CITY OF PHILADELPHIA
MUNICIPAL PENSION FUND
Philadelphia, Pennsylvania

FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
June 30, 2011

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Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditors' Report

The Board of Pensions and Retirement
City of Philadelphia
Municipal Pension Fund
Philadelphia, Pennsylvania

We have audited the accompanying statement of plan net assets of the City of Philadelphia Municipal Pension Fund (the Fund) as of June 30, 2011 and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Fund as of June 30, 2011 and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 28, 2011, on our consideration of the Fund's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 5 and the schedules of funding progress and employer contributions on page 26 are not a required part of the financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Philadelphia, Pennsylvania
December 28, 2011

Our discussion and analysis of the City of Philadelphia Municipal Pension Fund's (the Fund) financial performance provides an overview of the Fund's financial activities for the year ended June 30, 2011. Please read it in conjunction with the Fund's financial statements, which begin on page 6.

USING THIS ANNUAL REPORT

The discussion and analyses herein are intended to serve as an introduction to the Fund's financial statements. In addition to management's discussion and analysis, the annual report includes:

The Statement of Plan Net Assets, which reports the Fund's assets, liabilities, and resultant net assets where Assets – Liabilities = Net Assets available at the end of the plan year.

The Statement of Changes in Plan Net Assets, which reports Fund transactions that occurred during the fiscal year where Additions – Deductions = Net Change in Net Assets.

The notes to the financial statements are an integral part of the financial statements and include additional information not readily evident in the statements themselves. The required supplemental information following the notes to the financial statements provides information on (a) the actuarial value of assets, the actuarial accrued liability, and the relationship between the two over time and (b) a schedule of employer contributions that provides information about the employer's annual required contributions (ARC) and the percentage of the ARC recognized by the Fund as contributed.

BRIEF DESCRIPTION

The City of Philadelphia (the City) maintains two single employer, defined benefit plans for its employees and employees of its component units. The two plans maintained by the City are the Municipal Pension Fund (the Fund) and the Gas Works Plan.

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.

Effective January 1, 1987, the City adopted a new Plan (Plan 87), which is part of the City of Philadelphia Municipal Pension Fund. The City intended to cover employees hired on or after January 8, 1987, as well as members in the current plan that elected to transfer to Plan 87. Except for elected officials, Plan 87 provides for less costly benefits and reduced employee contributions. For elected officials, Plan 87 provides for enhanced benefits, with participating elected officials required to pay for the additional normal cost.

The City, under the Home Rule Charter requirement, must make contributions to the pension system sufficient to fund the accrued normal costs, the amortization in level installments (which include interest) over a period of 40 years of certain unfunded prior service costs, and interest on the remaining unfunded accrued liability of the Fund.

BRIEF DESCRIPTION (CONTINUED)

Employee contributions are required by City ordinance, and the City is required to contribute the remaining amounts necessary to fund the Fund using an acceptable actuarial basis as specified by the Home Rule Charter, City Ordinance, and State Statutes. For Fund members, employee contribution rates are fixed on a per-employee basis by Council ordinance.

FINANCIAL HIGHLIGHTS

- The net assets of the Fund increased by $528.6 million, while benefit payments and refunds exceeded employee and employer contributions by $164.2 million.
- As of July 1, 2010, the latest valuation date, the Fund is actuarially funded at 47.0%, up from 45.0% as of July 1, 2009 due to the fact that the City did not contribute the entire MMO (Minimum Municipal Obligation) during the prior year as a result of Pennsylvania's Act No. 44, which made available a number of actuarial tools intended to provide short term fiscal relief to local governments operating public pension plans.
- The Fund's return on investments of 20.81% was slightly lower than the benchmark return of 22.22%.

The following are summary comparative statements of the Fund:

Summary Comparative Statements of Plan Net Assets
(in thousands)

	June 30, 2011	Increase (Decrease)	June 30, 2010
Assets			
Cash and cash equivalents	$ 17,756	$ (5,519)	$ 23,275
Receivables	642,822	(243,676)	886,498
Investments	4,039,291	590,659	3,448,632
Security lending collateral	483,453	46,861	436,592
Total assets	5,183,322	388,325	4,794,997
Liabilities			
Accrued expenses and other liabilities	667,758	(185,146)	852,904
Security lending obligations	485,348	44,857	440,491
Total liabilities	1,153,106	(140,289)	1,293,395
Net assets	$ 4,030,216	$ 528,614	$ 3,501,602

BRIEF DESCRIPTION AND FINANCIAL HIGHLIGHTS (CONTINUED)

Summary Statement of Changes in Plan's Net Assets
(in thousands)

	June 30, 2011	Increase/ (Decrease)	June 30, 2010
Additions			
Employer contributions	$ 470,155	$ 157,599	$ 312,556
Member contributions	52,706	1,136	51,570
Dividends and interest	80,922	9,672	71,250
Investment income	635,569	234,325	401,244
Net securities lending losses	(385)	1,695	(2,080)
Investment expenses	(15,266)	723	(15,989)
Total additions	1,223,701	405,150	818,551
Deductions			
Benefit payments	681,909	1,787	680,122
Refund of contributions	5,125	605	4,520
Administrative expenses	8,053	(21)	8,074
Total deductions	695,087	2,371	692,716
Change in net assets	$ 528,614	$ 402,779	$ 125,835

Net assets for the fiscal year ended June 30, 2011, increased by $528.6 million. The increase in net assets reflects the overall improved quality of the equity markets. The decrease in cash reflects the timing differences between year-end benefit payments made in 2011 compared to 2010. The receivable decrease is due to unsettled trade activity at the end of the year. The assets and liabilities were both affected by the increased participation in the securities lending program. Because of the way the investments were structured, more of the securities held were eligible to participate in this program. Stable interest rates and the improved state of the market for the majority of the fiscal year caused an overall increase in the net investment income. There was an increase in benefits due to the variable nature of the distributions. The increase in contributions is due mainly to the increase in member contribution rates for Municipal Pan Y and Elected Plan L participants.

Securities Lending

At June 30, 2011, the Fund had a cumulative unrealized loss of approximately $385,000 on securities purchased with the cash collateral received through the security lending program. Management has continued to monitor this loss and has determined that the loss amount has declined subsequent to June 30, 2011.

FINANCIAL STATEMENTS

CITY OF PHILADELPHIA MUNICIPAL PENSION FUND
STATEMENT OF PLAN NET ASSETS
June 30, 2011
(In Thousands)

ASSETS

Cash and cash equivalents		$ 17,756
Contributions receivable from plan members		4,430
Accrued interest and other receivables		638,392
Investments, at fair value:		
U.S. government securities	$ 342,575	
U.S. government agency securities	38,634	
Equity investments	1,848,257	
Fixed income	789,434	
Short-term investments	83,547	
Real estate	136,672	
Hedge funds	291,119	
Private market	509,053	
Total investments		4,039,291
Collateral on loaned securities	485,348	
Less: allowance for unrealized loss	(1,895)	
Total collateral on loaned securities at fair value		483,453
Total assets		5,183,322

LIABILITIES

Accrued expenses and other liabilities	667,758
Due on return of securities loaned	485,348
Total liabilities	1,153,106
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 4,030,216

(See schedule of funding progress on page 26)

The accompanying notes are an integral part of these financial statements.

CITY OF PHILADELPHIA MUNICIPAL PENSION FUND
STATEMENT OF CHANGES IN PLAN NET ASSETS
Year Ended June 30, 2011
(In Thousands)

ADDITIONS	
Contributions:	
Employer	$ 470,155
Plan members	52,706
Total contributions	522,861
Investment income:	
Interest and dividend income	80,922
Net appreciation in fair value of investments	635,569
Total investment income	716,491
Less: investment expenses	(15,266)
Net investment income	701,225
Securities lending income	2,220
Securities lending unrealized loss	(1,895)
Less: securities lending expense	(710)
Net loss from security lending activities	(385)
Total additions	1,223,701
DEDUCTIONS	
Benefit payments	681,909
Refunds of contributions	5,125
Administrative expenses	8,053
Total deductions	695,087
Net change in net assets	528,614
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, BEGINNING OF YEAR	3,501,602
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, END OF YEAR	$ 4,030,216

The accompanying notes are an integral part of these financial statements.

NOTE 1 – PENSION FUND DESCRIPTION

General Description

The City of Philadelphia (the City) maintains two single employer, defined benefits plans for its employees and employees of its component units. The two plans maintained by the City are the Municipal Pension Fund (the Fund) and the Gas Works Plan.

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.

As of the latest available actuarial valuation (July 1, 2010), the Fund's membership consisted of:

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

Effective January 1, 1987, the City adopted a new Plan (Plan 87), which is part of the City of Philadelphia Municipal Pension Fund. The City intended to cover employees hired on or after January 8, 1967, as well as members in the current plan that elected to transfer to Plan 87. Except for elected officials, Plan 87 provides for less costly benefits and reduced employee contributions. For elected officials, Plan 87 provides for enhanced benefits, with participating elected officials required to pay for the additional normal cost. District Council 33 challenged Plan 87 in court and, as a result, none of their members were covered by Plan 87 until October 1, 1992. In addition, due to contract provisions, police and fire personnel were not included in Plan 87 until July 1, 1988. Employees represented by Local 2187 of District Council 47, by order of an arbitration award dated August 11, 1992, were transferred to the City's primary plan effective from their dates of hire. As of July 1, 2010, there were 22,533 participants in Plan 87.

Contributions

Court decisions have interpreted the Home Rule Charter requirement to mean that the City must make contributions to the pension system sufficient to fund:

a. Accrued normal costs which are actuarially computed amounts necessary to be contributed to the pension fund to provide, in the future, the pension and survivor benefits earned by the work force during the year.

b. Amortization in level installments (which include interest) over a period of 30 years, as a result of the *Fresh Start Valuation*, pursuant to State laws.

NOTE 1 – PENSION FUND DESCRIPTION (CONTINUED)

Contributions (Continued)

In fiscal year 2011, the City contribution included (1) accrued normal costs, amortization on the remaining unfunded accrued liability plus (2) the scheduled amounts sufficient to amortize the remaining unfunded actuarial accrued liability as of July 1, 1985 over 34 years, determined on the basis of a formula which produces amounts expected to be level as a percentage of each year's aggregate payroll; plus (3) amounts necessary to amortize any subsequent actuarial gains and losses over 20 years in level dollar payments; plus (4) amounts necessary to amortize any increase in actuarial accrued liability due to benefit increases to nonactive employees made after July 1, 1985 over 20 years in level dollar payments; plus (5) amounts necessary to amortize any increase in actuarial liability due to benefit increases to active employees made after July 1, 1985 over 20 years in level dollar payments; plus (6) amounts necessary to amortize any changes in actuarial assumptions over 20 years in level dollar payments. Under this method, the unfunded accrued liability decreased between July 1, 2009 and July 1, 2010, and will continue to decrease annually thereafter unless there are further actuarial losses, plan changes, or other assumption changes. As of July 1, 2010, the unfunded liability was $4.9 billion. Scheduled payments through the year 2029 will reduce the liability to zero.

Employee contributions are required by City ordinance, and the City is required to contribute the remaining amounts necessary to fund the Fund, using an acceptable actuarial basis as specified by the Home Rule Charter, City Ordinance, and State Statute. For Fund members, employee contribution rates are fixed on a per-employee basis by Council ordinance. Covered Fund employees in Plan 67 who participate in the Social Security System contribute 3.75% of their total compensation up to the taxable wage base and 6% of total compensation above the taxable wage base to the Fund. Each employee who does not participate in the Social Security System contributes 6% of their total compensation to the Fund. Plan 87 member contribution rates are defined for the membership as a whole by Council ordinance and individual contribution rates are determined annually by the Pension Board based on the valuation done by the actuary. For members of Plan 87 municipal division, the total employee contribution is fixed by Council ordinance at 30% of gross normal cost for all members. For members of Plan 87 uniformed division, hired either before 1/1/2010 (Police) or 10/15/2010 (Fire), the total employee contribution rate is set at 5% of total compensation, but with a floor and ceiling of 30% and 50%, respectively, of the total gross normal costs for all members. Eligible employees who opt out of Plan 10, a hybrid defined contribution defined benefit Plan, become members of Plan 87 uniform division, hired either on or after 1/1/2010 (Police) or 10/15/2010 (Fire), the total employee contribution rate is set at 6% of total compensation, but with a floor and ceiling of 30% and 50%, respectively, of the total gross normal costs for all members.

In fiscal year 2011, the City and other employers' contributions of $522.9 million did not meet the actuarially required contribution (ARC) of $675.1 million. To the extent that the City elects to contribute less than the funding policy, an experience loss will be created to equal the shortfall in contributions. That shortfall will be amortized over 15 years. The City's contribution for fiscal year 2011 of $470.2 million was less than the Minimum Municipal Obligation (MMO) of $511.0 million.

NOTE 1 – PENSION FUND DESCRIPTION (CONTINUED)

Contributions (Continued)

The MMO is the required minimum amount that the City must contribute as required by the Commonwealth of Pennsylvania's Acts 205 and 189. The City was able to defer (with interest) $80 million of the MMO for the year ended June 30, 2011 as a result of the Commonwealth of Pennsylvania’s Act 44 (House Bill No. 1828), the actual amount deferred was $80 million. Act 44 also allowed the City to temporarily impose an additional local sales tax of 1.00%, through 2015, to fund future MMO payments.

Benefits

The Fund, as established by the Home Rule Charter and City ordinances, provides retirement benefits as well as death and disability benefits. Retirement benefits vest after 10 years of credited service except those municipal employees eligible to vest upon attaining 5 years of credited service. New Municipal employees hired on or after January 8, 1987 have the option of electing to vest upon attaining 5 years of credited service. New Municipal employees hired on or after January 13, 1999, must participate in the 5 year vesting. Such employees shall be charged, for the additional benefits by such earlier vesting period, a proportionate contribution. Employees who retire are entitled to an annual retirement benefit payable monthly for life.

a. Uniformed personnel (police and fire) who retire at or after age 45 are eligible to receive a service pension equal to 2.5% of the employee's average final compensation, multiplied by his or her years of credited service, subject to a maximum of 100% of average final compensation. Those uniformed personnel who are covered under Plan 87 and who retire at or after age 50 with 10 or more years of credited service are eligible to receive a service pension equal to 2.2% of the employee's average final compensation, multiplied by years of service to a maximum of 20 years, plus 2% of the employee's average final compensation, multiplied by years of credited service in excess of 20.

b. Municipal employees who retire at or after age 55 are eligible to receive a service pension equal to 2.5% of the employee's average final compensation multiplied by his or her years of credited service to a maximum of 20 years plus 2% of the employee's average final compensation multiplied by his or her years of credited service in excess of 20; limited to a maximum 80% (100% for Plan Y only) of the employee's average final compensation. Municipal employees who are covered under Plan 87 and who retire at or after age 60 with 10 or more years of credited service are eligible to receive a service pension equal to 2.2% of the employee's average final compensation for the first 10 years of credited service plus average final compensation multiplied by 2% for the years of service in excess of 10.

NOTE 1 – PENSION FUND DESCRIPTION (CONTINUED)

Benefits (Continued)

A Pension Adjustment Fund (PAF) is funded with fifty percent of the excess earnings that are between one percent and six percent above the actuarial assumed earnings rate. Each year within sixty days of the end of the fiscal year, by majority vote of its members, the Board of Directors of the Fund (the Board) shall consider whether sufficient funds have accumulated in the PAF to support an enhanced benefit distribution (which may include, but is not limited to, a lump sum bonus payment, monthly pension payment increases, ad-hoc cost-of-living adjustments, continuous cost-of-living adjustments, or some other form of increase in benefits as determined by the Board) to retirees, their beneficiaries and their survivors. As of July 1, 2010, there was $872,624 in the PAF and the Board voted to make distributions of $0 during the fiscal year ended June 30, 2011.

The Fund includes a Deferred Retirement Option Plan (DROP Plan). The DROP Plan allows a participant to declare that they will retire within four years. During the four-year period, the City will make no further contributions for the participant. The participant would continue to work and to receive their salary; however, any increases would not be counted towards their pension benefit. During the four-year period the individual participates in the DROP Plan, their pension benefits will be paid into an escrow account in the participant's name. After the four-year period, the participant would begin to receive their pension benefits and the amount that has been accumulated in the escrow account in a lump sum payment.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Method Used to Value Investments

The Fund's investments are reported at fair value. Fair value is the amount that the Fund can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Short-term securities are carried at cost, which approximates fair value, unless they have published market prices or quotations from national security exchanges or securities pricing services, in which case they are valued at the published market price. Fixed income securities and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges or securities pricing services. Securities which are not traded on a national security exchange are valued by the respective fund manager or other third parties based on similar sales.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Method Used to Value Investments (Continued)

Directly-owned real estate investments are primarily valued based on appraisals performed by independent appraisers and for properties not appraised, the present value of the projected future net income stream is used.

For private market investments which include private equity, private debt, venture capital, hedge funds and equity real estate investments where no readily ascertainable market value exists, management, in consultation with the general partner and investment advisors, has determined the fair values for the individual investments based upon the partnership's most recent available financial information. Futures contracts, foreign exchange contracts, and options are marked-to-market daily with changes in market value recognized as part of net appreciation/depreciation in the fair value of investments. Initial margin requirements for such financial instruments are provided by investment securities pledged as collateral or by cash.

Investment expenses consist of investment manager fees and those administrative expenses directly related to the Fund's investment operations. Unsettled investment sales are reported as investment proceeds receivable and unsettled investment purchases are included in investment purchases and other liabilities.

Dividend income is recorded on the ex-dividend date. Interest income is recorded as earned on an accrual basis.

Income Taxes

The Fund qualifies under Section 401(a) of the Internal Revenue Code (IRC) and is exempt from income taxation as allowed by Section 501(a) of the IRC.

Related Parties

The Board of Pensions and Retirement (the Board) is the custodian of the investments of the Fund. The City's Department of Finance provides cash receipt and cash disbursement services to the Fund. The City's Solicitor's office provides legal services to the Fund. Other administrative services are also provided by the City. No amounts were paid or were payable related to these services.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Commitments

At June 30, 2011, the Fund had unfunded private market and real estate commitments of approximately $264.8 million and $52.7 million, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk and Uncertainties

The Fund invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Plan Net Assets.

Contributions are prepared based on certain assumptions pertaining to interest rates, inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimation and assumption process, it is at least reasonably possible that changes in these statements and assumptions in the near term would be material to the financial statements.

Administrative Expenses

Administrative expenses of the Fund are paid for by the Fund.

NOTE 3 – CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING

Legal Provisions

The Fund is authorized to invest in "prudent investments", including obligations of the U.S. Treasury, agencies and instrumentalities of the United States, investment grade corporate bonds, common stock, real estate, private market, etc. City ordinances contain provisions which preclude the Fund from investing in organizations that conduct business in certain countries and also impose limitations on the amounts invested in certain types of securities.

Interest Rate Risk

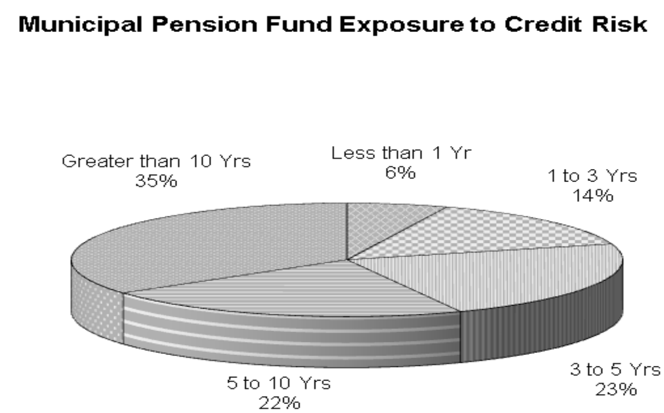
Interest rate risk is the largest risk faced by an investor in the fixed income market. The price of a fixed income security generally moves in the opposite direction of the change in interest rates. Securities with long maturities are highly sensitive to interest rate changes.

Duration is a measure of the approximate sensitivity of a bond’s value to interest rate changes. The higher the duration, the greater the changes in fair value when interest rates change. The Fund measures interest rate risk using option-adjusted duration, which recognizes the fact that yield changes may change the expected cash flows due to embedded options.

NOTE 3 – CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING (CONTINUED)

Interest Rate Risk (Continued)

The chart below details the exposure to interest rate changes based upon maturity dates of the fixed income securities at June 30, 2011:



Custodial Credit Risk

In the event of counter-party failure, the Fund may not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities held by the counterparty or counterparty's trust department are uninsured and are not registered in the name of the Fund. The Fund requires that all investments be clearly marked as to ownership, and to the extent possible, be registered in the name of the Fund. Certain investments may be held by the managers in the Fund's name.

Concentration of Credit Risk

Currently, the Municipal Pension Fund is invested primarily in equity securities (33.6%). The fund's resources are put in the hands of investment managers with different investment styles who invest according to specific objectives developed for each manager. The Chief Investment Officer of the Municipal Pension fund is charged with reviewing the portfolios for compliance with those objectives and guidelines. Of the fixed income type investments held by the pension fund, 34% had Standard & Poor ratings of AAA to A and 47% had Moody's rating of AAA to A1.

Certain investments are held by the managers in the Fund's name. The investments are diversified with only the investment in the Lehman Aggregated Pooled Index Fund exceeding 5% of the total investment (6.1%). The fair value of the investment in the Lehman Aggregated Pooled Index Fund was $246.6 million at fiscal year end.

NOTE 3 – CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING (CONTINUED)

Foreign Currency Risk

The fund's exposure to foreign currency risk derives from its position in foreign currency-denominated equity securities and fixed income investments. The foreign currency investment in equity securities is 51.5% of the total investment in equities.

The Fund's exposure to foreign currency risk at June 30, 2011 was as follows:

Equity Securities Subject to Foreign Currency Risk ($000's)

Currency	Fair Value	Percentage
Euro Currency	$ 146,046	20.81%
Pound Sterling	97,619	13.91
Japanese Yen	89,450	12.74
Australian Dollar	28,956	4.13
All others	339,782	48.41
Total	$ 701,854	100.00%

Fixed Income Securities and Other Investments Subject to Foreign Currency Risk ($000's)

Investment Description	Currency	Fair Value	Percentage	Maturity Date (if Applicable)
Currency	Euro Currency	$ 26,940	7.75%	N/A
Currency	Japanese Yen	877	0.25	N/A
Government Issues	All Others	42,017	12.09	N/A
Government Issues	Euro	43,584	12.54	June 6, 2011
Government Issues	Pounds Sterling	34,116	9.82	November 22, 2055
Government Issues	Mexican Pesso	19,313	5.56	N/A
Limited Partnership Units	All others	141,102	40.61	N/A
Real Estate				
Investment Trust	Euro	34,304	9.87	N/A
Investment Trust	Euro	1,500	0.43	N/A
Investment Trust	Pounds Sterling	2,535	0.73	N/A
Investment Trust	All Others	1,182	0.34	N/A
Total		$ 347,471	100.00%	

NOTE 3 – CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING (CONTINUED)

Derivatives

The Fund may invest in derivatives as permitted by guidelines established by the Board of Pensions. Pursuant to such authority, the Fund may invest in foreign currency forward contracts, options, futures (S&P Fund), swaps, collateralized mortgage obligations, mortgage related securities, interest-only and principal-only securities. No derivatives were purchased with borrowed funds.

Derivatives are generally used to provide market exposure in the equity portfolio and to hedge against foreign currency risk and changes in interest rates, improve yield and adjust the duration of the Fund's fixed income portfolio. These securities are subject to changes in value due to changes in interest rates or currency valuations. Additionally, mortgage related securities are subject to pre-payment risk when interest rates are falling. Credit risk for derivatives results from the same considerations as other counterparty risk assumed by the Fund, which is the risk that the counterparty might be unable to meet its obligations.

GASB No. 53 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 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 (CMOs); other forward contracts, and U.S. Treasury strips. The contracts are used primarily to enhance performance and reduce the volatility of the portfolio. The City of Philadelphia is exposed to credit risk in the event of non-performance by counterparties to financial instruments. The City of Philadelphia generally enters into transactions only with high quality institutions. Legal risk is mitigated through selection of executing brokers and review of all documentation. The City of Philadelphia 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 City of Philadelphia's involvement in the various types and uses of derivative financial instruments and do not measure the City of Philadelphia'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.

NOTE 3 – CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING (CONTINUED)

Derivatives (Continued)

The following table summarizes the aggregate notional or contractual amounts for the City of Philadelphia's derivative financial instruments at June 30, 2011.

List of Derivatives Aggregated by Investment Type

	Changes in Fair Value (4)		Fair Value at June 30, 2011		
Investment Derivatives	Classification	Amount (1)	Classification	Amount (2)	Notional (3)
Credit Default Swaps Bought	Investment Revenue	$ (15,142)	Swaps	$ 19,447	$ 288,000
Credit Default Swaps Written	Investment Revenue	$ 62,463	Swaps	$ 39,095	$ 1,141,666
Fixed Income Futures Long	Investment Revenue	$ (20,758)	Futures	$ -	$ 4,494,532
Fixed Income Futures Short	Investment Revenue	$ (486,166)	Futures	$ -	$ (10,989,811)
Foreign Currency Options Bought	Investment Revenue	$ (141,316)	Options	$ -	$ -
Futures Options Bought	Investment Revenue	$ (168,376)	Options	$ -	$ -
Futures Options Written	Investment Revenue	$ 87,306	Options	$ -	$ -
FX Forwards	Investment Revenue	$ (4,813,171)	Long Term Instruments	$ 155,264	$ 578,835,757
Index Futures Long	Investment Revenue	$ 20,118,776	Futures	$ -	$ 113,645
Pay Fixed Interest Rate Swaps	Investment Revenue	$ 71,238	Swaps	$ (200,696)	$ 2,707,000
Rights	Investment Revenue	$ 256,276	Common Stock	$ 9,625	$ 78,247
Total Return Swaps Bond	Investment Revenue	$ 13,702	Swaps	$ (1,431)	$ 410,000
Warrants	Investment Revenue	$ 291,943	Common Stock	$ 22,124,111	$ 13,645,243
Grand Totals		**$ 15,256,775**		**$ 22,145,415**	

A Derivatives Policy Statement identifies and allows common derivative investments and strategies, which are consistent with the Investment Policy Statement of the City of Philadelphia. 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.

NOTE 3 – CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING (CONTINUED)

The following tables show the details of counter parties and their rating information as follows:

Counterparty Name	Percentage of Net Exposure	S&P Rating	Fitch Rating	Moody's Rating
CITIBANK N.A.	40%	A+	A+	A1
UBS AG	22%	A+	A+	Aa3
ROYAL BANK OF SCOTLAND PLC	12%	A+	AA-	Aa3
DEUTSCHE BANK AG LONDON	5%	A+	AA-	Aa3
BARCLAYS BANK PLC WHOLESALE	4%	AA-	AA-	Aa3
JPMORGAN CHASE BANK	4%	AA-	AA-	Aa1
HSBC BANKUSA	3%	AA	AA	Aa3
CREDIT SUISSE LONDON BRANCH (GFX)	3%	A+	AA-	Aa1
UBS SECURITIES LLC	2%	A+	A+	Aa3
UBS AG LONDON	1%	A+	A+	Aa3
BANK OF AMERICA SECURITIES LLC	1%	A	A+	A2
MORGAN STANLEY AND CO. INTERNATIONAL PLC	1%	A	A	A2
GOLDMAN SACHS + CO	0%	A	A+	A1
ROYAL BANK OF CANADA (UK)	0%	AA-	AA	Aa1
HSBC BANKPLC	0%	AA	AA	Aa3
WESTPAC BANKING CORPORATION	0%	AA	AA	Aa2
JPMORGAN SECURITIES INC	0%	A+	AA-	Aa3
BNP PARIBAS SA	0%	AA	AA-	Aa2

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

Credit risk. The City 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 City'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 City'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.

NOTE 3 – CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING (CONTINUED)

The aggregate fair value of hedging derivative instruments in asset positions at June 30, 2011, was $22,145,415. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. This maximum exposure is reduced by $16,802,823 of collateral or liabilities included in netting arrangements with those counterparties, resulting in a net exposure to credit risk of $5,342,592.

Interest Rate Swap agreements provide for periodic payments at predetermined future dates between parties based on the change in value of underlying securities, indexes or interest rates. During the year ended June 30, 2011, the City of Philadelphia entered into interest rate swaps. Under the receive fixed interest rate type swap arrangements, the City of Philadelphia 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 City'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 City's net payment on the swap increases. The pay fixed interest rate Swaps were ($200,696).

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

Asset ID	Asset Description	Fair Value	Notional
Pay Fixed Interest Rate Swaps:			
99S05ILT2 / 99S05ILU9	0WP158397 IRS USD R V 03MLIBOR / 0WP158397 IRS USD P F .00000	$ (33,256)	$ 460,000
99S05IP27 / 99S05IP35	0WP158470 IRS USD R V 03MLIBOR / 0WP158470 IRS USD P F .00000	$ (45,677)	$ 590,000
99S05IXN2 / 99S05IXO0	0WP158611 IRS USD R V 03MLIBOR / 0WP158611 IRS USD P F .00000	$ (86,357)	$ 1,197,000
99S05J1K1 / 99S05J1L9	0WP159155 IRS USD R V 03MLIBOR / 0WP159155 IRS USD P F .00000	$ (35,406)	$ 460,000
Total Pay Fixed Interest Rate Swaps:		**$ (200,696)**	**$ 2,707,000**

NOTE 3 – CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING (CONTINUED)

Futures 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 City of Philadelphia 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 City of Philadelphia has the right to access individual pledged securities, it must maintain the amount pledged by substituting other securities for those accessed. The value of securities pledged and the amount of cash held at June 30, 2011 of ($6,495,280) represent a restriction on the amount of assets available as of year-end for other purposes.

Forward contracts: The City is exposed to basis risk on its forward contract because the expected funds purchase being hedged will price based on a pricing point different than the pricing point at which the forward contract is expected to settle. At June 30, 2011, the Fx Forwards had a fair valued of ($4,813,171).

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

***Rollover risk*.** The City 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 City will be re-exposed to the risks being hedged by the hedging derivative instrument.

In addition, the municipal pension fund also was involved in other financial instruments such as rights that were worth $256,276 and warrants that were $291,943.

Security Lending Program

State statues do not prohibit the Fund from participating in securities lending transactions, and the Fund has, via a Securities Lending Authorization Agreement, authorized State Street Bank and Trust Company (State Street) to lend its securities to broker-dealers and banks pursuant to a form of loan agreement.

NOTE 3 – CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING (CONTINUED)

Security Lending Program (Continued)

During the fiscal year, State Street lent, at the direction of the Fund, the Fund's securities and received cash (United States currency) and securities issued or guaranteed by the United States government as collateral. State Street did not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to: (i) in the case of loaned securities denominated in the United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign government, 102% of the fair value of the loaned securities; and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the fair value of the loaned securities. If the fair value of the collateral held falls below the minimum guidelines for securities loaned, additional collateral is obtained.

The Fund did not impose any restrictions during the fiscal year on the amount of the loans that State Street made on its behalf, and State Street indemnified the Fund by agreeing to purchase replacement securities or return cash collateral in the event the borrower failed to return the loaned security or pay distributions thereon. There were no such failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or State Street Bank.

The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in collective investment funds comprised of a liquidity pool and a duration pool. As of June 30, 2011 the Quality D Short-Term Investment Fund liquidity pool had an average duration of 31.67 days and an average weighted final maturity of 61.80 days for USD collateral. As of this date the duration pool had an average duration of 35.97 days and an average weighted final maturity of 484.43 days for USD collateral. As of June 30, 2011, the State Street Global Securities Lending Euro Trust liquidity pool had an average duration of 11 days and an average weighted final maturity of 30 days for USD collateral. As of this date the duration pool had an average duration of 41 days and an average weighted final maturity of 1149 days for USD collateral. Because the securities lending transactions were terminable at will their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. On June 30, 2011 the Client had no credit risk exposure to borrowers. The fair value of the collateral held and the fair value of securities on loan for the Fund as of June 30, 2011 (in thousands), was $499,293 and $483,453, respectively. During the fiscal year ended June 30, 2011, the mismatch between the maturities of the investments made with cash collateral and the maturities of the securities' loans may pose some interest rate risk to the Fund.

During the fiscal year ended June 30, 2011, certain securities purchased with cash collateral by the lending agent declined significantly in value, resulting in an unrealized loss to the Fund from the securities' lending program of $385 thousand.

NOTE 3 – CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING (CONTINUED)

Security Lending Program (Continued)

Cash collateral received in respect of such loans was invested at the direction of the Fund in the Quality Funds for Short-Term Investment, a pooled external investment vehicle (the Fund). The following are required disclosures under Government Accounting Standards Board Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools:*

a. *Method for Determining Fair Value* – The fair value of investments held by the Fund is based upon valuations provided by a recognized pricing service.

b. *Policy for Utilizing Amortized Cost Method* – Because the Fund does not meet the requirements of Rule 2a-7 of the Investment Company Act of 1940, State Street has valued the Fund's investments at fair value for reporting purposes.

c. *Regulatory Oversight* – The Fund is not registered with the Securities and Exchange Commission. State Street and, consequently, the investment vehicles it sponsors (including the Fund) are subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. The fair value of the client's position in the Fund is not the same as the value of the Fund shares.

d. *Involuntary Participation* – There was no involuntary participation in an external investment pool by the Fund for the fiscal year.

e. *Income Assignment* – No income from one fund was assigned to another fund by State Street during the fiscal year.

NOTE 4 – INVESTMENT ADVISORS

The Fund utilizes investment advisors to manage long-term debt, real estate, and equity portfolios. To be eligible for consideration, investments must meet criteria set forth in governing laws and regulations.

NOTE 5 – FUNDED STATUS AND ANNUAL REQUIRED CONTRIBUTIONS (ARC)

As of July 1, 2010, the most recent actuarial valuation, the Fund was 47.0% funded with actuarial accrued benefit liabilities of $9.3 billion and an actuarial asset value of $4.4 billion. This results in an underfunded accrued liability of $4.9 billion. The covered payroll of active members was $1.4 billion. The ratio of underfunded accrued liabilities to the covered payroll was 347.3%.

For the fiscal year ended June 30, 2011, the ARC was $675.1 million. The actual employer contribution was $470.2 million resulting in a 69.6% contributed rate. The MMO was $536.8 million for the fiscal year ended June 30, 2011 resulting in a 87.6% contributed rate.

NOTE 5 – FUNDED STATUS AND ANNUAL REQUIRED CONTRIBUTIONS (ARC) (CONTINUED)

The Schedule of Funding Progress and the Schedule of Employer Contributions included as Required Supplemental Information on page 25 provide a multi-year presentation of the Fund's funding status and ARC.

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2010
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage Closed
Asset Valuation Method	10 Year Smoothed Market
Actuarial Assumptions:	
Investment rate of return	8.15%
Projected salary increases	Age-based salary table
Includes inflation at	None
Cost-of-living adjustments	None

NOTE 6 – GUARANTEE OF BENEFITS

Benefits under the Fund are guaranteed by statute. In the event that employee contributions do not equal required benefits, the City's General Fund must provide any shortfall.

NOTE 7 – PARTICIPATION IN THE PENSION FUND

The trustees for the Fund are also members of the Fund and as such, are subject to the provisions of the Fund as described in the notes to these financial statements.

NOTE 8 – SUBSEQUENT EVENTS

Management evaluated subsequent events through December 28, 2011, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2011, but prior to December 28, 2011 that provided additional evidence about conditions that existed at June 30, 2011, have been recognized in the financial statements for the year ended June 30, 2011. Events or transactions that provided evidence about conditions that did not exist at June 30, 2011, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2011.

REQUIRED SUPPLEMENTAL INFORMATION

(Dollars in Millions)

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2005	$4,160	$7,852	$3,692	53%	$1,271	291%
7/1/2006	4,168	8,084	3,915	52%	1,319	297%
7/1/2007	4,422	8,197	3,776	54%	1,352	279%
7/1/2008	4,624	8,402	3,779	55%	1,457	259%
7/1/2009	4,042	8,975	4,933	45%	1,463	337%
7/1/2010	4,381	9,317	4,936	47%	1,421	347%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contributions	Actual Employer Contributions	Percentage Contributed
2006	$395.0	$331.8	84.0%
2007	527.9	432.4	81.9%
2008	536.9	426.9	79.5%
2009	539.5	455.4	84.4%
2010	581.1	312.6	53.8%
2011	675.1	470.2	69.6%