual commitments at year end for construction of new facilities, purchase of new equipment, and various alterations and improvements to facilities totaled $45.4 million.

- **SDP** is also an Intermediate Unit (IU) established by the Commonwealth to provide programs for special education and certain non-public school services. Conceptually, the cost of operating an IU for a fiscal year is partially financed by Commonwealth appropriation. In certain instances (transportation) **SDP** reimburses the Commonwealth for the funds advanced in the previous year. The amount advanced for transportation of special education students is reimbursed in full less the Commonwealth's share of such cost as determined by a formula based on the number of students transported, route distances, and efficiency of vehicle utilization.

8. CONTINGENCIES

A. PRIMARY GOVERNMENT

1) Claims and Litigation

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

Various claims have been asserted against the City and in some cases lawsuits have been instituted. Many of these claims are reduced to judgment or otherwise settled in a manner requiring payment by the City. The aggregate estimate of loss deemed to be probable is approximately $354.1 million. Of this amount, $24.8 million is charged to current operations of the Enterprise Funds. The remaining $329.3 million pertaining to the General Fund is reflected in the Government Wide Statements.

In addition to the above, there are certain lawsuits against the City for which an additional loss is reasonably possible. These lawsuits relate to General Fund and Enterprise Fund operations. The aggregate estimates of the loss which could result if unfavorable legal determinations were rendered against the City with respect to those lawsuits is approximately $68.3 million to the General Fund and $6.9 million to the Enterprise Funds.

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

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

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

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

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

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

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

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

The Court granted the motion to dismiss and dismissed WRA's constitutional claims relating to the height restriction. As part of its ruling, the Court allowed WRA to file an amended claim to add a facial claim against the Central Delaware Riverfront Ordinance, and to supplement its existing state law claims to include allegations pertaining to the CDRO.

WRA filed its Third Amended Complaint. The City filed a motion for summary judgment seeking dismissal of WRA's remaining claims, and WRA filed motion for summary judgment on its supplemental claim against CDRO.

The Court granted the City's motion and entered summary judgment for City on Plaintiff's remaining claims and Plaintiffs have appealed. The Third Circuit affirmed in January 2013. The case is over, unless plaintiffs seek U.S. Supreme Court review.

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

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

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

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

The City filed its appeal to the Court of Common Pleas in November 2009, requesting a jury trial de novo. CCP Phila. Co., No. 0911-02397. The City objected, among other things, to the award of any compensation amount beyond that amount already paid into court, to evidentiary, procedural and substantive errors in the Board of View proceeding and award, and to the delay damage computation and award. Eastwick Development filed a separate appeal from the Board of View Report to the Court of Common Pleas in November 2009. CCP Phila. Co., No. 0911-04734. Eastwick Development sought a jury trial de novo and objected to the sufficiency of the amount of compensation awarded.

The parties completed discovery. At a final pretrial conference, the Court issued an order consolidating the two separate appeals from the Board of View report and scheduled the case for trial. Subsequently, at the request of the parties, the Court adjourned the start of trial on the basis of a settlement in principle.

The parties signed as of December 13, 2011 a binding settlement term sheet providing for, among other things, discontinuance of the lawsuit, payment by City in the total sum of $9.6 million, an amended redevelopment agreement, and release or transfer of property interests to City, all upon certain terms and conditions, and to take effect or occur on or before an Effective Date. If the conditions precedent and Effective Date do not occur, the settlement will expire and the parties will be restored to their previous litigation positions (with some modification to any accrual of delay damages). The Court, at a recent status conference, ordered the case to remain in deferred status through December 31, 2012 to allow for implementation of the settlement.

The parties agreed to extend the Effective Date of the settlement to June 30, 2013. The case was marked settled by the Court. Should the settlement not be consummated on account of a failure of condition, the case may be restored, on the request of either party, as if the case had not been marked settled.

The City will vigorously contest the award if the settlement is not consummated. At this time, the City's attorneys are unable in their professional judgment to evaluate the likelihood of an unfavorable outcome in terms of probability and the range or amount of any loss assuming an unfavorable outcome. Any ultimate judgment would be paid from the Aviation Fund.

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

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

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

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

Bock contended City was solely liable or liable with Bock to G&T on the "delay damages" claims made by G&T, pursuant to common law theories of indemnification and contribution. Bock also claimed City was liable to Bock for damages caused by City's material breaches of its contract with Bock. Bock alleges that these damages are approximately $1.7 million in addition to the G&T damages for which Bock seeks recovery from City.

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

The parties completed the initially scheduled discovery and submitted expert reports. The Court denied City's petition to dismiss the claims against it for lack of subject-matter jurisdiction (City claimed in essence the absence of a justiciable controversy due to the incomplete status of the project and the absence of required inspection, testing and approval of the system). City filed a motion to amend its Answer to add a more specific defense of release. The Court granted that motion and City filed an Amended Answer.

In addition, the City has asserted a liquidated damages claim against Bock, on account of the incomplete work, and has received delay claims from two other contractors, due to the unfinished work on the BHS project. G&T filed a motion for partial summary judgment, opposed by Bock and City. After oral argument, the Court granted the motion solely as to legal interpretation of particular contract terms, and denied the balance. City and Bock filed motions for summary judgment that were opposed by G&T and both were denied.

The Court agreed with the City and Bock that the case cannot be tried until at least the baggage handling system has successfully completed the integrated site acceptance testing ("ISAT"). Both the City and Bock filed Motions for Extraordinary Relief requesting that the Court reopen discovery and move the trial date to a later date, based primarily on the fact that the system had not passed ISAT. The Court, on August 28, 2012, after an on-the-record conference, granted the Motions for Extraordinary Relief over G&T's opposition. As a result, The Court has reopened discovery to conclude in March 2013 and rescheduled trial to begin in September 2013, although it is expected that these dates will be extended.

Bock filed a Motion for Summary Judgment to preclude the City from assessing liquidated damages until the Court made a determination that such damages were allowed. The City opposed that Motion and cross-moved ,arguing that Bock's failure to provide any contractually-mandated analysis justifying delays warranted award of judgment to the City on the delays incurred to date. These Motions have not yet been decided.

TSA conducted another round of ISAT in August 2012. On September 5, 2012, the TSA issued a quick look report ("QLR") which noted that the BHS had failed ISAT. On September 7, 2012, the City issued a Notice of Default to Bock based on the QLR.

Subsequently, G&T filed a Motion asking the Court to declare that TSA conducted the ISAT according to the wrong standards and that future ISAT testing should be conducted differently. The City responded to that Motion with affidavits from TSA's testing agent, Battelle Memorial Institute, and from the City's security consultant noting that they had personally witnessed the testing, the testing conformed to the applicable standards, and ISAT demonstrated that the BHS fails to meet the contract standards. This Motion is currently pending.

The City also filed a Motion for Declaratory Judgment requesting the Court to determine that the BHS failed to meet the applicable standards and failed to pass ISAT. Therefore, Bock is in default of its contract. The City also requested that the Court determine that the City is entitled to get the source code for the BHS pursuant to the terms of the contract between the City and Bock. Bock and G&T responded and the Motion is currently pending.

On January 17, 2013, the City issued a Notice of Termination to Bock for cause based on the failure of Bock to provide a working BHS that could pass ISAT. Bock brought a Motion for Special Injunction to enjoin the Notice of Termination. On January 23, 2013, the Court stayed the "legal effect" of the Notice on Bock only, and not Bock's surety, until January 28, 2013 (due to judge's availability). On January 28, Bock withdrew the Motion for Special Injunction, and the Termination became effective as to Bock on January 28. Bock has also issued a Notice of Termination to G&T on January 28 for failure to perform.

The City intends to mount vigorous defenses to defeat Bock's claims (both Bock's delay claims and the G&T pass-through claims). The City's lawyers reasonably believe that the third-party plaintiffs will not likely succeed on their claims or for the amount of damages sought and that the City's defenses have merit.

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

  Two sets of plaintiffs, Michelle Pingitore and Joseph O'Hara and Finn Land Corporation, filed a now consolidated putative class action on behalf of classes of former property owners whose property was subject to a sheriff's sale. They claim for themselves and the class an entitlement to excess funds from Sheriff's sales of their properties.

  In the consolidated action, Joseph O'Hara and Finn Land Corporation, the sole remaining named plaintiffs, claim that they are owed a total of approximately $15,000 in excess proceeds from the sheriff's sale of two properties. O'Hara and Finn Land Corporation assert claims in unjust enrichment, equitable conversion, fraudulent concealment, violation of the Pennsylvania Constitution, mandamus, and restitution, and seek an award of damages to the plaintiffs and the class of the excess proceeds due them, interest, attorney fees and costs and all such other relief that the Court deems proper. The alleged basis for the liability asserted by the plaintiffs are that Sheriff failed to inform plaintiffs of excess sale proceeds and that the Sheriff failed to distribute the proceeds. Plaintiffs claim that these failures violate a mandatory duty to prepare a schedule of proposed distribution of proceeds and to distribute in accordance with the schedule under Pa. R.C.P. 3136. The Court allowed the State Treasurer to intervene in the consolidated lawsuit, but also denied preliminary objections filed by Treasurer. Defendants have filed answers and have conducted class discovery. At this stage, it is unclear whether the class will be certified, the number of class members entitled to relief, whether if certified the plaintiffs will succeed on the merits and the City will be found liable and finally whether plaintiffs will recover from City monetary damages in excess of $8,000,000. The City intends to contest class certification, liability and damages vigorously. The City's lawyers reasonably believe that the plaintiffs are not likely to succeed on their claims or for the amount of damages sought and that the City's defenses have merit. The class certification hearing/oral argument took place on February 13, 2013. We reasonably anticipate that the Court's decision will be issued within the next several weeks.

- **Lower Darby Creek Area Superfund Site**

  In 2001, the U.S. Environmental Protection Agency (EPA) added the Lower Darby Creek Area (Site) to the National Priority List, EPA's list of the most serious uncontrolled or abandoned hazardous waste sites. The Site includes two former municipal landfills: the Folcroft Landfill and the Clearview Landfill. In 2002, EPA sent the City a letter alleging that the City is a Potentially Responsible Party (PRP) at the Clearview Landfill site. Designation as a PRP means the City may be jointly and severally liable with other PRPs for the site's clean-up costs. EPA has concluded that the City owns the Recreational Property and streets adjacent to the Clearview Landfill and alleges that there is a reasonable basis to believe there may be or has been a release or threat of release of hazardous substances, pollutants or contaminants at or from the City's property. Additionally, EPA alleges that the City "arranged" for the disposal of hazardous substances at the Clearview Landfill. The City received and responded to two separate requests from EPA for additional information. EPA completed the Remedial Investigation for the Clearview Landfill in May 2011 and a feasibility study of remedial options in October 2012. It is now in the process of selecting a preferred remedy and proposed cleanup plan. Once EPA issues the proposed cleanup plan it will announce a public comment period and then issue a Record of Decision documenting the selected cleanup option. Because of the broad liability scheme under the federal Superfund law, Superfund litigation generally focuses not on avoiding a finding of liability, but rather on ensuring that the remediation is cost-effective and the allocation of costs among all parties identified as bearing some degree of liability is fair and reasonable. The total costs of the viable remedial alternatives currently being considered by EPA range from approximately $30 million to $50 million. Insufficient information is available to the City at this time to determine the exact amount of those costs that will be allocated to the City, but based on existing information the City's allocated share may exceed 20% of the total cleanup costs.

- **Fraternal Order of Police grievance of deplorable conditions**

  The police union, the Fraternal Order of Police, has filed a grievance against the City protesting the conditions at police facilities, including district stations, the Police Academy, headquarters and a number of other places. Because many of the facilities are old upgrading them could potentially cost millions. However, the arbitrator's power to order remedies is limited. About two more days of hearings will be held, briefs will be submitted before the arbitrator reaches a decision.

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

  In July 2011 the State Tax Equalization Board (STEB) published a Common Level Ratio (CLR) of 18.1% for Philadelphia, significantly lower than the City's Established Predetermined Ratio (EPR) of 32% used to calculate assessed values for real estate tax purposes. If the CLR varies from the EPR by more than 15% (i.e., if it is not between 27.2% and 36.8%), then in any assessment appeals, the Board of Revision of Taxes (BRT) is directed by statute to calculate the assessed value using the CLR rather than the EPR as a percentage of the property's market value. In April 2012, in response to informal objections filed by the City and the Philadelphia School District, STEB raised the CLR to 25.2; that is not enough to avoid the use of CLR in calculating assessed value for real estate tax purposes, but it effectively halves the City's potential losses. The appeal period from STEB's increase to the CLR passed without any appeal being filed, so that number is now final.

  For tax year 2012, about 2,000 taxpayers with property collectively valued at about $2 billion filed assessment appeals with the BRT. The School District filed cross-appealed, seeking higher market values in all of those cases. Roughly 1400 of those cases now have been resolved at a total estimated cost of $6.3 million. We believe a prudent yet reasonable (as opposed to worst case) estimate if the City were to lose the remaining 600 cases would be around $8 million for both the City and the School District.

- **Gerald S. Kaufman Corp. v. City of Philadelphia et al.**

  An action has been filed in Commonwealth Court on behalf of the owners of approximately 1,240 parcels of real property in the City (the "Taxpayers") and purportedly as a class action on behalf of all property owners in the City against the City, among others, challenging the Pennsylvania and federal constitutionality of Act 131, which, among other things, suspended the use of CLR in tax assessment appeals in Philadelphia for 2013; and delayed the implementation of the Actual Value Initiative by one year. The City believes the action is not appropriately filed in the Commonwealth Court and has moved to transfer it to Common Pleas Court. The Taxpayers also have filed objections with the State Tax Equalization Board to that Board's determination that Philadelphia's CLR applicable in 2013 is 30.6%. If Taxpayers were both to persuade the Board to lower the Common Level Ratio and to succeed in getting Act 131 invalidated, the impact on real estate tax revenue could be complex and dramatic, but highly uncertain. We do not anticipate that Taxpayers will be successful.

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

  This is a class action lawsuit in the Court of Common Pleas by a class of Election Day workers who worked in one or more elections in Philadelphia from November 2005 to the present. They claim they should have been paid at least the "minimum wage" per the Philadelphia 21st Century Minimum Wage Standard, Chapter 17-1300 of the Philadelphia Code. The Ordinance requires covered employers to pay each employee an hourly wage of at least 150% of the federal minimum wage. Plaintiffs contend that they are "employees" of the City for purposes of the Ordinance. Employers who violate the Ordinance are liable for back pay plus attorneys' fees and costs.

  Philadelphia minimum wage is $10.88 for covered employees. The plaintiffs contend they should have been paid at least $152.25 per day or $137.55 per day, depending on the year, if the Ordinance applies to them. The City paid these workers, in compliance with the State Election Code, on a per diem, rather than hourly, basis. Judges of Election (one at each polling place) were paid $100 per day; the remaining workers received $95 per day. We estimate the total back pay that would be payable to the plaintiff class is approximately $6.6 million. Prejudgment interest (at 6%) and attorneys' fees raises the total potential liability to about $8.4 million.

  Alternatively, the plaintiffs' attorneys have proposed a settlement, which would have the City create a fund in the amount of about $7,113,292, which is 85% of full value of back pay plus interest plus fees claimed by class. Full value of back pay plus interest plus fees is now about $8,368,579. All components of settlement (back pay, interest, attorney's fees, costs, and incentive awards) will be paid out of the fund. Defendants' liability will be limited to the value of the fund plus whatever costs the City incurs in carrying out administrative functions of processing claims and disbursing the funds. In addition, the settlement calls for the City Commissioners to increase the pay for the election workers to the amount they claim they are entitled to under the City's minimum wage ordinance (increase pay for Judges of Election to $163.13 (Ordinance Minimum Wage times 15 hours), and raise pay of all other election workers to $152.32 (Ordinance Minimum Wage times 14 hours)). This would increase the City's cost for payment of the election workers in all future city-wide elections by approximately $492,418 per election. We have not yet responded to this proposal, either by rejecting it outright or making a counter-proposal.

It is likely that the legal issues in this case will be decided via cross-motions for summary judgment, rather than at trial. The plaintiffs have filed a motion for summary judgment, to which the City has responded, opposing the motion. We are finalizing the City's motion for summary judgment; it will be filed early next week. The Court of Common Pleas has set a trial date of June 3, 2013, in the event the case is not decided on the parties' cross motions for summary judgment. If the assigned judge rules in favor of the plaintiffs, the City will likely appeal the ruling. The City's attorneys believe that an appeal to Commonwealth Court has a reasonable chance of success.

- **Richard Lawrence v. City of Philadelphia, et al., No. 06-345 (E.D.Pa.) (J. Paul Diamond)**

  Plaintiff's suit is brought under the Fair Labor Standards Act. Lawrence and a class of proposed opt-in plaintiffs were Philadelphia firefighters or fire service paramedics. The gravamen of the complaint is that "the City violated the FLSA by failing to pay [Plaintiffs] their overtime in a timely manner as a result of the City's overtime processing policy and practice." The case has been in stay for an extended period time (several years) until the resolution of a long standing related matter. The instant case recently became active again and the assigned Judge ruled on class certification in an Order dated January 15, 2013. After substantial briefing on the issue, the Judge granted in part Lawrence's Motion for Conditional Certification. The class has been identified as all those who were firefighters and/or paramedics of ranks up to and including Captain between October 1, 2007, and September 1, 2009. Potential opt-in plaintiffs have until May 10, 2013, to opt in to the lawsuit.

  The City's lawyers believe that the likelihood of an unfavorable outcome in this case is reasonably possible as to some of the damages sought. However, the City has meritorious defenses and intends to vigorously defend against plaintiff's claims. Nevertheless, it is not clear at this time what range of damages will be available.

- **Keystone**

  Keystone seeks a refund of approximately $6 million in overpaid business privilege taxes. Keystone filed its refund request after the expiration of the statute of limitations, but claims an equitable exception to the statute based on a re-statement of their income issued by the IRS after the expiration of the City's statute of limitations. The Tax Revision Board disagreed, finding no exception to the statute of limitation for refunds, but instead granted them a credit, though in an indeterminate amount. The City has appealed from the grant of the credit. Keystone has appealed from the denial of the refund. Common Pleas affirmed in December 2012 and both parties have appealed to Commonwealth Court.

2) Guaranteed Debt

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

(Amounts In Thousands of USD)

Philadelphia Authority for Industrial Development	1,190
HUD Section 108 Loans	120,165
Philadelphia Parking Authority	14,820
Total:	136,175

3) Single Audit

The City receives significant financial assistance from numerous federal, state and local governmental agencies in the form of grants and entitlements. The disbursement of funds received under these programs generally requires compliance with terms and conditions as specified in the grant agreements, and is subject to audit. Any disallowed claims resulting from such audits and relating to the City or its component units could become a liability of the General Fund or other applicable funds. In the opinion of City officials the only significant contingent liabilities related to matters of compliance are the unresolved and questioned costs in the City's Schedule of Financial Assistance to be issued for the fiscal year ended June 30, 2011, which accounted for $975.9 million for all open program years as of December 10, 2012. Of this amount, $522.0 million represents unresolved cost due to the inability to obtain audit reports from sub-recipients for the year ended June 30, 2011 due to timing differences in audit requirements, $26.9 million represents questioned costs due to the inability to obtain sub recipient audit reports for the fiscal years June 30, 2011 and prior and $427.0 million represents questioned costs related to specific compliance requirements which have yet to be resolved.

4) HUD Section 108 Loans

As of the end of the fiscal year, the Federal Department of Housing and Urban Development (HUD) had disbursed $248.1 million in loans to the Philadelphia Industrial Development Corporation (PIDC). The funds, which were used to establish a loan pool pursuant to a contract between the City and HUD, are being accounted for and administered by PIDC on behalf of the City. Pool funds are loaned to businesses for economic development purposes. Loan repayments and investment proceeds from un-loaned funds are used to repay HUD. Collateral for repayment of the funds includes future Community Development Block Grant entitlements due to the City from HUD. The total remaining principal to be repaid to HUD for all loans at the end of the year was $120.2 million.

5) Act 148 Children and Youth Program Activities Moved to Grants Revenue Fund

In previous fiscal years the Act 148 Children and Youth Program, reimbursed by the Commonwealth of Pennsylvania, was accounted for in the General Fund. Starting in fiscal year 2012, the reimbursable portion of this program was accounted for in the Grants Revenue fund, and the non-reimbursable portion continues to be accounted for in the General Fund. At June 30, 2012 the Grants Revenue Fund had a $132.5 million receivable for the Children and Youth program. Due to the nature of the program’s billing policies, the city has 24 months after the current fiscal yearend date to submit a final reimbursement request. If receivables for program costs submitted for reimbursement are subsequently deemed as ineligible, such non-reimbursable costs will be charged to the General Fund.

B. COMPONENT UNITS

1) Claims and Litigation

***Special Education and Civil Rights Claims* –** There are two hundred fifty-six (256) various claims against the School District, by or on behalf of students, which aggregate to a total potential liability of $2.3 million.

Of those, two hundred forty-four (244) are administrative due process hearings and appeals to the state appeals panel pending against the School District. These appeals are based on alleged violations by the School District to provide a free, appropriate public education to students under federal and state civil rights, special education or the Rehabilitation Act and anti-discrimination laws. In the opinion of the General Counsel of the School District, one hundred and nine (109) unfavorable outcomes are deemed probable and one hundred and seven (107) are considered reasonably possible, in the aggregate of $0.7 million and $0.6 million respectively.

There are six (6) lawsuits pending against the School District asserting claims in violation of §1983 of the Civil Rights Act. In the opinion of the General Counsel of the School District, unfavorable outcomes of five (5) are deemed probable and reasonably possible in the aggregate amounts of approximately $0.14 million and $0.52 million respectively.

There are six (6) suits in federal court by parents of special education students for reimbursement for attorneys’ fees and costs in administrative proceedings and appeals to court in which the parents were prevailing parties. In the opinion of the General Counsel of the School District, unfavorable outcomes are deemed probable and reasonably possible in the aggregate amounts of approximately $0.2 million and $0.07 million respectively.

Other Matters - The School District is a party to various claims, legal actions, arbitrations and complaints in the ordinary course of business, which aggregate to a total potential liability of $20.1 million. In the opinion of the General Counsel of the School District, it is unlikely that final judgments or compromised settlements will approach the total potential liability, however. Nevertheless, the School District annually budgets an amount that management believes is adequate, based on past experience, to provide for these claims when they become fixed and determinable in amount. More particularly, compromised settlements or unfavorable outcomes are deemed probable or reasonably possible in the amounts of $0.5 million and $2.1 million, respectively, in connection with disputed contracts and labor and employment matters. Likewise, compromised settlements or unfavorable verdicts are deemed probable or reasonably possible in the aggregate amounts of $2.5 million and $2.2 million, respectively, arising from personal injury and property damage claims and lawsuits.

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

The Commonwealth of Pennsylvania's Bureau of Audits conducted a performance audit of the School District's pupil membership and attendance reporting procedures for the 2009-2010 school year and issued a draft report on October 26, 2011. The School District's response to the draft report was filed on December 16, 2011. The final audit report was issued on February 14, 2012, including the School District's corrective action plan. Because no final determination of forgiveness has been made, however, there remains a reasonably possible loss in this category in the amount of $40 million.

Federal Audit - The School District is the subject of an audit by the National Science Foundation ("NSF") Office of Inspector General ("OIG") of two grant awards from the NSF covering the period from July 1, 1999 through August 31, 2005. The NSF OIG auditors issued a final audit report in May 2008 questioning $3,346,652 in costs incurred under the two awards. The NSF Cost Analysis and Audit Resolution branch requested additional information and documentation from the School District to aid in its determination of whether to seek repayment of any funds from the School District based upon the auditor's final conclusions. On April 14, 2009, NSF issued its decision eliminating $834,406 from the recommended disallowance, leaving $2,512,246 that NSF would seek to recover. On November 30, 2012, NSF sent a letter demanding payment in the amount of $2,512,246. The School District requested a review of the debt. By letter dated January 25, 2013, NSF denied the School District's request. The School District will review its legal options, including filing suit against NSF in federal court. In the opinion of outside counsel, the loss to the School District is probable.

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

USDE's counsel stipulated that $2.8 million is barred by the statute of limitations, leaving a balance of $7.2 million. To extinguish this remaining liability, in late April 2012, the School District submitted documentation for equitable offset for non federal expenditures by Philadelphia for the Education Assistance Program and Bullying Prevention program. On June 8, 2012, counsel advised USDE's counsel that unless the School District heard back from them on the equitable offset documentation by July 1, 2012, the School District would ask the Administrative Law Judge (ALJ) to reinstate the briefing schedule. On August 1, 2012, the tribunal granted PDE's motion to reinstate the briefing schedule. PDE filed its initial brief on September 28, 2012. USDE's counsel filed its brief on October 27, 2012. PDE then filed the reply brief on November 21, 2012. The Administrative Law Judge (ALJ) may issue the decision entirely on the basis of the briefs, or may schedule an evidentiary hearing or oral argument. To date, no oral argument or evidentiary hearing has been requested or scheduled. Once the initial decision is rendered by the ALJ, either party may request a review of that initial decision by the Secretary. The Secretary may affirm, remand or set aside the ALJ decision. The Secretary's final decision may be appealed to the U.S. Court of Appeals for the Third Circuit.

On September 29, 2011, USDE issued a second PDL ("September PDL") seeking a recovery of approximately $2.5 million based on finding 1. The September PDL was not timely appealed by PDE. However, the September PDL invited PDE to present evidence of the amount barred by the statute of limitations. With regard to the September PDL, PDE and the School District have assembled documentation demonstrating the application of the statute of limitations. USDE will then review the documentation and indicate what costs USDE agrees are barred by the statute of limitations.

In August 2012, a third PDL was issued ("August PDL"). The August PDL addressed portions of findings 4 and 5, but did not seek a recovery of funds.

On December 19, 2012, USDE, by Program Review letter, requested the School District provide additional documentation in support of questioned expenditures, totaling $341,693, charged to the GEAR UP grant. The School District is gathering these materials to provide to USDE by January 30, 2013. To date, USDE has not issued a formal determination regarding these expenditures.

Therefore, no assurance can be given as to the final resolution of the audit, the amounts, if any, which may be required to be repaid by the School District or whether such repayments could have a material adverse effect on the financial condition of the School District. In the opinion of the outside counsel, with regard to the March PDL and the September PDL, the likelihood of a recovery by the U.S. Government in the amount of $9.6 million is remote.

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

Pursuant to resolutions of the School Reform Commission, the School District implemented a new 403(b) Plan and a 457(b) Deferred Compensation Plan (collectively, the "Plans") in fiscal years 2005 and 2006. The School District obtained advice from outside legal counsel on the creation of the Plans and on the appropriate tax treatment of automatic and mandatory employer contributions of termination pay to the Plans for employees resigning or retiring during or after the calendar year in which they attain age 55. Termination pay is the accrued and unpaid amounts of vacation, personal and sick leave for a resigning or retiring employee. Prior to July 1, 2005, the School District would pay termination pay owed to a resigning or retiring employee in cash or, at the direction of the employee, would deposit such termination pay into the retiring or resigning employee's 403(b) account up to the annual contribution limit for section 403(b) accounts. For employees resigning or retiring on and after June 1, 2005, the School District eliminated payment of termination pay in cash and replaced it with an automatic and mandatory employer contribution of termination pay to the Plans up to the annual contribution limits for such Plans for employees who resign or retire during or after the calendar year in which they attain age 55. Based on the advice of legal counsel, the School District has treated its termination pay contributions to the 403(b) Plan as employer contributions to a retirement plan, which are not included in employee wages and are not subject to Federal income tax, FICA, Pennsylvania Personal Income Tax or Philadelphia Wage Tax when contributed to the 403(b) Plan. Since employer contributions to a 457(b) Plan are considered wages for FICA purposes, the School District has withheld those taxes from its termination payments made to the 457(b) Plan. Employer contributions to 457(b) Plan are not subject to Federal income tax, Pennsylvania Personal Income Tax or Philadelphia Wage Tax. For that reason, the School District has not withheld those taxes from its termination pay contributions to the 457(b) Plan. Outside legal counsel advised on the contribution of termination pay to the 403(b) and 457(b) Plans, and has provided an opinion as to its proper tax treatment. By letter dated October 16, 2012, the IRS stated that "the School District is in fact following the policy [relating to the employer contribution of termination pay to the 403(b) Plan] as it was revised in 2005, [and] therefore no Federal employment tax liability exists." The School District management believes that if it were finally determined that any liability for State or City taxes (including interest and penalties) relating to these plans existed at June 30, 2012, such liability would not be material to the School District's financial position or results of operations for the fiscal year ended June 30, 2012.

9. SUBSEQUENT EVENTS

A. PRIMARY GOVERNMENT

1) Effective October 1, 2012, the city offered an employee compensation package to employees in the following classes: exempts, non-represented and DC 47 - Local 2186 offering a 2.5% wage increase and reinstatement of steps and longevity. In addition, medical co-payments will be increased for HMO plan participants while the Point of Service plan will no longer be offered. The wage increase and reinstatement of steps and longevity have been approved by the Civil Service Commission. An ordinance has been sent to City Council that would do the following: (1) mandate all new hires in the covered groups (exempts, non-reps and Local 2186, courts and elected officials) go into Plan 10; (2) give existing employees a window to elect to move from their current plan to Plan 10; (3) increase the employee contribution to pension for current employees in Plan 87 from 30% of normal cost to 50% of normal cost; (4) increase the employee contribution to pension for current employees in Plan 67 to the greater of 6% or 50% of the normal cost; and (5) implement the pension changes in the interest arbitration awards for Local 810 (Courts) and Local 159 (Prisons). Plan 10 is a hybrid pension combining the defined benefit and combined contribution components.

2) Through January 11, 2013 drawdowns totaling $14.4 million represent new loans from the Pennsylvania State Infrastructure Financing Authority ("PENNVEST") for: Water Treatment Plant ($3.08 million); Sewer Piping Replacement ($6.5 million); Water Main Replacement ($4.7 million); Green Infrastructure ($.1 million).

3) In December 2012 the city issued $127 million of Tax and Revenue Anticipation Notes (TRAN), Series A of 2012-2013 to provide cash to supplement the receipts of the City in the General Fund for the purpose of paying the general expenses if the city prior to receipt of taxes and other revenues to be received in the current fiscal year and pay the costs of issuance of the Notes. The proceeds will be invested and repaid by June 30, 2013.

4) In November 2012, the City issued Water and Wastewater Revenue Refunding Bonds, Series 2012. The bonds were issued in the amount of $70.4 million with interest rates ranging from 1% to 5% and have a maturity date of 2028. The plan is to refund all of the City's outstanding Water and Wastewater Bonds, Series 2001A and Series 2001B maturing after November 1, 2012 and pay the costs of issuance related to the Bonds.

5) The City is in the process of completing the Actual Valuation (AVI) which involves reassessing every property in the City and setting assessed values at market rates to create a fair assessment system upon which to base property taxation. This will be the City's first full reassessment in decades and will ensure that every property owner has fair, accurate and understandable assessments. As properties are now assessed at only a fraction (32%) of their actual value, and assessments have often not kept up with changes in value, this process will result in substantial increases in properties' assessed values. The Administration proposes several changes to ensure that property owners tax burdens will not be significantly impacted. The Administration proposes to reduce millage rate when AVI is complete. The new rate will generate at least the amount of revenues needed to meet the property tax revenue projections in the Five Year Plan and will capture the net increase in property values that occurred during the years when the city was not doing comprehensive reassessments.

6) In May 2012, City Council introduced Ordinance #120177 and Resolution #120188 that would require a ballot referendum that will appear on the November ballot, which would amend the Charter to allow City Council to establish an independent ratemaking body to be responsible for fixing and regulating rates and charges for water and sewer services; and establish open and transparent processes and procedures for fixing and regulating said rates and charges. This Ordinance was enacted and the Resolution was adopted in May 2012, and the referendum question was included on the ballot for consideration by the voters in November 2012. The amendment of the Charter was approved by referendum and City Council is now authorized to adopt an ordinance to implement a new ratemaking agency. Prospective rates established by a new ratemaking agency would be subject to the Act and the covenants and requirements of the General Ordinance, including the Rate Covenant. Any revisions to the rate process are planned for future rate proceedings applicable to Fiscal Year 2016 and future years.

7) DC 47 filed a grievance challenging the City's failure to provide step increases and longevity pay increases after the collective bargaining agreement expired, while negotiations over a new agreement continue. The arbitrator denied the grievance, Common Pleas affirmed, and DC 47 has appealed to Commonwealth Court. The Commonwealth Court affirmed the Common Pleas Court and, so far, no action has been taken.

B. COMPONENT UNITS

1) In October 2012, PAID issued City Service Agreement Revenue Bonds, Series 2012 in the amount of $231.2 million. The bonds mature on April 1, 2013 ($106.9 million) and April 1, 2014 ($124.3 million). PAID issued the bonds at the request of the City of Philadelphia and the proceeds will be used to finance the re-payment of the city's minimum municipal funding obligation deferred under 53 P.S. section 895.1002 in the amount of $230 million and payment of the costs of issuance of the Bonds.

2) In December 2012, PAID issued City Service Agreement Refunding Revenue Bonds, Series 2012 in the amount of 299.8 million. The Series 2012 bonds were issued as Term Bonds with interest rates of 3.664% ($42.2 million) and 3.964% ($257.6 million). The term bonds have a maturity date of April 15, 2026. The plan is to (i) refund outstanding Pension Funding Bonds Series 1999B, (ii) fund capitalized interest on the Bonds through April 15, 2020, (iii) make a deposit to the City Retirement System and (iv) pay the cost of issuance of the Bonds.

3) In August 2012, Philadelphia Gas Works deposited funds into an escrow account to defease a portion of their outstanding bonds. The amounts deposited into the escrow account will be held as cash or used to purchase U.S. Government obligations which would mature on the payment dates of the bonds being defeased. The total escrow cost came to $20.9 million. The principal payments that were defeased and their related bond issues are listed below:

   - $3,090,000 of Fourth series principal maturing on August 1, 2013.
   - $2,865,000 of Fifth Series A-1 principal due on September 1, 2012.
   - $6,105,000 of Seventh Series principal maturing on October 1, 2012.
   - $5,315,000 of Eighth Series principal maturing on August 1, 2013.
   - $2,855,000 of Ninth Series principal maturing on August 1, 2013.

4) Tax and Revenue Anticipation Notes

   On July 3, 2012 the School District issued annual tax and revenue anticipation notes for cyclical cash flow purposes for Fiscal Year 2013 in the aggregate principal amount of $500.0 million (the "FY 2013 Notes'). The FY2013 Notes mature on June 28, 2013.

5) Tax Bills for Fiscal Year 2013

   On June 30, 2012, City Council enacted Ordinance (Bill No.) 120175-AA and on July 5, 2012, the Commonwealth enacted Act 131 both of which provide that assessed values for tax year 2011 are to be used for determining real estate and use and occupancy tax bills for tax year 2013, using a predetermined ratio of 32%.

6) Five-Year Financial Plan

   On September 10, 2012, the School Reform Commission approved a five-year financial plan ("Financial Plan") designed to bring the School District's Operating Budget into structural balance over the five-year period. The Financial Plan assumes a borrowing of $300 million in Fiscal Year 2013 to provide revenues to balance the Fiscal Year 2013 budget.

7) School Lease Revenue Bonds

   On November 28, 2012, the State Public School Building Authority (SPSBA) issued $264,995,000 aggregate principal amount of fixed rate school lease revenue bonds for the benefit of the School District. The bonds mature in serial installments over a 20-year period. The proceeds, including a premium of $36,908,311, are to be used to fund District operations in FY2013 as well as pay the costs of issuance. It is expected that a portion of the proceeds will be available to fund certain operating expenses in FY2014.

8) Actual Value Initiative ("AVI")

The City has begun the work of reassessing approximately 577,000 parcels to more nearly approximate the market values of such properties for assessing taxes in Fiscal Year 2014, and thereafter.

On October 24, 2012, Act 160 was enacted by the Commonwealth at the City's request, to permit downward adjustments to the School District millage rates in the face of higher assessments which would have been otherwise prohibited by state law absent the amendment contained in Act 160. Act 160 provides, among other things, that for the year in which the City first certifies the total assessed value of all real property in the City at its full market value (the "reassessment year") and the two years thereafter, the rate of any real estate based tax authorized by City Council for the School District would be set to yield an amount equal to or greater than the highest yield of the taxes authorized by City Council during any of the three full preceding years prior to the reassessment year.

Act 160 also limits the amount of millage that the School District may levy directly through legislative authorization by the General Assembly (currently at 16.75 mills) once the full value assessments are in use. In the third and fourth years following the reassessment year, the rate of any real estate based tax authorized by City Council to be levied by the School District shall not be less than the rate authorized in the immediately preceding year.

City of Philadelphia
PENNSYLVANIA

Required Supplementary Information

(Other than Management's Discussion and Analysis)

City of Philadelphia **Exhibit XIV**

Required Supplementary Information

Budgetary Comparison Schedule

General Fund

For the Fiscal Year Ended June 30, 2012

Amounts in thousands of USD

	Budgeted Amounts			Final Budget to Actual Positive
	Original	Final	Actual*	(Negative)
Revenues				
Tax Revenue	2,539,452	2,537,147	2,570,445	33,298
Locally Generated Non-Tax Revenue	259,959	251,544	256,694	5,150
Revenue from Other Governments	651,800	704,879	715,873	10,994
Revenue from Other Funds	51,510	53,028	48,341	(4,687)
Total Revenues	3,502,721	3,546,598	3,591,353	44,755
Expenditures and Encumbrances				
Personal Services	1,330,088	1,328,959	1,318,984	9,975
Pension Contributions	554,431	547,804	547,804	-
Other Employee Benefits	468,272	518,353	518,446	(93)
Sub-Total Employee Compensation	2,352,791	2,395,116	2,385,234	9,882
Purchase of Services	758,994	764,214	760,819	3,395
Materials and Supplies	64,864	68,916	68,588	328
Equipment	14,096	11,445	11,329	116
Contributions, Indemnities and Taxes	117,544	118,365	118,048	317
Debt Service	130,739	111,524	111,334	190
Payments to Other Funds	27,066	29,550	29,523	27
Advances, Subsidies, Miscellaneous	4,000	-	-	-
Total Expenditures and Encumbrances	3,470,094	3,499,130	3,484,875	14,255
Operating Surplus (Deficit) for the Year	32,627	47,468	106,478	59,010
Fund Balance Available for Appropriation, July 1, 2011	3,454	92	92	-
Operations in Respect to Prior Fiscal Years				
Commitments Cancelled - Net	24,500	24,500	40,265	15,765
Revenue Adjustments - Net	-	-	(76)	(76)
Prior Period Adjustments	-	-	(5)	(5)
Other Adjustments	-	(1,850)	-	1,850
Adjusted Fund Balance, July 1, 2011	27,954	22,742	40,276	17,534
Fund Balance Available for Appropriation, June 30, 2012	60,581	70,210	146,754	76,544

* Refer to the notes to required supplementary information.

City of Philadelphia **Exhibit XV**
Required Supplementary Information
Budgetary Comparison Schedule
HealthChoices Behavioral Health Fund
For the Fiscal Year Ended June 30, 2012

Amounts in thousands of USD

	Budgeted Amounts			Final Budget to Actual Positive
	Original	Final	Actual*	(Negative)
Revenues				
Locally Generated Non-Tax Revenue	5,000	1,500	812	(688)
Revenue from Other Governments	840,154	822,980	799,872	(23,108)
Total Revenues	845,154	824,480	800,684	(23,796)
Other Sources				
Decrease in Unreimbursed Committments	-	-	(15,828)	(15,828)
Increase in Financed Reserves	-	-	(1,653)	(1,653)
Total Revenues and Other Sources	845,154	824,480	783,203	(41,277)
Expenditures and Encumbrances				
Purchase of Services	917,828	917,023	825,356	91,667
Equipment	100	100	-	100
Payments to Other Funds	1,226	2,031	2,030	1
Total Expenditures and Encumbrances	919,154	919,154	827,386	91,768
Operating Surplus (Deficit) for the Year	(74,000)	(94,674)	(44,183)	50,491
Fund Balance Available for Appropriation, July 1, 2011	-	46,252	46,252	-
Operations in Respect to Prior Fiscal Years				
Commitments Cancelled - Net	-	-	23,095	23,095
Other Adjustments	74,000	10,748	-	(10,748)
Adjusted Fund Balance, July 1, 2011	74,000	57,000	69,347	12,347
Fund Balance Available for Appropriation, June 30, 2012	-	(37,674)	25,164	62,838

* Refer to the notes to required supplementary information.

City of Philadelphia
Required Supplementary Information
Budgetary Comparison Schedule
Grants Revenue Fund
For the Fiscal Year Ended June 30, 2012

Exhibit XVI

Amounts in thousands of USD

	Budgeted Amounts			Final Budget to Actual
	Original	Final	Actual*	Positive (Negative)
Revenues				
Locally Generated Non-Tax Revenue	74,761	77,951	42,676	(35,275)
Revenue from Other Governments	1,458,407	1,232,808	834,007	(398,801)
Total Revenues	1,533,168	1,310,759	876,683	(434,076)
Other Sources				
Decrease in Unreimbursed Committments	-	-	(6,543)	(6,543)
Decrease in Financed Reserves	-	-	17,050	17,050
Total Revenues and Other Sources	1,533,168	1,310,759	887,190	(423,569)
Expenditures and Encumbrances				
Personal Services	172,316	196,993	145,159	51,834
Pension Contributions	19,903	34,044	27,231	6,813
Other Employee Benefits	56,330	44,062	30,964	13,098
Sub-Total Employee Compensation	248,549	275,099	203,354	71,745
Purchase of Services	1,092,486	1,067,218	816,265	250,953
Materials and Supplies	38,474	22,128	13,755	8,373
Equipment	-	15,559	4,846	10,713
Contributions, Indemnities and Taxes	-	10	10	-
Payments to Other Funds	33,658	40,016	33,940	6,076
Advances, Subsidies, Miscellaneous	120,001	79,601	-	79,601
Total Expenditures and Encumbrances	1,533,168	1,499,631	1,072,170	427,461
Operating Surplus (Deficit) for the Year	-	(188,872)	(184,980)	3,892
Fund Balance Available for Appropriation, July 1, 2011	-	(34,270)	(34,270)	-
Operations in Respect to Prior Fiscal Years				
Commitments Cancelled - Net	-	-	52,631	52,631
Revenue Adjustments - Net	-	-	(8,463)	(8,463)
Prior Period Adjustments	-	34,270	-	(34,270)
Adjusted Fund Balance, July 1, 2011	-	-	9,898	9,898
Fund Balance Available for Appropriation, June 30, 2012	-	(188,872)	(175,082)	13,790

* Refer to the notes to required supplementary information.

City of Philadelphia

Exhibit XVII

Required Supplementary Information

Pension Plans and Other Post Employment Benefits - Schedule of Funding Progress

Amounts in millions of USD

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll (b - a) / c
City of Philadelphia Municipal Pension Plan						
07/01/2006	4,168.5	8,083.7	3,915.2	51.57%	1,319.4	296.74%
07/01/2007	4,421.7	8,197.2	3,775.5	53.94%	1,351.8	279.29%
07/01/2008	4,623.6	8,402.2	3,778.6	55.03%	1,456.5	259.43%
07/01/2009	4,042.1	8,975.0	4,932.9	45.04%	1,463.3	337.11%
07/01/2010	4,380.9	9,317.0	4,936.1	47.02%	1,421.2	347.32%
07/01/2011	4,489.1	9,487.5	4,998.4	47.32%	1,371.3	364.50%
City of Philadelphia Other Post Employment Benefits						
07/01/2007	-	1,136.7	1,136.7	0.00%	1,351.8	84.09%
07/01/2008	-	1,156.0	1,156.0	0.00%	1,456.5	79.37%
07/01/2009	-	1,119.6	1,119.6	0.00%	1,461.7	76.60%
07/01/2010	-	1,169.5	1,169.5	0.00%	1,419.5	82.39%
07/01/2011	-	1,212.5	1,212.5	0.00%	1,469.2	82.53%
Philadelphia Gas Works Pension Plan						
09/01/2005	383.5	450.8	67.3	85.07%	102.5	65.66%
09/01/2006	411.9	474.3	62.4	86.84%	106.0	58.87%
09/01/2007	416.2	482.4	66.2	86.28%	105.6	62.69%
09/01/2008	430.4	495.2	64.8	86.92%	107.9	60.01%
09/01/2009	355.5	519.8	164.3	68.39%	106.0	155.00%
09/01/2010	382.0	533.7	151.7	71.58%	106.1	142.98%

For the Fiscal Year Ended June 30, 2012 Amounts in thousands of USD

I. BASIS OF BUDGETING

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

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

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

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

II. BASIS OF BUDGETING TO GAAP BASIS RECONCILIATION

	General Fund	HealthChoices Behavioral Health Fund	Grants Revenue Fund
Revenues			
Budgetary Comparison Schedule	3,591,352	800,684	876,683
Transfers	(333,694)	-	-
Program Income	-	-	69,479
Adjustments applicable to Prior Years Activity	-	-	(5)
Change in Amount Held by Fiscal Agent	285	-	-
Change in BPT Adjustment	(8,261)	-	-
Other	(76)	-	(685)
Statement of Revenues, Expenditures & Changes in Fund Balance	3,249,606	800,684	945,472
Expenditures and Encumbrances			
Budgetary Comparison Schedule	3,484,874	827,386	1,072,170
Transfers	(153,665)	-	(32,130)
Bond Issuance Costs	1,090	-	-
Expenditures applicable to Prior Years Budgets	41,144	(6,467)	31,886
Program Income	-	-	69,479
Other	5	-	9,326
Change in Amount Held by Fiscal Agent	3,966	-	-
Current Year Encumbrances	(59,199)	(799)	(77,974)
Statement of Revenues, Expenditures & Changes in Fund Balance	3,318,215	820,120	1,072,757

City of Philadelphia
PENNSYLVANIA

Other Supplementary Information

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NON-MAJOR GOVERNMENTAL FUNDS (Cont'd)

DEBT SERVICE FUNDS

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

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

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

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

CAPITAL IMPROVEMENT FUNDS

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

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

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

PERMANENT FUNDS

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

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

City of Philadelphia **Schedule I**
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2012

Amounts in thousands of USD

	Special Revenue													
	County Liquid Fuels Tax	Special Gasoline Tax	Hotel Room Rental Tax	Community Development	Car Rental Tax	Housing Trust	Acute Care Hospital Assessment	Riverview Residents	Philadelphia Prisons	Arbitration Appeals	Departmental	Municipal Authority Administrative	PICA Administrative	Total
Assets														
Cash on Deposit and on Hand	-	-	-	-	-	-	-	-	-	-	5,513	405	32,186	38,104
Equity in Treasurer's Account	3,149	22,428	7,165	-	5,929	11,612	10,294	34	4,747	-	1,438	-	-	66,796
Investments	-	-	-	-	-	-	-	-	-	-	1,034	100	8,172	9,306
Due from Other Funds	-	-	-	-	-	-	-	-	-	-	460	-	-	460
Taxes Receivable	-	-	5,189	-	511	-	2,317	-	-	-	-	-	4,665	12,682
Accounts Receivable	-	-	-	3,193	-	-	-	-	-	-	-	6,147	-	9,340
Due from Other Governmental Units	-	-	-	6,040	-	-	-	-	-	-	-	-	-	6,040
Allowance for Doubtful Accounts	-	-	(266)	-	(5)	-	(1,816)	-	-	-	-	-	-	(2,087)
Interest and Dividends Receivable	-	-	-	-	1	-	-	-	-	-	-	-	8	9
Other Assets	-	-	-	-	-	-	-	-	-	-	547	-	20	567
Total Assets	3,149	22,428	12,088	9,233	6,436	11,612	10,795	34	4,747	-	8,992	6,652	45,051	141,217
Liabilities and Fund Balances														
Liabilities:														
Notes Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Vouchers Payable	-	212	-	805	-	197	66	-	73	-	147	-	-	1,500
Accounts Payable	570	1,629	1,787	4,934	-	313	1,186	-	-	-	896	6,346	124	17,785
Salaries and Wages Payable	-	-	-	142	-	-	64	-	-	-	-	-	25	231
Due to Other Funds	-	-	-	2,864	-	-	-	-	27	-	388	-	4,666	7,945
Due to Component Units	-	-	-	529	-	573	-	-	-	-	-	-	-	1,102
Funds Held in Escrow	-	-	-	-	-	-	-	-	447	-	762	-	-	1,209
Deferred Revenue	-	-	-	6,444	-	-	8	-	-	-	-	-	-	6,452
Total Liabilities	570	1,841	1,787	15,718	-	1,083	1,324	-	547	-	2,193	6,346	4,815	36,224
Fund Balances:														
Nonspendable	-	-	-	-	-	-	-	-	-	-	200	-	-	200
Restricted	2,579	20,587	10,301	-	6,436	10,529	9,471	-	-	-	5,743	306	40,236	106,188
Committed	-	-	-	-	-	-	-	34	4,200	-	856	-	-	5,090
Unassigned	-	-	-	(6,485)	-	-	-	-	-	-	-	-	-	(6,485)
Total Fund Balances	2,579	20,587	10,301	(6,485)	6,436	10,529	9,471	34	4,200	-	6,799	306	40,236	104,993
Total Liabilities and Fund Balances	3,149	22,428	12,088	9,233	6,436	11,612	10,795	34	4,747	-	8,992	6,652	45,051	141,217

City of Philadelphia **Schedule I**

Combining Balance Sheet

Non-Major Governmental Funds(Continued)

June 30, 2012

Amounts in thousands of USD

	Debt Service				Capital Improvement			Permanent	Total
	City	Municipal Authority	PICA	Total	City	Municipal Authority	Total	Libraries & Parks	Non-Major Governmental Funds
Assets									
Cash on Deposit and on Hand	-	-	31,520	31,520	-	-	-	2,831	72,455
Equity in Treasurer's Account	1,322	-	-	1,322	110,623	-	110,623	-	178,741
Investments	-	11	49,588	49,599	-	47,777	47,777	2,695	109,377
Due from Other Funds	-	-	-	-	-	-	-	-	460
Taxes Receivable	-	-	-	-	-	-	-	-	12,682
Accounts Receivable	-	-	-	-	-	-	-	-	9,340
Due from Other Governmental Units	-	-	-	-	31,063	-	31,063	-	37,103
Allowance for Doubtful Accounts	-	-	-	-	-	-	-	-	(2,087)
Interest and Dividends Receivable	-	-	5	5	33	8	41	-	55
Other Assets	-	-	-	-	-	-	-	1	568
Total Assets	1,322	11	81,113	82,446	141,719	47,785	189,504	5,527	418,694
Liabilities and Fund Balances									
Liabilities:									
Notes Payable	-	-	-	-	-	-	-	-	-
Vouchers Payable	-	-	-	-	5,665	-	5,665	-	7,165
Accounts Payable	-	-	-	-	22,177	5,441	27,618	14	45,417
Salaries and Wages Payable	-	-	-	-	81	-	81	-	312
Due to Other Funds	-	-		-	-	-	-	72	8,017
Due to Component Units	-	-	-	-	-	-	-	-	1,102
Funds Held in Escrow	-	-	-	-	1,845	-	1,845	-	3,054
Deferred Revenue	-	-	-	-	25,811	-	25,811	-	32,263
Total Liabilities	-	-	-	-	55,579	5,441	61,020	86	97,330
Fund Balances:									
Nonspendable	-	-		-	-	-	-	2,414	2,614
Restricted	1,322	11	81,113	82,446	86,140	42,344	128,484	3,027	320,145
Committed	-	-	-	-	-	-	-	-	5,090
Unassigned	-	-	-	-	-	-	-	-	(6,485)
Total Fund Balances	1,322	11	81,113	82,446	86,140	42,344	128,484	5,441	321,364
Total Liabilities and Fund Balances	1,322	11	81,113	82,446	141,719	47,785	189,504	5,527	418,694

City of Philadelphia
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the Fiscal Year Ended June 30, 2012

Schedule II

Amounts in thousands of USD

	Special Revenue													
	County Liquid Fuels Tax	Special Gasoline Tax	Hotel Room Rental Tax	Community Development	Car Rental Tax	Housing Trust	Acute Care Hospital Assessment	Riverview Residents	Philadelphia Prisons	Arbitration Appeals	Departmental	Municipal Authority Administrative	PICA Administrative	Total
Revenues														
Tax Revenue	-	-	47,651	-	5,166	-	139,531	-	-	-	-	-	357,725	550,073
Locally Generated Non-Tax Revenue	-	3	2	12,477	7	8,569	-	-	2,958	364	6,515	584	943	32,422
Revenue from Other Governments	5,186	24,601	-	43,332	-	-	-	-	-	-	-	-	-	73,119
Other Revenues	-	-	-	-	-	-	-	-	-	-	-	-	9,164	9,164
Total Revenues	5,186	24,604	47,653	55,809	5,173	8,569	139,531	-	2,958	364	6,515	584	367,832	664,778
Expenditures														
Current Operating:														
Economic Development	-	-	43,914	-	-	-	-	-	-	-	-	-	-	43,914
Transportation:														
Streets & Highways	4,755	20,145	-	-	-	-	-	-	-	-	-	-	-	24,900
Judiciary and Law Enforcement:														
Prisons	-	-	-	-	-	-	-	-	1,388	-	-	-	-	1,388
Conservation of Health:														
Health Services	-	-	-	-	-	-	135,330	-	-	-	-	-	-	135,330
Housing and Neighborhood Development	-	-	-	58,249	-	8,497	-	-	-	-	-	-	-	66,746
Cultural and Recreational:														
Parks & Recreation	-	-	-	-	-	-	-	-	-	-	5,149	-	-	5,149
Libraries and Museums	-	-	-	-	-	-	-	-	-	-	182	-	-	182
Improvements to General Welfare:														
Service to Property:														
General Management and Support	-	-	-	-	5,000	-	-	4	944	364	1,691	37,045	947	45,995
Capital Outlay	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt Service:														
Principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bond Issuance Cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenditures	4,755	20,145	43,914	58,249	5,000	8,497	135,330	4	2,332	364	7,022	37,045	947	323,604
Excess (Deficiency) of Revenues Over (Under) Expenditures	431	4,459	3,739	(2,440)	173	72	4,201	(4)	626	-	(507)	(36,461)	366,885	341,174
Other Financing Sources (Uses)														
Issuance of Debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of Refunding Bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bond Issuance Premium	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bond Defeasance	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers In	-	-	-	-	-	-	-	-	-	-	1,150	36,519		37,669
Transfers Out	-	-	-	-	-	-	(3,500)	-	-	-	-	-	(372,022)	(375,522)
Total Other Financing Sources (Uses)	-	-	-	-	-	-	(3,500)	-	-	-	1,150	36,519	(372,022)	(337,853)
Net Change in Fund Balances	431	4,459	3,739	(2,440)	173	72	701	(4)	626	-	643	58	(5,137)	3,321
Fund Balance - July 1, 2011	2,148	16,128	6,562	(4,045)	6,263	10,457	8,770	38	3,574	-	6,156	248	45,373	101,672
Adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fund Balance Adjusted - July 1, 2011	2,148	16,128	6,562	(4,045)	6,263	10,457	8,770	38	3,574	-	6,156	248	45,373	101,672
Fund Balance - June 30, 2012	2,579	20,587	10,301	(6,485)	6,436	10,529	9,471	34	4,200	-	6,799	306	40,236	104,993

City of Philadelphia **Schedule II**
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds(Continued)
For the Fiscal Year Ended June 30, 2012

Amounts in thousands of USD

	Debt Service				Capital Improvement			Permanent	Total
	City	Municipal Authority	PICA	Total	City	Municipal Authority	Total	Libraries & Parks	Non-Major Governmental Funds
Revenues									
Tax Revenue	-	-	-	-	-	-	-	-	550,073
Locally Generated Non-Tax Revenue	-	715	3,489	4,204	-	1,705	1,705	98	38,429
Revenue from Other Governments	-	-	-	-	35,087	-	35,087	-	108,206
Other Revenues	-	-	-	-	989	-	989	-	10,153
Total Revenues	-	715	3,489	4,204	36,076	1,705	37,781	98	706,861
Expenditures									
Current Operating:									
Economic Development	-	-	-	-	-	-	-	-	43,914
Transportation:									
Streets & Highways	-	-	-	-	-	-	-	-	24,900
Judiciary and Law Enforcement:									
Prisons	-	-	-	-	-	-	-	-	1,388
Conservation of Health:									
Health Services	-	-	-	-	-	-	-	-	135,330
Housing and Neighborhood Development	-	-	-	-	-	-	-	-	66,746
Cultural and Recreational:									
Parks & Recreation	-	-	-	-	-	-	-	97	5,246
Libraries and Museums	-	-	-	-	-	-	-	54	236
Improvements to General Welfare:									
Service to Property:									
General Management and Support	-		-	-	-	10	10	-	46,005
Capital Outlay	-	-	-	-	133,554	68,430	201,984	-	201,984
Debt Service:									
Principal	40,745	20,587	41,775	103,107	-	-	-	-	103,107
Interest	67,134	13,477	24,609	105,220	-	-	-	-	105,220
Bond Issuance Cost	381	-	-	381	-	168	168	-	549
Total Expenditures	108,260	34,064	66,384	208,708	133,554	68,608	202,162	151	734,625
Excess (Deficiency) of Revenues Over (Under) Expenditures	(108,260)	(33,349)	(62,895)	(204,504)	(97,478)	(66,903)	(164,381)	(53)	(27,764)
Other Financing Sources (Uses)									
Issuance of Debt	-	-	-	-	-	12,605	12,605	-	12,605
Issuance of Refunding Bonds	21,295	-	-	21,295	-	-	-	-	21,295
Bond Issuance Premium	3,758	-	-	3,758	-	442	442	-	4,200
Bond Defeasance	(24,670)	-	-	(24,670)	-	-	-	-	(24,670)
Transfers In	106,678	33,349	63,736	203,763	10,170	13,929	24,099	-	265,531
Transfers Out	-	-	-	-	(12,000)	-	(12,000)	-	(387,522)
Total Other Financing Sources (Uses)	107,061	33,349	63,736	204,146	(1,830)	26,976	25,146	-	(108,561)
Net Change in Fund Balances	(1,199)	-	841	(358)	(99,308)	(39,927)	(139,235)	(53)	(136,325)
Fund Balance - July 1, 2011	2,521	11	80,272	82,804	185,448	82,271	267,719	5,494	457,689
Adjustment	-	-	-	-	-	-	-	-	-
Fund Balance Adjusted - July 1, 2011	2,521	11	80,272	82,804	185,448	82,271	267,719	5,494	457,689
Fund Balance - June 30, 2012	1,322	11	81,113	82,446	86,140	42,344	128,484	5,441	321,364

City of Philadelphia **Schedule III**
Combining Statement of Fiduciary Net Assets
Pension Trust Funds
June 30, 2012 *Amounts in thousands of USD*

	Gas Works Retirement Reserve Fund	Municipal Pension Fund	Total
Assets			
Equity in Treasurer's Account	430,004	3,919,072	4,349,076
Securities Lending Collective Investment Pool	9,476	407,008	416,484
Allowance for Unrealized Loss	-	(1,860)	(1,860)
Accounts Receivable	-	3,052	3,052
Due from Brokers for Securities Sold	4,819	243,295	248,114
Interest and Dividends Receivable	1,569	17,868	19,437
Due from Other Governmental Units	-	2,442	2,442
Total Assets	445,868	4,590,877	5,036,745
Liabilities			
Vouchers Payable	-	9	9
Accounts Payable	514	4,315	4,829
Salaries and Wages Payable	-	57	57
Funds Held in Escrow	-	9	9
Due on Return of Securities Loaned	9,476	407,008	416,484
Due to Brokers for Securities Purchased	4,306	251,978	256,284
Accrued Expenses	11,299	2,224	13,523
Deferred Revenue	-	2,004	2,004
Other Liabilities	-	456	456
Total Liabilities	25,595	668,060	693,655
Net Assets Held in Trust for Pension Benefits	420,273	3,922,817	4,343,090

City of Philadelphia **Schedule IV**

Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Fiscal Year Ended June 30, 2012

Amounts in thousands of USD

	Gas Works Retirement Reserve Fund	Municipal Pension Fund	Total
Additions			
Contributions:			
Employer's Contributions	23,802	556,031	579,833
Employees' Contributions	35	49,979	50,014
Total Contributions	23,837	606,010	629,847
Investment Income:			
Interest and Dividends	12,799	86,168	98,967
Net Decline in Fair Value of Investments	(10,807)	(57,720)	(68,527)
(Less) Investments Expenses	(2,147)	(13,291)	(15,438)
Securities Lending Revenue	-	2,076	2,076
Securities Lending Unrealized Loss	-	(1,860)	(1,860)
(Less) Securities Lending Expenses	-	(852)	(852)
Net Investment Gain (Loss)	(155)	14,521	14,366
Miscellaneous Operating Revenues	-	-	-
Total Additions	23,682	620,531	644,213
Deductions			
Pension Benefits	39,844	706,184	746,028
Refunds of Members' Contributions	-	6,500	6,500
Administrative Expenses Paid	1,007	-	1,007
Other Operating Expenses	-	15,246	15,246
Total Deductions	40,851	727,930	768,781
Change in Net Assets	(17,169)	(107,399)	(124,568)
Net Assets - July 1, 2011	437,442	4,030,216	4,467,658
Net Assets - June 30, 2012	420,273	3,922,817	4,343,090

City of Philadelphia **Schedule V**

Combining Statement of Fiduciary Net Assets

Agency Funds

June 30, 2012

Amounts in thousands of USD

	Escrow Fund	Employee Health & Welfare Fund	Departmental Custodial Accounts	Total
Assets				
Cash on Deposit and on Hand	-	-	104,934	104,934
Equity in Treasurer's Account	17,494	24,741	-	42,235
Investments	-	-	9,676	9,676
Due from Other Funds	-	-	826	826
Total Assets	17,494	24,741	115,436	157,671
Liabilities				
Vouchers Payable	3,042	90	-	3,132
Payroll Taxes Payable	-	14,589	-	14,589
Funds Held in Escrow	14,452	10,062	115,436	139,950
Total Liabilities	17,494	24,741	115,436	157,671
Net Assets	-	-	-	-

City of Philadelphia

Schedule VI

Statement of Changes in Fiduciary Net Assets
Agency Funds
For the Fiscal Year Ended June 30, 2012

Amounts in thousands of USD

	Balance 7-1-2011	Additions	Deductions	Balance 6-30-2012
Escrow Fund				
Assets				
Equity in Treasurer's Account	30,744	394,056	407,306	17,494
Liabilities				
Funds Held in Escrow	30,742	394,056	410,346	14,452
Vouchers Payable	2	26,345	23,305	3,042
Total Liabilities	30,744	420,401	433,651	17,494
Employee Health and Welfare Fund				
Assets				
Equity in Treasurer's Account	14,921	866,555	856,735	24,741
Liabilities				
Vouchers Payable	604	10,751	11,265	90
Accounts Payable	246	-	246	-
Payroll Taxes Payable	3,234	767,982	756,627	14,589
Funds Held in Escrow	10,837	119,871	120,646	10,062
Total Liabilities	14,921	898,604	888,784	24,741
Departmental Custodial Accounts				
Assets				
Cash on Deposit and on Hand	136,099	152,495	183,660	104,934
Investments	11,910	9,676	11,910	9,676
Due from Other Funds	866	-	40	826
Total Assets	148,875	162,171	195,610	115,436
Liabilities				
Funds Held in Escrow	148,875	162,171	195,610	115,436
Totals - Agency Funds				
Assets				
Cash on Deposit and on Hand	136,099	152,495	183,660	104,934
Equity in Treasurer's Account	45,665	1,260,611	1,264,041	42,235
Investments	11,910	9,676	11,910	9,676
Due from Other Funds	866	-	40	826
Total Assets	194,540	1,422,782	1,459,651	157,671
Liabilities				
Vouchers Payable	606	37,096	34,570	3,132
Accounts Payable	246	-	246	-
Payroll Taxes Payable	3,234	767,982	756,627	14,589
Funds Held in Escrow	190,454	676,098	726,602	139,950
Total Liabilities	194,540	1,481,176	1,518,045	157,671

City of Philadelphia **Schedule VII**
City Related Schedule of Bonded Debt Outstanding
June 30, 2012

Amounts in USD

	Original Authorization	Date of Issuance	Issued	Fiscal 2012 Outstanding	Maturities	Interest Rates	FY 2013 Debt Service Requirements Interest	FY 2013 Debt Service Requirements Principal
General Obligation Bonds:								
Term Bonds	97,493,541	07/27/2006	531,988	531,988	8/2030 to 8/2031	5	26,599	-
	7,222,518	07/27/2006	7,222,518	7,222,518	8/2030 to 8/2031	5	361,126	-
	11,024,437	07/27/2006	11,024,437	11,024,437	8/2030 to 8/2031	5	551,222	-
	10,131,057	07/27/2006	10,131,057	10,131,057	8/2030 to 8/2031	5	506,553	-
	113,608,890	01/06/2009	113,608,890	113,608,890	7/2013 to 7/2038	5.25 to 7.125	7,865,987	-
	30,926,110	01/06/2009	30,926,110	30,926,110	7/2013 to 7/2038	5.25 to 7.125	2,141,244	-
	13,834,573	04/19/2011	13,834,573	13,834,573	8/2027 to 8/2041	5.875 to 6.50	856,361	-
	37,647,372	04/19/2011	37,647,372	37,647,372	8/2027 to 8/2041	5.875 to 6.50	2,330,377	-
	45,818,055	04/19/2011	45,818,055	45,818,055	8/2027 to 8/2041	5.875 to 6.50	2,836,143	-
Total Term Bonds	367,706,553		270,745,000	270,745,000			17,475,612	-
Refunding Issues	188,910,000	12/20/2007	188,910,000	170,290,000	08/2012 to 08/2019	5.00 to 5.25	8,369,338	10,770,000
	195,170,000	5/01/2008	195,170,000	192,985,000	12/2012 to 12/2032	4.00 to 5.25	10,022,537	100,000
	237,025,000	8/13/2009	237,025,000	237,025,000	08/2019 to 08/2031	4.25 to 5.50	12,030,260	-
	100,000,000	8/13/2009	100,000,000	100,000,000	08/2027 to 08/2031	variable	3,829,000	-
	114,570,000	4/19/2011	114,570,000	100,205,000	08/2012 to 08/2020	2.00 to 5.25	4,069,323	20,795,000
	21,295,000	5/8/2012	21,295,000	21,295,000	9/2014 to 9/2021	5	907,995	-
Total Refunding Bonds	856,970,000		856,970,000	821,800,000			39,228,453	31,665,000
Serial Bonds	99,400,449 [1]	07/27/2006	3,472,002	3,013,251	8/2012 to 8/2029	4.50 to 5.125	146,790	106,085
	12,165,000	12/02/2003	12,165,000	3,324,694	02/2013 to 02/2014	5.25	174,547	1,662,955
	84,972,482	12/02/2003	37,835,000	10,340,306	02/2013 to 02/2014	5.25	542,866	5,172,045
	[1]	07/27/2006	47,137,482	40,909,278	8/2012 to 8/2029	4.50 to 5.125	1,992,891	1,440,256
	71,950,563 [1]	07/27/2006	71,950,563	62,443,846	8/2012 to 8/2029	4.50 to 5.125	3,041,945	2,198,405
	66,119,953 [1]	07/27/2006	66,119,953	57,383,625	8/2012 to 8/2029	4.50 to 5.125	2,795,437	2,020,254
	16,086,110 [1]	01/06/2009	16,086,110	11,236,303	7/2012 to 7/2018	4.50 to 6	561,412	1,831,451
	4,378,890 [1]	01/06/2009	4,378,890	3,058,697	7/2012 to 7/2018	4.50 to 6	152,825	498,549
	5,950,427 [1]	04/19/2011	5,950,427	5,950,427	8/2012 to 8/2026	4.00 to 5.375	292,637	275,838
	16,192,628 [1]	04/19/2011	16,192,628	16,192,628	8/2012 to 8/2026	4.00 to 5.375	796,338	750,626
	19,706,945 [1]	04/19/2011	19,706,945	19,706,945	8/2012 to 8/2026	4.00 to 5.375	969,169	913,536
Total Serial Bonds	396,923,447		300,995,000	233,560,000			11,466,857	16,870,000
Total General Obligation Bonds	1,621,600,000		1,428,710,000	1,326,105,000			68,170,922	48,535,000

City of Philadelphia

Schedule VII

City Related Schedule of Bonded Debt Outstanding
June 30, 2012

Amounts in USD

	Original Authorization	Date of Issuance	Issued	Fiscal 2012 Outstanding	Maturities	Interest Rates	FY 2013 Debt Service Requirements: Interest	FY 2013 Debt Service Requirements: Principal
Revenue Bonds:								
Water and Sewer Revenue Bonds:								
Series 1995	221,630,000	04/15/1995	221,630,000	13,550,000	08/2012 to 08/2018	6.25	423,438	13,550,000
Series 1997 B	100,000,000 [2]	11/25/1997	100,000,000	70,100,000	08/2012 to 08/2027	Variable rates	114,191	3,100,000
Series 1998	135,185,000	12/25/1998	135,185,000	108,335,000	12/2012 to 12/2014	5.25	4,788,919	34,235,000
Series 1999 A	6,700,000	N.A.	6,700,000	564,623	07/2012 to 04/2019	2.73	14,460	76,205
Series 2001 A and B	285,920,000	11/15/2001	285,920,000	90,445,000	11/2012 to 11/2028	3.8 to 5.50	4,385,100	8,030,000
Series 2005 A	250,000,000	05/04/2005	250,000,000	225,595,000	07/2012 to 07/2035	3.00 to 5.25	11,248,663	5,015,000
Series 2005 B	86,105,000 [2]	05/04/2005	86,105,000	82,445,000	08/2012 to 08/2018	Variable rates	3,724,566	450,000
Series 2007 A	191,440,000	05/09/2007	191,440,000	152,865,000	8/2012 to 8/2027	4.5 to 5	7,150,700	7,730,000
Series 2007 B	153,595,000	05/09/2007	153,595,000	152,680,000	11/2012 to 11/2031	4.00 to 5.00	6,941,875	225,000
Series 2009 A	325,000,000	05/21/2009	140,000,000	140,000,000	01/2017 to 01/2033	4.00 to 5.75	7,294,037	-
Series 2010C		08/05/2010	185,000,000	185,000,000	8/2016 to 8/2040	3.00 to 5.00	9,022,250	-
Series 2010A	396,460,000	4/15/2010	396,460,000	343,645,000	06/2013 to 6/2019	3.00 to 5.00	16,409,385	44,860,000
Series 2009B	42,886,030	10/14/2009	22,827,986	22,827,986	07/2013 to 07/2033	1.193	269,315	761,427
Series 2009C	57,268,193	10/14/2009	35,666,542	35,666,542	07/2013 to 07/2033	1.193	416,834	1,588,578
Series 2009D	84,759,263	3/31/2010	64,380,070	64,380,071	07/2013 to 07/2033	1.193	759,529	2,147,395
Series 2010B	30,000,000	2/16/2011	8,111,482	8,111,482	07/2014 to 07/2034	1.193	96,770	-
Series 2011A	135,000,000	11/16/2011	135,000,000	135,000,000	1/2036 to 1/2041	4.5 to 5	7,579,125	
Series 2011B	49,855,000	11/16/2011	49,855,000	49,855,000	11/2016 to 11/2026	4.5 to 5	2,460,500	
Total Water Revenue Bonds	2,551,803,486		2,467,876,080	1,881,065,704			83,099,657	121,768,605
Aviation Revenue Bonds:								
Series 1998 B	443,700,000	07/01/1998	443,700,000	5,000	07/2028	5.125	256	-
Series 2005 C	189,500,000 [2]	06/02/2005	189,500,000	155,900,000	06/2013 to 06/2025	Variable rates	8,071,726	7,500,000
Series 2005 A	124,985,000	08/04/2005	117,605,000	114,900,000	06/2013 to 06/2035	4.20 to 5.50	5,475,455	2,840,000
Series 2007 A	172,470,000	08/16/2008	172,470,000	166,000,000	06/2013 to 06/2037	5	8,300,000	3,480,000
Series 2007 B	82,915,000	08/16/2008	82,915,000	66,660,000	06/2013 to 06/2027	5	3,333,000	3,595,000
Series 2009 A	45,715,000	04/14/2009	45,715,000	42,350,000	06/2013 to 06/2029	3.00 to 5.375	1,993,666	1,755,000
Series 2010A	273,065,000	11/15/2010	273,065,000	273,055,000	06/2013 to 06/2040	2.00 to 5.25	13,599,613	5,000
Series 2010B	24,395,000	11/15/2010	24,395,000	15,175,000	06/2013 to 06/2015	5.00	758,750	4,815,000
Series 2010C	54,730,000	11/15/2010	54,730,000	47,945,000	06/2013 to 06/2018	5.00	2,397,250	7,050,000
Series 2010D	272,475,000	11/15/2010	272,475,000	259,035,000	06/2013 to 06/2028	4.00 to 5.25	12,941,850	13,450,000
Series 2011A	199,040,000	12/14/2011	199,040,000	192,975,000	06/2013 to 06/2028	4.00 to 5.00	9,535,406	5,775,000
Series 2011B	34,790,000	12/14/2011	34,790,000	32,920,000	06/2013 to 06/2031	2.00 to 5.00	1,391,019	1,200,000
Total Aviation Revenue Bonds	1,917,780,000		1,910,400,000	1,366,920,000			67,797,991	51,465,000
Total Revenue Bonds	4,469,583,486		4,378,276,080	3,247,985,704			150,897,648	173,233,605
Total All Bonds	6,091,183,486		5,806,986,080	4,574,090,704 [3]			219,068,570	221,768,605

NOTES:

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

[2] Based on latest available estimated rates.

[3] A summary of all Bonds Outstanding is as follows:

	General Obligation Bonds	Revenue Bonds	Total
General Fund Types:			
General Fund	1,326,105,000	-	1,326,105,000
Proprietary Fund Types:			
Water Fund	-	1,881,065,704	1,881,065,704
Aviation Fund	-	1,366,920,000	1,366,920,000
Total Proprietary Funds	-	3,247,985,704	3,247,985,704
Total All Funds	1,326,105,000	3,247,985,704	4,574,090,704

City of Philadelphia **Schedule VIII**

Budgetary Comparison Schedule

Water Operating Fund

For the Fiscal Year Ended June 30, 2012

Amounts in thousands of USD

	Budgeted Amounts			Final Budget to Actual Positive (Negative)
	Original	Final	Actual	
Revenues				
Locally Generated Non-Tax Revenue	567,080	563,661	560,312	(3,349)
Revenue from Other Governments	3,000	2,600	3,192	592
Revenue from Other Funds	70,160	57,675	28,985	(28,690)
Total Revenues	640,240	623,936	592,489	(31,447)
Expenditures and Encumbrances				
Personal Services	113,259	113,259	100,907	12,352
Pension Contributions	52,672	52,809	48,613	4,196
Other Employee Benefits	43,130	42,993	38,395	4,598
Sub-Total Employee Compensation	209,061	209,061	187,915	21,146
Purchase of Services	144,339	144,339	129,135	15,204
Materials and Supplies	46,993	45,740	42,726	3,014
Equipment	5,263	6,516	3,187	3,329
Contributions, Indemnities and Taxes	6,603	6,603	3,047	3,556
Debt Service	196,177	196,177	192,423	3,754
Payments to Other Funds	51,804	51,804	54,858	(3,054)
Total Expenditures and Encumbrances	660,240	660,240	613,291	46,949
Operating Surplus (Deficit) for the Year	(20,000)	(36,304)	(20,802)	15,502
Fund Balance Available for Appropriation, July 1, 2011	-	-	-	-
Operations in Respect to Prior Fiscal Years				
Commitments Cancelled - Net	20,000	20,000	20,802	802
Adjusted Fund Balance, July 1, 2011	20,000	20,000	20,802	802
Fund Balance Available for Appropriation, June 30, 2012	-	(16,304)	-	16,304

City of Philadelphia
Schedule IX

Budgetary Comparison Schedule
Water Residual Fund
For the Fiscal Year Ended June 30, 2012

Amounts in thousands of USD

	Budgeted Amounts			Final Budget to Actual
	Original	Final	Actual	Positive (Negative)
Revenues				
Locally Generated Non-Tax Revenue	-	-	123	123
Revenue from Other Funds	22,893	23,108	18,390	(4,718)
Total Revenues	22,893	23,108	18,513	(4,595)
Expenditures and Encumbrances				
Payments to Other Funds	32,538	32,538	8,782	23,756
Total Expenditures and Encumbrances	32,538	32,538	8,782	23,756
Operating Surplus (Deficit) for the Year	(9,645)	(9,430)	9,731	19,161
Fund Balance Available for Appropriation, July 1, 2011	15,383	34,913	34,913	-
Fund Balance Available for Appropriation, June 30, 2012	5,738	25,483	44,644	19,161

City of Philadelphia **Schedule X**

Budgetary Comparison Schedule

County Liquid Fuels Tax Fund

For the Fiscal Year Ended June 30, 2012

Amounts in thousands of USD

	Budgeted Amounts			Final Budget to Actual
	Original	Final	Actual	Positive (Negative)
Revenues				
Revenue from Other Governments	4,950	4,950	5,186	236
Total Revenues	4,950	4,950	5,186	236
Expenditures and Encumbrances				
Personal Services	3,734	3,734	3,734	-
Purchase of Services	861	861	856	5
Materials and Supplies	256	256	255	1
Equipment	80	80	78	2
Payments to Other Funds	19	19	19	-
Total Expenditures and Encumbrances	4,950	4,950	4,942	8
Operating Surplus (Deficit) for the Year	-	-	244	244
Fund Balance Available for Appropriation, July 1, 2011	2,013	2,035	2,035	-
Operations in Respect to Prior Fiscal Years				
Commitments Cancelled - Net	25	25	73	48
Adjusted Fund Balance, July 1, 2011	2,038	2,060	2,108	48
Fund Balance Available for Appropriation, June 30, 2012	2,038	2,060	2,352	292

City of Philadelphia **Schedule XI**
Budgetary Comparison Schedule
Special Gasoline Tax Fund
For the Fiscal Year Ended June 30, 2012

Amounts in thousands of USD

	Budgeted Amounts			Final Budget to Actual Positive
	Original	Final	Actual	(Negative)
Revenues				
Locally Generated Non-Tax Revenue	32	20	3	(17)
Revenue from Other Governments	23,673	24,579	24,601	22
Total Revenues	23,705	24,599	24,604	5
Expenditures and Encumbrances				
Personal Services	3,000	3,000	3,000	-
Pension Contributions	500	500	500	-
Other Employee Benefits	500	500	500	-
Sub-Total Employee Compensation	4,000	4,000	4,000	-
Purchase of Services	15,458	15,185	15,185	-
Materials and Supplies	3,801	3,468	3,445	23
Equipment	590	1,196	1,196	-
Contributions, Indemnities and Taxes	15	15	15	-
Total Expenditures and Encumbrances	23,864	23,864	23,841	23
Operating Surplus (Deficit) for the Year	(159)	735	763	28
Fund Balance Available for Appropriation, July 1, 2011	14,074	15,575	15,575	-
Operations in Respect to Prior Fiscal Years				
Commitments Cancelled - Net	150	150	169	19
Adjusted Fund Balance, July 1, 2011	14,224	15,725	15,744	19
Fund Balance Available for Appropriation, June 30, 2012	14,065	16,460	16,507	47

City of Philadelphia **Schedule XII**

Budgetary Comparison Schedule

Hotel Room Rental Tax Fund

For the Fiscal Year Ended June 30, 2012

Amounts in thousands of USD

	Budgeted Amounts			Final Budget to Actual Positive
	Original	Final	Actual	(Negative)
Revenues				
Taxes	42,500	47,000	47,651	651
Locally Generated Non-Tax Revenue	2	2	2	-
Total Revenues	42,502	47,002	47,653	651
Expenditures and Encumbrances				
Contributions, Indemnities and Taxes	42,502	47,002	46,863	139
Total Expenditures and Encumbrances	42,502	47,002	46,863	139
Operating Surplus (Deficit) for the Year	-	-	790	790
Fund Balance Available for Appropriation, July 1, 2011	5,218	6,562	6,562	-
Fund Balance Available for Appropriation, June 30, 2012	5,218	6,562	7,352	790

City of Philadelphia

Schedule XIII

Budgetary Comparison Schedule
Aviation Operating Fund
For the Fiscal Year Ended June 30, 2012

Amounts in thousands of USD

	Budgeted Amounts			Final Budget to Actual
	Original	Final	Actual	Positive (Negative)
Revenues				
Locally Generated Non-Tax Revenue	381,134	293,482	293,763	281
Revenue from Other Governments	3,000	4,493	4,493	-
Revenue from Other Funds	2,000	2,059	947	(1,112)
Total Revenues	386,134	300,034	299,203	(831)
Expenditures and Encumbrances				
Personal Services	65,561	65,561	57,719	7,842
Pension Contributions	25,595	25,777	25,440	337
Other Employee Benefits	17,264	18,082	16,271	1,811
Sub-Total Employee Compensation	108,420	109,420	99,430	9,990
Purchase of Services	115,274	115,274	95,429	19,845
Materials and Supplies	8,757	8,957	7,836	1,121
Equipment	9,290	9,090	1,337	7,753
Contributions, Indemnities and Taxes	5,167	5,167	1,899	3,268
Debt Service	130,853	129,853	103,178	26,675
Payments to Other Funds	21,373	21,373	20,135	1,238
Total Expenditures and Encumbrances	399,134	399,134	329,244	69,890
Operating Surplus (Deficit) for the Year	(13,000)	(99,100)	(30,041)	69,059
Fund Balance Available for Appropriation, July 1, 2011	10,341	80,140	80,140	-
Operations in Respect to Prior Fiscal Years				
Commitments Cancelled - Net	15,000	10,000	14,581	4,581
Adjusted Fund Balance, July 1, 2011	25,341	90,140	94,721	4,581
Fund Balance Available for Appropriation, June 30, 2012	12,341	(8,960)	64,680	73,640

City of Philadelphia **Schedule XIV**

Budgetary Comparison Schedule

Community Development Fund

For the Fiscal Year Ended June 30, 2012

Amounts in thousands of USD

	Budgeted Amounts			Final Budget to Actual
	Original	Final	Actual	Positive (Negative)
Revenues				
Locally Generated Non-Tax Revenue	250	250	12,477	12,227
Revenue from Other Governments	107,762	87,207	35,955	(51,252)
Total Revenues	108,012	87,457	48,432	(39,025)
Other Sources				
Decrease in Financed Reserves	-	-	1,029	1,029
Total Revenues and Other Sources	108,012	87,457	49,461	(37,996)
Expenditures and Encumbrances				
Personal Services	7,525	7,525	4,718	2,807
Pension Contributions	2,608	3,085	1,838	1,247
Other Employee Benefits	2,381	1,904	1,214	690
Sub-Total Employee Compensation	12,514	12,514	7,770	4,744
Purchase of Services	74,928	74,928	53,578	21,350
Materials and Supplies	206	245	169	76
Equipment	334	295	74	221
Payments to Other Funds	30	30	25	5
Advances, Subsidies, Miscellaneous	20,000	20,000	-	20,000
Total Expenditures and Encumbrances	108,012	108,012	61,616	46,396
Operating Surplus (Deficit) for the Year	-	(20,555)	(12,155)	8,400
Fund Balance Available for Appropriation, July 1, 2011	-	(4,045)	(4,045)	-
Operations in Respect to Prior Fiscal Years				
Commitments Cancelled - Net	-	-	9,715	9,715
Prior Period Adjustments	-	4,045		(4,045)
Adjusted Fund Balance, July 1, 2011	-	-	5,670	5,670
Fund Balance Available for Appropriation, June 30, 2012	-	(20,555)	(6,485)	14,070

City of Philadelphia **Schedule XV**
Budgetary Comparison Schedule
Car Rental Tax Fund
For the Fiscal Year Ended June 30, 2012

Amounts in thousands of USD

	Budgeted Amounts			Final Budget to Actual Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	5,000	5,200	5,166	(34)
Locally Generated Non-Tax Revenue	5	3	7	4
Total Revenues	5,005	5,203	5,173	(30)
Expenditures and Encumbrances				
Purchase of Services	5,000	5,000	5,000	-
Total Expenditures and Encumbrances	5,000	5,000	5,000	-
Operating Surplus (Deficit) for the Year	5	203	173	(30)
Fund Balance Available for Appropriation, July 1, 2011	5,211	6,263	6,263	-
Fund Balance Available for Appropriation, June 30, 2012	5,216	6,466	6,436	(30)

City of Philadelphia **Schedule XVI**
Budgetary Comparison Schedule
Housing Trust Fund
For the Fiscal Year Ended June 30, 2012

Amounts in thousands of USD

	Budgeted Amounts			Final Budget to Actual Positive (Negative)
	Original	Final	Actual	
Revenues				
Locally Generated Non-Tax Revenue	7,905	8,385	8,569	184
Revenue from Other Funds	-	-	-	-
Total Revenues	7,905	8,385	8,569	184
Expenditures and Encumbrances				
Personal Services	600	600	413	187
Purchase of Services	15,400	15,400	14,862	538
Total Expenditures and Encumbrances	16,000	16,000	15,275	725
Operating Surplus (Deficit) for the Year	(8,095)	(7,615)	(6,706)	909
Fund Balance Available for Appropriation, July 1, 2011	4,249	7,099	7,100	1
Operations in Respect to Prior Fiscal Years				
Commitments Cancelled - Net	6,000	4,000	1,535	(2,465)
Adjusted Fund Balance, July 1, 2011	10,249	11,099	8,635	(2,464)
Fund Balance Available for Appropriation, June 30, 2012	2,154	3,484	1,929	(1,554)

City of Philadelphia **Schedule XVII**
Budgetary Comparison Schedule
General Capital Improvement Funds
For the Fiscal Year Ended June 30, 2012

Amounts in thousands of USD

	Budgeted Amounts			Final Budget to Actual Positive (Negative)
	Original	Final	Actual	
Revenues				
Locally Generated Non-Tax Revenue	402,486	405,329	1,205	(404,124)
Revenue from Other Governments	267,483	280,640	40,700	(239,940)
Revenue from Other Funds	-	-	4,340	4,340
Total Revenues	669,969	685,969	46,245	(639,724)
Other Sources (Uses)				
Increase in Unreimbursed Committments	-	-	4,920	4,920
Total Revenues and Other Sources	669,969	685,969	51,165	(634,804)
Expenditures and Encumbrances				
Capital Outlay	669,969	685,969	149,807	536,162
Operating Surplus (Deficit) for the Year	-	-	(98,642)	(98,642)
Fund Balance Available for Appropriation, July 1, 2011	-	-	128,626	128,626
Operations in Respect to Prior Fiscal Years				
Commitments Cancelled - Net	-	-	1,091	1,091
Revenue Adjustments - Net	-	-	218	218
Adjusted Fund Balance, July 1, 2011	-	-	129,935	129,935
Fund Balance Available for Appropriation, June 30, 2012	-	-	31,293	31,293

City of Philadelphia **Schedule XVIII**

Budgetary Comparison Schedule

Acute Care Hospital Assessment Fund

For the Fiscal Year Ended June 30, 2012

Amounts in thousands of USD

	Budgeted Amounts			Final Budget to Actual
	Original	Final	Actual	Positive (Negative)
Revenues				
Tax Revenue	142,000	142,000	139,531	(2,469)
Total Revenues	142,000	142,000	139,531	(2,469)
Other Sources				
Decrease in Unreimbursed Committments	-	-	(74)	(74)
Total Revenues and Other Sources	142,000	142,000	139,457	(2,543)
Expenditures and Encumbrances				
Personal Services	4,110	4,110	2,508	1,602
Pension Contributions	116	116	110	6
Other Employee Benefits	71	71	64	7
Sub-Total Employee Compensation	4,297	4,297	2,682	1,615
Purchase of Services	137,548	137,548	132,574	4,974
Equipment	5	5	-	5
Payments to Other Funds	3,500	3,500	3,500	-
Total Expenditures and Encumbrances	145,350	145,350	138,756	6,594
Operating Surplus (Deficit) for the Year	(3,350)	(3,350)	701	4,051
Fund Balance Available for Appropriation, July 1, 2011	5,435	8,770	8,770	-
Fund Balance Available for Appropriation, June 30, 2012	2,085	5,420	9,471	4,051

City of Philadelphia **Schedule XIX**
Budgetary Comparison Schedule
Parks & Recreation Program Facilities Fund
For the Fiscal Year Ended June 30, 2012

Amounts in thousands of USD

	Budgeted Amounts			Final Budget to Actual
	Original	Final	Actual	Positive (Negative)
Revenues				
Locally Generated Non-Tax Revenue	136	136	-	(136)
Total Revenues	136	136	-	(136)
Expenditures and Encumbrances				
Purchase of Services	136	136	-	136
Total Expenditures and Encumbrances	136	136	-	136
Operating Surplus (Deficit) for the Year	-	-	-	-
Fund Balance Available for Appropriation, July 1, 2011	-	-	-	-
Fund Balance Available for Appropriation, June 30, 2012	-	-	-	-

City of Philadelphia **Schedule XX**

Schedule of Budgetary Actual and Estimated Revenues and Obligations

General Fund

Amounts in thousands of USD

For the Fiscal Year Ended June 30, 2012 (with comparative actual amounts for the Fiscal Year Ended June 30, 2011)

	Budgeted Amounts			Final Budget to Actual		
	Original	Final	FY 2012 Actual	Positive (Negative)	FY 2011 Actual	Increase (Decrease)
Revenue						
Taxes						
Real Property Tax:						
Current	449,243	463,456	464,420	964	454,747	9,673
Prior Years	37,500	35,000	36,301	1,301	27,978	8,323
Total Real Property Tax	486,743	498,456	500,721	2,265	482,725	17,996
Wage and Earnings Taxes:						
Current	1,176,577	1,158,428	1,192,221	33,793	1,127,455	64,766
Prior Years	12,000	10,000	4,102	(5,898)	6,862	(2,760)
Total Wage and Earnings Taxes	1,188,577	1,168,428	1,196,323	27,895	1,134,317	62,006
Business Taxes:						
Business Privilege Taxes:						
Current	349,320	356,370	370,189	13,819	334,996	35,193
Prior Years	20,000	35,000	19,197	(15,803)	41,950	(22,753)
Total Business Privilege Tax	369,320	391,370	389,386	(1,984)	376,946	12,440
Net Profits Tax:						
Current	14,968	9,552	12,193	2,641	5,740	6,453
Prior Years	2,500	2,500	2,928	428	3,086	(158)
Total Net Profits Tax	17,468	12,052	15,121	3,069	8,826	6,295
Total Business Taxes	386,788	403,422	404,507	1,085	385,772	18,735
Other Taxes:						
Sales Tax	256,450	250,175	253,523	3,348	244,585	8,938
Amusement Tax	21,631	21,631	21,911	280	20,767	1,144
Real Property Transfer Tax	120,852	118,352	119,364	1,012	116,644	2,720
Parking Lot Tax	74,305	73,305	70,930	(2,375)	71,596	(666)
Smokeless Tobacco	1,000	628	628	-	286	342
Miscellaneous Taxes	3,106	2,750	2,538	(212)	2,454	84
Total Other Taxes	477,344	466,841	468,894	2,053	456,332	12,562
Total Taxes	2,539,452	2,537,147	2,570,445	33,298	2,459,146	111,299
Locally Generated Non-Tax Revenue						
Rentals from Leased City Properties	5,333	5,507	5,507	-	4,357	1,150
Licenses and Permits	46,839	49,868	47,993	(1,875)	46,295	1,698
Fines, Forfeits, Penalties, Confiscated Money and Property	21,180	21,726	21,716	(10)	25,790	(4,074)
Interest Income	10,526	7,565	7,727	162	5,300	2,427
Service Charges and Fees	128,040	116,609	120,762	4,153	124,553	(3,791)
Other	48,041	50,269	52,989	2,720	73,732	(20,743)
Total Locally Generated Non-Tax Revenue	259,959	251,544	256,694	5,150	280,027	(23,333)
Revenue from Other Governments						
United States Government:						
Grants and Reimbursements	99,338	93,730	96,998	3,268	170,094	(73,096)
Commonwealth of Pennsylvania:						
Grants and Other Payments	494,741	533,938	536,806	2,868	833,676	(296,870)
Other Governmental Units	57,721	77,211	82,069	4,858	62,731	19,338
Total Revenue from Other Governments	651,800	704,879	715,873	10,994	1,066,501	(350,628)
Revenue from Other Funds	51,510	53,028	48,341	(4,687)	54,620	(6,279)
Total Revenues	3,502,721	3,546,598	3,591,353	44,755	3,860,294	(268,941)

City of Philadelphia **Schedule XX**

Schedule of Budgetary Actual and Estimated Revenues and Obligations

General Fund

Amounts in thousands of USD

For the Fiscal Year Ended June 30, 2012 (with comparative actual amounts for the Fiscal Year Ended June 30, 2011)

	Budgeted Amounts			Final Budget to Actual		
	Original	Final	FY 2012 Actual	Positive (Negative)	FY 2011 Actual	Increase (Decrease)
Obligations						
General Government						
City Council	15,049	15,049	13,758	1,291	13,772	(14)
Mayor's Office:						
Mayor's Office	3,787	3,764	3,514	250	3,598	(84)
Scholarships	200	200	196	4	200	(4)
Mural Arts Program	1,060	1,060	996	64	961	35
Labor Relations	552	552	517	35	457	60
MDO Office of Technology	63,944	63,248	63,272	(24)	61,348	1,924
Office of Property Assessment	11,741	9,741	7,967	1,774	5,730	2,237
Transportation	480	514	498	16	419	79
Law	13,119	15,122	14,501	621	17,114	(2,613)
Board of Ethics	810	810	683	127	681	2
Youth Commission	96	96	42	54	78	(36)
Inspector General	1,281	1,281	1,239	42	1,171	68
City Planning Commission	2,257	2,257	2,209	48	2,248	(39)
Commission on Human Relations	2,039	2,039	1,830	209	1,942	(112)
Zoning Code Commisssion	225	225	216	9	465	(249)
Arts & Culture	2,670	2,670	2,662	8	2,550	112
Board of Revision of Taxes	723	759	576	183	1,893	(1,317)
Total General Government	120,033	119,387	114,676	4,711	114,627	49
Operation of Service Departments						
Housing	3,020	4,213	4,213	-	2,251	1,962
Managing Director	22,972	23,066	21,732	1,334	15,954	5,778
Police	550,686	568,921	568,922	(1)	551,450	17,472
Streets	121,353	123,661	123,523	138	131,004	(7,481)
Fire	190,032	195,583	195,532	51	198,042	(2,510)
Public Health	110,426	107,782	107,770	12	108,923	(1,153)
Office-Behavioral Health/Mental Retardation	14,272	14,272	14,240	32	14,272	(32)
Parks and Recreation	46,326	48,381	47,344	1,037	47,084	260
Atwater Kent Museum	269	268	266	2	267	(1)
Public Property	168,833	170,496	169,143	1,353	171,142	(1,999)
Department of Human Services	111,935	103,581	103,761	(180)	543,584	(439,823)
Philadelphia Prisons	227,173	232,237	232,232	5	232,219	13
Office of Supportive Housing	36,466	38,502	38,384	118	36,368	2,016
Office of Fleet Management	53,652	56,645	55,944	701	52,173	3,771
Licenses and Inspections	21,781	22,022	21,429	593	18,381	3,048
Board of L & I Review	156	156	124	32	136	(12)
Board of Building Standards	72	72	58	14	61	(3)
Zoning Board of Adjustment	363	375	366	9	330	36
Records	4,009	4,009	3,841	168	3,982	(141)
Philadelphia Historical Commission	388	388	359	29	377	(18)
Art Museum	2,300	2,315	2,315	-	2,350	(35)
Philadelphia Free Library	33,863	33,994	33,399	595	32,549	850
Total Operations of Service Departments	1,720,347	1,750,939	1,744,897	6,042	2,162,899	(418,002)
Financial Management						
Office of Director of Finance	9,685	12,547	12,469	78	10,431	2,038
Department of Revenue	19,900	19,929	18,850	1,079	14,160	4,690
Sinking Fund Commission	223,906	201,236	201,046	190	197,918	3,128
Procurement	4,152	4,664	4,461	203	4,819	(358)
City Treasurer	905	905	825	80	761	64
Audit of City Operations	7,556	7,556	7,289	267	7,840	(551)
Total Financial Management	266,104	246,837	244,940	1,897	235,929	9,011

City of Philadelphia **Schedule XX**

Schedule of Budgetary Actual and Estimated Revenues and Obligations

General Fund *Amounts in thousands of USD*

For the Fiscal Year Ended June 30, 2012 (with comparative actual amounts for the Fiscal Year Ended June 30, 2011)

	Budgeted Amounts			Final Budget to Actual		
	Original	Final	FY 2012 Actual	Positive (Negative)	FY 2011 Actual	Increase (Decrease)
Obligations (Continued)						
City-Wide Appropriations Under the Director of Finance						
Fringe Benefits	1,022,703	1,066,156	1,066,251	(95)	968,957	97,294
PGW Rental Reimbursement	-	-	-	-	1,700	(1,700)
Community College of Philadelphia	25,409	25,409	25,409	-	25,409	-
Legal Services	37,566	37,066	37,066	-	36,616	450
Hero Award	25	28	28	-	35	(7)
Refunds	250	-	-	-	-	-
Indemnities	33,120	14	14	-	-	14
Office of Risk Management	3,018	2,926	2,925	1	4,079	(1,154)
Witness Fees	172	141	140	1	84	56
Contribution to School District	48,930	48,930	48,930	-	38,600	10,330
Total City-Wide Under Director of Finance	1,171,193	1,180,670	1,180,763	(93)	1,075,480	105,283
Promotion and Public Relations						
City Representative	908	908	879	29	904	(25)
Commerce	18,647	18,647	18,361	286	18,323	38
Total Promotion and Public Relations	19,555	19,555	19,240	315	19,227	13
Personnel						
Civic Service Commission	170	170	167	3	168	(1)
Personnel Director	5,228	5,228	4,945	283	4,591	354
Total Personnel	5,398	5,398	5,112	286	4,759	353
Administration of Justice						
Register of Wills	3,399	3,399	3,312	87	3,239	73
District Attorney	31,055	31,310	30,888	422	30,505	383
Sheriff	13,089	15,463	15,462	1	14,230	1,232
First Judicial District	109,275	115,581	115,562	19	115,412	150
Total Administration of Justice	156,818	165,753	165,224	529	163,386	1,838
City-Wide Appropriations Under the First Judicial District						
Juror Fees	1,542	1,412	1,412	-	-	1,412
Conduct of Elections						
City Commissioners	9,104	9,179	8,611	568	8,987	(376)
Total Obligations	3,470,094	3,499,130	3,484,875	14,255	3,785,294	(300,419)
Operating Surplus (Deficit) for the Year	32,627	47,468	106,478	59,010	75,000	31,478

City of Philadelphia

Schedule XXI

Schedule of Budgetary Actual and Estimated Revenues and Obligations
Water Operating Fund
For the Fiscal Year Ended June 30, 2012 (with comparative actual amounts for the Fiscal Year Ended June 30, 2011)

Amounts in thousands of USD

	Budgeted Amounts			Final Budget to Actual		
	Original	Final	FY 2012 Actual	Positive (Negative)	FY 2011 Actual	Increase (Decrease)
Revenue						
Locally Generated Non-Tax Revenue						
Sales and Charges - Current	473,606	471,594	474,478	2,884	462,404	12,074
Sales and Charges - Prior Years	42,666	42,538	34,224	(8,314)	26,883	7,341
Fire Service Connections	1,844	1,910	2,097	187	1,846	251
Surcharges	5,604	5,578	5,110	(468)	5,481	(371)
Fines and Penalties	870	735	838	103	769	69
Miscellaneous Charges	1,131	1,201	1,223	22	1,101	122
Charges to Other Municipalities	34,800	34,000	35,160	1,160	32,020	3,140
Licenses and Permits	2,185	2,201	2,398	197	2,232	166
Interest Income	850	850	246	(604)	1,530	(1,284)
Fleet Management - Sale of Vehicles & Equipment	195	185	108	(77)	92	16
Contributions from Sinking Fund Reserve	-	-	1,086	1,086	-	1,086
Reimbursement of Expenditures	173	153	438	285	88	350
Repair Loan Program	2,410	1,980	2,489	509	2,237	252
Other	746	736	417	(319)	780	(363)
Total Locally Generated Non-Tax Revenue	567,080	563,661	560,312	(3,349)	537,463	22,849
Revenue from Other Governments						
State	500	100	327	227	27	300
Federal	2,500	2,500	2,865	365	2,842	23
Total Revenue from Other Governments	3,000	2,600	3,192	592	2,869	323
Revenue from Other Funds	70,160	57,675	28,985	(28,690)	27,138	1,847
Total Revenues	640,240	623,936	592,489	(31,447)	567,470	25,019
Obligations						
Mayor's Office of Information Services	16,862	16,862	11,530	5,332	10,910	620
Public Property	3,739	3,739	3,726	13	2,500	1,226
Office of Fleet Management	8,510	8,510	7,603	907	8,255	(652)
Water Department	313,635	316,682	292,887	23,795	281,214	11,673
City-Wide Appropriation Under the Director of Finance:						
Pension Contributions	52,672	52,809	48,613	4,196	-	48,613
Other Employee Benefits	43,130	42,993	38,395	4,598	42,169	(3,774)
Contributions, Indemnities and Taxes	6,500	3,453	-	3,453	42,279	(42,279)
Department of Revenue	15,851	15,851	13,933	1,918	13,579	354
Sinking Fund Commission	196,176	196,176	193,509	2,667	185,543	7,966
Procurement Department	69	69	46	23	69	(23)
Law	3,040	3,040	2,993	47	3,177	(184)
Mayor's Office of Transportation	56	56	56	-	-	56
Total Obligations	660,240	660,240	613,291	46,949	589,695	23,596
Operating Surplus (Deficit) for the Year	(20,000)	(36,304)	(20,802)	15,502	(22,225)	1,423

City of Philadelphia **Schedule XXII**

Schedule of Budgetary Actual and Estimated Revenues and Obligations

Aviation Operating Fund

Amounts in thousands of USD

For the Fiscal Year Ended June 30, 2012 (with comparative actual amounts for the Fiscal Year Ended June 30, 2011)

	Budgeted Amounts			Final Budget to Actual		
	Original	Final	FY 2012 Actual	Positive (Negative)	FY 2011 Actual	Increase (Decrease)
Revenue						
Locally Generated Non-Tax Revenue						
Concessions	25,000	35,284	35,284	-	32,010	3,274
Space Rentals	142,389	97,488	97,483	(5)	104,585	(7,102)
Landing Fees	75,000	57,740	57,669	(71)	60,421	(2,752)
Parking	27,000	25,035	25,035	-	28,009	(2,974)
Car Rentals	22,000	18,273	18,274	1	17,862	412
Interest Earnings	1,200	600	666	66	352	314
Sale of Utilities	6,500	4,113	4,119	6	3,365	754
Passenger Facility Charge	35,000	31,573	31,573	-	32,353	(780)
Overseas Terminal Facility Charges	-	13	13	-	8	5
International Terminal Charge	28,000	16,274	16,349	75	17,700	(1,351)
Other	19,045	7,089	7,298	209	6,054	1,244
Total Locally Generated Non-Tax Revenue	381,134	293,482	293,763	281	302,719	(8,956)
Revenue from Other Governments						
State	-	-	-	-	102	(102)
Federal	3,000	4,493	4,493	-	1,333	3,160
Total Revenue from Other Governments	3,000	4,493	4,493	-	1,435	3,058
Revenue from Other Funds	2,000	2,059	947	(1,112)	653	294
Total Revenue	386,134	300,034	299,203	(831)	304,807	(5,604)
Obligations						
Mayor's Office of Information Services	6,295	6,295	5,684	611	5,987	(303)
Police	14,148	14,429	13,738	691	13,218	520
Fire	6,203	6,203	5,641	562	5,437	204
Public Property	26,900	26,900	26,894	6	18,400	8,494
Office of Fleet Management	8,109	8,109	3,255	4,854	3,532	(277)
City-Wide Appropriation Under the Director of Finance:						
Pension Contributions	25,595	25,777	25,441	336	21,683	3,758
Other Employee Benefits	17,264	18,082	16,271	1,811	17,979	(1,708)
Purchase of Services	4,146	4,146	2,641	1,505	2,469	172
Contributions, Indemnities and Taxes	2,512	1,148	-	1,148	-	-
Sinking Fund Commission	130,853	129,853	103,178	26,675	102,448	730
Commerce	155,144	156,227	124,759	31,468	114,241	10,518
Law	1,878	1,878	1,686	192	1,658	28
Mayor's Office of Transportation	87	87	56	31	-	56
Total Obligations	399,134	399,134	329,244	69,890	307,052	22,192
Operating Surplus (Deficit) for the Year	(13,000)	(99,100)	(30,041)	69,059	(2,245)	(27,796)

City of Philadelphia
PENNSYLVANIA

Statistical Section

Financial Trends

These tables contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity

These tables contain information to help the reader assess the City's most significant local revenue source, the wage and earnings tax. Property tax information is also presented.

Debt Capacity

These tables present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt.

Demographic & Economic Information

These tables offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information

These tables contain service and infrastructure information data to help the reader understand how the information in the City's financial report relates to the services the city provides and the activities it performs.

City of Philadelphia
Net Assets by Component
For the Fiscal Years 2003 Through 2012

Table 1

Amounts in millions of USD

(full accrual basis of accounting)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental Activities										
Invested in Capital Assets, Net of Related Debt	286.4	175.0	241.3	248.6	161.4	206.4	(5.8)	(59.3)	(47.5)	83.9
Restricted	426.8	484.1	516.5	471.5	689.7	641.0	833.8	705.1	789.5	621.8
Unrestricted	(453.8)	(707.0)	(1,028.6)	(1,010.9)	(1,220.5)	(1,567.1)	(2,120.6)	(2,421.9)	(2,495.5)	(2,478.2)
Total Governmental Activities Net Assets	259.4	(47.9)	(270.8)	(290.8)	(369.4)	(719.7)	(1,292.6)	(1,776.1)	(1,753.5)	(1,772.5)
Business-Type Activities										
Invested in Capital Assets, Net of Related Debt	478.6	541.0	548.4	537.4	544.0	591.8	750.6	831.8	845.1	887.8
Restricted	642.1	504.0	472.0	551.9	635.1	644.1	511.2	489.3	550.6	591.8
Unrestricted	(12.7)	91.3	269.7	273.9	257.3	266.2	269.8	257.3	234.3	257.9
Total Business-Type Activities Net Assets	1,108.0	1,136.3	1,290.1	1,363.2	1,436.4	1,502.1	1,531.6	1,578.4	1,630.0	1,737.5
Primary Government										
Invested in Capital Assets, Net of Related Debt	765.0	716.0	789.7	786.0	705.4	798.2	744.8	772.5	797.6	971.7
Restricted	1,068.9	988.1	988.5	1,023.4	1,324.8	1,285.1	1,345.0	1,194.4	1,340.1	1,213.6
Unrestricted	(466.5)	(615.7)	(758.9)	(737.0)	(963.2)	(1,300.9)	(1,850.8)	(2,164.6)	(2,261.2)	(2,220.3)
Total Primary Government Net Assets	1,367.4	1,088.4	1,019.3	1,072.4	1,067.0	782.4	239.0	(197.7)	(123.5)	(35.0)

City of Philadelphia **Table 2**
Changes in Net Assets
For the Fiscal Years 2003 Through 2012

Amounts in millions of USD

(full accrual basis of accounting)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental Activities:										
Economic Development	127.9	127.4	89.5	89.8	92.6	116.4	116.0	145.0	92.2	96.5
Transportation:										
Streets & Highways	99.8	109.9	119.0	116.0	116.6	117.7	119.1	129.4	136.3	115.6
Mass Transit	85.9	81.3	84.9	84.5	85.1	88.3	90.5	82.7	75.2	74.0
Judiciary and Law Enforcement:										
Police	755.2	793.8	817.1	836.0	921.4	1,002.9	985.6	990.5	1,048.1	1,094.2
Prisons	223.4	237.1	250.2	268.7	293.2	311.4	339.1	343.8	340.4	336.7
Courts	253.8	277.2	284.9	287.1	304.1	321.6	318.7	312.0	315.0	326.2
Conservation of Health:										
Emergency Medical Services	29.0	30.6	34.2	35.6	36.0	37.2	36.9	47.8	53.3	48.4
Health Services	1,196.5	1,174.6	1,275.0	1,411.9	1,442.6	1,572.6	1,701.5	1,446.7	1,524.6	1,500.1
Housing and Neighborhood Development	125.2	119.0	123.0	149.5	111.2	142.1	149.1	131.3	126.1	137.7
Cultural and Recreational										
Recreation	109.5	118.4	68.3	73.3	73.4	86.2	77.3	77.0	98.7	97.3
Parks	26.2	32.6	30.2	28.9	32.6	36.6	37.7	37.9	14.0	9.0
Libraries and Museums	63.0	67.5	80.7	68.6	90.3	87.0	92.8	79.0	75.7	80.8
Improvements to General Welfare:										
Social Services	641.5	691.2	697.6	702.0	765.5	794.1	756.3	718.8	718.4	675.5
Education	57.1	58.6	61.6	59.9	64.0	65.5	67.2	65.4	64.0	74.3
Inspections and Demolitions	44.3	81.3	79.0	55.3	64.3	47.3	27.8	23.4	30.1	26.5
Service to Property:										
Sanitation	114.8	121.0	126.0	128.8	134.4	138.0	137.8	142.7	143.0	153.2
Fire	190.2	215.4	229.6	236.1	285.3	284.8	278.6	266.0	285.9	292.2
General Management and Support	524.8	576.9	519.9	574.8	568.7	636.9	684.1	683.3	561.0	678.4
Interest on Long Term Debt	130.2	98.3	138.2	136.9	149.5	95.1	214.6	174.9	136.3	112.1
Total Governmental Activities Expenses	4,798.3	5,012.1	5,108.9	5,343.7	5,630.8	5,981.7	6,230.7	5,897.6	5,838.3	5,928.7
Business-Type Activities:										
Water and Sewer	412.9	416.9	442.3	455.4	476.2	504.3	530.8	502.5	520.2	490.8
Aviation	244.5	261.0	269.5	303.1	314.3	323.1	326.2	330.1	336.0	343.1
Industrial and Commercial Development	2.2	2.5	4.7	2.1	3.7	2.1	3.0	0.1	1.9	-
Total Business-Type Activities Expenses	659.6	680.4	716.5	760.6	794.2	829.5	860.0	832.7	858.1	833.9
Total Primary Government Expenses	5,457.9	5,692.5	5,825.4	6,104.3	6,425.0	6,811.2	7,090.7	6,730.3	6,696.4	6,762.6
Program Revenues										
Governmental Activities:										
Charges for Services:										
Economic Development	0.2	6.9	0.1	-	-	-	0.3	0.1	-	1.1
Transportation:										
Streets & Highways	1.1	1.5	1.9	2.2	3.5	3.9	2.8	4.4	5.1	5.2
Mass Transit	0.6	0.5	0.5	0.6	0.6	0.5	0.4	0.5	0.6	1.3
Judiciary and Law Enforcement:										
Police	2.2	2.4	2.2	7.2	1.7	4.3	5.0	3.3	3.5	5.5
Prisons	0.4	0.5	0.4	0.4	0.3	0.3	0.4	0.5	0.5	0.9
Courts	50.9	52.5	48.4	51.5	51.5	52.7	51.8	53.4	45.6	60.6
Conservation of Health:										
Emergency Medical Services	20.1	20.7	23.1	25.0	27.7	27.6	37.5	36.8	34.7	27.5
Health Services	10.2	11.6	13.5	14.0	12.6	15.3	14.4	16.2	16.7	14.8
Housing and Neighborhood Development	18.9	12.0	10.0	22.3	45.2	25.2	31.3	20.8	23.1	28.6
Cultural and Recreational:										
Recreation	14.3	13.0	0.8	0.4	0.2	0.3	3.2	(0.1)	2.8	2.2
Parks	1.9	1.7	0.9	0.4	0.5	1.5	0.6	0.9	5.0	4.8
Libraries and Museums	0.3	0.4	0.5	0.9	0.9	0.8	1.3	0.9	1.8	1.2
Improvements to General Welfare:										
Social Services	8.8	6.9	7.6	7.4	7.3	6.4	7.6	14.4	6.8	5.2
Education	-	-	-	-	-	-	1.1	-	-	-
Inspections and Demolitions	0.5	0.8	0.7	0.7	44.4	44.9	40.3	43.9	45.5	50.0
Service to Property:										
Sanitation	1.8	2.0	2.1	1.8	-	3.1	2.9	2.0	11.6	15.9
Fire	0.1	0.1	0.5	0.4	0.7	0.2	0.7	0.3	0.5	0.3
General Management and Support	150.7	138.2	130.8	179.1	107.5	110.6	131.9	127.9	136.6	139.7
Interest on Long Term Debt	-	-	-	-	-	-	-	-	9.2	0.3
Operating Grants and Contributions	1,907.2	1,958.7	2,067.2	2,142.1	2,204.9	2,339.9	2,438.1	2,050.4	2,223.5	2,102.1
Capital Grants and Contributions	17.3	19.6	9.1	21.4	15.8	10.0	35.0	46.9	32.1	43.2
Total Governmental Activities Program Revenues	2,207.5	2,250.0	2,320.3	2,477.8	2,525.3	2,647.5	2,806.6	2,423.5	2,605.2	2,510.4

City of Philadelphia **Table 2**
Changes in Net Assets
For the Fiscal Years 2003 Through 2012

Amounts in millions of USD

(full accrual basis of accounting)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Business-Type Activities:										
Charges for Services:										
Water and Sewer	385.4	401.6	450.6	470.8	493.6	503.3	499.7	552.4	558.5	598.3
Aviation	230.5	251.9	278.4	295.0	309.2	303.2	251.7	240.0	258.1	263.2
Industrial and Commercial Development	1.2	1.2	1.1	1.2	1.5	1.5	0.5	0.3	0.5	0.4
Operating Grants and Contributions	8.9	4.8	2.0	2.5	2.8	5.4	2.6	6.1	4.8	3.5
Capital Grants and Contributions	17.8	21.0	20.7	25.3	22.4	36.6	109.4	90.5	105.9	91.6
Total Business-Type Activities Program Revenues	643.8	680.5	752.8	794.8	829.5	850.0	863.9	889.3	927.8	957.0
Total Primary Government Revenues	2,851.3	2,930.5	3,073.1	3,272.6	3,354.8	3,497.5	3,670.5	3,312.8	3,533.0	3,467.4
Net (Expense)/Revenue										
Governmental Activities	(2,590.8)	(2,762.1)	(2,788.6)	(2,865.9)	(3,105.5)	(3,334.2)	(3,424.1)	(3,474.1)	(3,233.1)	(3,418.3)
Business-Type Activities	(15.8)	0.1	36.3	34.2	35.3	20.5	3.9	56.6	69.7	123.1
Total Primary Government Net Expense	(2,606.6)	(2,762.0)	(2,752.3)	(2,831.7)	(3,070.2)	(3,313.7)	(3,420.2)	(3,417.5)	(3,163.4)	(3,295.2)
General Revenues and Other Changes in Net Assets										
Governmental Activities:										
Taxes:										
Property Taxes	362.7	374.4	381.8	386.3	399.2	401.3	409.2	400.8	506.6	500.8
Wage & Earnings Taxes	1,301.9	1,345.9	1,373.0	1,424.9	1,498.5	1,524.5	1,465.5	1,448.5	1,504.6	1,551.7
Business Taxes	306.9	319.2	367.9	430.2	453.7	414.5	407.6	385.2	364.2	399.2
Other Taxes	294.7	342.1	406.4	457.7	460.3	457.0	435.0	578.3	645.8	663.6
Unrestricted Grants & Contributions	61.2	47.1	84.3	81.7	104.1	104.7	107.8	171.4	173.8	223.2
Interest & Investment Earnings	57.5	26.0	32.9	60.2	81.8	65.3	46.1	25.5	35.8	33.3
Special Items	(99.3)	-	-	-	-	-	-	-	-	-
Transfers	4.1	-	4.4	5.0	4.9	4.9	4.2	28.3	24.9	27.5
Total Governmental Activities	2,289.7	2,454.7	2,650.7	2,846.0	3,002.5	2,972.2	2,875.4	3,038.0	3,255.7	3,399.3
Business-Type Activities:										
Interest & Investment Earnings	33.5	6.6	15.8	43.8	45.7	48.7	22.9	7.7	6.9	9.0
Unrestricted Grants & Contributions	-	-	-	-	-	-	-	-	-	2.9
Transfers	(4.1)	-	(4.4)	(4.9)	(4.9)	(4.9)	(4.2)	(28.3)	(24.9)	(27.5)
Total Business-Type Activities	29.4	6.6	11.4	38.9	40.8	43.8	18.7	(20.6)	(18.0)	(15.6)
Total Primary Government	2,319.1	2,461.3	2,662.1	2,884.9	3,043.3	3,016.0	2,894.1	3,017.4	3,237.7	3,383.7
Change in Net Assets										
Governmental Activities	(301.1)	(307.4)	(137.9)	(19.9)	(103.0)	(362.0)	(548.7)	(436.1)	22.6	(19.0)
Business-Type Activities	13.6	6.7	47.7	73.1	76.1	64.3	22.6	36.0	51.7	107.5
Total Primary Government	(287.5)	(300.7)	(90.2)	53.2	(26.9)	(297.7)	(526.1)	(400.1)	74.3	88.5

City of Philadelphia
Fund Balances
Governmental Funds
For the Fiscal Years 2003 Through 2012

Table 3

Amounts in millions of USD

(modified accrual basis of accounting)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund										
Non-spendable:	-	-	-	-	-	-	-	-	-	-
Restricted for:										
Central Library Project	-	-	-	10.0	4.8	4.9	4.7	2.3	2.3	2.3
Stadium Financing	102.8	18.7	4.3	6.0	6.4	0.1	1.7	0.6	0.3	0.5
Cultural & Commercial Corridor Project	-	-	-	-	143.3	122.5	89.8	30.8	19.2	15.3
Long Term Loan	45.0	45.0	45.0	45.0	45.0	22.5	-	-	-	-
Committed to:										
Encumbrances	93.1	88.5	141.5	132.4	135.6	108.8	102.8	-	-	-
General Fund	-	-	-	-	-	-	-	87.9	-	-
Assigned to:	-	-	-	-	-	-	-	-	-	70.5
Unassigned:	(7.9)	(148.1)	(36.4)	111.2	152.7	(24.3)	(274.6)	(251.8)	(45.7)	-
Total General Fund:	233.0	4.1	154.3	304.5	487.8	234.4	(75.6)	(130.2)	(23.9)	88.6
All Other Governmental Funds										
Non-spendable:										
Permanent Fund (Principal)	-	-	-	-	-	-	-	-	2.6	2.6
Restricted for:										
Behavioral Health	30.8	36.9	61.5	196.0	192.9	177.8	188.7	171.0	250.1	230.7
Neighborhood Revitalization	139.1	87.4	173.6	130.1	99.9	77.8	74.6	73.1	61.3	51.6
Public Safety Emergency Phone System	6.3	8.4	6.8	16.7	21.7	28.7	38.8	40.4	36.9	29.6
Economic Development	-	-	-	-	-	-	-	-	6.6	10.3
Intergovernmental Financing	28.7	30.6	31.7	26.8	24.5	18.6	12.1	7.9	21.1	21.7
Intergovernmentally Financed Pgms	-								24.5	18.9
Streets & Highways	0.9	2.2	2.8	4.0	7.5	12.8	16.8	16.8	18.3	23.2
Housing & Neighborhood Development	-	-	-	-	-	-	-	-	10.5	10.5
Health Services	-	-	-	-	-	-	4.0	10.8	8.8	9.5
Debt Service	93.3	88.3	88.1	84.3	92.3	80.9	79.1	76.6	82.8	82.4
Capital Improvements	-	80.9	-	-	103.0	21.0	196.1	152.2	267.7	128.5
Trust Purposes	6.8	7.1	7.4	7.8	8.9	8.3	6.4	4.7	8.1	8.3
Parks & Recreation	-	-	-	-	-	-	-	-	0.3	0.4
Libraries & Museums	-	-	-	-	-	-	-	-	0.1	0.1
Stadium Financing	-	-	-	-	-	-	-	-	6.3	6.4
Committed to:										
Capital Improvements	101.5	77.8	76.5	76.0	56.7	61.7	62.5	37.9	-	-
Economic Development	-	-	-	-	-	-	-	6.5	-	-
Housing & Neighborhood Development	-	-	-	9.6	15.9	17.4	18.6	15.2	-	-
Debt Service	6.1	5.7	6.5	4.9	5.2	5.7	5.6	7.9	-	-
Trust Purposes	3.4	5.0	5.6	6.9	9.2	9.1	8.0	7.7	-	-
Intergovernmental Financing	53.1	44.9	43.6	50.1	53.3	52.2	62.6	36.2	-	-
Social Services	-	-	-	-	-	-	-	-	-	0.0
Prisons	-	-	-	-	-	-	-	-	3.6	4.2
Parks & Recreation	-	-	-	-	-	-	-	-	0.5	0.9
Assigned to:										
Behavioral Health	-	144.0	134.7	-	28.4	40.5	-	42.5	-	-
PICA Rebate Fund	3.2	3.9	5.7	6.5	7.0	7.4	8.0	7.5	-	-
PMA	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	-	-
Unassigned:										
Community Behavioral Health	116.1	-	-	(24.8)	-	-	(5.4)	-	-	-
Housing & Neighborhood Dev	(8.8)	(6.6)	(8.0)	(5.5)	(3.9)	(3.2)	(5.0)	(4.0)	(4.0)	(6.5)
Parks & Recreation	-	-	-	-	-	-	-	-	-	-
Grants Revenue Fund	(55.3)	(53.9)	(43.3)	(51.2)	(26.2)	(23.0)	(36.7)	(39.0)	(34.3)	(175.1)
Capital Improvement	(98.1)	-	(6.3)	(67.1)	-	-	-	-	-	-
Total All Other Governmental Funds	427.2	562.6	587.1	471.3	696.3	594.2	734.9	672.1	771.7	458.1

[1] Effective April 15, 2003, the City implemented a change to the basis on which the Business Privilege Tax is collected requiring an estimated payment applicable to the next year's tax liability.
A portion of these estimated tax payments are deferred in the general fund beginning in FY2003 because the underlying events had not occured.

City of Philadelphia | **Table 4**

Changes in Fund Balances

Governmental Funds

For the Fiscal Years 2003 Through 2012

Amounts in millions of USD

(modified accrual basis of accounting)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues										
Tax Revenue	2,253.8	2,379.0	2,535.2	2,708.5	2,805.1	2,781.8	2,705.2	2,812.3	2,995.0	3,112.5
Locally Generated Non-Tax Revenue	339.8	280.0	265.2	354.5	381.7	349.7	349.3	302.7	370.6	336.5
Revenue from Other Governments	2,049.5	1,922.3	2,242.0	2,223.2	2,376.6	2,468.4	2,564.9	2,323.4	2,366.4	2,226.1
Other Revenues	17.3	18.5	16.7	15.3	17.1	17.9	49.6	33.1	25.8	27.5
Total Revenues	4,660.4	4,599.8	5,059.1	5,301.5	5,580.5	5,617.8	5,669.0	5,471.5	5,757.8	5,702.6
Expenditures										
Current Operating:										
Economic Development	170.4	157.0	92.7	81.5	85.5	112.3	107.0	135.1	82.6	88.9
Transportation:										
Streets & Highways	78.1	75.9	77.7	78.8	89.2	89.7	89.9	91.1	87.4	75.6
Mass Transit	57.5	52.9	56.6	56.7	58.1	61.7	63.7	65.2	67.1	67.7
Judiciary and Law Enforcement:										
Police	727.3	752.0	770.9	798.0	860.2	951.9	933.9	882.7	955.9	1,020.0
Prisons	214.3	224.5	241.3	256.6	278.1	298.2	326.9	315.2	315.9	318.2
Courts	246.5	267.8	276.9	278.2	292.3	311.1	310.5	288.1	294.9	312.3
Conservation of Health:										
Emergency Medical Services	28.4	29.7	33.3	34.8	34.9	36.0	36.2	45.0	50.7	46.7
Health Services	1,192.7	1,170.3	1,271.1	1,407.7	1,436.8	1,567.6	1,695.0	1,436.5	1,514.8	1,492.7
Housing and Neighborhood Development	120.7	119.0	122.9	147.9	109.2	141.9	148.4	131.2	126.1	133.8
Cultural and Recreational:										
Recreation	94.0	65.7	58.3	59.8	62.2	74.3	65.1	58.4	82.9	85.9
Parks	24.2	23.8	23.7	23.4	26.3	28.9	31.8	26.9	5.8	6.1
Libraries and Museums	64.4	61.1	68.2	70.2	83.2	84.2	81.0	68.8	68.7	71.9
Improvements to General Welfare:										
Social Services	636.1	683.4	689.1	695.9	756.7	778.2	743.1	699.7	701.8	674.3
Education	57.1	58.6	61.5	59.9	64.0	65.5	67.2	65.4	64.0	74.3
Inspections and Demolitions	46.6	83.6	81.2	59.8	63.0	46.3	33.1	27.3	34.8	32.2
Service to Property:										
Sanitation	111.5	117.8	122.0	125.6	129.5	132.9	134.6	130.6	133.9	146.2
Fire	188.0	203.0	217.8	225.8	267.6	276.4	266.9	237.6	258.1	267.8
General Management and Support	450.9	472.4	477.1	537.5	563.7	618.4	693.8	615.0	568.5	619.1
Capital Outlay	162.2	126.0	103.1	97.9	92.3	105.8	126.9	148.9	134.9	202.0
Debt Service:										
Principal	106.8	105.7	95.8	86.2	91.5	94.1	87.6	89.7	91.4	103.2
Interest	112.3	101.6	101.0	99.9	103.4	100.0	105.7	96.7	105.6	105.2
Bond Issuance Cost	-	9.2	3.9	-	5.0	24.2	8.5	23.5	2.2	1.6
Capital Lease Principal	-	-	-	-	-	-	-	-	-	-
Capital Lease Interest	-	-	-	-	-	-	-	-	-	-
Total Expenditures	4,890.0	4,961.0	5,046.1	5,282.1	5,552.7	5,999.6	6,156.8	5,678.6	5,748.0	5,945.7
Excess of Revenues Over (Under) Expenditures	(229.6)	(361.2)	13.0	19.4	27.8	(381.8)	(487.8)	(207.1)	9.8	(243.1)
Other Financing Sources (Uses)										
Issuance of Debt	165.5	487.7	157.3	10.0	353.1	1,303.8	262.9	207.0	139.1	12.6
Issuance of Refunding Debt	-	-	-	-	-	-	354.9	337.0	114.6	112.6
Bond Issuance Premium	-	4.8	-	-	13.8	31.1	26.7	24.3	5.0	16.6
Proceeds from Lease & Service Agreements	-	10.9	-	-	-	-	(3.1)	(1.0)	28.1	-
Bond Defeasance	(165.4)	(233.1)	-	-	-	(1,313.7)	(326.9)	(504.0)	(117.6)	(127.3)
Transfers In	449.4	442.9	581.4	433.1	460.1	465.2	574.5	558.1	583.1	600.8
Transfers Out	(445.2)	(442.9)	(577.0)	(428.1)	(455.1)	(460.2)	(570.3)	(529.7)	(558.1)	(573.3)
Total Other Financing Sources (Uses)	4.3	270.3	161.7	15.0	371.9	26.2	318.7	91.7	194.2	42.0
Special Items										
Business Privilage Tax Adjustment	(99.3)	-	-	-	-	-	-	-	-	-
Net Change in Fund Balances	(324.6)	(90.9)	174.7	34.4	399.7	(355.6)	(169.1)	(115.4)	204.0	(201.1)
Debt Service as a Percentage of Non-capital Expenditures	4.7%	4.3%	4.0%	3.6%	3.6%	3.3%	3.2%	3.4%	3.5%	3.6%

[1] Effective April 15, 2003, the City implemented a change to the basis on which the Business Privilege Tax is collected requiring an estimated payment applicable to the next year's tax liability. $157.9 million of these estimated tax payments were deferred in the general fund in FY2012 because the underlying events had not occured.

City of Philadelphia
Comparative Schedule of Operations
Municipal Pension Fund
For the Fiscal Years 2003 through 2012

Table 5

Amounts in millions of USD

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Additions:										
Contributions:										
Employee Contributions	52.5	50.5	49.3	48.9	49.2	51.7	54.0	51.6	52.7	50.0
Employer's:										
City of Philadelphia	174.6	196.6	290.6	321.3	419.2	412.4	440.0	297.4	455.8	539.8
Quasi-Governmental Agencies	5.2	6.2	8.6	10.4	13.1	14.5	15.4	15.1	14.2	16.2
Total Employer's Contributions	179.8	202.8	299.2	331.7	432.3	426.9	455.4	312.5	470.1	556.0
Total Contributions	232.3	253.3	348.5	380.6	481.5	478.6	509.4	364.1	522.8	606.0
Interest & Dividends	74.4	68.4	74.6	65.1	80.3	97.1	75.6	70.5	79.5	86.2
Net Gain (Decline) in Fair Value of Investments	(3.9)	526.6	306.2	386.4	684.7	(322.0)	(945.6)	381.2	618.5	(57.7)
(Less) Investment Expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(13.3)
Net Securities Lending Revenue	1.0	0.8	0.9	0.7	1.1	7.4	5.7	1.9	1.5	2.1
Securities Lending Unrealized Loss	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(1.9)
(Less) Securities Lending Expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.9)
Net Investment Income (Loss)	71.5	595.8	381.7	452.2	766.1	(217.5)	(864.3)	453.6	699.5	14.5
Miscellaneous Operating Revenue	2.4	1.3	0.4	2.1	2.1	1.1	1.0	0.7	1.4	0.0
Total Additions	306.2	850.4	730.6	834.9	1,249.7	262.2	(353.9)	818.4	1,223.7	620.5
Deductions:										
Pension Benefits	462.3	657.5	590.6	608.6	655.8	725.7	681.1	680.1	681.9	706.2
Refunds to Members	4.9	4.1	4.6	4.8	4.5	4.2	4.8	4.5	5.1	6.5
Administrative Costs	6.6	6.4	6.8	6.7	6.7	7.6	8.4	8.1	8.0	0.0
Other Operating Expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	15.2
Total Deductions	473.8	668.0	602.0	620.1	667.0	737.5	694.3	692.7	695.0	727.9
Net Increase (Decrease)	(167.6)	182.4	128.6	214.8	582.7	(475.3)	(1,048.2)	125.7	528.7	(107.4)
Net Assets: Adjusted Opening	3,958.5	3,790.8	3,973.2	4,101.8	4,316.6	4,899.3	4,424.0	3,375.9	3,501.6	4,030.2
Closing	3,790.8	3,973.2	4,101.8	4,316.6	4,899.3	4,424.0	3,375.9	3,501.6	4,030.2	3,922.8
Ratios:										
Pension Benefits Paid as a Percent of:										
Net Members Contributions	971.22%	1417.03%	1321.25%	1380.05%	1467.11%	1527.79%	1383.30%	1443.95%	1432.56%	1623.45%
Closing Net Assets	12.20%	16.55%	14.40%	14.10%	13.39%	16.40%	20.18%	19.42%	16.92%	18.00%
Coverage of Additions over Deductions	64.63%	127.31%	121.36%	134.64%	187.36%	35.55%	-50.97%	118.15%	176.07%	85.25%
Investment Earnings as % of Pension Benefits	15.47%	90.62%	64.63%	74.30%	116.82%	-29.97%	-126.90%	66.70%	102.58%	2.05%

City of Philadelphia
Wage and Earnings Tax Taxable Income
For the Calendar Years 2002 Through 2011

Table 6

Amounts in millions of USD

	City Residents			Non-City Residents				
Year	Taxable Income	% of Total	Direct Rate [1,2]	Taxable Income	% of Total	Direct Rate [1, 2]	Total Taxable Income	Total Direct Rate
2002	17,615.6	59.54%	4.51930%	11,969.4	40.46%	3.92950%	29,585.0	4.28068%
2003	18,073.7	58.86%	4.48130%	12,635.0	41.14%	3.89640%	30,708.7	4.24064%
2004	18,428.5	58.31%	4.46250%	13,175.0	41.69%	3.88010%	31,603.5	4.21971%
2005	19,177.8	58.14%	4.33100%	13,805.0	41.86%	3.81970%	32,982.8	4.11699%
2006	20,194.0	57.85%	4.30100%	14,715.3	42.15%	3.77160%	34,909.3	4.07784%
2007	21,051.3	57.33%	4.26000%	15,670.2	42.67%	3.75570%	36,721.5	4.04480%
2008	22,013.7	57.19%	4.09950%	16,479.4	42.81%	3.63170%	38,493.1	3.89923%
2009	21,805.5	57.38%	3.92980%	16,197.3	42.62%	3.49985%	38,002.8	3.74655%
2010	22,163.9	57.02%	3.92980%	16,708.3	42.98%	3.49910%	38,872.2	3.74467%
2011	22,673.5	56.95%	3.92880%	17,141.1	43.05%	3.49985%	39,814.6	3.74413%

Note:
The Wage and Earnings Tax is a tax on salaries, wages and commissions and other compensation paid to an employee who is employed by or renders services to an employer. All Philadelphia residents owe this tax regardless of where they perform services. Non-residents who perform services in Philadelphia must also pay this tax.

[1] For the years 2000 through 2003 the rate changed on July 1st. For those years the direct rate is an average of the two rates involved during the calendar year.

[2] In 2008 and 2009, the rate changed on January 1st and July 1st. The direct rate is an average of the two rates involved during that calendar year.

City of Philadelphia
Direct and Overlapping Tax Rates
For the Ten Fiscal Years 2003 through 2012

Table 7

Tax Classification	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Wage and Earnings Tax:										
[a] City Residents	4.5000%	4.4625%	4.3310% [b]	4.3010% [b]	4.2600% [b]	4.2190% [b]	3.9300% [b]	3.9296% [b]	3.9280% [b]	3.9280%
Non-City Residents	3.9127%	3.8801%	3.8197% [b]	3.7716% [b]	3.7557% [b]	3.7242% [b]	3.5000% [b]	3.4997% [b]	3.4985% [b]	3.4985%

Wage and Earnings Tax is a tax on salaries, wages and commissions and other compensation paid to an employee who is employed by or renders services to an employer. All Philadelphia residents owe this tax regardless of where they perform services. Non-residents who perform services in Philadelphia must also pay this tax

[d] Real Property: (% on Assessed Valuation)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
City	3.474%	3.474%	3.474%	3.474%	3.474%	3.305%	3.305%	3.305%	4.123%	4.123%
School District of Philadelphia	4.790%	4.790%	4.790%	4.790%	4.790%	4.959%	4.959%	4.959%	4.959%	5.309%
Total Real Property Tax	8.264%	8.264%	8.264%	8.264%	8.264%	8.264%	8.264%	8.264%	9.082%	9.432%
[e] Assessment Ratio	30.12%	30.02%	29.70%	29.69%	29.24%	29.22%	28.86%	28.46%	26.73%	28.05%
Effective Tax Rate (Real Property Rate x Assessment Ratio)	2.489%	2.481%	2.454%	2.454%	2.416%	2.415%	2.385%	2.352%	2.428%	2.646%

The City and the School District impose a tax on all real estate in the City. Real Estate Tax bills are sent out in December and are due and payable March 31st without penalty or interest. If you pay your bill on or before the last day of February, you receive a 1% discount.

Real Property Transfer Tax	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
City	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Commonwealth of Pennsylvania	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Total Real Property Transfer Tax	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

Realty Transfer Tax is levied on the sale or transfer of real estate located in Philadelphia. The tax also applies to the sale or transfer of an interest in a corporation or partnership that owns real estate. Certain long term leases are also subject to this tax.

Business Privilege Taxes	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
(% on Gross Receipts)	0.2400% [c]	0.2300% [c]	0.2100% [c]	0.1900% [c]	0.1665% [c]	0.1540% [c]	0.1415% [c]	0.1415% [c]	0.1415% [c]	0.1415% [c]
[f] (% on Net Income)	6.5000% [c]	6.5000% [c]	6.5000% [c]	6.5000% [c]	6.5000% [c]	6.5000% [c]	6.4500% [c]	6.4500% [c]	6.4500% [c]	6.4500% [c]

Every individual, partnership, association and corporation engaged in a business, profession or other activity for profit within the City of Philadelphia must file a BPT Return.

[c] Net Profits Tax:	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
[a] City Residents	4.5000%	4.4625%	4.4625%	4.3310%	4.3010%	4.2600%	3.9800%	3.9296%	3.9280%	3.9280%
Non-City Residents	3.9127%	3.8801%	3.8801%	3.8197%	3.7716%	3.7557%	3.5392%	3.4997%	3.4985%	3.4985%

Net Profits Tax is levied on the net profits from the operation of a trade, business, profession, enterprise or other activity conducted by individuals, partnerships, associations or estates and trusts.

City of Philadelphia
Direct and Overlapping Tax Rates
For the Ten Fiscal Years 2003 through 2012

Table 7

Tax Classification	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Sales Tax										
City	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	2.0%	2.0%	2.0%
Commonwealth of Pennsylvania	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Total Sales Tax	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	8.0%	8.0%	8.0%
Amusement Tax	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
	Imposed on the admission fee charged for attending any amusement in the City. Included are concerts, movies, athletic contests, night clubs and convention shows for which admission is charged.									
Parking Lot Tax	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	20.0%	20.0%	20.0%	20.0%
	Parking Tax is levied on the gross receipts from all financial transactions involving the parking or storing of automobiles or other motor vehicles in outdoor or indoor parking lots and garages in the City.									
Hotel Room Rental Tax	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	7.2%	8.2%	8.2%	8.2%
Rate of Tourism & Marketing Tax	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	8.2%	9.2%	9.2%	9.2%
	Imposed on the rental of a hotel room to accommodate paying guests. The term "hotel" includes an apartment, hotel, motel, inn, guest house, bed and breakfast or other building located within the City which is available to rent for overnight lodging or use of facility space to persons seeking temporary accommodations.									
Vehicle Rental Tax	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
	Imposed on any person acquiring the custody or possession of a rental vehicle in the City under a rental contract for money or other consideration.									

[a] Pursuant to an agreement with the Pennsylvania Intergovernmental Cooperation Authority (PICA), PICA's share of the Wage, Earnings and Net Profits Tax is 1.5% of City residents portion only.

[b] Effective January 1 of the fiscal year cited, the previous fiscal year's rate was in effect from July 1 through December 31. For FY 2011, from July 1 through December 31, 2010 the rates were 3.928 % and 3.4985%.

[c] Rates apply to the tax year (previous calendar year) and the tax is due April 15th in the fiscal year cited.

[d] Rates apply to the tax year (current calendar year) and the tax is due March 31st in the fiscal year cited.

[e] The State Tax Equalization Board (STEB) annually determines a ratio of assessed valuation to true value for each municipality in the Commonwealth of Pennsylvania. The ratio is used for the purpose of equalizing certain state school aid distribution.

[f] 60% of the Net Income portion of the Business Privilege Tax is allowed to be credited against the Net Profits Tax

City of Philadelphia **Table 8**

Principal Wage and Earnings Tax Remitters [1]

Current Calendar Year and Nine Years Ago *Amounts in millions of USD*

	2011			2002		
Remittance Range	# of Remitters (Employers)	Total Amount Remitted	Percentage of Total Remitted	# of Remitters (Employers)	Total Amount Remitted	Percentage of Total Remitted
Greater then $10 million	17	$410.2	27.53%	14	$299.3	23.63%
Between $1 million & $10 million	152	350.0	23.49%	115	288.2	22.76%
Between $100,000 & $1 million	1,542	393.7	26.42%	1,354	358.3	28.29%
Between $10,000 & $100,000	8,533	253.2	16.99%	8,089	237.9	18.79%
Less then $10,000	36,527	83.1	5.57%	36,190	82.7	6.53%
Total	46,771	$1,490.2	100.00%	45,762	$1,266.4	100.00%

[1] Wage & Earnings information for individual remitters is confidential

City of Philadelphia **Table 9**

Assessed Value and Estimated Value of Taxable Property

For the Calendar Years 2003 through 2012

Amounts in millions of USD

Calendar Year of Levy [1]	Assessed Value [3]	Less: Tax-Exempt Property [2, 3]	Total Taxable Assessed Value	Total Direct Tax Rate [4]	STEB Ratio [5]	Estimated Actual Taxable Value (STEB)	Sales Ratio [6]	Estimated Actual Taxable Value (Sales)
2003	14,326	3,705	10,621	3.474%	30.12%	35,262	22.58%	47,037
2004	14,813	3,867	10,946	3.474%	30.02%	36,462	24.21%	45,213
2005	15,072	4,040	11,032	3.474%	29.70%	37,145	23.73%	46,490
2006	15,803	4,372	11,431	3.474%	29.69%	38,501	17.42%	65,620
2007	16,243	4,628	11,615	3.474%	29.24%	39,723	17.94%	64,744
2008	16,974	4,799	12,175	3.305%	29.22%	41,667	16.44%	74,057
2009	17,352	5,146	12,206	3.305%	28.86%	42,294	24.64%	49,537
2010	17,615	5,339	12,276	3.305%	28.46%	43,134	13.35%	91,955
2011	17,940	5,593	12,347	4.123%	26.73%	46,192	13.13%	94,037
2012	18,022	5,685	12,337	4.123%	28.05%	43,982	NA	NA

[1] Real property tax bills are sent out in November and are payable at one percent (1%) discount until February 28th, otherwise the face amount is due by March 31 without penalty or interest.

[2] Bill #1130, approved February 8, 1978, provides relief from real estate taxes on improvements to deteriorated industrial, commercial or other business property for a period of five years. Bill #982, approved July 9, 1990, changed the exemption period from five years to three years. Bill #225, approved October 4, 2000, extended the exemption period from three years to ten years.

Bill #1456A, approved January 28, 1983, provides for a maximum three year tax abatement for owner-occupants of newly constructed residential property. Bill #226, approved September 12, 2000, extended the exemption period from three years to ten years.

Legislative Act #5020-205 as amended, approved October 11, 1984, provides for a maximum thirty month tax abatement to developers of residential property.

Bill #274, approved July 1, 1997, provides a maximum ten year tax abatement for conversion of eligible deteriorated commercial or other business property to commercial non-owner occupied residential property.

Bill #788A, approved December 30, 1998, provides a maximum twelve year tax exemption, abatement or credit of certain taxes within the geographical area designated as the Philadelphia Keystone Opportunity Zone.

[3] Source: Board of Revison of Taxes

[4] per $1,000.00 of assessed value

[5] The State Tax Equalization Board (STEB) annually determines a ratio of assessed valuation to true value for each municipality in the Commonwealth of Pennsylvania. See Table 13.

[6] This ratio is compiled by the Board of Revision of Taxes based on sales of property during the year.

City of Philadelphia

Table 10

Principal Property Tax Payers

Current Year and Nine Years Ago

Amounts in millions of USD

	2012			2003		
Taxpayer	Assessment [1]	Rank	Percentage of Total Assessments	Assessment [1]	Rank	Percentage of Total Assessments
Franklin Mills Associates	57.6	1	0.47	48.4	5	0.46
Phila Liberty Pla E Lp	54.4	2	0.44	64.3	1	0.61
Nine Penn Center Associates	54.1	3	0.44	54.1	4	0.51
HUB Properties Trust	43.8	4	0.36	59.5	2	0.56
Brandywine Operating Part (Bell Atlantic)	40.6	5	0.33	45.1	6	0.42
PRU 1901 Market LLC	35.2	6	0.29	32.9	7	0.31
Maguire/Thomas	33.9	7	0.27	32.0	9	0.30
Commerce Square Partners	33.3	8	0.27	32.3	8	0.30
Phila Shipyard Development Corp	30.3	9	0.25	-	0	-
Philadelphia Market Street	28.8	10	0.23	30.4	10	0.29
Two Liberty Place			-	56.0	3	0.53
	412.0		3.34	455.0		4.28
Total Taxable Assessments	12,337.0		100.00	10,621.0		100.00

[1] Source: Board of Revison of Taxes

City of Philadelphia

Table 11

Real Property Taxes Levied and Collected
For the Calendar Years 2003 through 2012

Amounts in millions of USD

Calendar Year of Levy [1]	Taxes Levied for the Year	Collected within the Year of the Levy		Collected in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount [2]	Percentage of Levy
2003	359.4	326.8	90.9%	27.6	354.4	98.6%
2004	372.5	340.9	91.5%	26.3	367.2	98.6%
2005	373.5	350.3	93.8%	22.1	372.4	99.7%
2006	385.6	339.6	88.1%	23.1	362.7	94.1%
2007	391.7	347.5	88.7%	23.6	371.1	94.7%
2008	390.2	346.4	88.8%	24.9	371.3	95.2%
2009	396.5	315.4	79.6%	41.8	357.2	90.1%
2010	405.8	353.7	87.2%	32.7	386.4	95.2%
2011	509.1	440.9	86.6%	29.8	470.7	92.5%
2012	508.6	444.5 [3]	87.4%	n/a	444.5	87.4%

[1] Real property tax bills are sent out in November and are payable at one percent (1%) discount until February 28th, otherwise the face amount is due by March 31 without penalty or interest.

[2] Includes collections through June 30, 2012

[3] Includes collections through June 30, 2012. It is estimated that approximately 91% of the amount levied for 2012 will be collected within the year of levy.

City of Philadelphia

Table 12

Ratios of Outstanding Debt by Type

For the Fiscal Years 2003 through 2012

Amounts in millions of USD (except per capita)

	Governmental Activities								Business-Type Activities						
Fiscal Year	General Obligation Bonds	Pension Service Agreement	Neighborhood Transformation Initiative	One Parkway Agreement	Sports Stadia Agreement	Central Library Project	Cultural & Commercial Corridor	Total Governmental Activities	General Obligation Bonds	Water Revenue Bonds	Airport Revenue Bonds	Total Business-Type Activities	Total Primary Government	% of Personal Income [1]	Per Capita
2003	1,903.3	1,394.6	139.2	54.7	342.0	-	-	3,833.8	15.5	1,670.8	1,104.8	2,791.1	6,624.9	0.2	4,384.5
2004	2,047.1	1,416.4	146.5	53.5	341.9	-	-	4,005.4	11.6	1,614.7	1,073.1	2,699.4	6,704.8	0.2	4,440.3
2005	1,950.8	1,429.7	285.3	52.2	341.1	-	-	4,059.1	8.1	1,815.4	1,077.4	2,900.9	6,960.0	0.2	4,597.1
2006	1,863.8	1,439.2	279.8	50.9	339.6	10.1	-	3,983.4	7.0	1,747.3	1,168.8	2,923.1	6,906.5	0.2	4,549.7
2007	1,993.7	1,444.9	273.9	49.6	334.0	9.7	139.6	4,245.4	5.8	1,674.3	1,141.0	2,821.1	7,066.5	0.1	4,649.0
2008	1,899.1	1,446.6	267.8	47.7	328.8	9.3	136.6	4,135.9	4.6	1,590.0	1,282.2	2,876.8	7,012.7	0.1	4,583.5
2009	2,093.8	1,443.8	261.5	46.3	323.6	8.9	133.3	4,311.2	3.4	1,648.7	1,250.4	2,902.5	7,213.7	0.1	4,684.2
2010	2,085.1	1,428.3	254.8	44.9	319.6	8.5	129.9	4,271.1	2.2	1,574.9	1,213.9	2,791.0	7,062.1	0.1	4,565.0
2011	2,135.0	1,407.3	247.8	43.4	314.9	8.1	126.4	4,282.9	1.0	1,738.2	1,450.8	3,190.0	7,472.9	0.1	4,897.1
2012	2,041.1	1,379.3	240.3	41.9	310.0	7.7	122.8	4,143.1	-	1,819.9	1,383.1	3,203.0	7,346.1	0.1	4,782.6

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

[1] See Table 17 for Personal Income and Population Amounts

City of Philadelphia

Table 13

Ratios of General Bonded Debt Outstanding

For the Fiscal Years 2003 through 2012

Amounts in millions of USD (except per capita)

Fiscal Year	General Obligation Bonds	Assessed Taxable Value of Property [1]	Assessed Ratio [2]	Actual Taxable Value of Property	% of Actual Taxable Value of Property	Per Capita [3]
2003	1,903.3	10,621.1	30.12%	35,262.6	5.40%	1,256.59
2004	2,047.1	10,945.9	30.02%	36,462.0	5.61%	1,348.88
2005	1,950.8	11,031.8	29.70%	37,144.1	5.25%	1,283.21
2006	1,863.8	11,430.6	29.69%	38,499.8	4.84%	1,218.15
2007	1,993.7	11,615.0	29.24%	39,723.0	5.02%	1,294.32
2008	1,899.1	12,175.2	29.22%	41,667.4	4.56%	1,227.37
2009	2,093.8	12,205.6	28.86%	42,292.4	4.95%	1,372.08
2010	2,085.1	12,276.3	28.46%	43,135.3	4.83%	1,357.07
2011	2,135.0	12,347.1	26.73%	46,191.9	4.62%	1,365.09
2012	2,041.1	12,337.0	28.05%	43,982.2	4.64%	1,328.84

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statement.

[1] Source: Board of Revison of Taxes

[2] The State Tax Equalization Board (STEB) annually determines a ratio of assessed valuation to true value for each municipality in the Commonwealth of Pennsylvania. The ratio is used for the purpose of equalizing certain state school aid distribution.

[3] See Table 17 for Population Amounts

City of Philadelphia — Table 14
Direct and Overlapping Governmental Activities Debt
June 30, 2012

Amounts in millions of USD

	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Direct and Overlapping Debt
Governmental Unit			
School District of Philadelphia	3,067.5	100.00%	3,067.5
[1] **City Direct Debt**			4,143.1
Total Direct and Overlapping Debt			7,210.6

Note:

Overlapping governments are those that coincide, in least in part, with the geographic boundries of the City. The outstanding debt of the School District of Philadelphia is supported by property taxes levied on properties within the City boundries. This schedule attempts to show the entire debt burden borne by City residents and businesses.

[1] Refer to Table 12

City of Philadelphia
Legal Debt Margin Information
For the Fiscal Years 2003 through 2012

Table 15

Amounts in Millions of USD

Legal Debt Margin Calculation for FY2012

[1] Assessed Value	12,017.1
[2] Debt Limit	1,622.3
[3] Debt Applicable to Limit:	
Tax Supported General Obligation Debt:	
Issued & Outstanding	1,324.5
Authorized but Unissued	218.0
Total	1,542.5
Less: Amount set aside for repayment of general obligation debt	-
Total Net Debt Applicable to Limit	1,542.5
Legal Debt Margin	79.8

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt Limit	1,261.3	1,280.3	1,304.8	1,335.6	1,374.7	1,418.0	1,469.4	1,523.4	1,571.9	1,622.3
Total Net Debt Applicable to Limit	1,202.2	1,159.1	1,205.5	1,185.8	1,293.4	1,329.3	1,352.3	1,407.0	1,474.6	1,542.5
Legal Debt Margin	59.1	121.2	99.3	149.8	81.3	88.7	117.1	116.4	97.3	79.8
Total Net Debt Applicable to the Limit as a Percent of Total Debt	95.31%	90.53%	92.39%	88.78%	94.09%	93.74%	92.03%	92.36%	93.81%	95.08%

[1] Average of the annual assessed valuation of taxable realty during the ten year period immediately preceding.
[2] Thirteen and one-half percent (13.5%) of the average of the annual assessed valuation of taxable realty during the ten year period immediately preceding.
[3] Refer to Purdon's Statutes 53 P.S. Section 15721

City of Philadelphia **Table 16**

Pledged Revenue Coverage

For the Fiscal Years 2003 through 2012

Amounts in millions of USD

No.		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	Water and Sewer Revenue Bonds										
1	Total Revenue and Beginning Fund Balance	454.2	421.6	463.5	504.0	536.2	597.8	527.5	566.7	589.7	613.3
2	Net Operating Expenses	250.2	262.0	277.7	284.2	303.2	334.7	342.6	334.0	357.7	375.1
3	Transfer To (From) Rate Stabilization Fund	16.8	(28.8)	(0.6)	21.6	26.0	(9.8)	(34.7)	(2.7)	10.9	8.5
4	Net Revenues	187.2	188.4	186.4	198.2	207.0	272.9	219.6	235.4	221.1	229.7
	Debt Service:										
5	Revenue Bonds Outstanding	156.1	157.0	155.4	165.2	172.7	173.8	183.0	195.7	184.3	191.4
6	General Obligation Bonds Outstanding	-	-	-	-	-	-	-			
7	Pennvest Loan	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.0
8	Total Debt Service	157.3	158.2	156.6	166.4	173.9	175.0	184.2	196.9	185.5	192.4
9	Net Revenue after Debt Service	29.9	30.2	29.8	31.8	33.1	97.9	35.4	38.5	35.6	37.3
10	Transfer to General Fund	4.1	-	4.4	5.0	5.0	5.0	4.2	2.3	-	1.1
11	Transfer to Capital Fund	16.0	16.4	16.7	16.9	16.9	16.9	17.1	17.3	18.1	18.9
12	Transfer to Residual Fund	9.8	13.8	8.7	9.9	11.2	76.0	14.1	18.9	17.5	17.3
13	Ending Fund Balance	-	-	-	-	-	-	-	-	-	-
	Debt Service Coverage:										
	Coverage A (Line 4/Line 5)	1.20	1.20	1.20	1.20	1.20	1.57	1.20	1.20	1.20	1.20
	Coverage B (Line 4/(Line 8 + Line 11))	1.08	1.08	1.08	1.08	1.08	1.42	1.09	1.10	1.09	1.09
	Airport Revenue Bonds										
1	Fund Balance	-	-	-	-	10.2	42.6	61.4	55.1	77.6	65.9
2	Project Revenues	168.4	183.3	185.1	200.8	211.3	250.5	255.3	246.9	260.8	269.6
3	Passenger Facility Charges	31.2	32.8	32.9	32.6	32.9	32.9	32.9	33.1	32.4	31.6
4	Total Fund Balance and Revenue	199.6	216.1	218.0	233.4	254.4	326.0	349.6	335.1	370.8	367.1
5	Net Operating Expenses	67.0	71.9	71.3	77.2	87.1	99.8	99.5	102.9	98.1	99.0
6	Interdepartmental Charges	46.1	52.2	57.6	57.9	70.6	89.1	89.0	80.7	88.6	92.7
7	Total Expenses	113.1	124.1	128.9	135.1	157.7	188.9	188.5	183.6	186.7	191.7
	Available for Debt Service:										
8	Revenue Bonds (Line 4-Line 5)	132.6	144.2	146.7	156.2	167.3	226.2	250.1	232.2	272.7	268.1
9	All Bonds (Line 4-Line 7)	86.5	92.0	89.1	98.3	96.7	137.1	161.1	151.5	184.1	175.4
	Debt Service:										
10	Revenue Bonds	83.2	89.7	88.1	88.1	85.5	84.4	95.6	94.3	102.4	103.0
11	General Obligation Bonds	1.4	1.0	1.1	-	-	-	-	-	-	-
12	Total Debt Service	84.6	90.7	89.2	88.1	85.5	84.4	95.6	94.3	102.4	103.0
	Debt Service Coverage:										
	Revenue Bonds Only - Test "A" (Line 8/Line 10)	1.59	1.61	1.67	1.77	1.96	2.68	2.62	2.46	2.66	2.60
	Total Debt Service - Test "B" (Line 9/Line 12)	1.02	1.01	1.00	1.12	1.13	1.62	1.69	1.61	1.80	1.70

Note:

The rate covenant of the Aviation issues permit inclusion of Fund Balance at the beginning of the period with project revenues for the period to determine adequacy of coverage.

Coverage "A" requires that Net Revenues equal at least 120% of the Debt Service Requirements while Coverage "B" requires that Net Revenues equal at least 100% of the Debt Service Requirements plus Required Capital Account Transfers. Test "A" requires that Project Resources be equal to Net Operating Expenses plus 150% of Revenue Bond Debt Service for the year. Test "B" requires Project Resources be equal to Operating Expenses for the year plus all debt service requirements for the year except any General Obligation Debt Service not applicable to the project.

Amounts in the above statement have been extracted from reports submitted to the respective Fiscal Agents in accordance with the reporting requirements of the General Ordinance and Supplemental Ordinance relative to rate covenants. Water and Sewer Coverage is calculated on the modified accrual basis; Aviation Fund on the accrual basis. Prior to FY2008 Airport Revenues and Expenses were reduced by amounts applicable to the Outside Terminal Area and the Overseas Terminal as prescribed by the indenture.

City of Philadelphia — Table 17

Demographic and Economic Statistics

For the Calendar Years 2002 through 2011

Calendar Year	Population [1]	Personal Income [2] (thousands of USD)	Per Capita Personal Income (USD)	Unemployment Rate [3]
2002	1,510,550	40,731,865	26,965	7.3%
2003	1,510,068	42,198,628	27,945	7.5%
2004	1,514,658	43,463,015	28,695	7.3%
2005	1,517,628	44,944,207	29,615	6.7%
2006	1,520,251	47,566,075	31,288	6.2%
2007	1,530,031	50,672,227	33,118	6.0%
2008	1,540,351	54,262,716	35,228	7.1%
2009	1,547,297	54,061,223	34,939	9.6%
2010	1,526,006	56,970,074	37,333	10.8%
2011	1,536,471	60,035,440 [4]	39,074	10.8%

[1] US Census Bureau
[2] US Department of Commerce, Bureau of Economic Analysis
[3] US Department of Labor, Bureau of Labor Statistics
[4] Estimated using the rate of growth for the previous year

City of Philadelphia

Table 18

Principal Employers

Current Calendar Year and Nine Years Ago

Listed Alphabetically

2012	2003
Albert Einstein Medical	Albert Einstein Medical
Children's Hospital of Philadelphia	City of Philadelphia
City of Philadelphia	First Union Services, Inc.
Comcast Corporation	School District of Philadelphia
Hospital of the University of Pennsylvania	SEPTA
School District of Philadelphia	Temple University
SEPTA	Tenet Healthsystem
Temple University	United States Postal Service
Thomas Jefferson University Hospitals	University Of Pennsylvania
University Of Pennsylvania	Verizon Corporation

City of Philadelphia Table 19
Full Time Employees by Function
For the Fiscal Years 2003 through 2012

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental Activities:										
Economic Development	9	9	6	6	6	6	23	25	27	28
Transportation:										
Streets & Highways	667	597	564	579	585	584	568	515	499	524
Mass Transit	1	1	1	1	1	1	8	7	9	13
Judiciary and Law Enforcement										
Police	8,036	7,888	7,578	7,522	7,639	7,754	7,685	7,503	7,439	7,292
Prisons	1,991	2,002	2,227	2,228	2,183	2,153	2,309	2,268	2,173	2,150
Courts	3,500	3,471	3,450	3,403	3,361	3,386	3,310	3,215	3,225	3,249
Conservation of Health:										
Emergency Medical Services	311	300	289	255	249	237	256	329	341	338
Health Services	1,236	1,210	1,163	1,133	1,148	1,140	1,163	1,135	1,139	1,143
Housing and Neighborhood										
Development	120	110	105	97	111	108	99	96	94	83
Cultural and Recreational										
Recreation	589	556	511	495	482	483	462	453	601	605
Parks	217	200	182	158	156	156	152	158	1	-
Libraries and Museums	829	774	726	812	816	808	723	687	682	658
Improvements to General Welfare:										
Social Services	2,218	2,220	2,196	2,140	2,164	2,232	2,107	2,079	1,989	1,924
Inspections and Demolitions	450	417	380	248	243	246	221	223	214	230
Service to Property:										
Sanitation	1,338	1,340	1,233	1,272	1,229	1,239	1,169	1,157	1,185	1,154
Fire	2,121	2,004	1,925	1,974	2,109	2,052	2,019	1,820	1,838	1,700
General Management and Support	2,494	2,369	2,253	2,347	2,331	2,414	2,393	2,276	2,225	2,454
Total Governmental Activities	26,127	25,468	24,789	24,670	24,813	24,999	24,667	23,946	23,681	23,545
Business Type Activities:										
Water and Sewer	2,415	2,342	2,326	2,239	2,229	2,291	2,256	2,196	2,116	2,228
Aviation	915	1,021	967	1,004	1,010	1,057	1,033	1,001	1,010	1,021
Total Business-Type Activities	3,330	3,363	3,293	3,243	3,239	3,348	3,289	3,197	3,126	3,249
Fiduciary Activities:										
Pension Trust	62	64	64	65	65	59	69	66	65	61
Total Primary Government	29,519	28,895	28,146	27,978	28,117	28,406	28,025	27,209	26,872	26,855

City of Philadelphia | **Table 20**

Operating Indicators by Function

For the Fiscal Years 2003 through 2012

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental Activities:										
Transportation:										
Streets & Highways										
Street Resurfacing (miles)	93	117	105	102	107	74	119	69	36	37
Potholes Repaired	24,182	23,179	20,862	18,203	12,721	12,326	11,976	23,049	24,406	14,451
Judiciary and Law Enforcement:										
Police										
Arrests	66,083	68,486	67,795	69,166	73,606	75,805	68,922	64,465	73,310	70,971
Calls to 911	3,269,276	3,290,786	3,270,114	3,321,896	3,398,985	3,164,454	3,084,261	3,064,973	2,949,231	3,118,648
Prisons										
Average Inmate Population	7,631	7,738	8,141	8,613	8,796	9,133	9,554	8,806	7,935	8,240
Inmate Beds (city owned)	7,382	8,283	8,405	8,605	8,443	9,005	9,137	9,137	8,200	8,417
Conservation of Health:										
Emergency Medical Services										
Medic Unit Runs	NA	NA	NA	209,654	216,606	215,305	217,505	222,882	227,147	273,557
First Responder Runs	NA	NA	NA	69,740	68,203	60,756	53,610	54,960	66,763	60,972
Health										
Patient Visits	320,833	317,184	337,770	324,014	323,121	334,139	349,078	350,695	339,032	348,472
Children Screened for Lead Poisoning	39,293	37,863	38,013	43,038	43,501	41,590	50,525	47,713	45,844	28,244
Cultural and Recreational:										
Parks										
Athletic Field Permits Issued	NA	NA	NA	2,878	2,227	1,389	1,420	1,388	2,714	1,978
Libraries										
Items borrowed	7,056,608	6,963,935	6,294,315	6,188,637	6,328,706	7,037,694	7,419,466	6,530,662	7,210,217	7,503,031
Visitors to all libraries	6,440,990	6,216,973	5,517,569	6,103,354	6,422,857	6,648,998	6,396,633	5,615,201	6,103,528	6,020,321
Visitors to library website	1,353,626	1,661,794	2,044,518	2,594,527	3,285,380	4,912,405	4,613,496	5,256,928	6,131,726	6,886,339
Improvements to General Welfare:										
Social Services										
Children Receiving Services	26,388	28,039	28,926	28,086	28,898	25,893	35,685	31,416	28,572	28,939
Children in Placement	9,190	9,037	8,548	7,999	8,070	7,739	7,993	8,792	7,122	7,839
Emergency Shelter Beds (average)	2,109	2,412	2,539	2,781	2,677	2,747	2,689	2,617	2,520	2,987
Transitional Housing Units (new placements)	458	489	597	448	543	435	476	487	510	558
Service to Property:										
Sanitation										
Refuse Collected (tons per day)	2,894	3,006	3,008	3,006	2,922	2,798	2,532	2,412	2,254	2,299
Recyclables Collected (tons per day)	175	169	157	155	179	197	288	381	441	461
Fire										
Fires Handled	NA	NA	NA	9,523	8,080	7,444	6,850	4,927	7,945	7,319
Fire Marshall Investigations	NA	NA	NA	2,734	3,153	3,097	3,031	2,726	2,711	2,387
Business Type Activities:										
Water and Sewer										
New Connections	110	106	137	207	125	295	281	704	121	125
Water Main Breaks	988	794	706	660	825	687	802	646	954	557
Avg. Daily Treated Water Delivered (x 1000 gallons)	183,700	175,600	174,100	175,800	169,400	167,000	163,660	242,900	250,000	239,200
Peak Daily Treated Water Delivered (x 1000 gallons)	208,600	201,700	210,000	207,400	179,100	170,500	167,090	272,200	282,000	254,500
Avg. Daily Water Sewage Treatment (x 1000 gallons)	478,130	476,110	478,670	430,170	463,080	411,830	417,330	468,200	410,000	443,500
[1] **Aviation**										
Passengers Handled (PIA)	24,232,804	26,190,976	31,074,454	31,341,459	31,885,333	32,287,035	30,819,348	30,469,899	31,225,470	30,612,150
Air Cargo Tons (PIA)	565,653	568,898	599,758	591,815	571,452	575,640	475,365	440,495	449,683	416,731
Aircraft Movements (PIA and NPA)	654,758	584,214	629,885	625,692	614,720	593,757	551,191	543,462	458,832	517,842

[1] PIA (Philadelphia International Airport)-passenger aircraft and cargo. NPA (Northeast Philadelphia Airport)-private aircraft and cargo

City of Philadelphia
Capital Assets Statistics by Function
For the Fiscal Years 2003 through 2012

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental Activities:										
Transportation:										
Streets & Highways										
[1] Total Miles of Streets	2,400	2,400	2,400	2,400	2,575	2,575	2,575	2,575	2,575	2,575
Streetlights	101,224	101,836	102,000	102,219	102,840	102,949	103,982	104,219	104,219	104,600
Judiciary and Law Enforcement:										
Police										
Stations and Other Facilities	33	33	33	33	34	36	35	35	31	32
Prisons										
Major Correctional Facilities	5	6	6	6	6	6	6	6	6	6
Conservation of Health:										
Health Services										
Health Care Centers	9	9	9	9	9	9	9	9	9	9
Cultural and Recreational:										
Recreation										
Recreation Centers	164	164	165	165	171	171	171	171	153	184
[2] Athletic Venues	1,121	1,121	1,121	1,117	1,117	919	915	914	1,148	1,102
[4] Neighborhood Parks and Squares	232	232	232	232	232	79	79	79	-	-
Parks										
Parks	62	62	62	62	63	63	63	63	150	177
Baseball/Softball Fields	106	106	106	106	109	77	79	79	407	404
Libraries										
Branch & Regional Libraries	55	54	53	54	54	54	54	54	54	54
Service to Property:										
Fire										
Stations and Other Facilities	63	63	63	64	64	64	63	63	63	68
Business Type Activities:										
Water and Sewer:										
Water System Piping (miles)	3,169	3,169	3,169	3,169	3,133	3,137	3,145	3,236	3,164	3,172
Fire Hydrants	27,846	27,987	26,080	26,080	25,195	25,181	25,208	25,234	25,353	25,321
Treated Water Storage Capacity (x 1000 gallons)	1,065,500	1,065,500	1,065,500	1,065,500	1,065,500	1,065,500	1,065,500	1,065,400	1,065,400	1,065,400
Sanitary Sewers (miles)	595	596	596	596	768	750	749	751	758	759
Stormwater Conduits (miles)	622	623	623	623	784	713	720	721	731	734
Sewage Treatment Capacity (x 1000 gallons)	1,044,000	1,044,000	1,044,000	1,044,000	1,044,000	1,044,000	1,044,000	1,044,000	1,044,000	1,044,000
[3] **Aviation**										
Passenger Gates (PIA)	120	120	120	120	120	120	120	120	126	126
Terminal Buildings (square footage) (PIA)	2,415,000	2,415,000	2,415,000	2,415,000	2,415,000	2,415,000	2,415,000	3,144,000	3,144,000	3,144,000
Runways (length in feet) (PIA & NPA)	42,460	42,460	42,460	42,460	42,460	42,460	43,500	43,500	43,500	43,500

[1] Street System-83% city streets, 2% park streets, 15% state highways

[2] Includes baseball fields, football/soccer fields, tennis, basketball and hockey courts, skating rinks and indoor and outdoor pools

[3] PIA (Philadelphia International Airport)-passenger aircraft and cargo. NPA (Northeast Philadelphia Airport)-private aircraft and cargo.

[4] FPC and Recreation Dept were merged in FY2011, hence the category of Neighborhood Parks and Squares was eliminated.

Office of the Director of Finance • 1330 MSB • Philadelphia, PA 19102
Report can be found @ http://www.phila.gov/finance/reports-Comprehensive.html

APPENDIX D

Proposed Form of Co-Bond Counsel Opinion

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APPENDIX D

BELOW IS THE PROPOSED FORM OF OPINION OF CO-BOND COUNSEL EXPECTED TO BE DELIVERED IN CONNECTION WITH THE ISSUANCE OF THE SERIES 2014 BONDS

February 6, 2014

RE: The City of Philadelphia, Pennsylvania
$154,275,000 General Obligation Refunding Bonds, Series 2014A

TO THE PURCHASERS OF THE SERIES 2014 BONDS:

We have served as Co-Bond Counsel to The City of Philadelphia, Pennsylvania (the "City") in connection with the issuance of its $154,275,000 General Obligation Refunding Bonds, Series 2014A (the "Series 2014 Bonds"). The Series 2014 Bonds are issued under and pursuant to: (i) the Constitution of the Commonwealth of Pennsylvania (the "Commonwealth"); (ii) the Act of the General Assembly of the Commonwealth, approved June 25, 1919, P.L. 581, as amended, and the Act of the General Assembly of the Commonwealth of June 11, 1941, P.L. 113, as amended by the Act of the General Assembly of the Commonwealth of December 8, 1985, P.L. 324 (together, the "Act"); (iii) the Ordinance (Bill No. 100654) of the Council of the City, approved by the Mayor on November 22, 2010 (the "Ordinance"); and (iv) a Resolution of the Bond Committee established by the Ordinance adopted January 30, 2014, with respect to the Series 2014 Bonds (the "Bond Committee Resolution"). Capitalized terms used herein but not defined shall have the meanings set forth in the Bond Committee Resolution.

The Series 2014 Bonds will bear interest at the fixed rates and be subject to redemption as shown in the official statement prepared for the Series 2014 Bonds. The Series 2014 Bonds will be issued only as fully registered bonds, in denominations of $5,000 and any integral multiples of $5,000 in excess thereof.

The Series 2014 Bonds are being issued by the City to provide funds to pay the costs of refunding a portion of certain outstanding general obligation bonds of the City and to pay the costs associated with the issuance of the Series 2014 Bonds.

We have examined the proceedings relating to the authorization and issuance of the Series 2014 Bonds, including, among other things: (a) the Constitution of the Commonwealth and the Act; (b) certified copies of the Ordinance and the Bond Committee Resolution; (c) the opinion of Shelley R. Smith, Esq., City Solicitor, on which we have relied; (d) certificates executed by the City and its Fiscal Agent for the Series 2014 Bonds as to the execution and authentication of the Series 2014 Bonds; (e) various other certificates executed by the City, including a certificate with regard to compliance with the Internal Revenue Code of 1986, as amended (the "Code"); (f) the Form 8038-G of the City with respect to the Series 2014 Bonds; and (g) the Escrow Agreement (as defined in the Bond Committee Resolution) and the verification report attached thereto. We have also examined a fully executed and authenticated Series 2014 Bond and we assume all other Series 2014 Bonds are in such form and are similarly executed and authenticated. In rendering our opinion, we have assumed the accuracy of and not undertaken to verify the factual matters set forth in such certificates and other proceedings by independent investigation and have relied on the covenants, warranties and representations made in such certificates and in the other financing documents.

In addition, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity with originals of all documents submitted to us as copies and the authenticity of certificates of public officials.

Based upon and subject to the foregoing and the additional assumptions, qualifications and limitations set forth below, we are of the opinion that:

1. The City is authorized under the provisions of the Constitution and laws of the Commonwealth to issue the Series 2014 Bonds for the purposes therein set forth.

2. The Series 2014 Bonds have been duly authorized, executed and delivered by the City and constitute valid and binding general obligations of the City, enforceable against the City in accordance with the terms thereof, except as enforcement may be limited by bankruptcy, insolvency, moratorium and other similar laws and equitable principles affecting creditors' rights and remedies generally, and by the exercise of judicial discretion in accordance with general principles of equity.

3. The full faith, credit and taxing power of the City are pledged for the payment of the principal of and interest due on the Series 2014 Bonds, and the City has effectively covenanted in the Ordinance that it will make payments from the City's sinking fund established for the Series 2014 Bonds or any of the City's general revenues or funds at such times and in such annual amounts as shall be sufficient for the payment of all principal of and interest on the Series 2014 Bonds when due.

4. Under existing laws of the Commonwealth, the interest on the Series 2014 Bonds is free from Pennsylvania personal income taxation and Pennsylvania corporate net income taxation, but such exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the Series 2014 Bonds or the interest thereon.

5. Interest on the Series 2014 Bonds is excluded from gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions. The opinion set forth in the preceding sentence is subject to the condition that the City comply with all applicable federal income tax law requirements that must be satisfied subsequent to the issuance of the Series 2014 Bonds in order that interest thereon continues to be excluded from gross income for purposes of federal income taxation. Failure to comply with all of such requirements could cause the interest on the Series 2014 Bonds to be includable in gross income retroactive to the date of issuance of the Series 2014 Bonds. The City has covenanted to comply with all such requirements. Interest on the Series 2014 Bonds is not treated as an item of tax preference under Section 57 of the Code for purposes of the individual and corporate alternative minimum taxes; however, under the Code, to the extent that interest on the Series 2014 Bonds is a component of a corporate holder's "adjusted current earnings," a portion of that interest may be subject to the corporate alternative minimum tax. We express no opinion regarding other federal tax consequences relating to the Series 2014 Bonds or the receipt of interest thereon.

We express no opinion herein on the adequacy, completeness or accuracy of any official statement, placement memorandum or other disclosure document pertaining to the offering of the Series 2014 Bonds.

This opinion is limited to the matters expressly stated herein. No implied opinions are to be inferred to extend this opinion beyond the matters expressly stated herein. This opinion is given as of the date hereof and we express no opinion as to any matter not set forth in the numbered paragraphs herein. We assume no obligation to update or supplement this opinion to reflect any facts or circumstances which may hereafter come to our attention or any changes in law which may hereafter occur.

Very truly yours,

APPENDIX E

Form of Continuing Disclosure Agreement

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CONTINUING DISCLOSURE AGREEMENT

CITY OF PHILADELPHIA, PENNSYLVANIA

GENERAL OBLIGATION REFUNDING BONDS, SERIES 2014A

This Continuing Disclosure Agreement ("Disclosure Agreement") dated as of February 6, 2014, is executed and delivered by and between The City of Philadelphia, Pennsylvania ("City'') and Digital Assurance Certification, L.L.C., as dissemination agent ("Dissemination Agent") in connection with the issuance and sale by the City of $154,275,000 aggregate principal amount of its General Obligation Refunding Bonds, Series 2014A (the "2014A Bonds").

In consideration of the mutual covenants, promises and agreements contained herein and intending to be legally bound hereby, the parties hereto agree as follows:

Section 1: **Definitions**

In this Disclosure Agreement and any agreement supplemental hereto (except as otherwise expressly provided for unless the context clearly otherwise requires) terms defined in the recitals hereto shall have such meanings throughout this Disclosure Agreement, and, in addition, the following terms shall have the meanings specified below:

"Annual Financial Information" shall mean the financial information or operating data with respect to the City, substantially similar to the type set forth in Appendix A attached hereto and made a part hereof, delivered at least annually pursuant to Section 3 hereof and in accordance with the Rule (as hereafter defined). The financial statements comprising the Annual Financial Information are prepared according to accounting methods and procedures which conform to generally accepted accounting principles for governmental units as prescribed by the Government Accounting Standards Board.

"Bond Committee Resolution" shall mean the resolution adopted by the Mayor, City Controller and City Solicitor or a majority of them on January 30, 2014 authorizing the issuance of $154,275,000 principal amount of the 2014A Bonds and determining the terms thereof.

"Business Day" or "Business Days" shall mean any day other than a Saturday or Sunday or, in the City, a legal holiday or a day on which banking institutions are authorized by law to close or a day on which the Dissemination Agent is closed.

"Disclosure Representative" shall mean the Director of Finance of the City, the City Treasurer or such other official or employee of the City as the Director of Finance or the City Treasurer shall designate in writing to the Dissemination Agent.

"EMMA" shall mean the Electronic Municipal Market Access System operated by the MSRB.

"Fiscal Agent" shall mean U.S. Bank National Association.

"Material Event" shall mean any of the events listed in Section 4(a) of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Official Statement" shall mean the Official Statement dated January 30, 2014, relating to the 2014A Bonds.

"Participating Underwriters" shall mean any of the original underwriters of the 2014A Bonds required to comply with the Rule in connection with their purchase and reoffering of the 2014A Bonds.

"Registered Owner" or "Registered Owners" shall mean the person or persons in whose name a 2014A Bond is registered on the books of the City maintained by the Fiscal Agent in accordance with the Bond Committee Resolution. For so long as the 2014A Bonds shall be registered in the name of the Securities Depository or its nominee, the term "Registered Owner" or "Registered Owners" shall also mean and include, for the purposes of this Disclosure Agreement, the owners of book-entry credits in the 2014A Bonds evidencing an interest in the 2014A Bonds; provided, however, that the Dissemination Agent shall have no obligation to provide notice hereunder to owners of book-entry credits in the 2014A Bonds except those who have filed their names and addresses with the Dissemination Agent for the purposes of receiving notices or giving direction under this Disclosure Agreement.

"Rule" shall mean Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, as such Rule may be amended from time to time.

"Securities Depository" shall mean The Depository Trust Company, New York, New York, or its nominee, Cede & Co., or successor thereto appointed pursuant to the Bond Committee Resolution.

All words and terms used in this Disclosure Agreement and not defined above or elsewhere herein shall have the same meanings as set forth in the Bond Committee Resolution.

Section 2: Authorization and Purpose of Disclosure Agreement

This Disclosure Agreement is authorized to be executed and delivered by the City in order to assist the Participating Underwriters in complying with the requirements of the Rule.

Section 3: Annual Financial Information

a) Within 240 days of the close of each fiscal year of the City, commencing with the fiscal year ended June 30, 2013, the Disclosure Representative shall file with the Dissemination Agent, Annual Financial Information for such fiscal year. The Dissemination Agent shall promptly upon receipt thereof file the Annual Financial Information with the MSRB. The Annual Financial Information will contain unaudited financial statements if audited financial statements are not available.

b) If unaudited financial statements are delivered pursuant to Section 3(a) above, as soon as audited financial statements for the City are available, the Disclosure Representative shall file the audited financial statements with the Dissemination Agent. The Dissemination Agent shall promptly upon receipt thereof file the audited financial statements with the MSRB.

Section 4: Material Events

a) The City agrees that it shall provide through the Dissemination Agent, in a timely manner not in excess of ten (10) business days after the occurrence of the event, to the MSRB, notice of any of the following events with respect to the 2014A Bonds (each a "Material Event"):

(i) Principal and interest payment delinquencies;

(ii) Non-payment related defaults, if material;

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties;

(v) Substitution of credit or liquidity providers or their failure to perform;

(vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701–TEB) or other material notices or determinations with respect to the tax status of the 2014A Bonds, or other material events affecting the tax status of the 2014A Bonds;

(vii) Modifications to the rights of holders of the 2014A Bonds, if material;

(viii) Calls of the 2014A Bonds, if material, and tender offers;

(ix) Defeasances;

(x) Release, substitution or sale of property securing repayment of the 2014A Bonds, if material;

(xi) Rating changes;

(xii) Bankruptcy, insolvency, receivership or similar event of the City;

(xiii) The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

The foregoing fourteen (14) events are quoted from the Rule. No mandatory redemption shall be deemed a Material Event.

b) Whenever the City concludes that a Material Event has occurred, the Disclosure Representative shall promptly notify the Dissemination Agent in writing of such occurrence, specifying the Material Event. Such notice shall instruct the Dissemination Agent to file a notice of such occurrence with the MSRB. Upon receipt, the Dissemination Agent shall promptly file such notice with the MSRB. In addition, the Dissemination Agent shall promptly file with the MSRB, notice of any failure by the City or the Dissemination Agent to timely file the Annual Financial Information as provided in Section 3 hereof, including any failure by the City or the Dissemination Agent to provide the Annual Financial Information on or before the date specified in Section 3(a) hereof.

c) Notwithstanding the foregoing, the Dissemination Agent shall, promptly after obtaining actual knowledge of an event listed in clauses (a)(i), (iv), (viii), (ix) notify the Disclosure Representative of the occurrence of such event and shall, within five (5) Business Days of giving notice to the Disclosure

Representative, file notice of such occurrence with the MSRB, unless the Disclosure Representative gives the Dissemination Agent written instructions not to file such notice because the event has not occurred or the event is not a Material Event within the meaning of the Rule.

d) The Dissemination Agent shall prepare an affidavit of filing for each notice delivered pursuant to clauses (b) and (c) of this Section 4 and shall deliver such affidavit to the City no later than three (3) Business Days following the date of delivery of such notice.

e) Upon the return of any completed acknowledgment of a filing, the Dissemination Agent shall prepare an affidavit of receipt specifying the date and hour of receipt of such notice by each recipient to the extent such information has been provided to the Dissemination Agent. Such affidavit of receipt shall be delivered to the City no later than three (3) Business Days following the date of receipt by the Dissemination Agent of the last completed acknowledgment.

f) For the purposes of the event identified in clause (a)(xii) of this section, the event is considered to occur when any of the following occur: The appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

Section 5: Amendment; Waiver

a) Notwithstanding any other provision of this Disclosure Agreement, the City and the Dissemination Agent may amend the Disclosure Agreement or waive any of the provisions hereof, provided that no such amendment or waiver shall be executed by the parties hereto or effective unless:

(i) the amendment or waiver is made in writing and in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in identity, nature or status of the City or the governmental operations conducted by the City;

(ii) the Disclosure Agreement, as amended by the amendment or waiver, would have been the written undertaking contemplated by the Rule at the time of original issuance of the 2014A Bonds after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) the amendment or waiver does not materially impair the interests of the Registered Owner of the 2014A Bonds.

b) Evidence of compliance with the conditions set forth in clause (a) of this Section 5 shall be satisfied by the delivery to the Dissemination Agent of an opinion of counsel having recognized experience and skill in the issuance of municipal securities and federal securities law, acceptable to both the City and the Dissemination Agent, to the effect that the amendment or waiver satisfies the conditions set forth in clauses (a)(i), (ii), and (iii) of this Section 5.

c) Notice of any amendment or waiver containing an explanation of the reasons therefor shall be given by the Disclosure Representative to the Dissemination Agent upon execution of the amendment or waiver and the Dissemination Agent shall promptly file such notice with the MSRB. The

Dissemination Agent shall also send notice of the amendment or waiver to each Registered Owner including owners of book-entry credits in the 2014A Bonds who have filed their names and addresses with the Dissemination Agent.

Section 6: **Other Information; Duties of Dissemination Agent**

a) Nothing in this Disclosure Agreement shall preclude the City from disseminating any other information with respect to the City or the 2014A Bonds, using the means of communication provided in this Disclosure Agreement or otherwise, in addition to the Annual Financial Information and the notices of Material Events specifically provided for herein, nor shall the City be relieved of complying with any applicable law relating to the availability and inspection of public records. Any election by the City to furnish any information not specifically provided for herein in any notice given pursuant to this Disclosure Agreement or by the means of communication provided for herein shall not be deemed to be an additional contractual undertaking and the City shall have no obligation to furnish such information in any subsequent notice or by the same means of communication.

b) Nothing in this Disclosure Agreement shall relieve the Dissemination Agent of any of its duties and obligations under any other agreement or in any other capacity.

c) Except as expressly set forth in this Disclosure Agreement, the Dissemination Agent shall have no responsibility for any continuing disclosure to the Registered Owners or the MSRB.

Section 7: **Default**

a) In the event that the City or the Dissemination Agent fails to comply with any provision of this Disclosure Agreement, the Dissemination Agent or any Registered Owner of the 2014A Bonds shall have the right, by mandamus, suit, action or proceeding at law or in equity, to compel the City or the Dissemination Agent to perform each and every term, provision and covenant contained in this Disclosure Agreement. The Dissemination Agent shall be under no obligation to take any action in respect of any default hereunder unless it has received the direction in writing to do so by the Registered Owners of at least 25% of the outstanding principal amount of the 2014A Bonds and if, in the Dissemination Agent's opinion, such action may tend to involve expense or liability, unless it is also furnished with indemnity and security for expenses satisfactory to it.

b) A default under the Disclosure Agreement shall not be or be deemed to be a default under the 2014A Bonds or any other agreement related thereto and the sole remedy in the event of a failure of the City or the Dissemination Agent to comply with the provisions hereof shall be the action to compel performance described in Section 7(a) above.

Section 8: **Concerning the Dissemination Agent**

a) The Dissemination Agent accepts and agrees to perform the duties imposed on it by this Disclosure Agreement, but only upon the terms and conditions set forth herein. The Dissemination Agent shall have only such duties in its capacity as are specifically set forth in this Disclosure Agreement. The Dissemination Agent may execute any powers hereunder and perform any duties required of it through attorneys, agents, and other experts, officers, or employees, selected by it and the written advice of such counsel or other experts shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon. The Dissemination Agent shall not be answerable for the default or misconduct of any attorney, agent, expert or employee selected by it with reasonable care. The Dissemination Agent shall not be answerable for the exercise of any discretion or power under this Disclosure Agreement or liable to the City or any other person for actions taken hereunder, except for its own willful misconduct or negligence.

b) The City shall pay the Dissemination Agent reasonable compensation for its services hereunder, and also all of its reasonable expenses and disbursements, including reasonable fees and expenses of its counsel or other experts, as shall be agreed upon by the Dissemination Agent and the City. Nothing in this Section 8(b) shall be deemed to constitute a waiver of governmental immunity by the City. The provisions of this paragraph shall survive termination of this Disclosure Agreement

c) The Dissemination Agent may act on any resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, or other paper or document which it in good faith believes to be genuine and to have been passed or signed by the proper persons or to have been prepared and furnished pursuant to any of the provisions of this Disclosure Agreement; and the Dissemination Agent shall be under no duty to make any investigation as to any statement contained in any such instrument, but may accept the same as conclusive evidence of the accuracy of such statement in the absence of actual notice to the contrary. The Dissemination Agent shall be under no obligation to institute any suit, or to take any action under this Disclosure Agreement, or to enter any appearance or in any way defend in any suit in which it may be made a defendant, or to take any steps in the execution of the duties hereby created or in the enforcement of any rights and powers hereunder, until it shall be indemnified by the Registered Owners to its satisfaction against any and all costs and expenses, outlays and counsel fees and expenses and other reasonable disbursements, and against all liability; the Dissemination Agent may, nevertheless, begin suit or appear in and defend suit, or do anything else in its judgment proper to be done by it as Dissemination Agent, without indemnity.

Section 9: **<u>Term of Disclosure Agreement</u>**

This Disclosure Agreement shall terminate (1) upon payment or provision for payment in full of the 2014A Bonds, or (2) upon repeal or rescission of Section (b)(5) of the Rule, or (3) upon a final determination that Section (b)(5) of the Rule is invalid or unenforceable.

Section 10: **<u>Beneficiaries</u>**

This Disclosure Agreement shall inure solely to the benefit of the City, the Dissemination Agent and the Registered Owners from time to time of the 2014A Bonds and nothing herein contained shall confer any right upon any other person.

Section 11: **<u>Notices</u>**

Any written notice to or demand may be served, presented or made to the persons named below and shall be sufficiently given or filed for all purposes of this Disclosure Agreement if deposited in the United States mail, first class postage prepaid, or in a recognized form of overnight mail, or by telecopy with confirmation of receipt, addressed:

(a) to the Dissemination Agent at:

Digital Assurance Certification LLC
390 North Orange Avenue, Suite 1750
Orlando, FL 32801
Fax: (407) 515-6513

(b) to the City or the Disclosure Representative at:

City of Philadelphia
Office of the Director of Finance
1330 Municipal Services Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102
Attention: Director of Finance
Fax: (215) 568-1947; or

Office of the City Treasurer
640 Municipal Services Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102
Attention: City Treasurer
Fax: (215) 686-3815

(c) to the Fiscal Agent at:

US Bank Global Corporate Trust Services
Two Liberty Place
50 South 16th Street, Suite 2000
Mail Station: EX-PA-WBSP
Philadelphia, PA 19102
Attention: Ralph E. Jones
Phone: 215-761-9314
Fax: 215-761-9412

or such other addresses as may be designated in writing to all parties hereto.

Section 12: <u>No Personal Recourse</u>

No personal recourse shall be had for any claim based on this Disclosure Agreement against any member, officer, or employee, past, present or future, of the City (including without limitation the Disclosure Representative), or of any successor body as such, either directly or through the City or any such successor body, under any constitutional provision, statute or rule of law or by the enforcement of any assessment or penalty otherwise.

Section 13: <u>Controlling Law</u>

This Disclosure Agreement and all matters arising out of or related to this Disclosure Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania.

Section 14: <u>Removal and Resignation of Dissemination Agent</u>

a) The City may discharge the Dissemination Agent by notice in writing mailed postage prepaid to the Dissemination Agent; provided, however, that the City shall provide written notice to the Fiscal Agent upon the engagement or discharge of any Dissemination Agent, and shall provide the name, address and telephone number of any successor Dissemination Agent. The City shall cause any successor Dissemination Agent appointed hereunder and any further successors to execute and deliver an acknowledgement of acceptance of the designation and duties of Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the City shall be the Dissemination Agent.

b) The Dissemination Agent may resign and thereby become discharged from its duties as such under this Disclosure Agreement by notice in writing mailed postage prepaid to the City, such resignation to become effective on the later of (i) the tenth (l0th) business day following the City's receipt or notice thereof (or at such different date and time as stated in such notice) and (ii) the City's appointment of a new Dissemination Agent hereunder or the City's notice to the Dissemination Agent and the Fiscal Agent that the City has determined to act itself in such capacity.

Section 15: **Filing with EMMA; Other Filings**.

All filings with the MSRB shall be done through EMMA in an electronic format prescribed by the MSRB and accompanied by identifying data prescribed by the MSRB, or as otherwise specified by the MSRB.

In addition to filings through EMMA, the Dissemination Agent may file any of the information necessary to be filed hereunder with such other electronic filing systems and entities as are approved by the Securities and Exchange Commission (the "SEC") by interpretative letter or "no action" letter for receipt of such information in compliance with the requirements of paragraph (b)(5) of the Rule.

Section 16: **Successors and Assigns.**

All of the covenants, promises and agreements contained in this Disclosure Agreement by or on behalf of the City or by or on behalf of the Dissemination Agent shall bind and inure to the benefit of their respective successors and assigns, whether so expressed or not.

Section 17: **Headings for Convenience Only**

The descriptive headings in this Disclosure Agreement are inserted for convenience of reference only and shall not control or affect the meaning or construction of any of the provisions hereof.

Section 18: **Counterparts**

This Disclosure Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but such counterparts shall together constitute but one and the same instrument.

Section 19: **Entire Agreement**

This Disclosure Agreement sets forth the entire understanding and agreement of the City and the Dissemination Agent with respect to the matters herein contemplated and no modification or amendment of or supplement to this Disclosure Agreement shall be valid or effective unless the same is in writing and signed by the parties hereto.

Section 20: **Severability**

In case any section or provision of this Disclosure Agreement or any covenant, stipulation, obligation, agreement, or action, or any part thereof, made, assumed, entered into or taken under this Disclosure Agreement, or any application thereof, is for any reason held to be illegal or invalid or is at any time inoperable, such illegality, invalidity or inoperability shall not affect the remainder thereof or any other section or provision of this Disclosure Agreement, or any other covenant, stipulation, obligation, agreement, act or action, or part thereof, made, assumed, entered into or taken under this Disclosure Agreement, which shall be construed and enforced as if such illegal or invalid or inoperable portion were not contained herein.

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IN WITNESS WHEREOF, THE CITY OF PHILADELPHIA, PENNSYLVANIA, has caused this Disclosure Agreement to be executed by the Director of Finance and DIGITAL ASSURANCE CERTIFICATION, L.L.C., as Dissemination Agent, has caused this Disclosure Agreement to be executed by one of its authorized officers, all as of the day and year first above written.

CITY OF PHILADELPHIA, PENNSYLVANIA

By:__________________________
Name: Rob Dubow
Title: Director of Finance

DIGITAL ASSURANCE CERTIFICATION, L.L.C., as Dissemination Agent

By:__________________________
Name:
Title:

APPENDIX A

1. Commencing with the fiscal year ended June 30, 2013, a copy of the Comprehensive Annual Financial Report ("CAFR"), which contains the audited combined financial statements of the City, prepared by the office of the Director of Finance of the City in conformance with guidelines adopted by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants' audit guide, Audits of State and Local Government Units; and

2. Commencing with the fiscal year ended June 30, 2013, to the extent such information is not contained in the CAFR, an update of the information in Appendix A of the Official Statement under the captions "DISCUSSION OF FINANCIAL OPERATIONS," "SUMMARY FINANCIAL INFORMATION," "REVENUES OF THE CITY," "EXPENDITURES OF THE CITY," "DEBT OF THE CITY," "OTHER FINANCING RELATED MATTERS—Swap Information" and "OTHER FINANCING RELATED MATTERS—Letter of Credit and Liquidity Agreements."

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CITY OF PHILADELPHIA, PENNSYLVANIA • GENERAL OBLIGATION REFUNDING BONDS, SERIES 2014A

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