

City of Philadelphia

PENNSYLVANIA



**Comprehensive Annual
Financial Report**

Fiscal Year Ended June 30, 2006

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2006



City of Philadelphia PENNSYLVANIA

John F. Street
Mayor

Prepared by:

Office of the Director of Finance

Vincent J. Jannetti
Acting Secretary of Financial Oversight
& Director of Finance

Michael J. Kauffman
Accounting Director

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Photos: (Courtesy of the Greater Philadelphia Tourism Marketing Corp. www.gophila.com)

Art Museum	Photo by R. Kennedy
Betsy Ross House	Photo by B. Grist
Hot Air Balloon	Photo by B. Grist
Liberty Bell	Photo by R. Kennedy
Skyline	Photo by B. Grist
Delancey St.	Photo by B. Grist
Rowers on the Schuylkill	Photo by B. Grist

INTRODUCTORY SECTION

Letter of Transmittal
GFOA Certificate of Achievement
Organization Chart
List of Elected and Appointed Officials



CITY OF PHILADELPHIA

OFFICE OF THE DIRECTOR OF FINANCE

1401 John F. Kennedy Blvd.
Suite 1330, Municipal Services Bldg.
Philadelphia, Pennsylvania 19102-1693

VINCENT J. JANNETTI

Acting Secretary of Financial Oversight
& Director of Finance

February 23, 2007

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, 2006 is hereby submitted. The financial statements were prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP). Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City.

The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial and Statistical. The Financial section includes Management's Discussion and Analysis, Basic Financial Statements, Required Supplementary Information and the Combining and Individual Fund Statements. The Statistical section includes selected financial and demographic information, generally presented on a multiyear basis.

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 129 square miles along the Delaware River, serves a population in excess of 1.4 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 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 (10) from districts and seven (7) from the City at large, elected every four years. Minority representation is assured by the requirement that no more than five (5) 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 Redevelopment Authority of Philadelphia's, the Philadelphia Housing 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 Pennsylvania Convention Center Authority's, Penn's Landing Corporation's and the Philadelphia Authority for Industrial Development's statements are discretely presented. A component unit was considered to be part of the City's reporting entity when it was concluded that the City was financially accountable for the entity or that the nature and significance of the relationship between the City and the entity was 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 as well as two airports, Philadelphia International Airport and Northeast Philadelphia Airport, which service the entire Delaware Valley region.

City government is responsible for establishing and maintaining internal control 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 Fund 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 for the Capital Improvement Fund. 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 and 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 when you consider 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.

Local Economy

Philadelphia's economic outlook closely resembles the national economic outlook, and in some respects Philadelphia has performed comparatively better than similar U.S. cities. The employment base has undergone a gradual shift over the last decade, most notably marked by growth in leisure/hospitality and education/health services sector employment.

Despite the continued lack of a sustained national employment recovery following the 2001 recession, the national economy has shown signs of growth over the past year. The local economy has reflected this trend; between 2004 and 2005, jobs in 6 of the 10 employment sectors remained stable or grew

and overall job loss has leveled off. Over a longer term, employment in Philadelphia's Education and Health Services sector increased by 8.2 percent from 1999 to 2005. In addition, the Leisure and Hospitality sector captured more modest growth of 1.8 percent. The City anticipates a more positive direction moving forward and that these sectors, as well as Professional and Business Services and Information, will continue to play a large role in Philadelphia's future.

In the early 1990s, the City focused on capitalizing on its existing, yet underdeveloped, hospitality and tourism assets as a means of replacing some of the manufacturing jobs lost in previous decades. The completion of the Pennsylvania Convention Center in 1993 spurred a surge of hotel development and new visitor destination developments. The City is in the midst of another substantial enhancement of its cultural assets, which already include such recent additions as the Kimmel Center for the Performing Arts, the Independence Visitor Center, the National Constitution Center, the new Lincoln Financial Field, and Citizens Bank Park. The pending relocation of the Barnes Foundation to the Benjamin Franklin Parkway and the proposed development of an entertainment district at Broad and South Streets, coupled with the Free Library and Convention Center expansion projects, will enhance Philadelphia's position as a world class city.

One sector of the economy that shows great promise is the "knowledge industry," also referred to as the "new economy" or "knowledge economy." In the knowledge industry, which relies on the supply of new college graduates, companies apply emerging technologies to deliver high-quality knowledge-based services. Within the knowledge economy is another sector of great importance to Philadelphia and the region, the life sciences, which includes health care, research, biotechnology and pharmaceuticals. The Innovation Philadelphia/Chamber of Commerce "Roadmap" report identified, among other things, the region's opportunity to become an incubator for research generated by life sciences and educational institutions. Several sites could foster new incubator opportunities in the future, including the Navy Yard, the former Civic Center site in West Philadelphia, and the site of the postal lands along the west bank of the Schuylkill River.

Philadelphia's competitive advantages as a business location are based on size, strategic location, relative affordability, cultural and recreational amenities, and its growing strength in key knowledge industries. The City of Philadelphia, the fifth-largest city in the nation with the third largest downtown population, is at the center of the sixth largest metropolitan region. Our region includes the fourth-largest retail sales market in the nation, as well as a diverse network of business suppliers and complementary industries.

The City's marketplace is at the center of a densely populated, affluent region along the Atlantic Coast, a region stretching from Boston through New York and Philadelphia to Baltimore and Washington, DC. Philadelphia is in a key position to access regional markets, due to the transportation infrastructure centered here, including Philadelphia International Airport, AMTRAK's Northeast Corridor service, major interstate highway access, and regional SEPTA service. The capacity of Philadelphia's transportation infrastructure is demonstrated by its median commuting time, which is 19 percent lower than the national metropolitan average. Center City is at the center of the region's transportation network, and downtown employers benefit from the large concentration of professional and business service firms located there. Recent analysis has shown that employees benefit too: Commuters to suburban firms, nearly all of whom drive to work, spend almost \$7,000 per year in vehicle expenses. By contrast, 70 percent of downtown office workers use public transit to get to work, and the annual cost of a SEPTA regional rail pass is just \$1,774. In addition, 37 percent of downtown residents walk to work, the highest percentage of any major American city.

Long Term Financial Planning

In January 2000, when Mayor John F. Street first came into office, he identified five primary objectives for his Administration:

- Maintain fiscal health
- Implement neighborhood transformation and blight elimination
- Promote economic development
- Provide high quality public education and comprehensive, coordinated social services for children, adults and families
- Enhance public safety and quality of life for all communities

Recent efforts related to these objectives include:

- **Promote Philadelphia.** To help tell the story of the great things happening in Philadelphia and to increase tourism, \$2.5 million will be invested in Promote Philadelphia. Independent studies of past tourism campaigns have shown that this investment will pay off: every dollar spent on media generates \$185 in visitor spending, as well as \$13 in state and local taxes and \$41 in additional wages.
- **Preparing for Implementation of Casino Gambling.** Mayor Street created the Philadelphia Gaming Advisory Task Force (PGATF) in January 2005 to provide detailed information to the City on how best to prepare for two slots-only casinos in Philadelphia, as approved under the Pennsylvania Horse Development and Gaming Act. The final report of the Task Force makes the financial benefits for the City clear: The requirement for the City's two casinos to pay four percent of their gross revenues to the City's General Fund as "host fees" is expected to generate payments of \$26 million to \$30 million annually. The creation of between 7,000 and 12,000 permanent new jobs, the majority of which will be unionized and pay above minimum wage, is expected to increase the City's tax receipts by an estimated \$10 million to \$16 million. These increased revenues will lead to reductions in the wage tax for residents and non-residents working in Philadelphia. In the current plan, no revenue is anticipated until the latter part of FY09 (\$14 million), totaling \$62.6 million over the last three years of the Five-Year Plan. The construction of the two gaming sites will also generate significant economic activity, with casino operators spending between \$144 million and \$177 million on construction, including the employment of about 1,000 construction workers earning a combined total of between \$30 million and \$34 million in wages.
- **Investing in the NTI ReStore Commercial Corridor Program.** The commercial corridor support program is a Neighborhood Transformation component of the Mayor's Economic Development Blueprint, a plan to increase investment in neighborhood commercial corridors and sustain the positive changes accomplished by NTI. The Commercial Corridor Support Program will be funded with \$65 million in bond proceeds, in addition to, Main Street funds, and Community Development Block Grant funds. The investment will support:
 - Corridor planning and design
 - Streetscape enhancements and capital improvements
 - Corridor investments, including, marketing, business attraction
 - Business support, including, but not limited to: facade renovations to storefronts, technical assistance and rent rebates for businesses
 - Targeted redevelopment grants, for pre-development and development funding for major commercial, institutional and cultural facilities that will draw people to the neighborhood commercial corridor
 - Small business loan guarantee pool, to improve the access of small businesses located on commercial corridors to mainstream lenders by providing a guarantee
 - An acquisition pool, to enable the city and developers to acquire key blighted properties on corridors for commercial or mixed-used development and transportation-oriented development
 - Targeted demolition on commercial corridors, will remove blighted properties and help create developable parcels for commercial redevelopment
 - Technology improvements, to improve data collection on corridors, and assist businesses to access city services
 - Project management, to ensure timely, efficient and high quality implementation of funded projects, including appropriate civic engagement

- **Adjustment of pension contributions.** In FY07, the City is decreasing its pension fund earnings rate assumption from 9 percent to 8.75 percent, to better reflect current fund earning experience, which has a \$20 million cost impact on the Plan. PICA has alerted the City to the fact that maintaining a rate of return higher than experience justifies in the Plan is no longer appropriate. Assumption of a lower rate of return means a larger City contribution to the Plan, which has the benefit of ultimately reducing obligations mounting in later years. Additionally, as a result of a revision to actuarial assumptions in the final March 2006 quadrennial experience study, an \$85 million increase in contributions to the pension fund are assumed in the Plan, starting with \$19 million in FY07. To keep future increases from growing even more precipitously, the City will explore strategies that will decrease pension obligations in the out-years, such as increasing the minimum retirement age, decreasing the benefit multiplier, increasing the period to determine average final compensation, and increasing the employee contribution for uniformed and non-uniformed employees.

Cash Management

Cash temporarily idle during the year was invested in demand deposits, certificates of deposit, obligations of the US Treasury, repurchase agreements and commercial paper. The Pension Trust Fund's investment portfolio also includes stocks, corporate bonds, real estate and other items.

The City's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, deposits were either insured by federal depository insurance or collateralized. All collateral on deposits was held either by the City, its agent, the Federal Reserve Bank, or a financial institution's trust department in the City's name.

Risk Management

The City and several of its component units are self-insured for fire damage, casualty losses, public liability, Worker's Compensation, and Unemployment Compensation. Liabilities arising in these areas are liquidated with available resources of the respective operating funds. The Airports, the Philadelphia Gas Works and the remaining component units are principally insured through insurance carriers.

Pension and Other Post-employment Benefits

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.

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.

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, 2005. This was the twenty sixth 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.

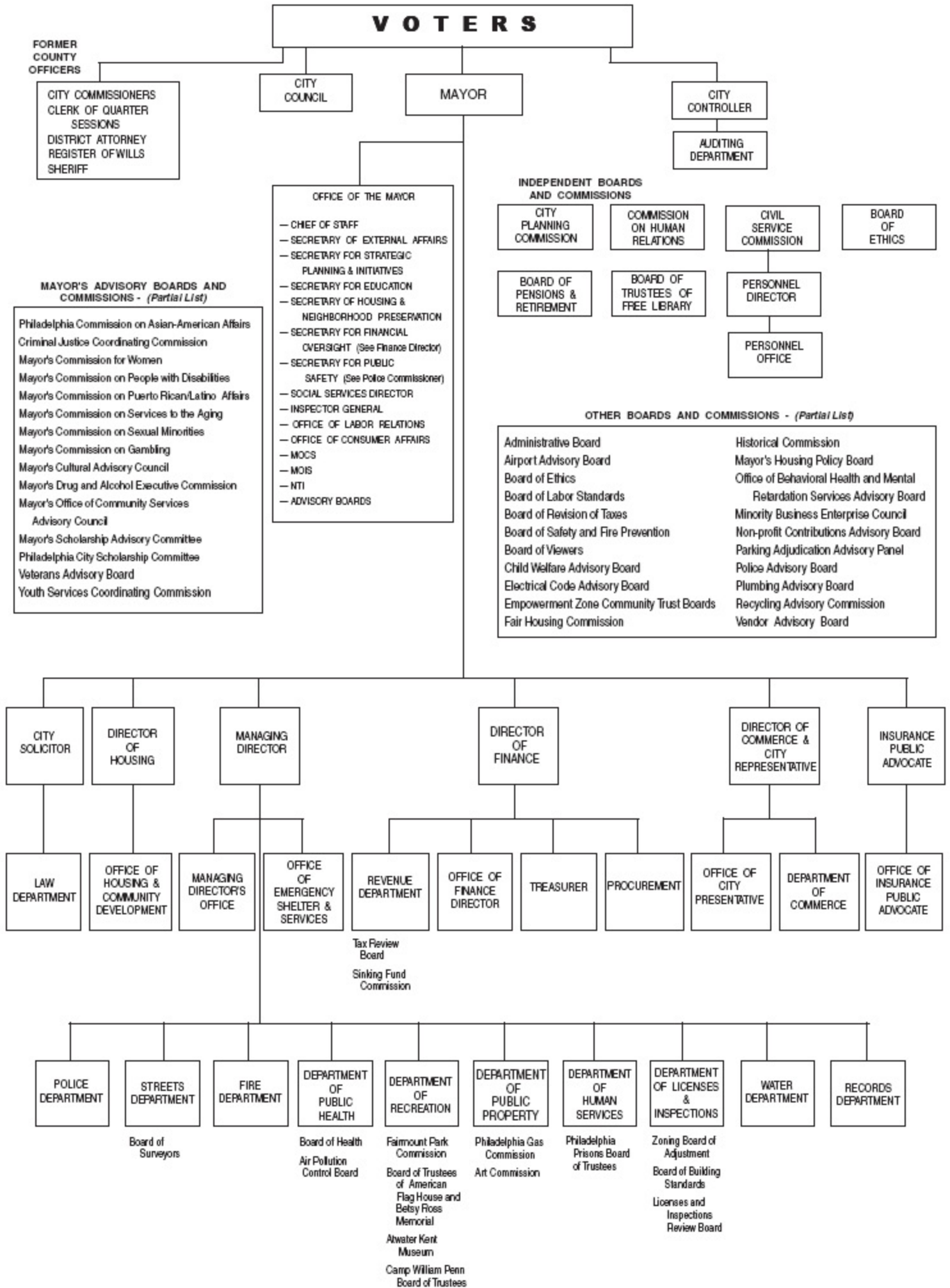
The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the entire staff of the Office of the Director of Finance as well as various City departments and component units. Each has my sincere appreciation for their valuable contributions.

Respectfully submitted,

VINCENT J. JANNETTI

Acting Secretary of Financial Oversight
& Director of Finance

ORGANIZATION OF PHILADELPHIA'S CITY GOVERNMENT



Prepared by
Law Department

Designed and Composed by
Department of Records
July 2006



Elected Officials

Mayor John F. Street

City Council

President, 2nd District Anna Cibotti Verna

1st District Frank DiCicco

3rd District..... Jannie L. Blackwell

4th District..... Michael A. Nutter

5th District..... Darrell L. Clarke

6th District..... Joan L. Krajewski

7th District..... *Vacant*

8th District..... Donna Reed Miller

9th District..... Marian B. Tasco

10th District Brian J. O'Neill

At-Large W. Wilson Goode, Jr.

At-Large Jack Kelly

At-Large James F. Kenney

At-Large Juan Ramos

At-Large Blondell Reynolds Brown

At-Large Frank Rizzo

At-Large *Vacant*

District Attorney Lynne M. Abraham

City Controller Alan Butkovitz

City Commissioners

Chairwoman Margaret M. Tartaglione

Commissioner Joseph Duda

Commissioner Edgar Howard

Register of Wills..... Ronald R. Donatucci

Clerk of Quarter Sessions Vivian T. Miller

Sheriff..... John Green

First Judicial District of Pennsylvania

President Judge Court of Common Pleas C. Darnell Jones II

President Judge Municipal Court Louis J. Presentza

President Judge Traffic Court Thomasine Tynes



Appointed Officials

Managing Director	Pedro A. Ramos
Acting Secretary of Financial Oversight & Director of Finance	Vincent J. Jannetti
City Solicitor	Romulo L. Diaz, Jr.
City Representative and Director of Commerce	Stephanie W. Naidoff
Chief of Staff	Joyce Wilkerson
Secretary of External Affairs	Loree Jones
Secretary of Education	Jacqueline Barnett
Chief Information Officer	Dianah Neff
Executive Director of the City Planning Commission.....	Thomas Chapman
Capital Program Office Director	Richard Tustin
Secretary of Housing & Neighborhood Preservation	Kevin Hanna
City Treasurer	John Nacchio
Revenue Commissioner	Nancy A. Kammerdeiner
Procurement Commissioner	William Gamble
Secretary of Public Safety	Sylvester Johnson
Prisons Commissioner	Leon A. King
Streets Commissioner	Clarena Tolson
Fire Commissioner	Lloyd Ayers
Health Commissioner	Joanne Godley
Recreation Commissioner	Victor Richard III
Public Property Commissioner	Joan Schlotterbeck
Human Services Commissioner.....	Cheryl Ransom-Garner
Acting Licenses and Inspections Commissioner.....	Robert D. Solvibile, Sr.
Water Commissioner.....	Bernard Brunwasser
Records Commissioner	Joan T. Decker
Personnel Director	Lynda Orfanelli
Executive Director of the Board of Pensions & Retirement	Gwendolyn Bell
Executive Director of the Fairmount Park Commission	Mark Focht
Executive Director of the Sinking Fund Commission.....	Carl P. Coin
Director of Aviation	Charles J. Isdell, Jr.

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, 2005

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.



President

Executive Director

FINANCIAL SECTION

**Independent Auditor's Report
Management's Discussion and Analysis
Basic Financial Statements
Required Supplementary Information
Other Supplementary Information**



CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER
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ALAN BUTKOVITZ
City Controller

ALBERT F. SCAPEROTTO
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, 2006, which collectively comprise the City of Philadelphia's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Philadelphia's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the entities whose percentage of assets and revenues are disclosed in Note I-1C. Those financial statements 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 entities, 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 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. The financial statements of the Pennsylvania Intergovernmental Cooperation Authority, Penn's Landing Corporation, Pennsylvania Convention Center Authority, Philadelphia Parking Authority, Community Behavioral Health, and the Philadelphia Gas Works discussed in Note I-1, were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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.

CITY OF PHILADELPHIA
OFFICE OF THE CONTROLLER

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, 2006, 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.

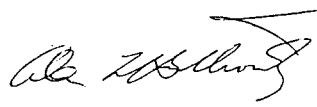
In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2007, on our consideration of the City of Philadelphia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of 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 on 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 13 through 25, and the major funds budgetary comparison schedules, the pension plans-schedule of funding progress, and the related notes to required supplementary information, on pages 108 through 112, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Philadelphia's basic financial statements. The introductory section, combining nonmajor and individual fund financial statements and schedules, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor and individual fund financial statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

February 23, 2007


ALBERT F. SCAPEROTTO, CPA
Deputy City Controller


ALAN BUTKOVITZ
City Controller

City of Philadelphia

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

Management's Discussion & Analysis

This narrative overview and analysis of the financial statements of the City of Philadelphia, Pennsylvania for the fiscal year ended June 30, 2006 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 assets* were \$1,072.4 million resulting from an excess of its assets over its liabilities, however, its *unrestricted net assets* showed a deficit of \$737.0 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 \$53.2 million. The governmental activities of the city experienced a decrease of \$19.9 million, while the business type activities had an increase of \$73.1 million.
- For the current fiscal year, the city's governmental funds reported a combined ending fund balance of \$775.9 million, an increase of \$34.4 million from last year. The *unreserved fund balance* of the governmental funds ended the fiscal year with a deficit of \$2.5 million, a decrease of \$65.8 million from last year. Primarily, this was due to a decrease in the healthchoices behavioral health fund's unreserved fund balance caused by the reservation of funds mandated by the 2005 contract between the City and the Commonwealth of Pennsylvania.
- The overall unreserved fund balance of the city's general fund ended the fiscal year with a surplus of \$111.2 million an increase over last year of \$147.6 million due to the excess of revenue and other financing sources over expenditures and other financing uses of \$150.2 million or 4.2% of revenue and other financing sources which amounted to \$3,562.3 million. This is the second consecutive year that inflow has outpaced outlay by more than 4% (FY2005 4.1%).
- On the legally enacted budgetary basis, the city's general fund ended the fiscal year with a surplus fund balance of \$254.5 million, as compared to a surplus of \$96.2 million last year. This can also be attributed to the large increase in revenue.

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 ten distinct component units; the Philadelphia School District, Community College of Philadelphia, Community Behavioral Health, the Convention Center Authority, Gas Works, Housing Authority, Parking Authority, Penn's Landing 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 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 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-one 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 eighteen funds 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.

<u>Summary of the City of Philadelphia's Government-wide and Fund Financial Statements</u>				
	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 assets exceeded its liabilities by \$1,072.4 million.

Capital assets (land, buildings, roads, bridges and equipment), less any outstanding debt issued to acquire these assets, comprise a large portion of the City of Philadelphia's net assets, \$786.0 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.

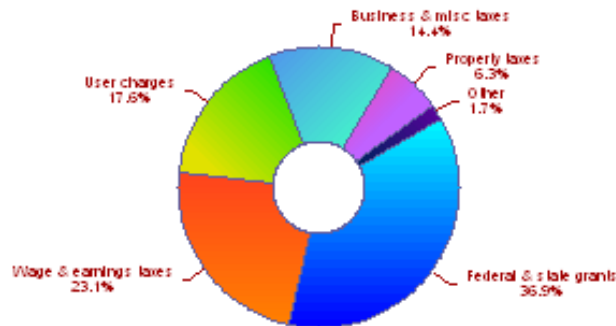
A portion of the city's net assets, \$1,023.4 million, are subject to external restrictions as to how they may be used. The remaining component of net assets are unrestricted. Unrestricted net assets ended the fiscal year with a deficit of \$737.0 million. The governmental activities reported negative *unrestricted net assets* of \$1,010.9 million. Any deficits will have to be funded from future revenues. The business type activities reported an unrestricted net assets surplus of \$273.9 million.

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

	Governmental Activities			Business-type Activities			Total Primary Government		
	2006	2005	% Change	2006	2005	% Change	2006	2005	% Change
Current and other assets	2,635,536	2,656,331	-0.8%	1,337,295	1,252,810	6.7%	3,972,831	3,909,141	1.6%
Capital assets	2,221,958	2,279,940	-2.5%	3,095,119	3,096,493	-0.0%	5,317,077	5,376,433	-1.1%
Total assets	4,857,494	4,936,271	-1.6%	4,432,414	4,349,303	1.9%	9,289,908	9,285,574	0.0%
Long-term liabilities	4,413,107	4,478,301	-1.5%	2,950,170	2,926,513	0.8%	7,363,277	7,404,814	-0.6%
Other liabilities	735,114	728,779	0.9%	119,075	132,729	-10.3%	854,189	861,508	-0.8%
Total liabilities	5,148,221	5,207,080	-1.1%	3,069,245	3,059,242	0.3%	8,217,466	8,266,322	-0.6%
Net assets:									
Invested in capital assets,									
net of related debt	248,629	241,268	3.1%	537,412	548,383	-2.0%	786,041	789,651	-0.5%
Restricted	471,552	516,545	-8.7%	551,889	472,013	16.9%	1,023,441	988,558	3.5%
Unrestricted	(1,010,908)	(1,028,622)	1.7%	273,868	269,665	1.6%	(737,040)	(758,957)	2.9%
Total net assets	(290,727)	(270,809)	-7.4%	1,363,169	1,290,061	5.7%	1,072,442	1,019,252	5.2%

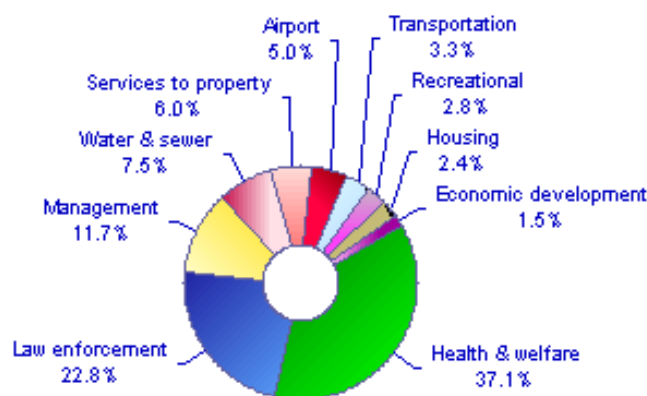
Changes in net assets. The city's total revenues, transfers and special items this year amounted to \$6,152.6 million exceeded the total costs of \$6,099.4 million by \$53.2 million. Approximately 29.5% of all revenue came from property and wage and earnings taxes. State, Federal and local grants account for another 36.9%, 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 60.0% are related to the health, welfare and safety of the general public.

**Governmental & Business Activities
 Revenue Sources - Fiscal Year 2006**



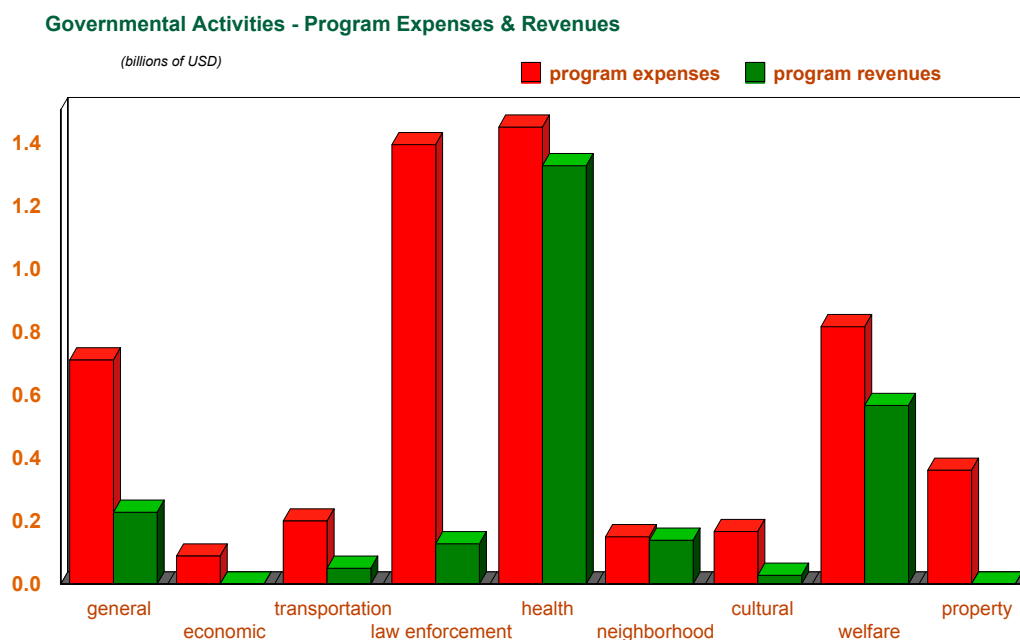
Overall, net assets for the city increased by \$53.2 million. Total revenues increased by \$417.4 million, total expenses increased by \$274.0 million over last year. This resulted in the Change in Net Assets being \$122.3 million higher than in the previous year. Tax receipts increased by \$170.1 million again largely attributable to increased real estate transactions. Grants & Contributions increased by \$89.7 million including increased receipts for Health Services of \$94.3 million and for Housing & Neighborhood Development of \$24.7 million, while receipts for Social Services declined by \$50.2 million. Water & Sewer Charges for Services increased by \$20.2 million. Increases in spending for Health Services and Housing & Neighborhood Development accounted for the majority of the increase in expenses for the fiscal year.

**Governmental & Business Activities
 Functional Expenses - Fiscal Year 2006**



Governmental Activities

The governmental activities of the City resulted in a \$19.9 million decrease in net assets. This year's decline was significantly lower than in past year's due to the increase in tax receipts and an increase in all categories of program revenues. However, escalating pension and health coverage costs could result in increased losses in future year's.



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.

(thousands of USD)	Program			Program			Net		
	Costs		%	Revenues		%	Cost		%
	2006	2005	Change	2006	2005	Change	2006	2005	Change
General Welfare	817,204	838,148	-2.5%	568,601	618,778	-8.1%	248,603	219,370	13.3%
Judiciary & Law Enforcement	1,391,808	1,352,254	2.9%	130,469	121,616	7.3%	1,261,339	1,230,638	2.5%
Public Health	1,447,514	1,309,150	10.6%	1,324,361	1,227,178	7.9%	123,153	81,972	50.2%
General Governmental	711,754	658,095	8.2%	228,166	179,372	27.2%	483,588	478,723	1.0%
Services to Property	364,941	355,606	2.6%	5,023	4,918	2.1%	359,918	350,688	2.6%
Housing, Economic & Cultural	610,467	595,666	2.5%	221,158	168,460	31.3%	389,309	427,206	-8.9%
	5,343,688	5,108,919	4.6%	2,477,778	2,320,322	6.8%	2,865,910	2,788,597	2.8%

- The cost of all governmental activities this year was \$5,343.7 million; the amount that taxpayers paid for these programs through tax payments was \$2,699.1 million. The federal and state governments and other charitable organizations subsidized certain programs with grants and contributions in the amount of \$2,163.5 million while those who benefited from the programs paid \$314.3 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 \$146.9 million. The difference of \$19.9 million will have to be funded from future resources.

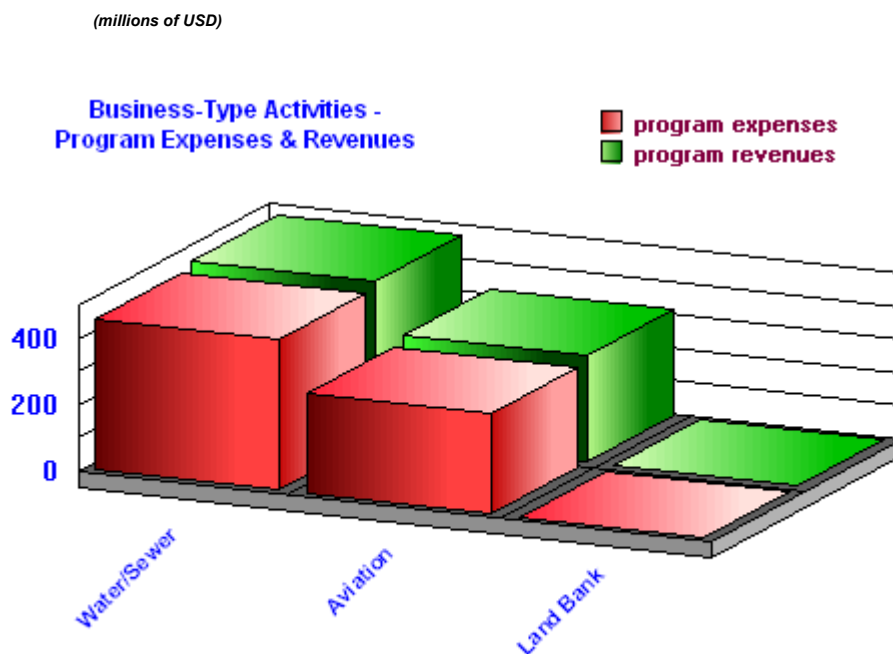
The following table shows a more detailed breakdown of program costs and related revenues for both the governmental and business-type activities of the city:

City of Philadelphia-Net Assets							
<i>(thousands of USD)</i>							
	Governmental Activities		Business-type Activities		Total		% Change
	2006	2005	2006	2005	2006	2005	
Revenues:							
Program revenues:							
Charges for services	314,289	244,021	767,091	730,089	1,081,380	974,110	11.0%
Operating grants and contributions	2,142,051	2,067,199	2,523	1,961	2,144,574	2,069,160	3.6%
Capital grants and contributions	21,438	9,102	25,288	20,745	46,726	29,847	56.6%
General revenues:							
Wage and earnings taxes	1,424,894	1,372,977	-	-	1,424,894	1,372,977	3.8%
Property taxes	386,280	381,755	-	-	386,280	381,755	1.2%
Other taxes	887,950	774,309	-	-	887,950	774,309	14.7%
Unrestricted grants and contributions	81,698	84,293	-	-	81,698	84,293	-3.1%
Unrestricted Interest & Earnings	60,176	32,915	43,764	15,822	103,940	48,737	113.3%
Total revenues	5,318,776	4,966,571	838,666	768,617	6,157,442	5,735,188	7.4%
Expenses:							
Economic development	89,808	89,544	-	-	89,808	89,544	0.3%
Transportation	200,439	203,902	-	-	200,439	203,902	-1.7%
Judiciary & law enforcement	1,391,808	1,352,254	-	-	1,391,808	1,352,254	2.9%
Conservation of health	1,447,514	1,309,150	-	-	1,447,514	1,309,150	10.6%
Housing & neighborhood development	149,492	123,002	-	-	149,492	123,002	21.5%
Cultural & recreational	170,728	179,218	-	-	170,728	179,218	-4.7%
Improvement of the general welfare	817,204	838,148	-	-	817,204	838,148	-2.5%
Services to taxpayer property	364,941	355,606	-	-	364,941	355,606	2.6%
General management	574,827	519,875	-	-	574,827	519,875	10.6%
Interest on long term debt	136,927	138,220	-	-	136,927	138,220	-0.9%
Water & waste water	-	-	455,363	442,325	455,363	442,325	2.9%
Airport	-	-	303,069	269,477	303,069	269,477	12.5%
Industrial land bank	-	-	2,132	4,685	2,132	4,685	-54.5%
Total expenses	5,343,688	5,108,919	760,564	716,487	6,104,252	5,825,406	4.8%
Increase (decrease) in net assets before transfers & special items	(24,912)	(142,348)	78,102	52,130	53,190	(90,218)	
Transfers	4,994	4,401	(4,994)	(4,401)	-	-	
Increase (decrease) in net assets	(19,918)	(137,947)	73,108	47,729	53,190	(90,218)	
Net Assets - Beginning	(270,809)	(47,948)	1,290,061	1,136,307	1,019,252	1,088,359	-6.3%
Adjustment	-	(84,914)	-	106,025	-	21,111	
Net Assets Adjusted - Beginning	(270,809)	(132,862)	1,290,061	1,242,332	1,019,252	1,109,470	-8.1%
Net Assets - End	(290,727)	(270,809)	1,363,169	1,290,061	1,072,442	1,019,252	5.2%

Business-type Activities

Business-type activities caused the city's net assets to increase by \$73.1 million. This increase was comprised of an increase in net assets for water/wastewater of \$34.2 million, for aviation of \$39.6 million and a decrease for industrial & commercial development operations of \$.7 million. Some of the key reasons for these changes are:

- Starting August 1, 2005 water and sewer bills will reflect new rates for water and wastewater services for the period August 1, 2005 to June 30, 2006. These new rates are the second of a four-phase change in rates to be spread over a three and a half-year period.
- Increased airport rental concession income resulting from an increase in airline passenger traffic.



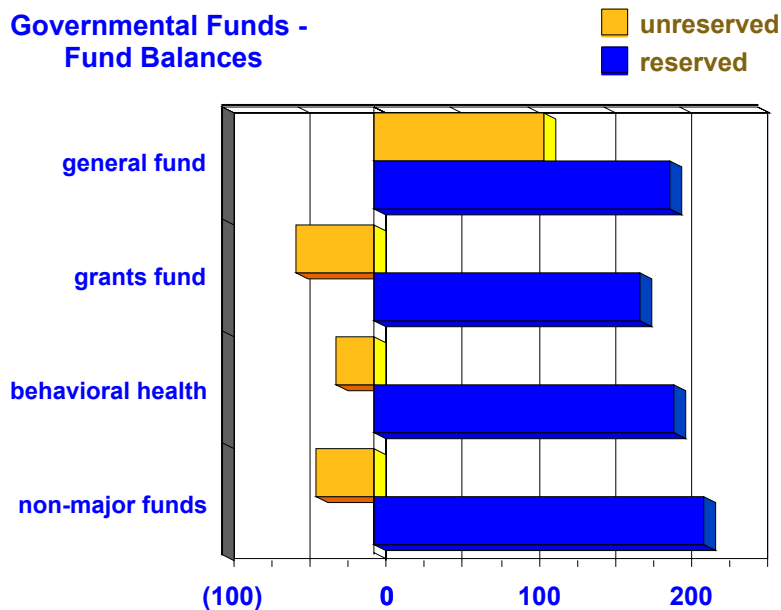
Financial Analysis of the Government's Funds

Governmental funds. The purpose of the city's governmental funds is to provide financial information on the *short term inflow, outflow and balance* of spendable 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 \$775.9 million an increase of \$34.4 million over last year. Of the total fund balance, \$778.4 million represents *reserved fund balance* which indicates that it is not available for new spending because it has already been committed to: contracts for goods and services (\$210.3 million); revitalize neighborhoods (\$130.1 million); pay debt service (\$82.6 million); support programs funded by independent agencies (\$76.9 million); fund a portion of the city's managed care programs (\$196.0 million); fund a portion of new sports stadiums (\$6.0 million); loan to PGW (\$45.0 million); fund the 911 emergency phone system (\$16.7 million); fund a portion of the central library renovation project (\$10.0 million); and trusts (\$4.8 million). The difference between the combined fund balance and reserved fund balance is (\$2.5) million which constitutes *unreserved fund balance*. This deficit will have to be made up in future years.

The general fund, the primary operating fund of the city, reported a *unreserved fund balance surplus* of \$111.2 million at the end of the fiscal year. Ratios of the general fund's unreserved fund balance and total fund balance to its total expenditures can be useful indicators of the general fund's liquidity. These ratios for the year just ended were 3.36% and 9.21%, respectively.

(millions of USD)



Overall, the total fund balance (reserved and unreserved) of the general fund increased by \$150.2 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:
 - An increase of \$159.2 million in tax revenue due to increased collections for Wage & Earnings Tax, Business Privilege Tax and Real Property Transfer Tax
- Expenditures:
 - Expenditures for the year increased \$78.3 million, an increase of only 2.4%.

The Health Choices Behavioral Health fund ended the fiscal year with a total fund balance of \$171.2 million of which \$196.0 million is reserved for a contractually required equity reserve and reinvestment initiatives. The unreserved portion of (\$24.8) million will have to be funded by receipts in future years. The total fund balance decreased during the fiscal year by \$25.1 million primarily due to increased payments made to the providers.

The Grants Revenue fund has a total fund balance in the amount of \$122.5 million which is comprised of a positive reserved fund balance of \$173.6 million (earmarked for neighborhood revitalization, a productivity bank and emergency telephone system programs) and a deficit unreserved fund balance of \$51.1 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 unreserved fund balance. The overall fund balance of the grants revenue fund experienced an decrease of \$46.3 million during the current fiscal year due to increases in health services and housing & neighborhood development expenditures.

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 \$73.1 million during the current fiscal year. This overall increase is attributable to the water/wastewater system which had an increase of \$34.2 million, airport operations which experienced an increase of \$39.6 million, while industrial & commercial development operations experienced a decrease of \$.7 million.

The proprietary funds reported an *unrestricted nets assets* surplus of \$273.9 million, comprised of a positive balance of \$175.3 million for the water and waste water operations, a positive balance of \$76.0 million for the airport and \$22.6 million for the industrial & commercial development activities. These unrestricted net assets represent an overall increase of \$4.2 million over the previous year, comprised of an decrease of \$13.3 million for the water and waste water operations, an increase of \$18.2 million for the airport and a decrease of \$.7 million for the Land Bank. The change in the water unrestricted is the result of a large increase to the Reserve for Capital Projects.

General Fund Budgetary Highlights

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

- \$2.0 million for repayments to the productivity bank for various departmental projects
- \$3.4 million for worker compensation claims
- \$5.2 million for payments to the water fund for water usage
- \$2.5 million for capital contributions by of the Health Department
- \$1.4 million for payroll of the Philadelphia Prisons
- \$3.3 million for the First Judicial District

The general fund's budgetary unreserved fund balance surplus of \$254.5 million differs from the general fund's fund financial statement surplus of \$111.2 million by \$143.3 million due to business privilege tax receipts which are received prior to being earned but have no effect on budgeted cash receipts.

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 \$5.3 billion, net of accumulated depreciation, at the end of the current fiscal year. These capital assets include items such as roads, runways, bridges, water and sewer mains, streets and street lighting, land, buildings, improvements, sports stadiums, vehicles, commuter trains, machinery, computers and general office equipment. Major capital asset events for which capital expenditures have been incurred during the current fiscal year include the following:

- Infrastructure improvements of \$18.5 million for streets, highways and bridges and \$80.2 million for the water and waste water systems.
- City Hall complex exterior renovations in the amount of \$9.7 million.
- Art Museum complex improvements of \$8.9 million
- Recreational facility improvements in the amount of \$12.0 million.
- Airport terminal and airfield improvements in the amount of \$73.0 million.

The following table shows the capital assets by category.

City of Philadelphia's Capital Assets-Net of Depreciation

(thousands of USD)

	Governmental activities			Business-type activities			Total		
	2006	2005	Inc (Dec)	2006	2005	Inc (Dec)	2006	2005	Inc (Dec)
Land	741,038	742,458	(1,420)	88,063	80,253	7,810	829,101	822,711	6,390
Buildings	788,616	810,195	(21,579)	1,552,396	1,566,900	(14,504)	2,341,012	2,377,095	(36,083)
Improvements other than buildings	93,393	93,174	219	101,248	151,035	(49,787)	194,641	244,209	(49,568)
Machinery & equipment	202,560	211,525	(8,965)	34,660	32,329	2,331	237,220	243,854	(6,634)
Infrastructure	393,285	413,327	(20,042)	1,140,042	1,117,053	22,989	1,533,327	1,530,380	2,947
Construction in progress	3,066	9,261	(6,195)	178,710	148,923	29,787	181,776	158,184	23,592
Total	2,221,958	2,279,940	(57,982)	3,095,119	3,096,493	(1,374)	5,317,077	5,376,433	(59,356)

The city's governmental activities experienced an overall decrease in capital assets of \$58.0 million (net of accumulated depreciation) during the current fiscal year. The decreases are a result of normal depreciation costs for the fiscal year.

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

Long-term debt. At year end the city had \$7.4 billion in long term debt outstanding. Of this amount, \$4.8 billion represents bonds outstanding (comprised of \$1.9 billion of debt backed by the full faith and credit of the city, and \$2.9 billion of debt secured solely by specific revenue sources) while \$2.6 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

(thousands of USD)

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
<u>Bonds Outstanding:</u>						
General obligation bonds	1,865,463	1,953,242	6,953	8,101	1,872,416	1,961,343
Revenue bonds	-	-	2,916,169	2,892,748	2,916,169	2,892,748
Total Bonds Outstanding	1,865,463	1,953,242	2,923,122	2,900,849	4,788,585	4,854,091
<u>Other Long Term Obligations:</u>						
Service agreements	2,117,891	2,105,790	-	-	2,117,891	2,105,790
Employee related obligations	383,533	376,254	25,652	23,851	409,185	400,105
Indemnities	46,220	43,015	1,150	1,567	47,370	44,582
Other	-	-	246	246	246	246
Total Other Long Term Obligations	2,547,644	2,525,059	27,048	25,664	2,574,692	2,550,723
Total Long Term Debt Outstanding	4,413,107	4,478,301	2,950,170	2,926,513	7,363,277	7,404,814

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 \$370.0 million in Tax and Revenue Anticipation Notes by June 2006 plus interest. In accordance with statute there are no temporary loans outstanding at year end.
- In June, 2006, the Pennsylvania Intergovernmental Cooperation Authority (a blended component unit of the City) issued \$90.0 million in Special Revenue Refunding Bonds (City Funding Program) Series 2006. The proceeds from the sale of the bonds will be used for (i) a current refunding of the Authority's Series 1996 Special Tax Revenue Refunding Bonds, and (ii) to pay the cost of issuing the 2006 bonds. The bonds mature in 2020 and will bear interest at the applicable auction rate. PICA can elect to convert the bonds to an interest rate mode other than the Auction Rate.

As of the close of the fiscal year the city's bonds as rated by Moody's, Standard & Poor's and Fitch are as follows:

City of Philadelphia's Bond Ratings

	Moody's Investors Service	Standard & Poors Corporation	Fitch IBCA
General Obligation Bonds	Baa1	BBB	BBB+
Water/Sewer Revenue Bonds	A3	A-	A-
Aviation Revenue Bonds	A3	A	A

The City is subject to a statutory limitation established by the Commonwealth of Pennsylvania as to the amount of tax supported general obligation debt it may issue. The limitation is equal to 13% of the average assessed valuations of properties over the past ten years. As of July 1, 2006 the legal debt limit was \$1,335.6 million. There is \$1,163.7 million of outstanding tax supported debt leaving a legal debt margin of \$171.9 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 all been considered in preparing the City of Philadelphia's budget for the 2007 fiscal year:

- Philadelphia entered FY06 in a healthier fiscal condition and with a brighter economic outlook than it faced in FY04 and FY05. The fund balance, which had fallen to a negative \$46.8 million at the end of FY04 from a high of \$295 million in FY00 grew to \$96.2 million at the end of FY05.
- The City continues to experience growth in the real estate market. The real estate transfer tax was 23% higher in FY2006 over FY2005.

- Continuation of the wage and business tax reduction program which began in fiscal year 1995.
- The City has received expressions of interest to purchase a number of properties that the City has determined should not be retained. The City expects to generate \$18 million in sales through FY2008.
- Employee wage increases of 3% for civil servants and 3% for police officers effective July 1, 2006.
- Base health insurance costs are projected to grow 8% each year through FY2010. The City successfully negotiated low-growth rate increases in FY2006 (4.7%) and FY2007 (cap of 12%)
- Starting July 1, 2006 water and sewer bills will reflect new rates for water and wastewater services for the period July 1, 2006 to June 30, 2007. These new rates are the third of a four-phase change in rates to be spread over a three and a half-year period. The first phase of the change in rates took effect in 2005. The water department is projecting an 7.7% increase in water/wastewater revenue for FY2007.
- The airport's budget is funded primarily with airline rates and charges, to the extent not otherwise funded by non-airline rentals, concession fees and user charges. The airport is projecting a 10% increase in revenues in FY2007. US Airways, which accounts for 64% of the enplaned passengers at the airport has filed for bankruptcy protection under federal law. In September, 2005, US Airways Bankruptcy Plan of Reorganization became effective and the airline exited bankruptcy. On that same date, US Airways merged with American West Airlines with the new combined entity operating under the US Airways name.

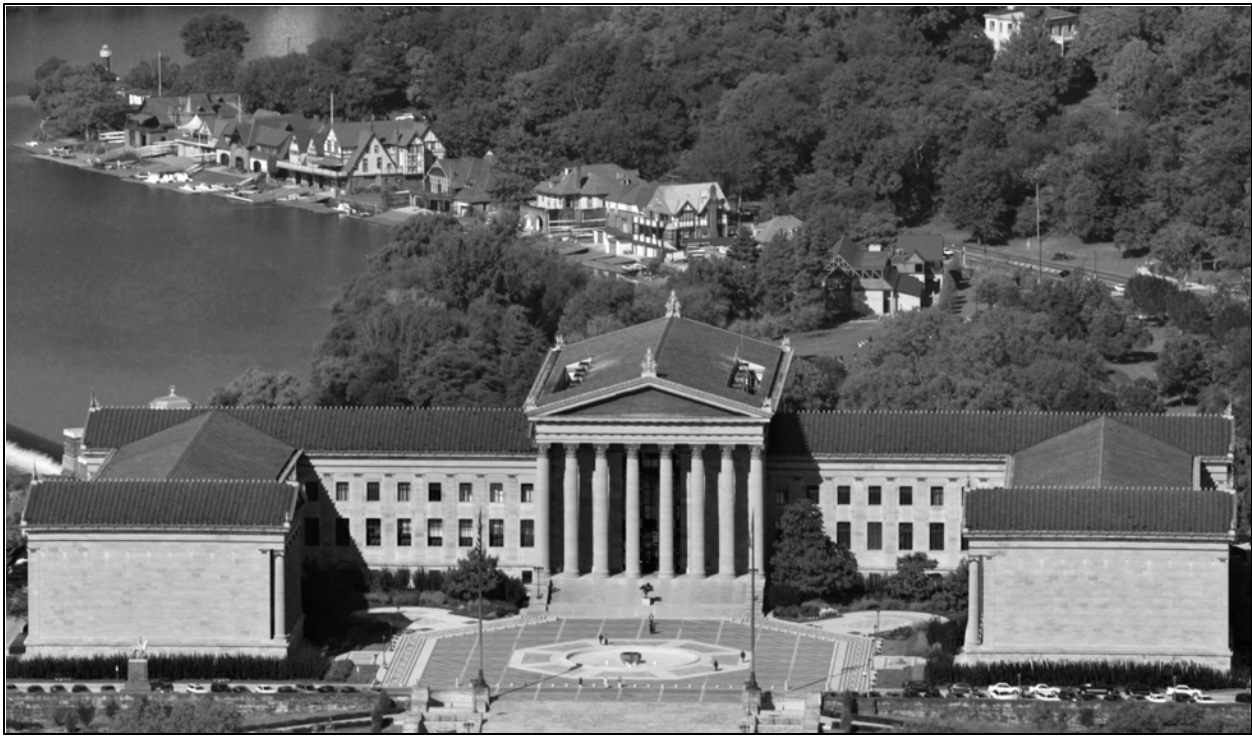
Requests for information

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. 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 1330 MSB
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102

City of Philadelphia

PENNSYLVANIA



Philadelphia Museum of Art

City of Philadelphia
PENNSYLVANIA

**Basic
Financial
Statements**

City of Philadelphia
Statement of Net Assets
June 30, 2006

Exhibit I

Amounts in thousands of USD

	Primary Government			Component Units
	Governmental Activities	Business Type Activities	Total	
Assets				
Cash on Deposit and on Hand	105,725	30	105,755	270,279
Equity in Pooled Cash and Investments	-	-	-	23,757
Equity in Treasurer's Account	797,156	148,797	945,953	-
Investments	72,514	-	72,514	224,431
Due from Component Units	67,254	-	67,254	-
Due from Primary Government	-	-	-	68,811
Amounts Held by Fiscal Agent	114,397	-	114,397	64,643
Notes Receivable - Net	-	-	-	199,470
Accounts Receivable - Net	288,749	111,164	399,913	319,099
Interest and Dividends Receivable	3,418	-	3,418	14,441
Due from Other Governments - Net	436,552	1,001	437,553	100,820
Inventories	14,326	33,747	48,073	156,489
Other Assets	2,974	-	2,974	113,570
Restricted Assets:				
Cash and Cash Equivalents	-	716,639	716,639	712,070
Other Assets	-	240,774	240,774	183,982
Net Pension Asset	732,471	85,143	817,614	-
Capital Assets:				
Land and Other Non-Depreciated Assets	745,023	266,773	1,011,796	386,184
Other Capital Assets (Net of Depreciation)	1,476,935	2,828,346	4,305,281	3,530,581
Total Capital Assets, Net	<u>2,221,958</u>	<u>3,095,119</u>	<u>5,317,077</u>	<u>3,916,765</u>
Total Assets	<u>4,857,494</u>	<u>4,432,414</u>	<u>9,289,908</u>	<u>6,368,627</u>
Liabilities				
Notes Payable	-	-	-	143,310
Vouchers Payable	54,654	9,384	64,038	63,918
Accounts Payable	146,865	42,287	189,152	237,801
Salaries and Wages Payable	59,296	4,426	63,722	42,013
Accrued Expenses	44,530	37,833	82,363	160,972
Due to Agency Funds	777	-	777	-
Due to Primary Government	-	-	-	107,374
Due to Component Units	73,211	-	73,211	-
Funds Held in Escrow	24,662	-	24,662	14,510
Due to Other Governments	30	-	30	22,773
Deferred Revenue	214,051	25,145	239,196	110,623
Overpayment of Taxes	117,038	-	117,038	12,914
Other Current Liabilities	-	-	-	83,236
Non-Current Liabilities:				
Due within one year	203,822	113,802	317,624	224,470
Due in more than one year	4,209,285	2,836,368	7,045,653	4,790,452
Total Liabilities	<u>5,148,221</u>	<u>3,069,245</u>	<u>8,217,466</u>	<u>6,014,366</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	248,629	537,412	786,041	797,644
Restricted For:				
Capital Projects	379	108,138	108,517	563
Debt Service	82,541	289,841	372,382	195,380
Behavioral Health	171,228	-	171,228	-
Intergovernmental Finance	26,800	-	26,800	-
Neighborhood Revitalization	130,127	-	130,127	-
Stadium Financing	5,972	-	5,972	-
Central Library Project	10,002	-	10,002	-
Grant Programs	27,755	-	27,755	41,310
Rate Stabilization	-	153,910	153,910	-
Libraries & Parks:				
Expendable	3,660	-	3,660	-
Non-Expendable	4,118	-	4,118	-
Educational Programs	-	-	-	12,235
Other	8,970	-	8,970	-
Unrestricted(Deficit)	(1,010,908)	273,868	(737,040)	(692,871)
Total Net Assets	<u>(290,727)</u>	<u>1,363,169</u>	<u>1,072,442</u>	<u>354,261</u>

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

City of Philadelphia
Statement of Activities
For the Fiscal Year Ended June 30, 2006

Exhibit II

Amounts in thousands of USD

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business Type Activities		
Primary Government:								
Governmental Activities:								
Economic Development	89,808	-	656	-	(89,152)		(89,152)	
Transportation:								
Streets & Highways	115,956	2,218	30,788	18,547	(64,403)		(64,403)	
Mass Transit	84,483	559	-	-	(83,924)		(83,924)	
Judiciary and Law Enforcement:								
Police	835,984	7,197	11,345	-	(817,442)		(817,442)	
Prisons	268,729	417	34	-	(268,278)		(268,278)	
Courts	287,095	51,497	59,979	-	(175,619)		(175,619)	
Conservation of Health:								
Emergency Medical Services	35,585	25,040	1,014	-	(9,531)		(9,531)	
Health Services	1,411,929	13,998	1,284,309	-	(113,622)		(113,622)	
Housing and Neighborhood Development:								
Development	149,492	22,319	117,979	-	(9,194)		(9,194)	
Cultural and Recreational:								
Recreation	73,271	387	7,182	1,877	(63,825)		(63,825)	
Parks	28,886	420	5,819	323	(22,324)		(22,324)	
Libraries and Museums	68,571	852	11,232	-	(56,487)		(56,487)	
Improvements to General Welfare:								
Social Services	702,035	7,397	559,645	-	(134,993)		(134,993)	
Education	59,895	-	-	-	(59,895)		(59,895)	
Inspections and Demolitions	55,274	717	842	-	(53,715)		(53,715)	
Service to Property:								
Sanitation	128,817	1,762	2,175	-	(124,880)		(124,880)	
Fire	236,124	389	137	560	(235,038)		(235,038)	
General Management and Support	574,827	179,120	48,915	131	(346,661)		(346,661)	
Interest on Long Term Debt	136,927	-	-	-	(136,927)		(136,927)	
Total Governmental Activities	<u>5,343,688</u>	<u>314,289</u>	<u>2,142,051</u>	<u>21,438</u>	<u>(2,865,910)</u>		<u>(2,865,910)</u>	
Business Type Activities:								
Water and Sewer	455,363	470,844	569	-	-	16,050	16,050	
Aviation	303,069	295,016	1,954	25,288	-	19,189	19,189	
Industrial and Commercial Development:								
Commercial Development	2,132	1,231	-	-	-	(901)	(901)	
Total Business Type Activities	<u>760,564</u>	<u>767,091</u>	<u>2,523</u>	<u>25,288</u>	<u>-</u>	<u>34,338</u>	<u>34,338</u>	
Total Primary Government	<u>6,104,252</u>	<u>1,081,380</u>	<u>2,144,574</u>	<u>46,726</u>	<u>(2,865,910)</u>	<u>34,338</u>	<u>(2,831,572)</u>	
Component Units:								
Gas Operations	849,928	841,445	19,755	-				11,272
Housing	409,243	24,646	393,469	25,903				34,775
Parking	178,618	181,990	-	-				3,372
Education	2,795,003	35,144	886,826	235				(1,872,798)
Health	616,694	-	615,164	-				(1,530)
Economic Development	144,270	36,524	72,305	-				(35,441)
Total Component Units	<u>4,993,756</u>	<u>1,119,749</u>	<u>1,987,519</u>	<u>26,138</u>				<u>(1,860,350)</u>
General Revenues:								
Taxes:								
Property Taxes					386,280	-	386,280	540,241
Wage & Earnings Taxes					1,424,894	-	1,424,894	-
Business Taxes					430,197	-	430,197	-
Other Taxes					457,753	-	457,753	157,464
Grants & Contributions Not Restricted to Specific Programs					81,698	-	81,698	973,542
Unrestricted Interest & Investment Earnings					60,176	43,764	103,940	15,837
Miscellaneous					-	-	-	903
Special Items					-	-	-	794
Transfers					4,994	(4,994)	-	17,662
Total General Revenues, Special Items and Transfers					<u>2,845,992</u>	<u>38,770</u>	<u>2,884,762</u>	<u>1,706,443</u>
Change in Net Assets					<u>(19,918)</u>	<u>73,108</u>	<u>53,190</u>	<u>(153,907)</u>
Net Assets - July 1, 2005					<u>(270,809)</u>	<u>1,290,061</u>	<u>1,019,252</u>	<u>491,880</u>
Adjustment					-	-	-	16,288
Net Assets Adjusted - July 1, 2005					<u>(270,809)</u>	<u>1,290,061</u>	<u>1,019,252</u>	<u>508,168</u>
Net Assets - June 30, 2006					<u>(290,727)</u>	<u>1,363,169</u>	<u>1,072,442</u>	<u>354,261</u>

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

City of Philadelphia
Balance Sheet
Governmental Funds
June 30, 2006

Exhibit III

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	7,991	-	75	97,659	105,725
Equity in Treasurer's Account	398,688	236,005	112,602	49,861	797,156
Investments	-	-	-	72,514	72,514
Due from Other Funds	17,776	-	-	4,617	22,393
Due from Component Units	67,254	-	-	-	67,254
Amounts Held by Fiscal Agent	15,974	-	98,423	-	114,397
Taxes Receivable	550,704	-	-	13,982	564,686
Accounts Receivable	391,859	-	84	5,265	397,208
Allowance for Doubtful Accounts	(707,702)	-	-	(365)	(708,067)
Interest and Dividends Receivable	917	1,743	120	473	3,253
Due from Other Governmental Units	349,102	-	82,836	38,390	470,328
Other Assets	-	-	-	19	19
Total Assets	1,092,563	237,748	294,140	282,415	1,906,866
Liabilities and Fund Balances					
Liabilities:					
Vouchers Payable	35,728	98	11,818	7,010	54,654
Accounts Payable	76,365	7,688	38,545	23,254	145,852
Salaries and Wages Payable	57,158	-	1,841	297	59,296
Due to Other Funds	772	-	-	22,398	23,170
Due to Component Units	-	58,734	11,045	3,432	73,211
Funds Held in Escrow	12,815	-	7,841	4,006	24,662
Due to Other Governmental Units	18	-	-	12	30
Deferred Revenue	488,130	-	100,576	44,394	633,100
Overpayment of Taxes	117,038	-	-	-	117,038
Total Liabilities	788,024	66,520	171,666	104,803	1,131,013
Fund Balances:					
Reserved for:					
Encumbrances	132,359	-	-	77,940	210,299
Neighborhood Revitalization	-	-	130,127	-	130,127
Behavioral Health	-	196,026	-	-	196,026
Intergovernmental Financing	-	-	-	50,100	50,100
Intergovernmentally Financed Programs	-	-	26,800	-	26,800
Public Safety Emergency Phone System	-	-	16,718	-	16,718
Debt Service	-	-	-	82,541	82,541
Trust Purposes	-	-	-	4,821	4,821
Long Term Loan	45,000	-	-	-	45,000
Central Library Project	10,002	-	-	-	10,002
Stadium Financing	5,972	-	-	-	5,972
Unreserved, reported in:					
General Fund	111,206	-	-	-	111,206
Special Revenue Funds	-	(24,798)	(51,171)	23,976	(51,993)
Debt Service Funds	-	-	-	1,709	1,709
Capital Projects Funds	-	-	-	(67,135)	(67,135)
Permanent Funds	-	-	-	3,660	3,660
Total Fund Balances	304,539	171,228	122,474	177,612	775,853
Total Liabilities and Fund Balances	1,092,563	237,748	294,140	282,415	

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	2,221,958
b. Unearned Receivables are deferred in the funds	419,049
c. Long Term Liabilities, including bonds payable, are not reported in the funds	(4,413,107)
d. Net Pension Asset is not reported in the funds	732,471
e. Other	(26,951)

Net Assets of Governmental Activities (290,727)

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

City of Philadelphia
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

Exhibit IV

Amounts in thousands of USD

	General Fund	HealthChoices Behavioral Health Fund	Grants Revenue Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Tax Revenue	2,358,243	-	-	350,320	2,708,563
Locally Generated Non-Tax Revenue	237,644	11,002	53,373	52,500	354,519
Revenue from Other Governments	701,055	650,250	754,249	117,619	2,223,173
Other Revenues	14,159	-	-	1,102	15,261
Total Revenues	3,311,101	661,252	807,622	521,541	5,301,516
Expenditures					
Current Operating:					
Economic Development	46,090	-	656	34,692	81,438
Transportation:					
Streets & Highways	52,979	-	-	25,825	78,804
Mass Transit	56,690	-	-	-	56,690
Judiciary and Law Enforcement:					
Police	787,507	-	10,477	-	797,984
Prisons	255,176	-	29	1,405	256,610
Courts	237,709	-	40,518	-	278,227
Conservation of Health:					
Emergency Medical Services	33,795	-	1,003	-	34,798
Health Services	137,053	686,253	584,401	-	1,407,707
Housing and Neighborhood Development	1,114	-	71,167	75,641	147,922
Cultural and Recreational:					
Recreation	52,372	-	7,421	14	59,807
Parks	19,053	-	84	4,264	23,401
Libraries and Museums	58,673	-	11,324	165	70,162
Improvements to General Welfare:					
Social Services	649,495	-	46,423	-	695,918
Education	59,895	-	-	-	59,895
Inspections and Demolitions	30,277	-	29,538	-	59,815
Service to Property:					
Sanitation	122,900	-	2,656	-	125,556
Fire	225,794	-	16	-	225,810
General Management and Support	479,883	-	37,090	20,464	537,437
Capital Outlay	-	-	-	97,937	97,937
Debt Service:					
Principal	-	-	-	86,238	86,238
Interest	-	-	-	99,921	99,921
Total Expenditures	3,306,455	686,253	842,803	446,566	5,282,077
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,646	(25,001)	(35,181)	74,975	19,439
Other Financing Sources (Uses)					
Issuance of Debt	10,002	-	-	-	10,002
Transfers In	241,218	-	3,078	188,766	433,062
Transfers Out	(105,623)	-	(14,225)	(308,220)	(428,068)
Total Other Financing Sources (Uses)	145,597	-	(11,147)	(119,454)	14,996
Net Change in Fund Balance	150,243	(25,001)	(46,328)	(44,479)	34,435
Fund Balance - July 1, 2005	154,296	196,229	168,802	222,091	741,418
Fund Balance - June 30, 2006	304,539	171,228	122,474	177,612	775,853

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

City of Philadelphia
Reconciliation of Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2006

Exhibit V

Amounts in thousands of USD

Net Change in Fund Balances - Total Governmental Funds.....	34,435
 Amounts reported for governmental activities in the statement of activities are different because:	
a. Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (140,760) exceeded capital outlays (103,381) in the current period.....	(37,379)
b. Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.....	18,608
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 (127,773) exceeded proceeds (10,002).....	117,771
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 expenditures in governmental funds.....	(83,762)
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.....	<u>(69,591)</u>
 Change in Net Assets of governmental activities.....	 <u><u>(19,918)</u></u>

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

City of Philadelphia
Statement of Fund Net Assets
Proprietary Funds
June 30, 2006

Exhibit VI

Amounts in thousands of USD

	Business Type Activities - Enterprise Funds			
	Water and Sewer	Aviation	Other Non-Major Industrial & Commercial Development	Total
Assets				
Current Assets:				
Cash on Deposit and on Hand	30	-	-	30
Equity in Treasurer's Account	50,253	94,912	3,632	148,797
Due from Other Governments	109	892	-	1,001
Accounts Receivable	177,360	11,268	2,872	191,500
Allowance for Doubtful Accounts	(78,634)	(1,702)	-	(80,336)
Inventories	14,640	3,051	16,056	33,747
Total Current Assets	163,758	108,421	22,560	294,739
Non-Current Assets:				
Restricted Assets:				
Equity in Treasurer's Account	368,675	301,843	-	670,518
Amounts Held by Fiscal Agent	-	46,121	-	46,121
Sinking Funds and Reserves	174,332	44,906	-	219,238
Grants for Capital Purposes	-	6,468	-	6,468
Receivables	2,784	12,284	-	15,068
Total Restricted Assets	545,791	411,622	-	957,413
Net Pension Asset	64,118	21,025	-	85,143
Capital Assets:				
Land	5,919	82,144	-	88,063
Infrastructure	1,752,461	477,315	-	2,229,776
Construction in Progress	146,831	31,879	-	178,710
Buildings and Equipment	1,390,699	1,632,236	-	3,022,935
Less: Accumulated Depreciation	(1,597,139)	(827,226)	-	(2,424,365)
Total Capital Assets, Net	1,698,771	1,396,348	-	3,095,119
Total Non-Current Assets	2,308,680	1,828,995	-	4,137,675
Total Assets	2,472,438	1,937,416	22,560	4,432,414
Liabilities				
Current Liabilities:				
Vouchers Payable	5,107	4,270	7	9,384
Accounts Payable	7,377	9,680	-	17,057
Salaries and Wages Payable	2,225	2,201	-	4,426
Construction Contracts Payable	7,038	18,192	-	25,230
Accrued Expenses	18,435	19,398	-	37,833
Deferred Revenue	6,923	18,222	-	25,145
Bonds Payable-Current	84,002	29,800	-	113,802
Total Current Liabilities	131,107	101,763	7	232,877
Non-Current Liabilities:				
Bonds Payable	1,758,799	1,161,410	-	2,920,209
Unamortized Discount and Loss	(88,496)	(22,393)	-	(110,889)
Other Non-Current Liabilities	20,485	6,563	-	27,048
Total Non-Current Liabilities	1,690,788	1,145,580	-	2,836,368
Total Liabilities	1,821,895	1,247,343	7	3,069,245
Net Assets				
Invested in Capital Assets, Net of Related Debt	94,958	442,454	-	537,412
Restricted For:				
Capital Projects	51,990	56,148	-	108,138
Debt Service	174,332	115,509	-	289,841
Rate Stabilization	153,910	-	-	153,910
Unrestricted	175,353	75,962	22,553	273,868
Total Net Assets	650,543	690,073	22,553	1,363,169

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

City of Philadelphia
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2006

Exhibit VII

Amounts in thousands of USD

	Business-Type Activities - Enterprise Funds			Totals
	Water and Sewer	Aviation	Other Non-Major Industrial & Commercial Development	
Operating Revenues:				
Charges for Goods and Services	465,519	77,280	-	542,799
Sales of Land and Improvements	-	-	919	919
Rentals and Concessions	-	151,057	-	151,057
Miscellaneous Operating Revenues	5,325	3,554	312	9,191
Total Operating Revenues	470,844	231,891	1,231	703,966
Operating Expenses:				
Personal Services	98,773	54,778	-	153,551
Purchase of Services	68,469	67,305	530	136,304
Materials and Supplies	27,526	6,449	-	33,975
Employee Benefits	62,852	28,383	-	91,235
Indemnities and Taxes	3,758	1,129	-	4,887
Depreciation	78,855	74,228	-	153,083
Cost of Goods Sold	-	-	1,602	1,602
Total Operating Expenses	340,233	232,272	2,132	574,637
Operating Income (Loss)	130,611	(381)	(901)	129,329
Non-Operating Revenues (Expenses):				
Operating Grants	569	1,954	-	2,523
Passenger Facility Charges	-	63,125	-	63,125
Interest Income	23,141	20,446	177	43,764
Net Pension Obligation	(7,182)	(3,308)	-	(10,490)
Debt Service - Interest	(100,682)	(67,187)	-	(167,869)
Other Revenue (Expenses)	(7,266)	(302)	-	(7,568)
Total Non-Operating Revenues (Expenses)	(91,420)	14,728	177	(76,515)
Income (Loss) Before Contributions & Transfers	39,191	14,347	(724)	52,814
Transfers Out	(4,994)	-	-	(4,994)
Capital Contributions	-	25,288	-	25,288
Change in Net Assets	34,197	39,635	(724)	73,108
Net Assets - July 1, 2005	616,346	650,438	23,277	1,290,061
Net Assets - June 30, 2006	650,543	690,073	22,553	1,363,169

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

City of Philadelphia
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2006

Exhibit VIII

Amounts in thousands of USD

	Business Type Activities - Enterprise Funds			Totals
	Water and Sewer	Aviation	Other Non-Major Industrial & Commercial Development	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	474,387	218,058	-	692,445
Payments to Suppliers	(96,672)	(72,025)	(586)	(169,283)
Payments to Employees	(163,124)	(81,705)	-	(244,829)
Internal Activity-Payments to Other Funds	-	(3,636)	-	(3,636)
Claims Paid	(4,176)	-	-	(4,176)
Other Receipts (Payments)	-	(662)	312	(350)
Net Cash Provided (Used)	<u>210,415</u>	<u>60,030</u>	<u>(274)</u>	<u>270,171</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating Grants Received	569	1,161	-	1,730
Operating Subsidies and Transfers from Other Funds	(4,994)	-	-	(4,994)
Net Cash Provided (Used)	<u>(4,425)</u>	<u>1,161</u>	<u>-</u>	<u>(3,264)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from Debt Issuance	-	124,890	-	124,890
Contributions Received	-	24,020	-	24,020
Acquisition and Construction of Capital Assets	(85,213)	(73,103)	-	(158,316)
Interest Paid on Debt Instruments	(87,866)	(69,769)	-	(157,635)
Principal Paid on Debt Instruments	(78,550)	(35,495)	-	(114,045)
Passenger Facility Charges	-	62,166	-	62,166
Net Cash Provided (Used)	<u>(251,629)</u>	<u>32,709</u>	<u>-</u>	<u>(218,920)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and Dividends on Investments	19,861	21,959	176	41,996
Net Cash Provided (Used)	<u>19,861</u>	<u>21,959</u>	<u>176</u>	<u>41,996</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(25,778)	115,859	(98)	89,983
Cash and Cash Equivalents, July 1 (including 397,406 for Water & Sewer and 237,081 for Aviation reported in restricted accounts)	<u>444,736</u>	<u>327,017</u>	<u>3,730</u>	<u>775,483</u>
Cash and Cash Equivalents, June 30 (including 368,675 for Water & Sewer and 347,964 for Aviation reported in restricted accounts)	<u>418,958</u>	<u>442,876</u>	<u>3,632</u>	<u>865,466</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	130,611	(381)	(901)	129,329
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	78,855	74,228	-	153,083
Changes in Assets and Liabilities:				
Receivables, Net	3,360	2,308	(894)	4,774
Deferred Revenue	183	(16,158)	-	(15,975)
Inventories	(563)	(157)	1,576	856
Accounts and Other Payables	(2,031)	190	(55)	(1,896)
Net Cash Provided by Operating Activities	<u>210,415</u>	<u>60,030</u>	<u>(274)</u>	<u>270,171</u>

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

City of Philadelphia
Statement of Net Assets
Fiduciary Funds
June 30, 2006

Exhibit IX

Amounts in thousands of USD

	Pension Trust <u>Funds</u>	Agency <u>Funds</u>
<u>Assets</u>		
Cash on Deposit and on Hand	-	124,572
Equity in Treasurer's Account	4,790,001	20,689
Investments	-	20,746
Securities Lending Collective Investment Pool	405,620	-
Accounts Receivable	4,077	-
Due from Brokers for Securities Sold	29,625	-
Interest and Dividends Receivable	9,091	-
Due from Other Governmental Units	4,505	-
Due from Other Funds	-	777
	<hr/>	<hr/>
Total Assets	5,242,919	166,784
<u>Liabilities</u>		
Vouchers Payable	30	91
Accounts Payable	4,788	-
Salaries and Wages Payable	110	-
Payroll Taxes Payable	-	7,883
Funds Held in Escrow	-	158,810
Due on Return of Securities Loaned	405,620	-
Due to Brokers for Securities Purchased	91,001	-
Accrued Expenses	1,165	-
Deferred Revenue	2,228	-
Other Liabilities	526	-
	<hr/>	<hr/>
Total Liabilities	505,468	166,784
Net Assets Held in Trust for Pension Benefits	<u>4,737,451</u>	<u>-</u>

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

City of Philadelphia
Statement of Changes in Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2006

Exhibit X

Amounts in thousands of USD

	Pension Trust Funds
<u>Additions:</u>	
Contributions:	
Employers' Contributions	346,822
Employees' Contributions	<u>48,910</u>
Total Contributions	<u>395,732</u>
Investment Income:	
Interest and Dividends	76,652
Net Gain in Fair Value of Investments	429,224
(Less) Investments Expenses	(18,651)
Securities Lending Revenue	12,097
(Less) Securities Lending Expenses	<u>(11,377)</u>
Net Investment Gain	<u>487,945</u>
Miscellaneous Operating Revenues	2,157
Total Additions	<u>885,834</u>
<u>Deductions</u>	
Personal Services	3,384
Purchase of Services	1,056
Materials and Supplies	102
Employee Benefits	2,034
Pension Benefits	640,081
Refunds of Members' Contributions	4,791
Other Operating Expenses	<u>147</u>
Total Deductions	<u>651,595</u>
Change in Net Assets	234,239
Net Assets - July 1, 2005	<u>4,503,212</u>
Net Assets - June 30, 2006	<u><u>4,737,451</u></u>

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

	Philadelphia Gas Works*	Philadelphia Redevelopment Authority	Philadelphia Housing Authority*	Philadelphia Parking Authority*	School District of Philadelphia	Community College of Philadelphia	Community Behavioral Health*	Pennsylvania Convention Center Authority	Penn's Landing Corporation	Philadelphia Authority for Industrial Development*	Total
Assets											
Cash on Deposit and on Hand	15,191	76,629	87,925	25,181	10,330	5,213	29,396	1,533	11,822	7,059	270,279
Equity in Pooled Cash and Investments	-	-	-	-	23,757	-	-	-	-	-	23,757
Investments	-	-	17,545	129,226	-	28,097	-	49,563	-	-	224,431
Due from Primary Government	-	23,140	-	-	-	-	42,239	3,432	-	-	68,811
Amounts Held by Fiscal Agent	30	-	-	-	-	-	-	-	-	-	64,643
Notes Receivable	164	32,153	166,879	-	64,613	274	-	-	-	-	199,470
Taxes Receivable	-	-	-	-	123,573	-	-	-	-	-	123,573
Accounts Receivable-Net	87,470	218	46,412	1,093	3,271	4,255	32,325	1,473	497	18,512	195,526
Interest and Dividends Receivable	-	12,748	589	309	168	65	-	562	-	-	14,441
Due from Other Governments	-	329	-	-	92,730	3,064	-	-	-	4,697	100,820
Inventories	129,984	18,636	4,462	-	3,407	-	-	-	-	-	156,489
Other Assets	-	528	11,350	335	96,161	-	315	4,758	123	-	113,570
Restricted Assets:											
Cash and Cash Equivalents	207,231	8,871	2,426	-	467,453	1,747	-	-	-	24,342	712,070
Other Assets	107,515	26,859	23,395	-	-	-	-	-	-	26,213	183,982
Capital Assets:											
Land and Other Non-Depreciated Assets	63,150	479	139,255	25,311	123,019	20,947	-	3,321	5,878	4,824	386,184
Other Capital Assets (Net of Depreciation)	918,572	1,648	829,770	218,319	1,193,138	78,709	2,675	230,834	5,688	51,228	3,530,581
Total Capital Assets	981,722	2,127	969,025	243,630	1,316,157	99,656	2,675	234,155	11,566	56,052	3,916,765
Total Assets	1,529,307	202,238	1,330,008	399,774	2,201,620	142,371	106,950	295,476	24,008	136,875	6,368,627
Liabilities											
Notes Payable	49,900	31,140	-	13,079	-	49,191	-	-	-	-	143,310
Vouchers Payable	63,918	-	-	-	-	-	-	-	-	-	63,918
Accounts Payable	-	12,454	19,781	17,177	173,027	7,099	917	3,793	477	3,076	237,801
Salaries and Wages Payable	3,860	739	-	-	31,014	4,142	1,638	620	-	-	42,013
Accrued Expenses	40,509	1,230	16,370	2,287	1,162	1,162	94,795	3,847	772	-	160,972
Funds Held in Escrow	-	7,333	1,081	-	-	153	-	-	-	5,943	14,510
Due to Other Governments	-	2,063	-	-	488	9,587	-	-	-	10,635	22,773
Due to Primary Government	45,000	-	-	30,059	-	-	-	22,254	-	10,061	107,374
Deferred Revenue	20,889	44,378	-	6,804	10,049	2,360	9,600	1,149	9,440	5,954	110,623
Overpayment of Taxes	-	-	-	-	12,914	-	-	-	-	-	12,914
Other Current Liabilities	-	-	23,331	-	59,867	-	-	-	38	-	83,236
Non-Current Liabilities:											
Due within one year	40,881	9,628	5,910	9,945	150,996	1,191	-	5,755	-	164	224,470
Due in more than one year	1,041,704	45,910	336,115	266,092	2,874,519	586	-	211,693	2,194	11,639	4,790,452
Total Liabilities	1,306,661	154,875	402,588	345,443	3,312,874	75,471	106,950	249,111	12,921	47,472	6,014,366
Net Assets											
Invested in Capital Assets,											
Net of Related Debt	24,739	2,127	662,412	-	13,533	49,416	-	-	-	45,417	797,644
Restricted For:											
Capital Projects	-	-	-	17,522	-	563	-	-	-	-	563
Debt Service	104,530	8,715	-	-	64,613	-	-	-	-	-	195,380
Educational Programs	-	-	-	-	7,944	4,291	-	-	-	-	12,235
Grant Programs	-	-	2,394	-	-	-	-	-	-	-	41,310
Unrestricted	93,377	36,521	262,614	36,809	(1,197,344)	12,630	-	46,365	11,087	38,916	(692,871)
Total Net Assets	222,646	47,363	927,420	54,331	(1,111,254)	66,900	-	46,365	11,087	89,403	354,261

* The Philadelphia Gas Works is presented as of the close of their fiscal year, August 31, 2005. The Community Behavioral Health Fund and the Philadelphia Authority for Industrial Development Fund are presented as of the close of their fiscal year, December 31, 2005. The Philadelphia Parking Authority and Philadelphia Housing Authority are presented as of the close of their fiscal year, March 31, 2006.

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

Exhibit XII

City of Philadelphia
Statement of Activities
Component Units
For the Fiscal Year Ended June 30, 2006

Amounts in thousands of USD

Functions	Program Revenues				Net (Expense) Revenue and Changes in Net Assets								Total	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Philadelphia Gas Works*	Philadelphia Redevelopment Authority	Philadelphia Housing Authority*	Philadelphia Parking Authority	School District of Philadelphia	Community College of Philadelphia	Community Behavioral Health*	Philadelphia Convention Center Authority		Penn's Landing Corporation
Gas Operations														
Gas Works	849,928	841,445	19,755	-	11,272	-	-	-	-	-	-	-	-	11,272
Housing														
Redevelopment Authority	77,833	1,517	68,511	-	-	(7,805)	-	-	-	-	-	-	-	(7,805)
Housing Authority	331,410	23,129	324,958	25,903	42,580	-	-	-	-	-	-	-	-	42,580
Total	409,243	24,646	393,469	25,903										
Parking														
Parking Authority	178,618	181,990	-	-	3,372	-	-	-	-	-	-	-	-	3,372
Education														
School District	2,673,833	7,811	848,505	-	(1,817,517)	-	-	-	-	-	-	-	-	(1,817,517)
Community College	121,170	27,333	38,321	235	(55,281)	-	-	-	-	-	-	-	-	(55,281)
Total	2,795,003	35,144	886,826	235										
Health														
Community Behavioral Health	616,694	-	615,164	-	(1,530)	-	-	-	-	-	-	-	-	(1,530)
Economic Development														
Convention Center Authority	54,366	9,863	41,552	-	-	-	-	(2,951)	-	-	-	-	-	(2,951)
Penn's Landing Corporation	9,620	6,900	2,208	-	-	-	-	-	-	-	-	(512)	-	(512)
Authority for Industrial Development	80,284	19,761	28,545	-	-	2,895	5,155	-	55,756	1,530	3,515	497	745	15,837
Total	144,270	36,524	72,305	-	-	-	-	-	542	-	-	-	361	903
Total Component Units	4,993,756	1,119,749	1,987,519	26,138										(1,860,350)
General Revenues:														
Property Taxes	-	-	-	-	540,241	-	-	-	-	-	-	-	-	540,241
Other Taxes	-	-	-	-	157,464	-	-	-	-	-	-	-	-	157,464
Grants & Contributions Not Restricted to Specific Programs	-	-	-	-	917,786	-	-	-	55,756	-	-	-	-	973,542
Unrestricted Interest & Investment Earnings	-	-	-	-	-	-	-	-	1,500	1,530	3,515	497	745	15,837
Miscellaneous	-	-	-	-	-	-	-	-	542	-	-	-	-	903
Special Item-Gain (Loss) on Sale of Capital Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	794
Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	17,662
Total General Revenues, Special Items and Transfers	-	-	-	-	1,615,491	-	-	-	57,798	1,530	3,515	497	19,562	1,706,443
Change in Net Assets	11,272	211,374	222,646	211,374	(202,026)	(4,910)	884,548	42,580	2,517	-	564	(15)	(12,416)	(153,907)
Net Assets - July 1, 2005	-	-	-	-	16,096	-	884,548	192	64,383	-	45,801	11,102	101,819	491,880
Adjustment	-	-	-	-	-	-	884,840	45,804	(909,228)	-	45,801	11,102	101,819	508,168
Net Assets Adjusted - July 1, 2004	-	-	-	-	-	-	927,420	54,331	66,900	-	46,365	11,087	89,403	354,261
Net Assets - June 30, 2006	-	-	-	-	(1,111,254)	-	927,420	54,331	66,900	-	46,365	11,087	89,403	354,261

* The Philadelphia Gas Works is presented as of the close of their fiscal year, August 31, 2005. The Community Behavioral Health Fund and the Philadelphia Authority for Industrial Development Fund are presented as of the close of their fiscal year, December 31, 2005. The Philadelphia Parking Authority and Philadelphia Housing Authority are presented as of the close of their fiscal year, March 31, 2006.

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

City of Philadelphia

PENNSYLVANIA



Delancy Street

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I. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Philadelphia have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

1. REPORTING ENTITY

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

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

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

A. BLENDED COMPONENT UNITS

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

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

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

Penn's Landing Corporation (PLC) - PLC was established to assist the City and the Commonwealth of Pennsylvania and their agencies in the rehabilitation, renewal and management of the historic site on the bank of the Delaware River known as Penn's Landing. The Corporation is governed by a 20 member board with 10 members appointed by the City. It receives substantial subsidies from the City and its budgets must be approved by the City.

Pennsylvania Convention Center Authority (PCCA) - PCCA was established to develop, promote and operate a convention center facility in the Philadelphia metropolitan area. Under a Lease & Service agreement, the City is obligated to pay an annual service fee sufficient to cover the debt service on PCCA's outstanding bonded debt. A voting majority of PCCA's governing board is not appointed by the City, however PCCA meets the criteria of fiscal dependency and the significance of the City's relationship with PCCA is such that exclusion from the City's financial report would be misleading.

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

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

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

School District of Philadelphia (SDP) - 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) - 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) - 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.

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

Individual financial statements can be obtained directly from their administrative offices by writing to the addresses provided:

Administrative Offices

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

Philadelphia Municipal Authority
 One Parkway
 1515 Arch Street, 9th Floor
 Philadelphia, Pa 19102

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

Philadelphia Parking Authority
 3101 Market Street, 2nd Floor
 Philadelphia, PA 19104

Penn's Landing Corporation
 121 North Columbus Boulevard
 Philadelphia, PA 19106

Redevelopment Authority of the City of Philadelphia
 1234 Market Street, 16th Floor
 Philadelphia, PA 19107

Pennsylvania Convention Center Authority
 1101 Arch Street
 Philadelphia, PA 19107

School District of Philadelphia
 440 North Broad Street, 3rd Floor
 Philadelphia, PA 19130

Philadelphia Housing Authority
 2012 Chestnut Street, 4th Floor
 Philadelphia, PA 19103

Community Behavioral Health
 Philadelphia Department of Public Health
 1101 Market Street
 Philadelphia, PA 19107

Philadelphia Gas Works
 800 West Montgomery Avenue
 Philadelphia, PA 19122

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

C. AUDIT RESPONSIBILITY

The financial statements of the above component units, except for the **SDP**, as well as the financial statements of the Municipal Pension Fund, the Gas Works Retirement Reserve Fund and the Fairmount Park Commission Departmental and Permanent Funds have been audited by auditors other than the Office of the Controller of the City of Philadelphia. The table below indicates the percentage of certain financial information that was subject to audit by those other auditors:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Aggregate Discretely Presented Component Units</u>	<u>Major Funds</u>	<u>Aggregate Remaining Fund Information</u>
Total Assets	7%	0%	65%	0%	95%
Total Revenues	7%	0%	49%	0%	76%

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, 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 **HealthChoices 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 nonoperating 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 nonoperating revenues and expenses.

B. COMPONENT UNITS

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

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

4. DEPOSITS AND INVESTMENTS

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

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

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

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

5. INVENTORIES

A. PRIMARY GOVERNMENT

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

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

B. COMPONENT UNITS

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

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

6. CAPITAL ASSETS

A. PRIMARY GOVERNMENT

Capital Assets, which include property, plant, equipment and infrastructure assets (e.g. bridges, curbs and gutters, streets and sidewalks and lighting systems) are reported in the applicable governmental or business type activities columns in the *government wide* financial statements.

Capital assets are

defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of three years. Capital assets are recorded at cost. Costs recorded do not include interest incurred as a result of financing asset acquisition or construction. Assets acquired by gift or bequest are recorded at their fair market value at the date of gift. Upon sale or retirement, the cost of the assets and the related accumulated depreciation, if any, are removed from the accounts. Maintenance and repair costs are charged to operations.

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

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

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

Collections of art and historical treasures meet the definition of a capital asset and normally should be reported in the financial statements. However, the requirement for capitalization is waived for collections that meet certain criteria. The City has collections of art, historical treasures and statuary that are not capitalized as they meet all of the waiver requirements which are: (1) the collections are held solely for public exhibition, (2) the collections are protected, preserved and cared for and (3) should any items be sold, the proceeds are used only to acquire other items for the collections. Among the City's collections are historical artifacts at the Ryerss Museum & Library, Loudoun Mansion, Fort Mifflin, Atwater Kent Museum and the Betsy Ross House. The city also has sculptures, paintings, murals and other works of art on display on public property and buildings throughout the City.

B. COMPONENT UNITS

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

7. BONDS AND RELATED PREMIUMS, DISCOUNTS & ISSUANCE COSTS

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

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

8. INSURANCE

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

9. RECEIVABLE AND PAYABLES

Activity 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 48.3% 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 \$8.264 on each \$100 assessment; \$4.790 for the **SDP** and \$3.474 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 **SDP** consists primarily of uncollected real estate taxes which were levied in the current and prior years but will not be available to pay liabilities of the current period. It is estimated that substantially all of the year-end balance will be received and recognized as revenue in the subsequent year.

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

11. COMPENSATED ABSENCES

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

12. CLAIMS AND JUDGMENTS

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

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

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

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, eight Special Revenue Funds (County Liquid Fuels Tax, Special Gasoline Tax, HealthChoices Behavioral Health, Hotel Room Rental Tax, Grants Revenue, Community Development, Car Rental Tax 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: 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 councilmanic 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 in the City's name by the Federal Reserve Bank or the trust department of a commercial bank other than the pledging bank. At year end, the carrying amount (book balance) of deposits for the City and the bank balances were \$157.3 million and \$160.7 million respectively.

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 has selected 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, 2006 the City's Investments consisted of:

(amounts in thousands of USD)	Primary Government	
	Fair Value	% of Total
U.S. Government Securities	318,722	4.5%
U.S. Government Agency Securities	1,233,746	17.4%
Corporate Bonds	410,825	5.8%
Corporate Equity	3,930,137	55.5%
Commercial Paper	361,159	5.1%
Collateralized Mortgage Obligations	141,080	2.0%
Other Bonds and Investments	138,608	2.0%
Short-Term Investment Pools	178,133	2.5%
Real Estate	29,341	0.4%
Financial Agreements	310,986	4.4%
Certificates of Deposit	34,001	0.5%
	<u>7,086,738</u>	

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

	<u>Fair Value</u>		
	Maturity :	<u>6-12 months</u>	<u>More than one year</u>
	<u>Less than 6 months</u>		
Short term Investment Pools	178,133	-	-
U.S. Government Securities	85,342	32,433	55,558
U.S. Government Agency Securities	698,908	119,956	208,352
Corporate Bonds	52,846	46,062	20,890
Commercial Paper	334,744	26,415	-
Certificates of Deposit	-	34,001	-
	<u>1,349,973</u>	<u>258,867</u>	<u>284,800</u>

Credit Risk: The City's credit risk is limited by investing in US Government securities (9.5%) or US Government Agency obligations (56.3%). The US Government Agency obligations must be rated AAA by Standard & Poor's Corp or Aaa by Moody's Investor Services. The City's investment in Commercial paper (19.8%) 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. Cash accounts are swept nightly and idle cash invested in money market funds (short term investment pools). Short Term Investment Pools are rated AAAM by Standard & Poor's Corp and Aaa by Moody's Investor Services. The City limits its foreign currency risk by investing in certificates of deposit and bankers acceptances issued or endorsed by non-domestic banks that are denominated in US dollars providing that the banking institution has assets of not less than \$100 million and has a Thompson's Bank Watch Service "Peer Group Rating" not lower than II. At the end of the fiscal year, the city did not have any investments of that nature.

Municipal Pension Fund

Credit Risk: Currently, the Municipal Pension Fund owns approximately 60% of all investments and is invested primarily in equity securities (74.6%). 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, 78% had Standard & Poor ratings of AAA to A and 78% 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 Mondrian All Countries of the World Except U.S. Equity Fund exceeding 5% of the total investment (6.68%). The fair value of the investment in the Mondrian All Countries of the World Except U.S. Equity Fund was \$287,823 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 6% of the total investment in equities.

Municipal Pension Fund
Equity Securities subject to Foreign Currency Risk

<u>Currency</u>	<u>Fair Value (USD)</u>	
Euro Currency	84,045,103	45.45%
Pound Sterling	34,340,303	18.57%
Japanese Yen	35,673,892	19.29%
Hong Kong Dollar	5,741,653	3.11%
All others	25,110,877	13.58%
	<u>184,911,828</u>	

Fixed Income Securities and Other Investments subject to Foreign Currency Risk

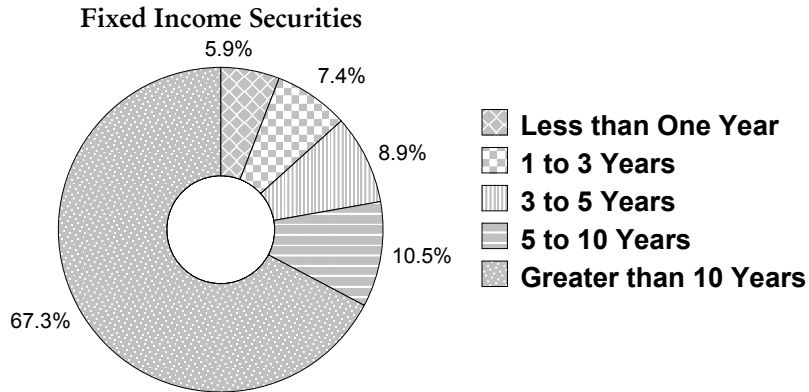
	<u>Currency</u>	<u>Fair Value (USD)</u>	<u>Maturities</u>
Corporate Bonds	Euro Currency	239,239	Feb 2013 - Aug 2016
Government Issues	Euro Currency	1,245,659	Apr 2009 - Oct 2014
Government Issues	All others	778,322	Aug 2010 - Dec 2031
Other Investments	Euro Currency	37,487,186	

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 loaned securities market value plus accrued interest. The collateral for the loans is maintained at greater than 100%. Securities on loan as of June 30 are unclassified with regards to custodial credit risk.

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

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

Municipal Pension Fund Exposure to Credit Risk



Philadelphia Gas Works Retirement Reserve (PGWRR)

Credit Risk: Currently, the PGWRR owns approximately 5.7% of all investments and is primarily invested in equity securities (62%). 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 manager’s Average Credit Quality range from AAA to AA.

The PGWRR’s fixed income investments are as follows:

(amounts in thousands of USD)

<u>Investment type</u>	<u>less than 1 yr</u>	<u>1-3 yrs</u>	<u>3-5 yrs</u>	<u>5-10 yrs</u>	<u>more than 10 yr:</u>
Short-Term Investment Pools	9,242	-	-	-	-
U.S. Government Agency Securities	1,589	5,204	4,407	2,691	6,388
U.S. Government Securities	-	11,789	5,264	10,783	3,867
MTG Pass Thrus	-	149	37	777	10,348
Collateralized Mortgage Obligations	-	-	527	303	21,410
Asset Backed Securities	-	2,960	949	1,064	4,717
Corporate bonds	3,629	12,842	7,620	6,751	9,053
	<u>14,460</u>	<u>32,944</u>	<u>18,804</u>	<u>22,369</u>	<u>55,783</u>

Blended Component Units

A. PICA

The Authority may deposit funds in any bank that is insured by federal deposit insurance. To the extent that the deposits exceed federal insurance, the banks must deposit (with their trust department or other custodian) obligations of the US Government, the Commonwealth of Pa 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 on 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, the carrying amount of PICA's deposits with financial institutions (including certificates of deposit and shares in US government money market funds) was \$91.7 million. The bank balance of \$92.7 million was insured or collateralized as follows:

(amounts in thousands of USD)

Insured	100
Uninsured and uncollateralized	92,639
	92,739

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. PICA has \$63.3 million of other investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in PICA's name.

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:

(amounts in thousands of USD)

	<u>Fair Value</u>	<u>Cost</u>
U S Government Securities	373	373
Money Market Funds	25	25
Certificates of Deposit	101	101
	499	499

All investments were uninsured and unregistered, for which the securities are held by the financial institutions' trust department in the Authority's name at June 30.

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, the Authority's investment in money market funds and government securities was rated AAA by S&P. Depository accounts consisted of \$395 thousand on deposit with a local bank. Amounts are insured by the FDIC up to \$100 thousand. The amount of \$70 thousand is insured by collateral pledges at the Federal Reserve Bank. The remaining amount of \$225 thousand is considered uninsured and uncollateralized.

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 no 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 are generally matched with maturity of loans. The **PGWRR** experienced no losses and had no credit risk exposure at June 30.

3. AMOUNTS HELD BY FISCAL AGENT

Two of the City's component units (**PAID** and **RDA**) have issued debt that, in accordance with GASB Interpretation #2, is considered conduit debt. Therefore, no asset related to the bond proceeds or liability related to the bonds are 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 2001 and PAID's Central Library Project Financing Lease Revenue Bonds Series 2005.

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

B. PROPRIETARY FUNDS

Aviation Fund - 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)

	<u>Interfund Receivables Due to:</u>				<u>Total</u>
	<u>General</u>	<u>Non major Governmental</u>		<u>Other Funds</u>	
		<u>Special Revenue</u>	<u>Debt Service</u>		
<u>Interfund Payables Due From:</u>					
General	-	-	-	772	772
Non major Special Revenue Funds	17,776	-	4,450	5	22,231
Non major Debt Service Funds	-	167	-	-	167
Total	<u>17,776</u>	<u>167</u>	<u>4,450</u>	<u>777</u>	<u>23,170</u>

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 balances are expected to be settled during the subsequent year. During fiscal 2001, the City approved loaning up to \$45.0 million to the Philadelphia Gas Works to meet an unanticipated emergency created by a cash flow crisis. As of June 30, 2006 the entire \$45.0 million was outstanding. Interfund receivable and payable balances among the Primary Government and Component Units at year end are as follows:

(Amounts in Thousands of USD)

	<u>Receivables Due to:</u>					<u>Total</u>
	<u>General</u>	<u>Airport</u>	<u>PCCA</u>	<u>CBH</u>	<u>RDA</u>	
<u>Payables Due From:</u>						
Behavioral Health	-	-	-	58,734	-	58,734
Grants Revenue	-	-	-	-	11,045	11,045
Non major Special Revenue Funds	-	-	3,432	-	-	3,432
PGW	45,000	-	-	-	-	45,000
PPA	-	30,059	-	-	-	30,059
PCCA	22,254	-	-	-	-	22,254
PAID	10,061	-	-	-	-	10,061
Timing Differences	(10,061)	(30,059)	-	(16,495)	12,095	(44,520)
Total	<u>67,254</u>	<u>-</u>	<u>3,432</u>	<u>42,239</u>	<u>23,140</u>	<u>136,065</u>

5. CAPITAL ASSET ACTIVITY

A. PRIMARY GOVERNMENT

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

(Amounts In Millions of USD)

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land	742	5	(6)	741
Construction In Process	9	3	(8)	4
Total capital assets not being depreciated	<u>751</u>	<u>8</u>	<u>(14)</u>	<u>745</u>
<u>Capital assets being depreciated:</u>				
Buildings	1,648	44	(14)	1,678
Other Improvements	255	9	(2)	262
Equipment	424	23	(16)	431
Infrastructure	1,116	29	--	1,145
Transit	292	--	--	292
Total capital assets being depreciated	<u>3,735</u>	<u>105</u>	<u>(32)</u>	<u>3,808</u>
<u>Less accumulated depreciation for:</u>				
Buildings	(836)	(53)	--	(889)
Other Improvements	(162)	(8)	--	(170)
Equipment	(340)	(22)	15	(347)
Infrastructure	(704)	(48)	--	(752)
Transit	(165)	(8)	--	(173)
Total accumulated depreciation	<u>(2,207)</u>	<u>(139)</u>	<u>15</u>	<u>(2,331)</u>
Total capital assets being depreciated, net	<u>1,528</u>	<u>(34)</u>	<u>(17)</u>	<u>1,477</u>
Governmental activities capital assets, net	<u>2,279</u>	<u>(26)</u>	<u>(31)</u>	<u>2,222</u>
	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
<u>Capital assets not being depreciated:</u>				
Land	80	8	--	88
Construction In Process	149	264	(234)	179
Total capital assets not being depreciated	<u>229</u>	<u>272</u>	<u>(234)</u>	<u>267</u>
<u>Capital assets being depreciated:</u>				
Buildings	2,667	69	(5)	2,731
Other Improvements	202	--	--	202
Equipment	92	8	(10)	90
Infrastructure	2,192	41	(4)	2,229
Total capital assets being depreciated	<u>5,153</u>	<u>118</u>	<u>(19)</u>	<u>5,252</u>
<u>Less accumulated depreciation for:</u>				
Buildings	(1,100)	(81)	3	(1,178)
Other Improvements	(91)	(10)	--	(101)
Equipment	(59)	(8)	12	(55)
Infrastructure	(1,036)	(55)	1	(1,090)
Total accumulated depreciation	<u>(2,286)</u>	<u>(154)</u>	<u>16</u>	<u>(2,424)</u>
Total capital assets being depreciated, net	<u>2,867</u>	<u>(36)</u>	<u>(3)</u>	<u>2,828</u>
Business-type activities capital assets, net	<u>3,096</u>	<u>236</u>	<u>(237)</u>	<u>3,095</u>

The beginning balance of Land and Buildings in Governmental Funds were increased to include the capital assets of the Fairmount Park commission. In the Business-Type Funds, the Aviation Fund reclassified beginning balances in Buildings, Other Improvements, Equipment and Infrastructure but did not change total capital assets.

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

(Amounts in Thousands of USD)

Governmental Activities:

Economic Development	3,567
Transportation:	
Streets & Highways	31,996
Mass Transit	27,776
Judiciary and Law Enforcement:	
Police	8,385
Prisons	6,124
Courts	747
Conservation of Health:	
Health Services	2,285
Housing and Neighborhood Development	-
Cultural and Recreational:	
Recreation	9,904
Parks	8,427
Libraries and Museums	3,219
Improvements to General Welfare:	
Social Services	2,340
Inspections and Demolitions	134
Service to Property:	
Fire	4,460
General Management & Support	<u>30,610</u>
 Total Governmental Activities	 <u><u>139,974</u></u>

Business Type Activities:

Water and Sewer	78,855
Aviation	<u>74,228</u>
 Total Business Type Activities	 <u><u>153,083</u></u>

B. DISCRETELY PRESENTED COMPONENT UNITS

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

(Amounts In Millions of USD)

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities :				
<u>Capital assets not being depreciated:</u>				
Land	110	3	--	113
Construction In Process	213	155	(115)	253
Total capital assets not being depreciated	<u>323</u>	<u>158</u>	<u>(115)</u>	<u>366</u>
<u>Capital assets being depreciated:</u>				
Buildings	886	101	(0)	987
Other Improvements	760	16	--	776
Equipment	219	29	(5)	242
Infrastructure	1	--	--	1
Total capital assets being depreciated	<u>1,865</u>	<u>146</u>	<u>(6)</u>	<u>2,005</u>
<u>Less accumulated depreciation for:</u>				
Buildings	(461)	(16)	--	(476)
Other Improvements	(387)	(37)	--	(424)
Equipment	(136)	(23)	5	(154)
Infrastructure	(1)	--	--	(1)
Total accumulated depreciation	<u>(984)</u>	<u>(75)</u>	<u>5</u>	<u>(1,054)</u>
Total capital assets being depreciated, net	<u>881</u>	<u>71</u>	<u>(1)</u>	<u>950</u>
Capital assets, net	<u>1,204</u>	<u>228</u>	<u>(116)</u>	<u>1,317</u>
	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
<u>Capital assets not being depreciated:</u>				
Land	59	--	--	59
Fine Arts	3	--	--	3
Construction In Process	185	103	(102)	186
Total capital assets not being depreciated	<u>247</u>	<u>103</u>	<u>(102)</u>	<u>248</u>
<u>Capital assets being depreciated:</u>				
Buildings	2,272	128	(36)	2,364
Other Improvements	31	4	(1)	34
Equipment	379	6	(7)	378
Infrastructure	1,127	50	(3)	1,173
Total capital assets being depreciated	<u>3,809</u>	<u>187</u>	<u>(48)</u>	<u>3,948</u>
<u>Less accumulated depreciation for:</u>				
Buildings	(894)	(89)	23	(960)
Other Improvements	(21)	(3)	--	(24)
Equipment	(96)	(6)	4	(98)
Infrastructure	(492)	(24)	3	(513)
Total accumulated depreciation	<u>(1,503)</u>	<u>(123)</u>	<u>30</u>	<u>(1,596)</u>
Total capital assets being depreciated, net	<u>2,306</u>	<u>65</u>	<u>(18)</u>	<u>2,353</u>
Capital assets, net	<u>2,553</u>	<u>168</u>	<u>(120)</u>	<u>2,601</u>

6. NOTES PAYABLE

PGW, pursuant to the provisions of certain ordinances and Resolutions, may sell short-term notes in a principal amount which, together with the interest thereon, will not exceed \$100 million outstanding at any one time. These notes are intended to provide additional working capital. They are supported by an irrevocable letter of credit and a subordinated security interest in the Fund's revenues. The notes outstanding at year end (August 31, 2005) had an average weighted interest rate of approximately 2.4% and terms to maturity of 2 days. The principal amount outstanding was \$49.9 million.

In December, 2005, an ordinance was passed increasing the authorized amount of short-term notes in a principal amount that, together with interest, may not exceed \$150 million.

RDA has issued a series of Mortgage Notes Payable with an outstanding balance at year end of \$31.1 million related to various projects of the Authority. These notes have interest rates ranging from 0% to 7.3%. Aggregate minimum principal payments on these notes are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2007	\$ 12,370,305
2008	2,000,000
2009	--
2010	--
2011	4,922,956
2012-2016	8,897,000
2017-2021	1,000,000
2022-2026	--
2027-2031	--
2032-2036	<u>1,950,000</u>
Total	<u>\$ 31,140,261</u>

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 \$84.4 million. The loans have interest rates ranging from 1.25% to 6.15%, mature through 2023 and will be used for various capital projects and the upgrading of network infrastructures.

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

<u>Period</u>	<u>Amount</u>
2006 to 2007	\$ 4,506,125
2007 to 2008	4,705,527
2008 to 2009	4,680,000
2009 to 2010	3,360,000
2010 to 2011	3,505,000
2012 to 2016	14,685,000
2017 to 2021	9,775,000
2022 to 2026	<u>3,975,000</u>
Total	<u>\$ 49,191,652</u>

PPA, in prior years, borrowed a total of \$17.7 million in the form of bank notes ranging in maturity from 12-15 years and in interest rates from 4.06 to 6.5%. The proceeds of these notes were used to finance various capital projects, the acquisition of capital assets, building improvements and the development of a records department.

The total outstanding principal balance of these notes at March 31, 2006 was \$13,078,489 subject to the following repayment schedule:.

<u>Fiscal Year</u>	<u>Amount</u>
2007	\$ 1,287,764
2008	1,399,215
2009	1,501,589
2010	1,732,235
2011	1,965,841
2012-2016	3,791,424
2017-2021	<u>1,400,421</u>
Total	\$ <u>13,078,489</u>

7. DEBT PAYABLE

A. PRIMARY GOVERNMENT LONG-TERM DEBT PAYABLE

(1) Governmental Debt Payable

The City is subject to a statutory limitation established by the Commonwealth of Pennsylvania for bonded indebtedness (General Obligation Bonds) payable principally from property taxes. As of July 1, 2006 the statutory limit for the City is \$1.3 billion, the General Obligation Debt net of deductions authorized by law is \$1.2 billion, leaving a legal debt borrowing capacity of \$171.9 million. Termination Compensation costs and Worker's Compensation claims are paid by whichever governmental fund incurs them. Indemnity claims are typically paid by the General Fund.

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

(Amounts in Millions of USD)

<u>Governmental Activity</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable					
Term Bonds	1,269.5	90.0	(139.3)	1,220.2	51.8
Refunding Bonds	146.4	--	(5.8)	140.6	4.1
Serial Bonds	528.6	--	(31.2)	497.4	35.5
Less Deferred Amounts					
Unamortized Bond Premium	28.6	--	(2.0)	26.6	--
Unamortized Issuance Expenses	(7.9)	(0.7)	0.3	(8.3)	--
Unamortized Discount and Loss	(12.0)	--	0.9	(11.1)	--
Total Bonds Payable	<u>1,953.2</u>	<u>89.3</u>	<u>(177.1)</u>	<u>1,865.4</u>	<u>91.4</u>
Obligations Under Lease & Service Agreements					
Pension Service Agreement	1,429.7	42.8	(33.3)	1,439.2	40.0
Neighborhood Transformation	282.9	--	(5.5)	277.4	5.7
One Parkway	52.2	--	(1.3)	50.9	1.4
Sports Stadia	341.1	--	(1.5)	339.6	5.6
Library	--	10.8	--	10.8	0.4
Indemnity Claims	43.0	25.7	(22.5)	46.2	14.0
Worker's Compensation Claims	205.8	56.3	(49.7)	212.4	26.6
Termination Compensation Payable	170.4	19.4	(18.6)	171.2	18.7
Governmental Activity Long-term Liabilities	<u>4,478.3</u>	<u>244.3</u>	<u>(309.5)</u>	<u>4,413.1</u>	<u>203.8</u>

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	4.0 % to	6.00 %	970.9	Fiscal 2007 to 2033
PMA	2.00 % to	7.50 %	213.0	Fiscal 2007 to 2019
PICA	4.75 % to	5.50 %	674.3	Fiscal 2007 to 2023
			<u>1,858.2</u>	

- In June, 2006, **PICA** issued \$90.0 million in Special Revenue Refunding Bonds (City Funding Program) Series 2006. The proceeds from the sale of the bonds will be used for (i) a current refunding of the Authority's Series 1996 Special Tax Revenue Refunding Bonds, and (ii) to pay the cost of issuing the 2006 bonds. The bonds mature in 2020 and will bear interest at the applicable auction rate. PICA can elect to convert the bonds to an interest rate mode other than the Auction Rate.

The City has General Obligation Bonds authorized and unissued at year end of \$266.6 million for Governmental Funds.

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

(Amounts In Millions of USD)

Fiscal Year	City Fund		Blended Component Units			
	General Fund		PMA		PICA	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	22.1	46.0	17.6	15.5	51.8	34.5
2008	26.5	45.0	9.5	14.9	48.7	31.9
2009	30.3	43.7	14.2	14.8	42.5	29.4
2010	31.8	42.2	15.0	13.9	37.9	27.3
2011	33.8	40.2	15.6	13.3	36.2	25.3
2012-2016	190.9	174.9	86.7	50.0	211.0	96.1
2017-2021	213.4	125.2	54.4	3.8	195.0	39.7
2022-2026	210.6	75.6	--	--	51.2	3.4
2027-2031	163.8	28.1	--	--	--	--
2032-2036	47.7	1.8	--	--	--	--
Totals	<u>970.9</u>	<u>622.7</u>	<u>213.0</u>	<u>126.2</u>	<u>674.3</u>	<u>287.6</u>

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

(Amounts In Millions of USD)

Fiscal Year	Lease and Service Agreements									
	Pension Service Agreement		Neighborhood Transformation		One Parkway		Sports Stadium		PAID Central Library	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	40.0	46.8	5.7	14.2	1.4	2.7	5.6	18.0	0.4	0.4
2008	47.1	44.5	6.0	13.9	1.4	2.7	5.9	17.6	0.4	0.4
2009	54.8	41.8	6.3	13.6	1.5	2.6	6.2	17.3	0.4	0.4
2010	71.1	38.7	6.6	13.3	1.6	2.5	7.1	16.9	0.4	0.4
2011	80.2	34.5	6.9	13.0	1.7	2.4	8.0	16.5	0.5	0.4
2012-2016	296.1	340.1	40.1	59.5	9.9	10.7	48.9	75.2	2.6	1.6
2017-2021	228.6	445.0	52.0	47.7	12.8	7.7	64.4	59.7	3.1	1.0
2022-2026	175.3	498.3	67.4	32.4	16.7	3.8	84.3	39.8	3.0	0.3
2027-2031	446.0	58.1	86.4	13.4	3.9	0.2	109.2	14.9		
Totals	<u>1,439.2</u>	<u>1,547.8</u>	<u>277.4</u>	<u>221.0</u>	<u>50.9</u>	<u>35.3</u>	<u>339.6</u>	<u>275.9</u>	<u>10.8</u>	<u>4.9</u>

(2) Business Type Debt Payable

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

(Amounts in Millions of USD)

Business Type Activity	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable					
General Obligation Bonds	8.1	--	(1.1)	7.0	1.2
Revenue Bonds	3,015.5	125.0	(113.5)	3,027.0	112.6
Less Deferred Amounts					
Unamortized Discounts and Loss	<u>(122.7)</u>	<u>--</u>	<u>11.9</u>	<u>(110.8)</u>	<u>--</u>
Total Bonds Payable	<u>2,900.9</u>	<u>125.0</u>	<u>(102.7)</u>	<u>2,923.2</u>	<u>113.8</u>
Indemnity Claims	1.6	3.4	(3.8)	1.2	0.4
Worker's Compensation Claims	9.0	5.5	(3.6)	10.9	1.4
Termination Compensation Payable	14.8	2.0	(2.1)	14.7	2.1
Arbitrage	<u>0.2</u>	<u>--</u>	<u>--</u>	<u>0.2</u>	<u>--</u>
Business-type Activity Long-term Liabilities	<u>2,926.5</u>	<u>135.9</u>	<u>(112.2)</u>	<u>2,950.2</u>	<u>117.7</u>

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

(Amounts in Millions of USD)

	Interest Rates	Principal	Due Dates
Enterprise Funds			
Water Fund	1.0 %	7.0	Fiscal 2007 to 2012
		<u>7.0</u>	

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

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

(Amounts in Millions of USD)

City Enterprise Funds		
Fiscal Year	Water Fund Principal	Interest
2007	1.2	0.1
2008	1.2	0.1
2009	1.2	--
2010	1.2	--
2011	1.2	--
2012-2016	1.0	--
2017-2021	--	--
2022-2026	--	--
2027-2031	--	--
2032-2036	<u>--</u>	<u>--</u>
Totals	<u>7.0</u>	<u>0.2</u>

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	2.73 % to 7.00 %	1,835.8	Fiscal 2007 to 2036
Aviation Fund	4.20 % to 6.00 %	<u>1,191.2</u>	Fiscal 2007 to 2035
Total Revenue Debt Payable		<u><u>3,027.0</u></u>	

- In August, 2005, the City issued Airport Revenue Bonds, Series 2005A sub series (1), (2) and (3) in the amounts of \$59.7 million, \$22.6 million and \$42.6 million respectively. Sub series (1) are serial bonds with interest rates ranging from 4.2% to 5.0% and mature in 2025. Sub series (2) and (3) are term bonds with interest rates from 4.67% to 4.75%, maturing through 2035. The proceeds will be used to finance a portion of the cost of various Airport capital projects.
- In August, 2005, the City through PAID issued \$10.8 million in Lease Revenue Bonds, Series 2005. The bonds have interest rates ranging from 2.7% to 4.3% and a maturity date of 2025. The proceeds will be used to finance a portion of the initial cost of the Central Library Expansion Project.

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

(Amounts In Millions of USD)

Fiscal Year	Water Fund		Aviation Fund	
	Principal	Interest	Principal	Interest
2007	82.8	90.0	29.8	63.2
2008	88.4	86.4	31.7	61.3
2009	92.0	82.8	36.2	59.3
2010	95.7	79.1	38.4	57.0
2011	101.6	72.8	44.1	54.5
2012-2016	605.2	268.9	258.2	229.5
2017-2021	236.8	159.4	272.3	152.9
2022-2026	207.8	105.3	282.8	84.5
2027-2031	214.6	56.1	168.1	23.2
2032-2036	110.9	10.2	29.6	3.6
2037-2041	--	--	--	--
Totals	<u><u>1,835.8</u></u>	<u><u>1,011.0</u></u>	<u><u>1,191.2</u></u>	<u><u>789.0</u></u>

(3) Defeased Debt

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

(Amounts In Millions of USD)

Governmental Funds:	
General Fund	--
PICA	94.2
Enterprise Funds:	
Water Fund Revenue Bonds	22.9

Total	117.1

(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 \$370.0 million in Tax and Revenue Anticipation Notes by June 2006 plus interest. In accordance with statute there are no temporary loans outstanding at year end.

Beginning Balance	Additions	Deductions	Ending Balance
0	370,000,000	-370,000,000	0

(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, 2006 the Aviation Fund recorded a liability of \$251,326. There was no liability for the Water Fund.

(6) Interest Rate Swaption

• **Philadelphia Airport Swaption**

Objective of swaption: In April 2002, the Airport entered into a swaption that provided the Airport with an up-front payment of \$6.5 million. As a synthetic refunding of its 1995 Bonds, this payment represents the present value savings as of April, 2002, of refunding on June 15, 2005, without issuing refunding bonds as of April, 2002. The swaption gives JPMorgan Chase Bank - New York the option to enter into an interest rate swap to receive fixed amounts and pay variable amounts. If the option is exercised, the Airport would then expect to issue variable-rate refunding bonds.

Terms: JPMorgan exercised its option to enter into a swap on June 15, 2005 - the Airport's 1995 bonds' first call date. The swap also commenced on the exercise date of June 15, 2005. 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%) which were set at rates that, based on the swap notional amount and when added to an assumption for remarketing, liquidity costs and cost of issuance will approximate the debt service of the "refunded bonds." The swap's variable payment would be based on the BMA Municipal Swap Index. Starting on June 15, 2007 and thereafter, to the extent that the rolling 180-day average of the BMA Municipal Swap Index exceeds 7.00%, JPMorgan Chase has the option to terminate the swap.

The swap rate was set at a rate that based on the swap notional amount and when added to an assumption for remarketing, liquidity costs and cost issuance will approximate the debt service of the “refunded bonds.” The swap has a notional amount of \$186.3 million and the associated variable-rate bond has a \$186.3 million principal amount. The bonds’ variable-rate coupons are not based on an index, but on market conditions. The bonds and the related swap agreement mature on June 15, 2025. As of June 30, 2006, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest Rate Swap		
Fixed payment to JPMorgan	Fixed	6.466%
Variable payment from JPMorgan	BMA	(3.970%)
Net interest rate swap payments		2.496%
Variable Rate bond coupon payments	Market driven	4.050%
Synthetic interest rate on bonds		6.546%

Fair Value: As of June 30, 2006, the swap had a negative fair value of \$14.2 million. Its fair value was estimated using the BDT option pricing model. This model takes into consideration probabilities, volatilities, time and underlying prices.

Risk: As of June 30, 2006, the Airport is exposed to credit risk because the swap had a negative fair value and has minimal basis risk since in the original structure the Airport and JPMorgan took into consideration the trading differential in the Airport’s AMT payments and built that into the swap rate from the beginning. The swap uses the International Swap Dealers Association Master Agreement, which includes standard termination events. The Schedule to the Master Agreement includes an “additional termination event.” That is, the swap may be terminated if JPMorgan’s or its Credit Support Provider, or the Airport has one or more outstanding issues of rated unsecured, unenhanced senior debt and none of such issues has a rating of at least (i) Baa3 or higher as determined by Moody’s Investors Service, Inc., (ii) BBB- or higher as determined by Standard & Poor’s Ratings Service, A Division of the McGraw-Hill Companies, Inc. or (iii) an equivalent investment grade rating determined by nationally-recognized rating service acceptable to both parties.

Swap payments and associated debt: As of June 30, 2006, 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. As rates vary, variable rate bond interest payments and net swap payments will vary. The swap increases the Airport’s exposure to variable interest rates starting June 15, 2007 and thereafter to the extent that the rolling 180-day average of the BMA Municipal Swap Index exceeds 7.00%, JPMorgan has the option to terminate the swap.

Fiscal Year Ending June 30	Variable Rate Bonds		Interest Rate	Total Interest
	Principal	Interest	Swaps Net	
2007	\$ 3,600,000	\$ 7,672,995	\$ 4,627,047	\$ 12,300,042
2008	4,100,000	7,522,845	4,263,907	11,786,752
2009	4,700,000	7,351,740	3,825,310	11,177,050
2010	5,300,000	7,155,885	3,404,136	10,560,021
2011	6,000,000	6,934,950	2,913,781	9,848,731
2012 - 2016	41,200,000	30,318,915	7,619,637	37,938,552
2017 - 2021	61,000,000	20,118,450	(1,834,526)	18,283,924
2022 - 2026	60,400,000	6,132,555	(2,597,498)	3,535,057
Totals	\$ 186,300,000	\$ 93,208,335	\$ 22,221,794	\$ 115,430,129

- **City of Philadelphia 1993 Water & Sewer Swaption/2003 Water and Sewer Swap**

Objective of swaption: In December 2002, the City entered into a swaption that provided the City with an up-front payment of \$25.0 million. As a synthetic refunding of its 1993 Bonds, this payment represents the present value savings, as of December 2002 of a refunding on March 18, 2003, without issuing refunding bonds as of December 2002. The swaption gave Citigroup formerly Salomon Brothers Holding Company, Inc. the option to enter into an interest rate swap to receive fixed amounts and pay variable amounts. The option was exercised on March 18, 2003 and the City issued variable-rate refunding bonds and started making payments under the terms of the swap.

Terms: Citigroup exercised its option to enter into a swap on March 18, 2003 - the City's 1993 water and sewer bonds' first call date. The swap also commenced on the exercise date of March 18, 2003. Under the swap, the City pays a fixed payment of 4.52% and receives a variable payment computed as the actual bond rate through March 1, 2005 and thereafter computed as the lesser of the actual bond rate or 68.5% of the one-Month London Interbank Offered Rate (LIBOR). The swap rate was set at a rate that, based on the swap notional amount and when added to an assumption for remarketing, liquidity costs and cost of issuance will approximate the debt service of the "refunded bonds." The swap has a notional amount of \$373.3 million and the associated variable-rate bond has a \$373.3 million principal amount. The bonds' variable-rate coupons are not based on an index but on market conditions. The bonds and the related swap agreement mature on June 15, 2023. As of June 30, 2006, rates were as follows:

	Terms	Rates
Interest Rate Swap		
Fixed payment to Citigroup	Fixed	4.52%
Variable payment from Citigroup	Actual Bond Rate	(3.96%)
Net interest rate swap payments		0.56%
Variable Rate bond coupon payments	Market driven	3.96%
Synthetic interest rate on bonds		4.52%

Fair Value: As of June 30, 2006, the swap had a negative fair value of \$17.4 million. Since the coupons on the City's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. The payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Risk: As of June 30, 2006, the City is not exposed to credit risk because the swap had neither negative fair value nor basis risk since Citigroup's payments are currently based on the actual bond rate paid on the variable-rate bonds. The swap uses the International Swap Dealers Association Master Agreement, which includes standard termination events. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated if Citigroup's or its Credit Support Provider, or the City has one or more outstanding issues of rated unsecured, unenhanced senior debt and none of such issues has a rating of at least (i) Baa3 or higher as determined by Moody's Investors Service, Inc., or (ii) BBB- or higher as determined by Standard & Poor's Ratings Service, A Division of the McGraw-Hill Companies, Inc. or (iii) an equivalent investment grade rating determined by a nationally-recognized rating service acceptable to both parties.

Swap payments and associated debt: As of June 30, 2006, 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. As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30	Variable Rate Bonds		Interest Rate	Total Interest
	Principal	Interest	Swaps Net	
2007	\$ 1,045,000	\$ 15,395,796	\$ 2,177,183	\$ 17,572,979
2008	1,095,000	15,352,524	2,171,064	17,523,588
2009	1,145,000	15,307,190	2,164,653	17,471,843
2010	1,205,000	15,259,761	2,157,946	17,417,707
2011	1,260,000	15,209,873	2,150,891	17,360,764
2012 - 2016	275,500,000	57,059,681	8,069,046	65,128,727
2017 - 2021	62,440,000	13,891,342	1,964,432	15,855,774
2022 - 2026	29,625,000	1,749,825	247,450	1,997,275
	<u>\$ 373,315,000</u>	<u>\$ 149,225,992</u>	<u>\$ 21,102,665</u>	<u>\$ 170,328,657</u>

- **City of Philadelphia, 1995 Water & Sewer Swaption**

Objective of swaption: 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 its 1995 Bonds, this payment represents the present value savings, as of December 2002, of a refunding on May 4, 2005, without issuing refunding bonds as of December, 2002. The swaption gives 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. If the option is exercised, the City would then expect to issue variable-rate refunding bonds.

Terms: Citigroup exercised its option to enter into a swap May 4, 2005 - the City's 1995 water and sewer bonds' first call date. The swap also commenced on the exercise date of May 4, 2005

Under the swap, the City pays a fixed payment of 4.53% and receives a variable payment computed as the lesser of the actual bond rate or 68.5% of the one-month London Interbank Offered Rate (LIBOR) which were set at rates that, based on the swap notional amount and when added to an assumption for remarketing, liquidity costs and cost of issuance will approximate the debt service of the "refunded bonds." The swap has a notional amount of \$84.4 million and the associated variable-rate bond has an \$84.4 million principal amount. The bonds' variable-rate coupons are not based on an index but on market conditions. The bonds and the related swap agreement mature on May 4, 2025. As of June 30, 2006, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest Rate Swap		
Fixed payment to Citigroup	Fixed	4.53%
Variable payment from Citigroup	Actual Bond Rate	(3.95%)
Net interest rate swap payments		0.58%
Variable Rate bond coupon payments	Market driven	3.95%
Synthetic interest rate on bonds		4.53%

Fair value: As of June 30, 2006, the swap had a negative fair value of \$ 5.6 million. Its fair value was estimated using the BDT option pricing model. This model takes into consideration probabilities, volatilities, time and underlying prices.

Risk: As of June 30, 2006, the City is not exposed to credit risk because the swap had neither a negative fair value nor basis risk since Citigroup's payments are currently based on the actual bond rate paid on the variable-rate bonds. The swap uses the International Swap Dealers Association Master Agreement, which includes standard termination events. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated if Citigroup's or its Credit Support Provider, or the City has one or more outstanding issues of rated unsecured, unenhanced senior debt and none of such issues has a rating of at least (i) Baa3 or higher as determined by Moody's Investors Service, Inc., or (ii) BBB- or higher as determined by Standard & Poor's Ratings Service, A Division of the McGraw-Hill Companies, Inc. Or (iii) an equivalent investment grade rating determined by a nationally-recognized rating service acceptable to both parties.

Swap payments and associated debt: As of June 30, 2006, 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. As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30	Variable Rate Bonds		Interest Rate	Total Interest
	Principal	Interest	Swaps Net	
2007	\$ -	\$ 3,333,208	\$ 489,433	\$ 3,822,641
2008	350,000	3,320,535	487,572	3,808,107
2009	370,000	3,305,985	485,436	3,791,421
2010	390,000	3,290,646	483,183	3,773,829
2011	405,000	3,274,698	480,842	3,755,540
2012 - 2016	47,545,000	12,740,412	1,870,744	14,611,156
2017 - 2021	35,325,000	840,906	123,475	964,381
	<u>84,385,000</u>	<u>30,106,390</u>	<u>4,420,685</u>	<u>34,527,075</u>

- City of Philadelphia, 2006 Philadelphia Gas Works ("PGW") Synthetic Refunding Swap**
Objective of the swap: In January, 2006, the City entered into a swap to synthetically refund outstanding bonds which provided the City with present value savings of \$14.7 million or 5.144% of the refunded bonds. The swap structure was used as a means to increase the City's savings, when compared against fixed-rate bonds at the time of issuance. The intention of the swap was to effectively change the City's interest rate on the bonds to a fixed rate.

Terms: The swap, executed with JPMorgan Chase Bank, commenced 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 BMA index until September 1, 2011 on which date the variable interest rate received will switch to 70% of the one-month London Interbank Offered Rate (LIBOR) until maturity. The swap has a notional amount of \$313.4 million and the associated variable rate bond has a \$313.4 million principal amount. The bonds' variable-rate coupons are not based on an index but on market conditions. As of June 30, 2006, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest Rate Sw ap		
Fixed payment to JPMorgan	Fixed	3.6745%
Variable payment from JPMorgan	BMA	(3.97%)
Net interest rate sw ap payments		(0.296%)
Variable Rate bond coupon payments	Market driven	3.98%
Synthetic interest rate on bonds		3.6845%

Fair Value: As of June 30, 2006, the swaps had a fair value of \$8.6 million. Since the coupons on the City's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value on the swaps was estimated using the zero-coupon method. This method calculated the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Risks: The swaps' fair value represented the City's credit exposure to JPMorgan Chase Bank as of June 30, 2006. Should JPMorgan Chase Bank fail to perform according to the terms of the swap, the City faced a maximum possible loss equivalent to the swaps' \$8.6 million fair value. As of June 30, 2006, JPMorgan Chase Bank was rated AA- by Standard and Poors and Aa2 by Moody's Investors Service. The swap uses the International Swap Dealers Association Master Agreement, which includes standard termination events. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated if the long-term debt rating of JPMorgan Chase Bank falls below "A-" by Standard & Poors Rating Group or "A3" by Moody's Investors Service unless JPMorgan Chase Bank 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 to the Schedule with the City, in form and substance acceptable to the City providing for the collateralization by JPMorgan Chase Bank of its obligations under the swap.

The scheduled payments by the City are secured by an insurance policy provided from Financial Security Assurance Inc. (FSA). From and after the occurrence of an insurer event (as defined in the Schedule), the swap may be terminated if (i) the associated bonds are rated below "BBB" by Standard & Poors Ratings Group or below "Baa2" by Moody's Investors Service, and the City has not provided a credit support provider acceptable to JPMorgan Chase Bank whose obligations are pursuant to a credit support document reasonably acceptable to JPMorgan Chase Bank.

After September 11, 2011, The City will be exposed to tax risk as reflected by the relationship between the rate paid on the outstanding bonds and 70% of one-month LIBOR the rate received on the swap. Tax risk is a form of basis risk where the City is exposed to a potential additional interest cost in the event that changes in the structure of the federal tax system or in the marginal tax rates causes the rate paid on the outstanding bonds to be greater than the 70% of LIBOR received on the swap.

Fiscal Year Ending June 30	Variable Rate Bonds		Interest Rate	Total Interest
	Principal	Interest	Swaps Net	
2007	\$ -	\$ 11,515,516	\$ (926,067)	\$ 10,589,448
2008	-	11,515,516	(926,067)	10,589,448
2009	1,775,000	11,455,728	(921,259)	10,534,469
2010	1,845,000	11,388,148	(915,825)	10,472,324
2011	1,915,000	11,317,996	(910,183)	10,407,813
2012 - 2016	31,230,000	54,257,208	(4,363,316)	49,893,892
2017 - 2021	67,645,000	44,031,794	(3,540,997)	40,490,796
2022 - 2026	100,690,000	28,082,948	(2,258,406)	25,824,543
2027 - 2031	100,285,000	7,472,172	(600,905)	6,871,267
20232- 2036	8,005,000	24,512	(1,971)	22,541
Totals	\$ 313,390,000	\$ 191,061,537	\$ (15,364,998)	\$ 175,696,540

- **PICA Series 1993A, 1996 & 1999 Swaption**

Objective of the swaptions: During the fiscal year ended June 30, 2002, **PICA** (the Authority) entered into three swaption agreements with JP MorganChase as the counterparty that provided the Authority up-front premium payments totaling \$26.2 million (\$10.7 million for the 1993A issuance, \$5.8 million for the 1996 issuance and \$9.7 million for the 1999 issuance). These swaption agreements were entered into in order to affect a synthetic refunding of the Authority's 1993A, 1996, and 1999 bond issuance at some point in the future (generally, the first call date for each bond issuance). The premium payments, which were recorded as deferred revenue in fiscal year 2002, represent the risk-adjusted, present value savings of a refunding at the specified call date without issuing refunding bonds at the time the swaption agreements were executed. The swaptions give the counterparty the option to require the Authority enter into pay-fixed, receive-variable interest rate swaps. If the options are exercised, the Authority would then expect to issue variable-rate refunding bonds.

Terms: The premium payments were based on a notional amount representing the outstanding bonds for each issuance, and at the time any of the related swap agreements are to take effect the notional amounts will represent the outstanding bonds at that time. The counterparty has the option to exercise the agreements at the first call date of each related bond issuance and the related swap will commence on that same date. The fixed swap rates (ranging from approximately 5.0% to 5.5%) were set at rates that, when added to an assumption for remarketing and liquidity costs, will approximate the coupons of the "refunded" bonds. The swap's variable payment would be a predetermined percentage (ranging from 62% to 67%) of the London Interbank Offered Rate (LIBOR). Both the Authority and the counterparty have the ability to end the swaption agreements, with monetary consequences, before the interest rate swaps are set to begin.

Fair value: As of June 30, 2006, the 1999 swaption had a negative fair value of approximately \$22.0 million. The fair value was determined by the counterparty using its proprietary methodology.

Market access risk and interest rate risk: If the options are exercised and the refunding bonds are not issued, the 1999 bonds would not be refunded and the Authority would make net swap payments as required by the terms of the contracts. If the options are exercised and the variable rate refunding bonds are issued, the actual savings ultimately recognized by the transactions will be affected by the relationship between the interest rate terms of the to-be-issued variable rate refunding bonds versus the variable payment on the swap.

- **PICA Series 2003 and 2006 Swap Agreement and Basis Cap Agreement**

In June, 2003, and June 2006, the counterparty exercised its option under the 1993A and 1996 swaption agreements respectively, concurrently with PICA's (the Authority) Series 2003 and 2006 Refunding Bond issuances. The \$10.7 million premium received (1993A) was recognized as swaption premium revenue in the General Fund during the fiscal year ended June 30, 2003. The \$5.8 million (1996) premium was recognized as swaption premium revenue in the General Fund during the fiscal year ended June 30, 2006. At June 30, 2006, the unamortized swaption premiums continue to be reflected as deferred revenue in the government-wide financial statements, net of amortization over the life of the related Swap Agreement.

Terms and objectives: The series 2003 and 2006 bonds and the related swap agreements mature June, 2022 and June 15, 2020 respectively. The swap's initial notional amounts of \$163.1 million and \$90.0 million match the related 1993A and 1996 bonds that were currently refunded on June 16, 2003 and June 6, 2006 and the notional amount declines each year to match the original maturity schedules of the 1993A and 1996 refunded bonds. The swaps was entered into at the same time the refunding bonds were issued, during June 2003 and 2006. Under the swap agreements, the Authority pays the counterparty a fixed payment of approximately 5.0% and receives a variable payment computed as 67.0% of the one-month London Interbank Offered Rate ("LIBOR"). Conversely, the variable rate bonds are based on the Bond Market Association Municipal Swap Index ("BMA").

In June 2003 and 2004, the Authority also entered into basis cap transactions with the counterparty. Beginning July 15, 2003, and July 15, 2009, the counterparty will pay the Authority a fixed rate each month of .40% and .46% per year respectively and the Authority will pay 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 amount and term of this agreement equals the notional amount and term of the interest rate swap noted above. The objective of each basis cap is to minimize the basis risk as discussed below.

Fair value: At June 30, 2006, the swap basis cap agreements had fair values as follows:

<u>Instrument</u>	<u>Fair Value</u>
2003 Swap Agreement	\$ (12,200,000)
2003 Basis Cap	1,346,000
2006 Swap Agreement	(9,795,000)
1999 Basis Cap	1,333,000

The swap and basis cap negative fair values may be countered by a reduction in total interest payments required by the variable rate bonds, creating a lower synthetic interest rate. Because the coupons on the variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase.

Credit risk: As of June 30, 2006, the Authority was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the Authority would be exposed to credit risk in the amount of the swap's fair value. The counterparty was rated "Aa3" by Standard and Poor's and "AA-" by Moody's Investors Service as of June, 2006. To mitigate the potential for credit risk, if the counterparty's credit quality falls below "A-" or "A3", respectively, the fair value of the swap will be fully collateralized by the counterparty within 15 days of it having ceased to have such minimum ratings. The collateral would be posted with a third party custodian.

Basis risk: As noted above, the swap exposes the Authority to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. If a change occurs the results in the rates' moving to converge, the expected cost savings may not be realized. At June, 2006, the 67% of LIBOR rate was approximately 3.58% and the BMA rate was approximately 3.97%.

Termination risk: The derivative contract for the swap and the basis cap uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The schedule to the Master Agreement included an "additional termination events" section. Under each of the transactions the Authority has the right at its option to terminate the related interest rate swap or basis cap and any such termination will result in a termination payment calculated under the Master Agreement either owing by the Authority to the counterparty or owing by the counterparty to the Authority. Additionally, the swap may be terminated by the Authority if the counterparty's credit quality falls below "A-" as issued by Standard & Poor's or "A3" by Moody's Investors Service and collateral is not posted within 15 days of it having ceased to have such minimum ratings. The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable rate bonds would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

(7) Pension Service Agreement

In Fiscal 1999, the Philadelphia Authority for Industrial Development issued \$1.291 billion in Pension Funding Bonds. These bonds were issued pursuant to the provisions of the Pennsylvania Economic Development Financing Law and the Municipal Pension Plan Funding Standard and Recovery Act (Act 205). The bonds are special and limited obligations of PAID. 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 as an Other Long Term Obligation.

The net proceeds of the bond sale of \$1.25 Billion were deposited with the Municipal Pension Fund. The deposit of the proceeds reduced the Unfunded Actuarial Accrued Liability by that amount. The deposit resulted in reductions to the City's actuarially determined pension plan payments for Fiscal Year 2002 and the City expects that it will also reduce the actuarially required payments in future fiscal years.

(8) Neighborhood Transformation Initiative Service Agreement

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

In Fiscal 2004, **RDA** issued a \$30.0 million City of Philadelphia NTI Taxable Revenue Bond. The **RDA** and the City plan to borrow a taxable bank line of credit (the 2003 Bond) to fund certain costs of the NTI related to the acquisition of property. The line of credit is being issued in anticipation of future long term financing. This will allow the City and **RDA** to better manage the carrying costs of unspent loan proceeds and to possibly issue a portion of the take out financing as tax exempt bonds after obtaining certain state approvals. In fiscal year 2004, \$10.9 million was borrowed from the line of credit.

In March, 2005, **RDA** issued additional City of Philadelphia Neighborhood Transformation Initiative (NTI) bonds to finance a portion of the initiative previously undertaken by the Authority and the City. Taxable Revenue Bonds Series 2005A issued in the amount of \$25.5 million are term bonds with interest rates ranging from 4.150% to 4.680% maturing through 2016. Qualified Revenue Bonds Series 2005B were issued in the amount of \$ 44.0 million, with interest rates ranging from 4.75 through 5% and mature through 2027. Revenue Bonds Series 2005C , with an interest rate of 5% were issued for \$81.3 million and mature through 2031. The fiscal year 2006 NTI Service Agreement liability of \$277.4 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 fiscal 2006, the Sports Stadium Financing Agreement liability of \$339.6 million is reflected in the City's financial statements as an Other Long Term Liabilities

(10) Forward Purchase Agreements

In June, 2000 the Pennsylvania Intergovernmental Cooperation Authority (PICA), entered into a debt service reserve forward delivery agreement which began August 1, 2003, whereby PICA received a premium of \$4,450,000 on December 1, 2002 for the debt service reserve fund in exchange for the future earnings from the debt service reserve fund investments. Under this agreement PICA is guaranteed a fixed interest rate on the debt service reserve investments of 4.79%. The premium amount will be deferred and recognized as revenue over the remaining life of this agreement or through June 15, 2010 beginning with the first scheduled delivery of the debt service reserve investments in August, 2003.

(11) Pension Obligation Bond Option Rights

In July, 2002, the City through **PAID** sold the option rights relating to \$225 million Pension Funding Income Bonds, Series 1999C. The bonds were structured with provisions which permit the optional redemption or mandatory tender for purchase prior to maturity at any time on or after January 15, 2004, at a purchase price of par plus accrued interest. By selling the rights, the City can no longer cause the mandatory tender for purchase or to optionally redeem the bonds. If the Purchaser exercises the option rights, then upon payment of the exercise price of the option, the Purchaser becomes the new owner of the bonds and is entitled to receive the original fixed rate payments on the Series C bonds. The City realized \$8.1 million from the sale of the option rights.

B. COMPONENT UNIT LONG-TERM DEBT PAYABLE

(1) Governmental Debt Payable

One discretely presented component unit, the **SDP**, has debt that is classified as General Obligation debt payable. The General Obligation Bonds outstanding at year end total \$2,386.8 million in principal, with interest rates from 1.7% to 6.25 % and have due dates from 2007 to 2034.

The following schedule reflects the changes in long-term liabilities for the **SDP**:

(Amounts in Millions of USD)

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable	2,393.6	29.9	(36.7)	2,386.8	62.3
Add: Bond Premium	31.4	2.8	(2.2)	32.0	2.2
Less: Bond Discounts	(10.3)	--	0.4	(9.9)	(0.3)
Total Bonds Payable	<u>2,414.7</u>	<u>32.7</u>	<u>(38.5)</u>	<u>2,408.9</u>	<u>64.2</u>
Loans Payable - Federal Asbestos	0.2	--	(0.2)	--	--
Termination Compensation Payable	284.2	31.1	(29.4)	285.9	28.0
Severance Payable	154.6	32.8	(10.7)	176.7	10.0
Other Liabilities	112.2	32.3	(45.5)	99.0	--
Capital Lease	3.2	--	(0.8)	2.4	0.8
Due to Other Governments	--	--	--	--	--
Deferred Reimbursement	45.3	--	--	45.3	45.3
Deferred Revenue	2.2	--	(0.5)	1.7	0.6
Deferred Basis Swap	--	--	--	--	--
Early Retirement Incentive	6.4	0.9	(1.7)	5.6	1.7
Total	<u><u>3,023.0</u></u>	<u><u>129.8</u></u>	<u><u>(127.3)</u></u>	<u><u>3,025.5</u></u>	<u><u>150.6</u></u>

- In September, 2005, the SDP issued \$29.9 million in general obligation bonds. The bonds were structured with a 15 year useful life and the proceeds will be used to fund classroom modernization projects, procure security equipment, upgrade athletic fields and procure athletic and band equipment.

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

(Amounts in Millions of USD)

Fiscal Year	Principal	Interest
2007	62.4	77.7
2008	65.6	74.5
2009	69.3	71.2
2010	69.8	67.8
2011	71.7	64.8
2012-2016	384.5	249.4
2017-2021	392.9	199.0
2022-2026	346.1	114.2
2027-2031	262.1	48.8
2032-2036	74.5	13.5
Totals	<u><u>1,798.7</u></u>	<u><u>980.9</u></u>

(2) Business Type Debt Payable

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

(Amounts In Millions of USD)

	<u>Interest Rates</u>	<u>Principal</u>	<u>Due Dates</u>
PCCA	5.75 % to 6.875 %	227.1	Fiscal 2006 to 2020
PPA	3.5 % to 5.75 %	280.4	Fiscal 2006 to 2029
PGW	3.0 % to 5.375 %	1,059.7	Fiscal 2005 to 2032
RDA	4.50 % to 7.15 %	<u>19.1</u>	Fiscal 2006 to 2029
Total Revenue Debt Payable		<u><u>1,586.3</u></u>	

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

(Amounts in Millions of USD)

Fiscal Year	Pennsylvania Convention Center Authority		Philadelphia Parking Authority ‡		Philadelphia Gas Works †		Philadelphia Redevelopment Authority	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	5.7	11.4	9.9	14.7	40.9	52.1	--	0.5
2008	6.0	11.1	10.4	14.2	39.4	50.4	--	0.5
2009	13.5	10.7	11.0	13.6	40.1	48.4	--	0.5
2010	14.2	10.0	10.9	13.0	39.7	46.3	--	0.5
2011	14.9	9.3	11.5	12.4	41.3	44.3	--	0.5
2012-2016	86.7	34.2	59.9	52.4	195.3	194.3	1.6	2.3
2017-2021	86.1	9.3	61.0	35.7	197.3	143.8	5.3	1.4
2022-2026	--	--	59.8	20.8	210.0	91.0	4.8	5.3
2027-2031	--	--	46.0	4.9	171.7	39.2	7.4	1.4
2032-2036	--	--	--	--	84.0	7.2	--	--
2037-2041	--	--	--	--	--	--	--	--
Totals	<u>227.1</u>	<u>96.0</u>	<u>280.4</u>	<u>181.7</u>	<u>1,059.7</u>	<u>717.0</u>	<u>19.1</u>	<u>12.9</u>

†- Gas Works amounts are presented as of its fiscal year ended August 31, 2005

‡- Parking Authority amounts are presented as of its fiscal year March 31, 2006.

(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)

Pennsylvania Convention Center Authority	215.8
Philadelphia Gas Works †	65.6
School District of Philadelphia	704.5
Total	<u><u>985.9</u></u>

†- Gas Works amounts are presented as of August 31, 2005

- **SDP** partially defeased in substance \$19.3 million in QZAB bonds, series 2004E. The bonds were issued in September, 2004, and have a maturity date of September, 2018. SDP irrevocably places \$1.3 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 scheduled payments of the defeased debt, and the possibility that SDP will be required to make future payments on that debt is remote.
- In November, 2005, **PCCA** issued Refunding Revenue Bonds, Series 2005A, sub series (1) and (2) in the amounts of \$143.5 million and \$86.1 million respectively. Sub series (1) has interest rates ranging from 4.38% to 5.13% and mature through 2015. Sub series (2) are term bond, mature through 2019 with an interest rate of 5.27%. The proceeds were used to refund the 1994 Series A bonds and fund various issuance and debt service cost for the 2005A series.

The proceeds of the 1994 refunding bonds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1989 bonds. An accounting loss of \$10.1 million was incurred as a result of the 2005 refunding.

(4) Arbitrage

Prior to the refunding of the Series 1994A Revenue Bonds in December, 2005, it was determined that the bonds accrued rebate liabilities and PCCA remitted payment of \$1.1 million to the Internal Revenue Service in January, 2006.

(5) Swaptions

- **Philadelphia Gas Works (PGW) Knock-in Swaption**

Objective: In December, 1999, the Gas Works entered into a swaption to take on contingent variable rate exposure. The Gas Works' asset/liability strategy was to have a mixture of fixed and variable rate debt. Instead of creating floating rate exposure today the Gas Works took contingent variable rate exposure and received an upfront payment of \$8.6 million.

Terms: JPMorgan Chase had the option if the 180 day average of BMA exceeds 7.00% to execute a swap whereby the Gas Works pays a variable rate and receives a fixed rate. If the swap is exercised before January 1, 2014, the notional of the swap would be \$103.6 million. Starting in 2014 the swap would amortize from \$103.6 million until the final maturity of July 1, 2028. Under the swap, the Gas Works would pay a variable rate equal to the BMA index plus 50 bps and receive a fixed rate from JPMorgan of 5.01%.

In September, 2004, PGW terminated its Interest Swap Agreement making a termination payment in the amount of \$ 8.0 million on October 4, 2004. This transaction resulted in a net loss of \$ 890,000.

- **Philadelphia Authority for Industrial Development Basis Swap**

Objective: **PAID** entered into a basis swap that became effective on July 1, 2004, and provided **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 in a synthetic refunding with a percent of LIBOR without having to issue Bonds or utilize its one advance refunding. This allows **PAID** to do a traditional advance refunding in the future if rates decline to appropriate levels.

Terms: The swap was executed with Merrill Lynch Capital Service Inc. with a notional amount of \$298.4 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 BMA municipal swap index and receives a variable rate computed as 67% of the one-month London Interbank Offered Rate (LIBOR) + 20 basis points. **PAID** also received from Merrill Lynch ten equal payments of \$1.2 million which started on July 1, 2004. As of June 30, 2006, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest Rate Swap		
Variable payment to Merrill Lynch	BMA	3.97%
Variable payment from Merrill Lynch	67% of LIBOR + 0.20%	(3.77%)
Net interest rate swap payments		0.20%

Fair Value: As of June 30, 2006, the swap had a negative fair value of \$785,034. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current year curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Risks: As of June 30, 2006, **PAID** is not exposed to credit risk because the swap had a negative fair value nor traditional basis risk since there is no corresponding variable-rate bonds. The swap uses the International Swap Dealers Association Master Agreement, which includes standard termination events. The schedule to the Master Agreement includes an “additional termination event.” That is, the swap may be terminated if Merrill Lynch, or **PAID** has one or more outstanding issues of rated unsecured, unenhanced senior debt and none of such issues has a rating of at least (i) Baa3 or higher as determined by Moody’s Investors Service, Inc., or (ii) BBB- or higher as determined by Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. The swaps do expose **PAID** to a form of basis risk known as tax risk should the relationship between LIBOR and the BMA index converge. The risk is reduced by the 20 bps add-on or cushion should BMA not match its historical average of 67%. It is further reduced in the first ten years by the \$1.2 million ten equal payments due **PAID** from Merrill Lynch.

- **The School District of Philadelphia**

Interest Rate Swaps: **SDP** has entered into ten (10) floating-to-fixed swaps effective June 29, 2004 with a total initial notional amount of \$691.1 million, to synthetically advance refund certain outstanding bonds. Each swap is associated with either 7-day reset auction-rate securities or 35-day reset auction-rate securities. The combination of auction-rate securities and a floating-to-fixed swap creates synthetic fixed-rate debt at a rate lower than was available in the cash bond market. 58.5% of LIBOR + 27 basis points swaps were used to hedge the 7 -day auction-rate securities and 60.4% of LIBOR + 32 basis points swaps were used to hedge the 35-day securities.

Terms, fair values and credit risk: The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2006 are as follows:

City of Philadelphia
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

Exhibit XIII

Associated Bond Issue	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value	Swap Termination	Counterparty Credit Rating (Moody's/S&P/Fitch)
Series B-1	\$ 60,000,000	06/29/2004	3.7670%	58.5% * 1-Month LIBOR +27 bps	(1,305,556)	09/01/2030	Aa2/AA-/AA-
Series B-2	54,200,000	06/29/2004	3.7670%	58.5% * 1-Month LIBOR +27 bps	(1,186,174)	09/01/2030	Aa2/AA-/AA-
Series B-3	64,900,000	06/29/2004	3.7670%	58.5% * 1-Month LIBOR +27 bps	(1,425,768)	09/01/2030	Aa2/AA-/AA-
Series B-4	95,000,000	06/29/2004	3.7700%	58.5% * 1-Month LIBOR +27 bps	(2,137,261)	09/01/2030	Aa3/A+/AA-
Series B-5	78,475,000	06/29/2004	3.7610%	58.5% * 1-Month LIBOR +27 bps	(1,683,125)	09/01/2030	Aa3/A+/AA-
Series B-6	59,025,000	06/29/2004	3.6838%	60.4% * 1-Month LIBOR +32 bps	(151,591)	09/01/2021	Aa3/A+/AA-
Series B-7	91,000,000	06/29/2004	3.6900%	60.4% * 1-Month LIBOR +32 bps	(238,448)	09/01/2021	Aa3/A+/AA-
Series B-8	80,000,000	06/29/2004	3.6890%	60.4% * 1-Month LIBOR +32 bps	(271,041)	09/01/2021	Aa3/A+/AA-
Series B-9	70,000,000	06/29/2004	3.6890%	60.4% * 1-Month LIBOR +32 bps	(271,041)	09/01/2021	Aa3/A+/AA-
Series C	38,475,000	06/29/2004	3.2400%	58.5% * 1-Month LIBOR +27 bps	(98,391)	09/01/2011	Aa3/A+/AA-

Fair Value: All of the swaps had a negative fair value of (\$8.8) million as of June 30, 2006. As the Federal Reserve continued to increase short term rates, long-term interest rates also rose considerably over this period resulting in this significant change in value. These fair values take into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that were received. 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 on the swaps.

Credit Risk: As of June 30, 2006, **SDP** was not exposed to credit risk on any of its outstanding swaps because the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, **SDP** would be exposed to credit risk in the amount of the derivatives' fair value. 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.

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

Termination Risk: **SDP** or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated 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, **SDP** would be liable to the counterparty for a payment equal to the swap's fair value.

Basis Swaps: By resolution of the SRC, adopted May 25, 2005, **SDP** was authorized to enter into one or more Basis Swaps related to certain outstanding general obligation bonds of **SDP**. Four Basis Swaps were entered into in October, 2005 for the purpose of managing interest costs of **SDP** and were structured to provide for both an upfront cash payment and on-going payments of a spread above a stated fixed rate, payable by each counterparty to the **SDP** on the notional amount of \$342.3 million. The amounts and the specific bond issues that the basis swaps relate to are (1) \$ 112.1 million relating to a portion of the General Obligation Bonds, Series 1999A; (2) \$86.9 million relating to a portion of the General Obligation Bonds, Series 1999B; (3) \$100.0 million relating to a portion of the General Obligation Bonds, Series 2004D; and (4) \$43.4 million relating to a portion of the General Obligation Bonds, Series 2005B.

Terms, fair values and credit risk: The terms, including the fair values and credit ratings of the bank counterparties on the outstanding basis swaps as of June 30, 2006 are as follows:

Associated Bond Issue	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value	Swap Termination	Counterparty Credit Rating (Moody's/S&P/Fitch)
Series 1999 A	\$ 112,110,000	10/05/2005	BMA	67% of USD-LIBOR + 0.432%	(2,893)	04/01/2027	Aa3/A+/AA-
Series 1999 B	86,910,003	10/05/2005	BMA	67% of USD-LIBOR + 0.1602	100,534	10/01/2012	Aaa/AAA/N/A
Series 2004 D	99,995,000	10/05/2005	BMA	67% of USD-LIBOR + 0.467%	(736,286)	06/01/2034	Aa3/A+/AA-
Series 2005 B	43,415,000	10/05/2005	BMA	67% of USD-LIBOR + 0.307%	160,838	04/01/2017	Aaa/AAA/N/A

Credit Risk: As of June 30, 2006, **SDP** was not exposed to credit risk on the outstanding \$112.1 million and the \$100.0 million swaps with Merrill Lynch Capital Services because the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, **SDP** would be exposed to credit risk in the amount of the derivatives' fair value. The **SDP** was exposed to credit risk on the outstanding \$86.9 million and \$43.4 million swaps with Bear Stearns Financial Products, Inc in the amount of \$100,534 and \$160,838 respectively. This is because the swaps had positive fair values. Should interest rates change and the fair values of the swaps become negative, **SDP** would not be exposed to credit risk. 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.

Basis Risk: Basis risk is the risk that benchmark tax-exempt interest rates paid by **SDP** which differs from the variable swap rate received from the applicable counterparty. **SDP** bears basis risk on each of its swaps. The swaps have basis risk since **SDP** receives a percentage of LIBOR and pays the tax-exempt benchmark. BMA Municipal Swap Index. **SDP** is exposed to basis risk should the floating rate that it receives on a swap plus the spread is less than the BMA Municipal Swap Index variable rate **SDP** 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: **SDP** or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are 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, **SDP** would be liable to the counterparty for a payment equal to the swap's fair value.

8. LEASE COMMITMENTS AND LEASED ASSETS

A. CITY AS LESSOR

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

(Amounts In Thousands of USD)	<u>Primary Government</u>		<u>Component Units</u>
	Governmental	Proprietary	
	<u>Funds</u>	<u>Funds</u>	
Minimum Rentals	10,181	28,347	1,313
Additional Rentals	<u>7</u>	<u>82,775</u>	<u>1,745</u>
Total Rental Income	<u>10,188</u>	<u>111,122</u>	<u>3,058</u>

Future minimum rentals receivable under noncancelable operating leases are as follows:

(Amounts In Thousands of USD) Fiscal Year Ending <u>June 30</u>	<u>Primary Government</u>		<u>Component Units</u>
	Governmental	Proprietary	
	<u>Funds</u>	<u>Funds</u>	
2007	5,649	16,490	3,944
2008	5,885	16,118	3,890
2009	6,209	15,520	3,449
2010	6,551	14,180	3,244
2011	6,912	11,824	5,535
2012-2016	40,732	33,262	4,445
2017-2021	53,341	23,147	3,535
2022-2026	69,906	13,609	2,481
2027-2031	91,669	10,237	1,443
2032-2036	--	--	932
2037-2041	--	--	926
2042-2046	--	--	793
2047-2051	--	--	793
2052-2056	--	--	793
2057-2061	--	--	793
2062-2066	--	--	793
2067-2071	--	--	793
2072-2076	--	--	793
2077-2081	--	--	793
2082-2086	--	--	739
2087-2091	--	--	396
	<u>286,853</u>	<u>154,388</u>	<u>41,301</u>

B. CITY AS LESSEE

(1) OPERATING LEASES

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

(Amounts In Thousands of USD)

	Primary Government		Component Units
	Governmental	Proprietary	
	<u>Funds</u>	<u>Funds</u>	
Minimum Rentals	139,194	16,126	36,792
Additional	<u>4,887</u>	<u>10,353</u>	<u>4,867</u>
Total Rental Expense	<u><u>144,080</u></u>	<u><u>26,479</u></u>	<u><u>41,660</u></u>

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

(Amounts In Thousands of USD)

Fiscal Year Ending June 30	Primary Government		Component Units
	Governmental	Proprietary	
	<u>Funds</u>	<u>Funds</u>	
2007	28,139	891	16,466
2008	25,366	521	12,867
2009	23,919	--	10,240
2010	20,133	--	9,113
2011	20,555	--	6,373
2012-2016	73,067	--	16,678
2017-2021	35,593	--	797
2022-2026	<u>661</u>	<u>--</u>	<u>--</u>
Total	<u><u>227,433</u></u>	<u><u>1,412</u></u>	<u><u>72,535</u></u>

(2) CAPITAL LEASES

Capital leases consist of leased real estate. Future minimum rental commitments are as follows:

(Amounts In Thousands of USD)

Fiscal Year Ending June 30	Component Units
2007	31,978
2008	31,516
2009	31,030
2010	29,990
2011	29,952
2012-2016	134,783
2017-2021	150,511
2022-2026	247,687
2027-2031	357,663
2032-2036	<u>258,935</u>
Future Minimum Rental Payments	1,304,046
Interest Portion of Payments	<u>(711,417)</u>
Obligation Under Capital Leases	<u><u>592,629</u></u>

9. DEFERRED COMPENSATION PLANS

A. PRIMARY GOVERNMENT

The City offers its employees a deferred compensation plan in accordance with Internal Revenue Code section 457. As required by the Code and Pennsylvania laws in effect at June 30, 2006, the assets of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries. In accordance with GASBS #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 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 RESERVATIONS

The City has reserved portions of several funds' Fund Balances. Following is a description of all such reservations followed by a summary of the major funds at year end for the Primary Government:

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

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

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

Reserved for Long Term Loan - An account used to segregate a portion of Fund Balance that represents amounts that were loaned and are not due to be repaid in the next fiscal year.

Reserved for Neighborhood Revitalization - An account used to segregate a portion of Fund Balance for the purpose of revitalizing various neighborhoods in the City of Philadelphia.

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

Reserved for Central Library Project - An account used to segregate a portion of Fund Balance for the amount held by the fiscal agent for the purpose of renovating the central library.

Reserved for Stadium Financing - An account used to segregate a portion of Fund Balance for the amount held by the fiscal agent for the purpose of funding new stadium construction.

(Amounts In Millions of USD)	Health Choices			<u>Total</u>
	<u>General Fund</u>	<u>Behavioral Health Fund</u>	<u>Grants Revenue Fund</u>	
Reserved Fund Balance:				
Reserved for Encumbrances	132.4	--	--	132.4
Reserved for Neighborhood Revitalization	--	--	130.1	130.1
Reserved for Behavioral Health	--	196.0	--	196.0
Reserved for Intergov Financed Programs	--	--	26.8	26.8
Reserved for Emergency Phone System	--	--	16.7	16.7
Reserved for Long Term Loan	45.0	--	--	45.0
Reserved for Central Library Project	10.0	--	--	10.0
Reserved for Stadium Financing	6.0	--	--	6.0
Total Reserved Fund Balance	<u>193.4</u>	<u>196.0</u>	<u>173.6</u>	<u>563.0</u>

11. INTERFUND TRANSACTIONS

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

Transfers between fund types during the year were:

<u>Transfers From:</u>	<u>Transfers To:</u>					<u>Total</u>
	Non major Governmental					
	<u>General</u>	<u>Grants</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Improvement</u>	
General	--	3,078	705	98,689	3,151	105,623
Grants	5,735	--	--	--	8,490	14,225
Non major Special Revenue Funds	230,489	--	--	76,548	1,183	308,220
Water Fund	4,994	--	--	--	--	4,994
Total	<u>241,218</u>	<u>3,078</u>	<u>705</u>	<u>175,237</u>	<u>12,824</u>	<u>433,062</u>

12. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

(Amounts in Millions of USD)

Bonds Payable	1,865.4
Service Agreements	2,117.9
Employee Related Obligations	383.6
Indemnities	46.2
	<u> </u>
Total Adjustment	<u>4,413.1</u>

13. PRIOR PERIOD ADJUSTMENTS

A. COMPONENT UNITS

SDP district-wide net asset beginning balances were increased by \$16.1 million. These adjustments involved an understatement of asset value of \$31.7 million and an understatement of accumulated depreciation of \$15.6 million.

14. NET ASSETS RESTRICTED BY ENABLING LEGISLATION

The government-wide statement of net assets reports \$1,023.4 million of restricted net assets, of which \$18.5 million is restricted by enabling legislation as follows:

(Amounts in Thousands of USD)	Restricted Net Assets	Restricted by Enabling Legislation
Capital Projects	108,517	
Debt Service	372,382	
Behavioral Health	171,228	
Intergovernmental Finance	26,800	
Neighborhood Revitalization	130,127	
Stadium Financing	5,972	
Central Library Project	10,002	
Grant Programs	27,755	9,576
Rate Stabilization	153,910	
Libraries & Parks:		
Expendable	3,660	
Non-Expendable	4,118	
Other	8,970	8,970
	<u> </u>	<u> </u>
Total	<u>1,023,441</u>	<u>18,546</u>

In FY2006 the City of Philadelphia enacted legislation to create and fund the Housing Trust fund. This legislation restricts the use of these funds to grants for low income housing. The government-wide statements include \$9.6 million net assets restricted for grant programs that apply to this fund.

15. FUND DEFICITS

The HealthChoices Behavioral Health Fund, which is a Special Revenue fund, has an Unreserved Fund Balance deficit at year end of \$24.8 million.

The Grants Revenue Fund, which is a Special Revenue fund, has an Unreserved Fund Balance deficit at year end of \$51.2 million.

The Community Development Fund, which is a Special Revenue fund, has an Unreserved Fund Balance deficit at year end of \$5.5 million.

The City Capital Improvement Fund has an Unreserved Fund Balance deficit at year end of \$67.5 million.

IV. OTHER INFORMATION

1. PENSION PLANS

The City maintains two single employer defined benefit plans for its employees and several of its component units. One blended component unit, PICA, and three discretely presented component units - the **SDP**, **PCCA**, and **CCP** - participate in state administered cost-sharing multiple employer plans. In addition, two discretely presented component units - PHA and RDA - maintain their own single employer defined benefit plans.

A. SINGLE EMPLOYER PLANS

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

Financial statements for the City 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. All assets of the PHA pension plan are invested in an Immediate Participating Guaranteed (IPG) contract.

Required Supplementary Information calculated in accordance with GASBS #25 is presented in audited financial statements of the respective pension plans. Copies of these financial statements may be obtained by contacting the Director of Finance of the City of Philadelphia.

(1) City Plan

(a) Plan Description

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

Retirement Benefits

An employee who meets the age and service requirements of the particular division in which he participates is entitled to an annual benefit, payable monthly for life, equal to the employee's average final compensation multiplied by a percentage that is determined by the employee's years of credited service. The formula for determining the percentage is different for each division. 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, 2005 was as follows:

Retirees and beneficiaries currently receiving benefits	35,443
Terminated members entitled to benefits but not yet receiving them	802
Active members	<u>27,992</u>
Total Members	<u><u>64,237</u></u>

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

(b) Funding Policy

Employee contributions are required by City Ordinance. For Plan 67 members, employees contribute 3¾% of their total compensation that is subject to Social Security Tax and 6% of compensation not subject to Social Security Tax. Plan 87 contribution rates are defined for the membership as a whole by Council ordinance. Rates for individuals are then determined annually by the actuary so that total individual contributions satisfy the overall rate set by Council.

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

- The accrued actuarially determined normal costs
- Amortization of the unfunded actuarial accrued liability determined as of July 1, 1985. The portion of that liability attributable to a class action lawsuit by pension fund beneficiaries (the Dombrowski suit) is amortized in level installments, including interest, over 40 years through June 30, 2009. The remainder of the liability is amortized over 34 years with increasing payments expected to be level as a percentage of each year's aggregate payroll.
- Amortization in level dollar payments of the changes to the July 1, 1985 liability due to the following causes over the stated period:
 - 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 \$384.5 million or 29.8% of the covered payroll of \$1,291.0 million.

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

(c) Annual Pension Cost and 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)	394,950
Interest on Net Pension Obligation (NPO)	(82,068)
Adjustment to ARC	113,135
Annual Pension Cost	426,017
Contributions Made	331,765
Increase in NPO	94,252
NPO at beginning of year	(911,866)
NPO at end of year	(817,614)
Interest Rate	9.00%
15 Year amortization Factor (EOY)	8.06%

The actuarial valuation used to compute the current year's required contribution was performed as of July 1, 2004. Methods and assumptions used for that valuation include:

- the individual entry age actuarial cost method
- a five-year smoothed market value method for valuing investments
- a level percentage closed method for amortizing the unfunded liability
- an annual investment rate of return of 9%
- projected annual salary increases of 5% (including inflation)
- annual inflation of 3.5%
- no post-retirement benefit increases

Under the City's funding policy, the recommended contribution for the City for the current year amounted to \$395.0 million. The City's actual contribution was \$331.8 million. The City's contribution did meet the Minimum Municipal Obligation (MMO) as required by the Commonwealth of Pennsylvania's Acts 205 and 189. The Annual Pension Cost and related percentage contributed for the three most recent fiscal years are as follows:

(Amounts in Millions of USD)			
Fiscal Year Ended <u>June 30</u>	Annual Pension <u>Cost</u>	Percentage <u>Contributed</u>	Net Pension <u>Obligation</u>
2004	291.1	69.68%	(1,005.0)
2005	392.3	76.27%	(911.9)
2006	426.0	77.88%	(817.6)

(d) 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 employee's average pay, over the highest 5 years of the last 10 years of credited service. Employees with 15 years of credited service may retire at or after age 55 and receive a reduced retirement benefit. In addition, employees with 30 years of credited service are eligible to select early retirement with no reduction in benefits.

At September 1, 2005, 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	2,187
Current Employees	<u>1,701</u>
Total Members	<u><u>3,888</u></u>

(b) Funding Policy

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

The funding policy of the PGW Plan provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. Level percentage of employer contribution rates are based on the actuarial accrued liability as determined by using the Projected Unit Credit actuarial funding method. The actuarial asset value is equal to the value of fund assets. The unfunded actuarial accrued liability is being amortized using the open method. Contributions of \$15.0 million (approximately 2.0% of covered payroll) were made to the PGW Plan during the year.

Historically, payments to beneficiaries of the PGW Plan are made by the Fund and not from the assets of the Plan. During the year, payments to beneficiaries exceeded the Fund's actuarially computed pension contribution and a withdrawal of \$16.5 million from the pension assets was necessary to meet beneficiary payment obligations.

(c) Annual Pension Cost

PGW's annual pension cost for the current year was \$14,702,000 equal to its required contribution. The annual required contribution for the current year was determined based on an actuarial study completed September, 2005, using the projected credit unit 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 Thousands of USD)

Fiscal Year Ended <u>August 31</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>
2003	13,013	100%
2004	14,973	100%
2005	14,702	100%

(d) Summary of Significant Accounting Policies

The financial statements of the Plan are prepared on the accrual basis of accounting. Employer contributions are recognized as revenues 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.

(3) Component Unit - Philadelphia Housing Authority Plan

(a) Plan Description

The PHA contributes to a single-employer Public Employees' Retirement System (PERS), administered by an insurance company (the PHA Pension Plan) covering all permanent employees. The PERS issues separate, stand-alone financial statements. The Authority's payroll for employees covered by the PHA Plan for the year was approximately \$70.1 million. The PHA Pension Plan provides retirement benefits as well as death and disability benefits. Employees who retire at or after age 65 receive an annual retirement benefit equal to 2.5% of average earnings multiplied by the years of service not to exceed 25 years, plus 1.25% of average earnings multiplied by years of service in excess of 25 years.

(b) Funding Policy

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

(c) Annual Pension Cost

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

- the entry-age normal method
- annual rate of return on investments of 7.5%
- projected salary increases of 5.5% per year
- no post-retirement benefit increases

The Authority's actuarially required contributions and percentage contributed for the last three fiscal years of the Plan are summarized below. The required contribution for the current year was approximately 9.5% of covered payroll:-

<u>Fiscal Year Ended October 31</u>	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>
2003	\$5,875,125	173%
2004	\$5,478,453	70%
2005	\$6,630,958	59%

(4) Component Unit - Redevelopment Authority Plan

(a) Plan Description

The **RDA** contributes to the Redevelopment Authority of the City of Philadelphia Retirement Plan (the Plan) which is a single-employer defined benefit pension plan.

Substantially all full time **RDA** employees are eligible to participate in the Plan after six months of service. Benefits vest after five years of service. **RDA** employees who retire at or after age 55 with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.5% of their final monthly salary multiplied by the number of months of credited service up to 20 years plus 2% of final monthly compensation multiplied by months of credited service in excess of 20 years up to a maximum of 35 years. The Plan also provides death and disability benefits which are determined in a manner similar to the retirement benefits.

(b) Funding Policy

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

(c) Annual Pension Cost

The contribution for the Plan for fiscal 2006 of \$1.6 million (approximately 14% of covered payroll, representing normal cost) was determined in accordance with actuarially determined requirements computed through the actuarial valuation performed as of January 1, of each respective year using the aggregate cost method. The **RDA** contributed \$1,255,557 (approximately 9% of current covered payroll) and the employees contributed \$330,294 (approximately 5% of current covered payroll).

Significant actuarial assumptions include a 7.75% rate of return on investment assets, projected salary increases of 6% per year (4% for merit and promotion, 2% for inflation) and no post-retirement benefit increases. The net pension obligation at year end was \$(44,006) computed as follows:

Annual Required Contribution	\$ 1,255,157
Interest On Net Pension Obligation	(5,988)
Adjustment to Annual Required Contribution	<u>9,646</u>
Annual Pension Cost	1,258,815
Contributions Made	<u>(1,225,557)</u>
Increase In Net Pension Obligation	33,258
Net Pension Obligation - Beginning of Year	<u>(77,264)</u>
Net Pension Obligation - End of Year	<u><u>\$ (44,006)</u></u>

The **RDA's** actuarially required contributions and percentage contributed for the last three years are summarized below:

<u>Fiscal Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$1,414,832	140%	\$281,766
2005	\$1,287,871	128%	(\$77,264)
2006	\$1,259,885	98%	(\$44,006)

B. MULTIPLE EMPLOYERS PLANS

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

The payroll for **CCP** employees covered by any of the four multiple employer plans was \$56.4 million and the total payroll was \$63.4 million. Contributions to the four plans by the **CCP** during the fiscal year totaled approximately \$4.3 million representing 7.50% of covered payroll. **CCP** employees contributed approximately \$3.9 million representing 5% of covered payroll.

(1) Public School Employee Retirement System (PSERS)

(a) Plan Description

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

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

Public School Employees' Retirement System
P.O. Box 125
Harrisburg, PA 17108-0125

(b) Funding Policy

Contribution policy is established by the Code and requires contributions from active members, employers and the Commonwealth. Most active members contribute at 5.25% of qualifying compensation. Members joining the PSERS on or after July 22, 1983 contribute at 6.25% (class TC) or 7.50% (class TD). The employer rate is actuarially determined. The rate for fiscal year 2006 was 4.69%, and is composed of a pension contribution rate of 4.00% for pension benefits and .69% for health insurance premium assistance. The **SDP’s** contributions for the last three years are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2004	\$43,059,934	100%
2005	\$48,901,179	100%
2006	\$55,760,173	100%

(2) State Employees Retirement System (SERS)

(a) Plan Description

PICA and **PCCA** employees and certain **CCP** employees are eligible to participate in the Pennsylvania State Employees Retirement System (SERS), which is a cost sharing multiple employer plan. The SERS provides pension, death and disability benefits. Retirement benefits vest after 5 years of credited service. Employees who retire at age 60 after 3 years of service or with 35 years of service if under age 60, are entitled to a normal annual retirement benefit. The general annual benefit is 2% to 2.5% of the member's highest three year average salary times years of service. The General Assembly has the authority to establish and amend benefits of the SERS. Ad hoc cost-of-living adjustments are provided at the discretion of the General Assembly.

(b) Funding Policy

The SERS funding policy is set by the SERS Board. Active members are required to contribute periodically at statutory rates, generally 5 to 6.25% of gross pay. The amount is recorded in an individually identified account that accumulates interest at 4% per year as mandated by statute. Accumulated employee contributions and credited interest vest immediately and are returned to the employee upon termination of service if the employee is not eligible for other benefits.

Employer contributions are an actuarially determined percentage of payroll such that they, along with employee contributions and an actuarially determined investment rate of return, are adequate to accumulate assets to pay benefits when due.

In May 2001, the **PCCA** initiated Act 2001-9 which created a new Class AA membership, changed the vesting requirements of all members from 10 to 5 years, increased the member contribution rate from 5% to 6.25% and increased the benefit formula to 2.5% of final average salary. New members are automatically enrolled as Class AA. However, election for current members at the time of enactment was voluntary. Contributions of the **PCCA** for the last three years were as follows:

Fiscal Year Ended <u>June 30</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>
2004	\$20,684	100%
2005	\$60,495	100%
2006	\$120,699	100%

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

Fiscal Year Ended <u>June 30</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>
2004	None Required	
2005	None Required	
2006	None Required	

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

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

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

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

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

(a) Plan Description

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

The **CCP's** contributions for each employee (and interest allocated to the employee's account) are fully vested. Death benefits in the amount of the full current value of accumulation is provided to the beneficiary of participants who die prior to retirement. A variety of payment available. The **CCP** has 916 employees participating in this plan.

(b) Funding Policy

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

2. ACCUMULATED UNPAID SICK LEAVE

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

3. POST EMPLOYMENT BENEFITS

A. PRIMARY GOVERNMENT

In addition to providing pension benefits, the City provides certain post-employment health care and life insurance benefits for retired employees, dependents and/or beneficiaries through provisions of City ordinances, civil service regulations and agreements with its various employee bargaining units. The City provides these benefits for periods from one to five years after retirement depending upon the classification of the employee at his/her retirement. Substantially all of the City's employees may become eligible for those benefits if they reach normal retirement age while working for the City. These and similar benefits for active employees are provided through a combination of a self-insurance program and insurance companies whose premiums are based on the benefits paid during the year. The cost of providing these health benefits and life insurance for approximately 4754 eligible retirees amounted to \$43.5 million and \$4.1 million, respectively.

B. COMPONENT UNIT

The **SDP** pays monthly premiums to provide up to \$2,000 of life insurance coverage for 7,445 retired/disabled employees. A retired employee is eligible for this benefit if covered for 10 years as an active employee and retired at age 60 with 30 years of service or age 62 with 10 years of service or any age with 35 years of service. Disabled employees' eligibility is determined by the insurance company providing the coverage. In 2006, the cost of life insurance premiums for retirees/disabled employees, was \$625,090.

PGW provides certain health care and life insurance benefits for approximately 1958 retired employees and their dependents. PGW recognizes the cost of providing these benefits by charging the annual insurance premiums to expense. Total premiums incurred for health care amounted to \$33.6 million, of which approximately 50% relates to retirees and their dependents. Total premiums for group life insurance amounted to \$2.1 million of which approximately 76% relates to retirees.

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, the President Pro Tempore of the Senate, the Minority Leader of the Senate, the Speaker of the House of Representatives and the Minority Leader of the House of Representatives each appoints one voting member of the Board.

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

PICA bonds are payable from the proceeds of a **PICA** tax on the wages and income earned by City residents. The City has reduced the amount of wage and earnings tax that it levies on City residents by an amount equal to the **PICA** tax so that the total tax remains the same. **PICA** returns to the City any portion of the tax not required to meet their debt service and operating expenses. In Fiscal 2006 this transfer amounted to \$230.0 million.

5. RELATED PARTY TRANSACTIONS

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

A. SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY (SEPTA)

During the year the City provided an operating subsidy of \$56.6 million to SEPTA. In addition, the City received \$.07 million in fixed rental payments on certain properties leased to SEPTA.

B. OTHER ORGANIZATIONS

The City provides varying levels of subsidy and other support payments (which totaled \$59.8 million during the year) to the following organizations:

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

6. RISK MANAGEMENT

A. PRIMARY GOVERNMENT

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

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

At June 30, the amount of these liabilities was \$270.7 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, 2004 resulted from the following:

(Amounts in Millions of USD)

	<u>Beginning Liability</u>	<u>Current Year Claims and Changes In Estimates</u>	<u>Claim Payments</u>	<u>Ending Liability</u>
Fiscal 2005	231.7	102.0	(74.3)	259.4
Fiscal 2006	259.4	91.1	(79.8)	270.7

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 \$2.6 million for Unemployment Compensation claims and \$53.4 million for Workers' Compensation claims.

The City's estimated outstanding workers' compensation liabilities are \$223.3 million discounted at 4%. On an undiscounted basis, these liabilities total \$300 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 \$204.9 million (discounted) and \$276.7 million (undiscounted).

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

B. COMPONENT UNITS

The City's Component Units are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. They are principally insured through insurance carriers. Each entity has coverage considered by management to be sufficient to satisfy loss claims. These losses include: an estimate of claims that have been incurred but not reported; the effects of specific, incremental claims adjustment expenditures, salvage, and subrogation; and unallocated claims adjustment expenditures.

At June 30, the combined amount of these liabilities was \$113.2 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, 2004 resulted from the following:

(Amounts in Millions of USD)

	Beginning Liability	Current Year Claims and Changes In Estimates	Claim Payments	Ending Liability
Fiscal 2005	102.9	64.7	(37.4)	130.2
Fiscal 2006	130.2	41.2	(58.2)	113.2

The **SDP** Weekly Indemnity, Unemployment Compensation and Workers' Compensation coverages are provided through its General Fund. The cost of Weekly Indemnity coverage is shared equally by **SDP** and covered employees. Unemployment Compensation coverage is funded by a pro rata charge to the various funds. Payments for the year were \$15.2 million for Weekly Indemnity, \$7.8 million for Unemployment Compensation claims and \$34.9 million for Workers' Compensation claims. Amounts collected in excess of claims incurred for **SDP's** Weekly Indemnity Plan are included in **SDP's** General Fund as a Reservation of Fund Balance.

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

7. COMMITMENTS

A. 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 \$178.7 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. The Commonwealth has agreed to defer a scheduled payment of \$45.3 million.

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 \$263.9 million. Of this amount, \$12.1 million is charged to current operations of the Enterprise Funds. The remaining \$251.8 million pertaining to the General Fund is reflected in the Government Wide Full Accrual Statements.

In addition to the above, there are other lawsuits against the City in which some amount of loss is reasonably possible. These lawsuits relate to General Fund and Enterprise Fund operations. The aggregate estimates of the loss which could result if unfavorable legal determinations were rendered against the City with respect to those lawsuits is approximately \$89.4 million to the General Fund and \$4.9 million to the Enterprise Funds.

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

- In *Burella v. City* the Plaintiff sued the City and three individual police officers under state and federal law, seeking to hold them liable for her non-fatal shooting at the hand of her husband who is a police officer. The Plaintiff's theories (procedural and substantive due process, equal protection, intentional infliction of emotional distress) are based on the alleged failure of defendants to address the husbands' increasingly apparent psychological problems and anger management difficulties, manifested by repeated instances of domestic violence and physical altercations with his wife over several years. The federal district court denied the defendants' motion for summary judgment, and the individual officers have appealed to the Third Circuit. Briefing is completed and the Third Circuit heard oral argument November 2, 2006.

- Lawrence v. City of Philadelphia is a collective action brought on behalf of 250 former and current fire-service paramedics (paramedics) against the City of Philadelphia's (City), under the Fair Labor Standards Act ("FLSA"). The plaintiffs claim the City violated the FLSA primarily by using the same schedule of 10 and 14-hour shifts applicable to firefighters, which can lead to them working as many as 48 hours in a traditional Sunday to Saturday workweek without compensating them at overtime rates for all hours worked over 40 in a week. The City has denied that the plaintiffs have been paid improperly and has asserted various defenses to the plaintiffs' claim. The City's primary defense is that fire service paramedics qualify for the higher overtime thresholds applicable to fire protection and other emergency service employees under Sections 203(y) and 207(k) of the FLSA.

Discovery in this case is essentially complete and the parties filed cross-motions for summary judgment on March 16, 2005. All further briefings on summary judgment was completed by May 2, 2005. The court ruled in favor of the City on the summary judgment motion. Plaintiffs have appealed to the Third Circuit.

We have estimated that if plaintiffs were entirely successful in all aspects of their claims the City's potential liability could approach \$20 million.

- In Limbach Co. LLC et. al. vs. The City of Philadelphia et. al., the City is a defendant in a matter brought by the successors to a U.S. Airways subcontractor for allegedly unpaid electrical and mechanical work performed in connection with the new international terminal at Philadelphia International Airport. The Court of Common Pleas in Philadelphia County dismissed certain claims and granted summary judgment to the City and PAID, which served as the financing arm of the project, to all others. The Commonwealth Court reversed and remanded to Common Pleas Court. The plaintiffs are claiming \$14 million. The City is vigorously contesting the claims and believes that its exposure, if any, is in the range of \$2.5 million all of which would be the responsibility of the Aviation fund.
- Chainey vs. Street. This federal lawsuit was filed by twenty-four homeowners in the Osage-Pine neighborhood whose homes were destroyed in the MOVE altercation of 1985. Following the altercation, and after extensive negotiations, the residents agreed not to pursue lawsuits if the City would rebuild their homes. After the residents returned, they began to complain about the quality of the homes. In 1988 the City and RDA entered into a contract to repair the homes. In 1999, RDA hired the Allied Construction Company to complete further repairs. Mayor Rendell wrote to the residents promising them that the City remained firm in its intention to complete certain repairs. However, by early 2000, Allied was issuing change orders for hundreds of thousands of dollars in additional work. RDA then demobilized the contract, effectively ending the repair work.

The residents alleged several claims: denial of equal protection, denial of due process, civil conspiracy, breach of the Allied contract (to which they believe they are third-party beneficiaries), specific performance, and taking without just compensation.

On April 11, 2005 the jury returned a verdict of \$12.83 million. Upon consideration of defendants' motion for a new trial and motion for judgment as a matter of law, the District Court reduced the judgment to \$6 million, upholding only the breach of contract and substantive due process claims. Defendants have appealed and plaintiffs have cross-appealed. Briefing is complete and the Third Circuit heard oral argument in January, 2007.

(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 Parking Authority	71,310
Philadelphia Authority for Industrial Development	6,975
	78,285
	78,285

(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 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, 2006, which amounted to \$692.3 million for all open program years as of-December 18, 2006. Of this amount, \$516.7 million represents unresolved cost due to the inability to obtain audit reports from subrecipients for the year ended June 30, 2006 due to timing differences in audit requirements, \$139.2 million represents questioned costs due to the inability to obtain subrecipient audit reports for the fiscal years June 30, 2005 and prior and \$36.4 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 \$192.1 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 unloaned funds are used to repay HUD. Collateral for repayment of the funds includes future Community Development Block Grant entitlements due to the City from HUD. The total remaining principal to be repaid to HUD for all loans at the end of the year was \$139.7 million.

(5) Philadelphia International Airport

In September, 2005, Delta Air Lines and eighteen of its affiliates and subsidiaries filed for protection under the United States Bankruptcy Code in the Southern District of New York. Since that time the Airline has continued to operate under Chapter 11 protection including its operations from Philadelphia International Airport. Delta Air Lines continues to operate its business and manage its property as a Debtor in Possession. Delta Air Lines presently operates 10 daily flights from Philadelphia. Delta Air Lines received an extension from the Bankruptcy Court to assume or reject its non residential real property leases to April 16, 2007.

In September, 2005, Northwest Airlines Corporation and twelve of its affiliates and subsidiaries filed for protection under the United States Bankruptcy Code in the Southern District of New York. Since that time the Airline has continued to operate under Chapter 11 protection including its operation at the Philadelphia International Airport. Northwest Airlines continues to operate its business and manage its property as a Debtor in Possession. Northwest Airlines presently operates 14 daily flights from Philadelphia. Northwest Airlines received an extension to May 15, 2007, to assume or reject non residential real property leases.

B. COMPONENT UNITS

- The **SDP** is a party to various claims, legal actions, arbitration and complaints arising in the ordinary course of business which aggregate to a total potential liability of \$4.6 million. In the opinion of the General Counsel of **SDP**, it is unlikely that final judgments or compromised settlements will approach the total potential liability. **SDP** annually budgets an amount that management believes is adequate, based on past experience, to provide for these claims when they become fixed and determinable in amount. In addition, **SDP** has recorded in its Government Wide Full Accrual Statements the total cumulative potential liability of \$83.0 million for Workers' Compensation, \$9.4 million for Unemployment Compensation claims and \$2.8 million for claims and judgments.
- There are nine lawsuits pending against **SDP** asserting claims in violation of 1983 of the Civil Rights Act. In the opinion of the Interim General Counsel of the **SDP**, unfavorable outcomes are deemed reasonably possible in an aggregate amount and including other attorney fees of approximately \$1.0 million. There is no limitation on the exposure or potential liability of the **SDP** for civil rights violations.
- More than thirty years ago, the Pennsylvania Human Relations Commission (the "Commission") initiated an action against the **SDP** in Pennsylvania Commonwealth court to end historical de facto racial segregation in public schools and sought to compel remedies such as forced busing. Between 1973 and 1993, the **SDP** and the Commission developed a series of desegregation plans, strategies and reforms with the objective of achieving maximum feasible desegregation. Despite the persistence of racially segregated residential patterns and the number of non-minority students choosing to attend any number of parochial or private schools in the region, the Court determined, from time to time and over the years, that such reform efforts were inadequate to cure the problem of racial isolation in the public schools.

In late 1995, the Court joined the Commonwealth of Pennsylvania as a defendant in the action, and in the summer of 1996, held that the Commonwealth was liable for substantial and ongoing financial contributions to **SDP** to fund and support desegregation mandates. However, the Commonwealth Court's Order was vacated by the Pennsylvania Supreme Court when it assumed plenary jurisdiction of the case in the fall of 1996. After nearly three years, the Supreme Court determined that the Commonwealth Court lacked authority to add defendants or claims to the case after its commencement by the Commission in 1973. The Commonwealth was dismissed from the case and jurisdiction of the case was returned to the Commonwealth Court.

Since that time, **SDP** has continued to implement remedial measures and reports periodically to the Court on its progress toward satisfying the Court's mandates. In May and September 2001, and at the request of the Court, **SDP** submitted a Comprehensive School Safety and Security Plan and a Curriculum Renewal Plan (collectively the "Plans") intended to guide managements' work in the areas of curriculum and instruction. Following a hearing, the Court issued an Opinion and Order concluding that **SDP** had made significant and continued effort to comply with the Remedial Order, accepting the Plans, and directing the Human Relations Commission to monitor their implementation. The Court further directed the Commission to monitor their implementation. The Court further directed the Commission to request the Court to close the case when it is satisfied that **SDP** has demonstrated that it can and will provide an equal educational opportunity to all students.

In December, 2001, the Court reiterated its position that the Plans approved by the Court in September, 2001, are to be implemented by **SDP** notwithstanding any changes in management or organizational structure given the possibility of the impending state "takeover" of the district.

After the Commonwealth assumed control of the district and between July 2002 and July 2003, **SDP** responded to Court questions, submitted materials, attended conferences, accompanied court officials on tours of elementary schools, and provided testimony concerning the series of initiatives being undertaken by management and the School Reform Commission. Nevertheless by letter dated August, 2003, the Court indicated its intent to defer issuing an opinion and order until Counsel confer among themselves to determine whether they can agree upon a consent decree for submission and approval by the court. Since this time counsel for **SDP**, the Commission and Intervenors meet on a regular and consistent basis to develop a proposed Memorandum of Understanding (the "MOU").

More specifically, the MOU, which was submitted to the Court for review and approved in March of 2004, stays all judicial proceedings for an initial period of three years while requiring that **SDP** submit annual reports to the Commission. As detailed in the MOU, the Commission will provide written feedback to **SDP** based on its review of the reports and the parties will have the opportunity to meet and confer during the term of the MOU. The MOU also includes a dispute resolution process by which the parties may seek to resolve disagreements, if any, remaining at the end of the initial period of the MOU before returning to Court. The MOU further preserves positions of the parties in the event the MOU does not result in a final resolution of this case and the stay is lifted..

By order of the Court and following a hearing "for formal Court review and approval of the Memorandum of Understanding entered into by the parties in an effort to avoid continue litigation and to move toward a final resolution of this long-standing Philadelphia School desegregation case," the Court approved the MOU. The order further provided that "at the end of the Term of the Memorandum of Understanding, and unless the Pennsylvania Human Relations Commission or the **SDP** files an application with the Court indicating that areas of disagreement still remain, the case shall be terminated with prejudice upon precipe by the Commission."

Subsequently, **SDP** submitted annual status reports to the PHRC in December 2004 and December, 2005 and intends to submit its third annual status report in late 2006 or early 2007.

SDP believes that the substantive and procedural aspects of the MOU have the potential to lead to a final resolution of this matter. Management is unable, at this stage however, to express an opinion concerning whether disagreements will remain at the end of the term of the MOU. Should the parties not resolve this matter within the framework of the MOU and should the stay be lifted, **SDP** believes that it may be able to raise meritorious defenses and arguments relating to its compliance with the Pennsylvania Human Relations Act, as well as, the proper scope of the Court's jurisdiction and remedial authority in the context of future proceedings.

- **SDP** was notified by the Pennsylvania Department of Education (PDE) that the results of an audit conducted by the Auditor General for the years ending June 30, 1991, 1992 and 1993 revealed that **SDP** over-reported student enrollment in Fiscal Year 1991 which established the base for all school subsidies through Fiscal Year 1999. The determination of subsidy reimbursement from the PDE's Director, Bureau of Budget and Fiscal Management, was \$20 million after appeal through fiscal year 1999. The Commonwealth has agreed to a repayment schedule that results in periodic deductions from amounts paid by the Commonwealth to **SDP**. A similar audit was undertaken which concluded with PDE asserting an additional \$20 million per year claim for alleged over reporting of enrollment in school years 1994-95 through 1996-97. **SDP** denies the claim and has produced documentation. The Commonwealth has postponed collections of this category in order to assist the District through a funding shortfall. Both matters remain pending. Though discussions with state representatives regarding relief from this potential liability are ongoing, because no final determination of forgiveness has been made to date, there still remains a reasonably possible loss in this category in the total amount of \$40.0 million.

- The complaint in *Chambers v. SDP* alleges that SDP violated IDEA and section 504 of the Rehabilitation Act of 1973 as a matter of practice and policy by intentionally and continuously failing to provide the student with a free appropriate public education. Plaintiff's claim that as a result of those violations, the student's guardians and personal representatives will be required to expend between \$3.2 million (living with family members) and \$ 7.8 million (residential treatment facility) for future costs of therapy and daily living expenses until age sixty-five. Discovery is ongoing, and will be completed in January, 2007. Based on information known to date, it is reasonably possible that SDP may face an unfavorable outcome. If the SDP motion for summary judgment were denied, and the case proceeds to trial, a jury can return a verdict in excess of \$1.0 million.
- In *Robert Johnson v. SDP and K Sangster*, a lawsuit was filed by three former and one current employee alleging reverse racial discrimination and retaliation under Title VII of the Civil Rights Act and the Pennsylvania Human Relations Act. Collectively, the plaintiffs claim that **SDP** and the Chief Procurement Officer ("CPO"), an African American female, terminated their employment on the basis of race (white) and retaliated against them by denying alternative placement or positions. In December, 2005, a jury verdict was entered in favor of the plaintiffs and against **SDP** and Sangster. That verdict included an award of back-pay, front-pay and reinstatement, as well as, compensatory damages in the amount of \$2 million. Total value of the award, including future earnings, was in excess of \$4 million. In June, 2006, **SDP** entered into a Settlement Agreement and General Release of Claims which provided for payments to the plaintiffs in 2006 and 2007. As part of the resolution, the Plaintiffs waived reinstatement rights to positions with SDP ,as well as, releasing SDP from all other potential claims.

9. SUBSEQUENT EVENTS

A. PRIMARY GOVERNMENT

- (1) In July 2006, the City issued \$310.0 million of Tax and Revenue Anticipation Notes to supplement the receipts of the General Fund of the City for the purpose of paying general expenses of the City prior to the receipt of taxes and other revenues to be received in the current fiscal year. The proceeds will be invested until needed and repaid by June 30, 2007.
- (2) In July 2006, the City's general obligation bond rating outlook was revised from negative to stable. The change in the ratings outlook is based upon an improvement in the City's financial position in FY2005 and FY2006 following deterioration at the beginning of the decade which was the result of stagnant growth in recurring revenue sources that was outpaced by an escalating fixed cost burden related to employee benefit and health care costs.
- (3) In July 2006, the City issued \$217.5 million in General Obligation Bonds, of which \$188.7 million are serial bonds with interest rates ranging from 4.5% to 5.1%, maturing in 2029. The remaining \$28.9 million are term bonds with a 5% interest rate and mature in 2031. The proceeds will be used to finance and reimburse the City for various capital projects.
- (4) The actuarial assumed investment rate of return for the Municipal Pension Fund will be lowered from 9.0% to 8.75% effective for FY2007. The average rate of return during the most recent five-year period is well less than the current 9.0% assumption. The dramatic decline in the equity market and its slow rebound were considered in lowering the investment return rate assumption. This change will cause a significant decrease in the investment income assumption and hence will increase the City's annual liability.

- (5) In September 2006, a settlement agreement was reached between the Commonwealth of Pennsylvania and the City. This agreement is intended to be a full and final settlement of any and all claims raised in the Administrative Appeal in the case of the reimbursement of the City's expenditures for Children and Youth services under the City's Needs-Based Budget and Plan for FY 2005. The settlement calls for the City to be reimbursed \$19.4 million over a period of 4 years. This transaction is reflected in the FY2006 modified accrual statements as deferred revenue and on the full accrual financial statements as program revenue.

B. COMPONENT UNITS

- (1) In July 2006, the **SDP** issued \$575.0 million in Tax and Revenue Anticipation Notes. The proceeds of the notes are used for cash flow purposes and will be repaid by June 29, 2007.
- (2) In November 2006, SDP took action to unwind the four outstanding 2005 Basis Swaps and entered into two 2006 Basis Swaps totaling \$500.0 million in notional amounts related to outstanding general obligation bonds of the SDP for the purpose of managing interest expense.
- (3) In December 2006, **SDP** issued School Lease Revenue Bonds through the State Public School Building Authority in the amount of \$862.7 million. The Series A Bonds issued in the amount of \$317.1 million will fund projects in the Capital Improvement Program and the Series B Bonds issued in the amount of \$545.6 million will refund certain 2003 Bonds.
- (4) In December 2006, **PAID** issued \$135.5 million in Tax-exempt Revenue Bonds for various Cultural and Commercial Corridor Programs. Series 2006A sub series (1) are serial bonds issued for \$84.7 million with interest rates ranging from 4% to 5% and mature in 2026; sub series (2) are term bonds issued in the amount of \$41.4 million, have an interest rate of 4.45% and mature in 2031. Series 2006B was issued for \$9.4 million are taxable bonds with interest rates ranging from 4.9% to 5.2% and mature in 2009. The proceeds from the sale of the bonds will be used to (i) finance a portion of the costs of the programs and costs of program administration, and (ii) pay issuance of the 2006 bonds.

**Required
Supplementary
Information**

(Other than Management's Discussion and Analysis)

City of Philadelphia
 Required Supplementary Information
 Budgetary Comparison Schedule
 General Fund
 For the Fiscal Year Ended June 30, 2006

Exhibit XIV

Amounts in thousands of USD

	Budgeted Amounts			Final Budget to Actual Positive (Negative)
	Original	Final	Actual*	
Revenues				
Tax Revenue	2,143,545	2,292,359	2,368,955	76,596
Locally Generated Non-Tax Revenue	243,716	229,934	235,910	5,976
Revenue from Other Governments	1,051,995	959,299	924,544	(34,755)
Revenue from Other Funds	27,574	28,229	24,887	(3,342)
Total Revenues	3,466,830	3,509,821	3,554,296	44,475
Expenditures and Encumbrances				
Personal Services	1,250,863	1,265,549	1,250,221	15,328
Pension Contributions	349,779	346,502	346,502	-
Other Employee Benefits	403,720	413,719	413,719	-
Sub-Total Employee Compensation	2,004,362	2,025,770	2,010,442	15,328
Purchase of Services	1,154,233	1,100,165	1,065,675	34,490
Materials and Supplies	55,326	61,170	59,733	1,437
Equipment	15,866	24,401	22,413	1,988
Contributions, Indemnities and Taxes	109,332	111,769	110,893	876
Debt Service	80,285	83,433	82,917	516
Payments to Other Funds	24,267	36,963	35,370	1,593
Advances, Subsidies, Miscellaneous	38,604	38,604	38,604	-
Total Expenditures and Encumbrances	3,482,275	3,482,275	3,426,047	56,228
Operating Surplus (Deficit) for the Year	(15,445)	27,546	128,249	100,703
Fund Balance Available for Appropriation, July 1, 2005	26,670	96,168	96,168	-
Operations in Respect to Prior Fiscal Years				
Commitments Cancelled - Net	18,000	18,000	30,326	12,326
Revenue Adjustments - Net	-	-	27	27
Prior Period Adjustments	-	-	(264)	(264)
Adjusted Fund Balance, July 1, 2005	44,670	114,168	126,257	12,089
Fund Balance Available for Appropriation, June 30, 2006	29,225	141,714	254,506	112,792

* Refer to the notes to required supplementary information.

City of Philadelphia
 Required Supplementary Information
 Budgetary Comparison Schedule
 HealthChoices Behavioral Health Fund
 For the Fiscal Year Ended June 30, 2006

Exhibit XV

Amounts in thousands of USD

	Budgeted Amounts		Actual*	Final Budget to Actual Positive (Negative)
	Original	Final		
Revenues				
Locally Generated Non-Tax Revenue	6,000	7,810	11,002	3,192
Revenue from Other Governments	666,125	693,691	650,250	(43,441)
Total Revenues	672,125	701,501	661,252	(40,249)
Other Sources				
Increase in Unreimbursed Commitments	-	-	1,197	1,197
Increase in Financed Reserves	-	-	(134,483)	(134,483)
Total Revenues and Other Sources	672,125	701,501	527,966	(173,535)
Expenditures and Encumbrances				
Purchase of Services	716,545	716,545	687,065	29,480
Equipment	100	100	-	100
Payments to Other Funds	1,480	1,480	683	797
Total Expenditures and Encumbrances	718,125	718,125	687,748	30,377
Operating Surplus (Deficit) for the Year	(46,000)	(16,624)	(159,782)	(143,158)
Fund Balance Available for Appropriation, July 1, 2005	119,973	134,686	134,686	-
Operations in Respect to Prior Fiscal Years				
Commitments Cancelled - Net	-	-	298	298
Adjusted Fund Balance, July 1, 2005	119,973	134,686	134,984	298
Fund Balance Available for Appropriation, June 30, 2006	73,973	118,062	(24,798)	(142,860)

* 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, 2006

Exhibit XVI

Amounts in thousands of USD

	Budgeted Amounts			Final Budget to Actual Positive (Negative)
	Original	Final	Actual*	
Revenues				
Locally Generated Non-Tax Revenue	50,869	58,103	53,373	(4,730)
Revenue from Other Governments	1,063,592	927,380	729,347	(198,033)
Total Revenues	1,114,461	985,483	782,720	(202,763)
Other Sources				
Decrease in Unreimbursed Commitments	-	-	(12,364)	(12,364)
Decrease in Financed Reserves	-	-	38,411	38,411
Total Revenues and Other Sources	1,114,461	985,483	808,767	(176,716)
Expenditures and Encumbrances				
Personal Services	97,465	97,920	74,558	23,362
Pension Contributions	8,147	10,600	8,667	1,933
Other Employee Benefits	13,446	16,779	13,530	3,249
Sub-Total Employee Compensation	119,058	125,299	96,755	28,544
Purchase of Services	839,936	844,042	700,408	143,634
Materials and Supplies	16,786	18,355	11,920	6,435
Equipment	7,613	10,669	5,190	5,479
Contributions, Indemnities and Taxes	525	620	352	268
Payments to Other Funds	30,543	43,914	15,690	28,224
Advances, Subsidies, Miscellaneous	100,000	69,837	-	69,837
Total Expenditures and Encumbrances	1,114,461	1,112,736	830,315	282,421
Operating Surplus (Deficit) for the Year	-	(127,253)	(21,548)	105,705
Fund Balance Available for Appropriation, July 1, 2005	-	(43,255)	(43,255)	-
Operations in Respect to Prior Fiscal Years				
Commitments Cancelled - Net	-	-	46,388	46,388
Revenue Adjustments - Net	-	-	(32,756)	(32,756)
Prior Period Adjustments	-	43,255	-	(43,255)
Adjusted Fund Balance, July 1, 2005	-	-	(29,623)	(29,623)
Fund Balance Available for Appropriation, June 30, 2006	-	(127,253)	(51,171)	76,082

* Refer to the notes to required supplementary information.

City of Philadelphia
 Required Supplementary Information
 Pension Plans - Schedule of Funding Progress

Exhibit XVII

Amounts in thousands 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
<u>City of Philadelphia Municipal Pension Plan</u>						
07/01/2003	4,548,100	7,188,300	2,640,200	63.27%	1,269,300	208.00%
07/01/2004	4,333,100	7,247,700	2,914,600	59.79%	1,266,000	230.22%
07/01/2005	4,159,525	7,851,465	3,691,940	52.98%	1,270,700	290.54%
<u>Philadelphia Gas Works Plan</u>						
09/01/2002	370,019	424,670	54,651	87.13%	98,300	55.60%
09/01/2003	356,000	427,006	71,006	83.37%	101,200	70.16%
09/01/2004	366,783	436,255	69,472	84.08%	102,500	67.78%

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 councilmanic 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	3,554,296	661,252	782,720
Transfers	(241,218)	-	(3,078)
Program Income	-	-	60,737
Adjustments applicable to Prior Years Budgets	27	-	2,168
Change in Amount Held for Stadium Financing	1,709	-	-
Change in BPT Adjustment	(10,713)	-	-
Other	7,000	-	(34,925)
Statement of Revenues, Expenditures & Changes in Fund Balance	<u>3,311,101</u>	<u>661,252</u>	<u>807,622</u>
Expenditures and Encumbrances			
Budgetary Comparison Schedule	3,426,047	687,748	830,315
Transfers	(105,623)	-	(14,225)
Expenditures applicable to Prior Years Budgets	63,631	775	43,617
Program Income	-	-	60,737
Other	7,000	-	-
Current Year Encumbrances	(84,600)	(2,270)	(77,641)
Statement of Revenues, Expenditures & Changes in Fund Balance	<u>3,306,455</u>	<u>686,253</u>	<u>842,803</u>

III. OBLIGATION IN EXCESS OF APPROPRIATIONS

Fund	Classification	Amount
Water Fund	Payments to Other Funds	4,420

**Other
Supplementary
Information**

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to specific purposes.

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 raised under Chapter 1600 of Title 21 of the Philadelphia Code to assist low income homeowners.

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 Fairmount Park.

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 for the purpose of accumulating resources for the payment of principal on general obligation term bonds and to function as a conduit for the debt service payments to fiscal agents.

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 financial resources to be used for the acquisition or construction of the major capital facilities other than those financed by proprietary fund operations.

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 financial resources that are legally restricted to the extent that only earnings, 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 Fairmount Park.

Schedule I

City of Philadelphia
 Combining Balance Sheet
 Non-Major Governmental Funds
 June 30, 2006

Amounts in thousands of USD

	Special Revenue											Total	
	County Liquid Fuels Tax	Special Gasoline Tax	Hotel Room Rental Tax	Community Development	Car Rental Tax	Housing Trust	Riverview Residents	Philadelphia Prisons	Arbitration Appeals	Departmental	Municipal Authority Administrative		PICA Administrative
Assets													
Cash on Deposit and on Hand	-	-	-	-	-	-	-	-	-	4,460	395	71,829	76,684
Equity in Treasurer's Account	1,396	3,698	3,844	-	4,420	10,641	222	2,183	-	172	-	-	26,576
Investments	-	-	-	-	-	-	-	-	-	939	101	-	1,040
Due from Other Funds	-	-	3,976	-	515	-	-	-	-	-	-	167	167
Taxes Receivable	-	-	-	-	-	-	-	-	-	-	-	9,491	13,982
Accounts Receivable	-	-	(355)	2,627	(10)	-	-	-	1,700	-	937	-	5,264
Allowance for Doubtful Accounts	-	-	-	-	-	-	-	-	-	-	-	-	(365)
Interest and Dividends Receivable	6	25	-	-	8	20	-	-	-	-	3	283	345
Due from Other Governmental Units	-	-	-	10,486	-	-	-	-	-	-	-	-	10,486
Other Assets	-	-	-	-	-	-	-	-	-	-	-	19	19
Total Assets	1,402	3,723	7,465	13,113	4,933	10,661	222	2,183	-	7,271	1,436	81,789	134,198
Liabilities and Fund Balances													
Liabilities:													
Vouchers Payable	35	70	-	1,318	-	-	-	36	-	30	-	-	1,489
Accounts Payable	709	275	3,799	4,675	-	1,085	-	135	-	1,510	1,268	201	13,657
Salaries and Wages Payable	-	-	-	166	-	-	-	-	-	-	-	59	225
Due to Other Funds	-	-	-	6,955	-	-	-	5	-	-	-	15,271	22,231
Due to Component Units	-	-	3,432	-	-	-	-	-	-	-	-	-	3,432
Funds Held in Escrow	-	-	-	-	-	-	-	447	-	573	-	-	1,020
Due to Other Governmental Units	-	-	-	-	-	-	12	-	-	-	-	-	12
Deferred Revenue	-	-	234	5,485	1	-	-	-	-	-	-	9,700	15,420
Total Liabilities	744	345	7,465	18,599	1	1,085	12	623	-	2,113	1,268	25,231	57,486
Fund Balances:													
Reserved for:													
Encumbrances	84	882	-	-	-	640	-	284	-	43	-	-	1,933
Intergovernmental Financing	-	-	-	-	-	-	-	-	-	-	-	50,100	50,100
Debt Service Principal	-	-	-	-	-	-	-	-	-	-	-	-	-
Trust Purposes	-	-	-	-	-	-	-	-	-	703	-	-	703
Unreserved:													
Designated for Trust Purposes	-	-	-	(5,486)	-	-	210	1,276	-	4,412	-	-	5,898
Undesignated	574	2,496	-	-	4,932	8,936	-	-	-	-	168	6,458	18,078
Total Fund Balances	658	3,378	-	(5,486)	4,932	9,576	210	1,560	-	5,158	168	56,558	76,712
Total Liabilities and Fund Balances	1,402	3,723	7,465	13,113	4,933	10,661	222	2,183	-	7,271	1,436	81,789	134,198

**City of Philadelphia
Combining Balance Sheet
Non-Major Governmental Funds(Continued)
June 30, 2006**

Schedule I

Amounts in thousands of USD

	Debt Service			Capital Improvement			Permanent		Total
	City	Municipal Authority	PICA	Total	City	Municipal Authority	Total	Libraries & Parks	
Assets									
Cash on Deposit and on Hand	-	-	20,863	20,863	-	-	-	112	97,659
Equity in Treasurer's Account	-	-	-	-	23,285	-	23,285	-	49,861
Investments	-	19	63,369	63,388	-	378	378	7,708	72,514
Due from Other Funds	-	-	4,450	4,450	-	-	-	-	4,617
Taxes Receivable	-	-	-	-	-	-	-	-	13,982
Accounts Receivable	-	-	-	-	-	-	-	1	5,265
Allowance for Doubtful Accounts	-	-	-	-	-	-	-	-	(365)
Interest and Dividends Receivable	-	-	-	-	127	1	128	-	473
Due from Other Governmental Units	-	-	166	166	27,738	-	27,738	-	38,390
Other Assets	-	-	-	-	-	-	-	-	19
Total Assets	-	19	88,848	88,867	51,150	379	51,529	7,821	282,415
Liabilities and Fund Balances									
Liabilities:									
Vouchers Payable	-	-	-	-	5,521	-	5,521	-	7,010
Accounts Payable	-	-	-	-	9,554	-	9,554	43	23,254
Salaries and Wages Payable	-	-	-	-	72	-	72	-	297
Due to Other Funds	-	-	167	167	-	-	-	-	22,398
Due to Component Units	-	-	-	-	-	-	-	-	3,432
Funds Held in Escrow	-	-	-	-	2,986	-	2,986	-	4,006
Due to Other Governmental Units	-	-	-	-	-	-	-	-	12
Deferred Revenue	-	-	4,450	4,450	24,524	-	24,524	-	44,394
Total Liabilities	-	-	4,617	4,617	42,657	-	42,657	43	104,803
Fund Balances:									
Reserved for:									
Encumbrances	-	-	-	-	76,007	-	76,007	-	77,940
Intergovernmental Financing	-	-	-	-	-	-	-	-	50,100
Debt Service Principal	-	19	82,522	82,541	-	-	-	-	82,541
Trust Purposes	-	-	-	-	-	-	-	4,118	4,821
Unreserved:									
Designated for Trust Purposes	-	-	-	-	-	-	-	3,660	9,558
Undesignated	-	-	1,709	1,709	(67,514)	379	(67,135)	-	(47,348)
Total Fund Balances	-	19	84,231	84,250	8,493	379	8,872	7,778	177,612
Total Liabilities and Fund Balances	-	19	88,848	88,867	51,150	379	51,529	7,821	282,415

Schedule II

City of Philadelphia
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the Fiscal Year Ended June 30, 2006

Amounts in thousands of USD

	Special Revenue											Total
	County Liquid Fuels Tax	Special Gasoline Tax	Hotel Room Rental Tax	Community Development Rental Tax	Car Rental Tax	Housing Trust	Riverview Residents	Philadelphia Prisons	Arbitration Appeals	Departmental	Municipal Authority Administrative	
Revenues												
Tax Revenue	-	-	34,566	-	4,718	-	-	-	-	-	-	311,036
Locally Generated Non-Tax Revenue	52	154	126	9,051	212	10,661	-	1,434	570	6,147	10,924	8,330
Revenue from Other Governments	4,805	22,056	-	68,099	-	-	-	-	-	-	-	-
Other Revenues	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenues	4,857	22,210	34,692	77,150	4,930	10,661	-	1,434	570	6,147	10,924	319,366
Expenditures												
Current Operating:												
Economic Development	-	-	34,692	-	-	-	-	-	-	-	-	-
Transportation:												
Streets & Highways	5,424	20,401	-	-	-	-	-	-	-	-	-	-
Judiciary and Law Enforcement:												
Prisons	-	-	-	-	-	-	-	1,405	-	-	-	-
Housing and Neighborhood Development	-	-	-	74,556	-	1,085	-	-	-	-	-	-
Cultural and Recreational:												
Recreation	-	-	-	-	-	-	-	-	-	-	-	-
Parks	-	-	-	-	-	-	-	-	14	-	-	-
Libraries and Museums	-	-	-	-	-	-	-	-	4,143	-	-	-
General Management and Support	-	-	-	-	-	-	-	-	165	-	-	-
Capital Outlay	-	-	-	62	6,500	-	9	-	570	1,245	10,907	1,167
Debt Service:												
Principal	-	-	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-	2,741
Total Expenditures	5,424	20,401	34,692	74,618	6,500	1,085	9	1,405	570	5,567	10,907	3,908
Excess (Deficiency) of Revenues Over (Under) Expenditures	(567)	1,809	-	2,532	(1,570)	9,576	(9)	29	-	580	17	315,458
Other Financing Sources (Uses)												
Transfers In	-	-	-	-	-	-	-	-	-	705	-	-
Transfers Out	-	-	-	-	-	-	-	-	-	-	-	(308,220)
Total Other Financing Sources (Uses)	-	-	-	-	-	-	-	-	-	705	-	(308,220)
Net Change in Fund Balances	(567)	1,809	-	2,532	(1,570)	9,576	(9)	29	-	1,285	17	7,238
Fund Balance - July 1, 2005	1,225	1,569	-	(8,018)	6,502	-	219	1,531	-	3,873	151	49,320
Fund Balance - June 30, 2006	658	3,378	-	(5,486)	4,932	9,576	210	1,560	-	5,158	168	56,558

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, 2006

	Debt Service				Capital Improvement			Total	
	City	Municipal Authority	PICA	Total	City	Municipal Authority	Total	Permanent	
								Libraries & Parks	Non-Major Governmental Funds
Revenues									
Tax Revenue	-	-	-	-	-	-	-	-	350,320
Locally Generated Non-Tax Revenue	-	23	4,340	4,363	-	16	16	460	52,500
Revenue from Other Governments	-	-	-	-	22,659	-	22,659	-	117,619
Other Revenues	4	-	-	4	1,098	-	1,098	-	1,102
Total Revenues	4	23	4,340	4,367	23,757	16	23,773	460	521,541
Expenditures									
Current Operating:									
Economic Development	-	-	-	-	-	-	-	-	34,692
Transportation:									
Streets & Highways	-	-	-	-	-	-	-	-	25,825
Judiciary and Law Enforcement:									
Prisons	-	-	-	-	-	-	-	-	1,405
Housing and Neighborhood Development	-	-	-	-	-	-	-	-	75,641
Cultural and Recreational:									
Recreation	-	-	-	-	-	-	-	-	14
Parks	-	-	-	-	-	-	-	121	4,264
Libraries and Museums	-	-	-	-	-	-	-	-	165
General Management and Support	-	2	-	2	-	2	2	-	20,464
Capital Outlay	-	-	-	-	97,909	28	97,937	-	97,937
Debt Service:									
Principal	19,960	16,998	49,280	86,238	-	-	-	-	86,238
Interest	45,965	16,099	35,116	97,180	-	-	-	-	99,921
Total Expenditures	65,925	33,099	84,396	183,420	97,909	30	97,939	121	446,566
Excess (Deficiency) of Revenues Over (Under) Expenditures	(65,921)	(33,076)	(80,056)	(179,053)	(74,152)	(14)	(74,166)	339	74,975
Other Financing Sources (Uses)									
Transfers In	65,629	33,060	76,548	175,237	12,824	-	12,824	-	188,766
Transfers Out	-	-	-	-	-	-	-	-	(308,220)
Total Other Financing Sources (Uses)	65,629	33,060	76,548	175,237	12,824	-	12,824	-	(119,454)
Net Change in Fund Balances	(292)	(16)	(3,508)	(3,816)	(61,328)	(14)	(61,342)	339	(44,479)
Fund Balance - July 1, 2005	292	35	87,739	88,066	69,821	393	70,214	7,439	222,091
Fund Balances - June 30, 2006	-	19	84,231	84,250	8,493	379	8,872	7,778	177,612

City of Philadelphia
Combining Statement of Fiduciary Net Assets
Pension Trust Funds
June 30, 2006

Schedule III

Amounts in thousands of USD

	Gas Works Retirement Reserve <u>Fund</u>	Municipal Pension <u>Fund</u>	<u>Total</u>
<u>Assets</u>			
Equity in Treasurer's Account	418,980	4,371,021	4,790,001
Securities Lending Collective Investment Pool	1,312	404,308	405,620
Accounts Receivable	-	4,077	4,077
Due from Brokers for Securities Sold	-	29,625	29,625
Interest and Dividends Receivable	1,714	7,377	9,091
Due from Other Governmental Units	992	3,513	4,505
	<hr/>	<hr/>	<hr/>
Total Assets	422,998	4,819,921	5,242,919
<u>Liabilities</u>			
Vouchers Payable	-	30	30
Accounts Payable	497	4,291	4,788
Salaries and Wages Payable	-	110	110
Due on Return of Securities Loaned	1,312	404,308	405,620
Due to Brokers for Securities Purchased	324	90,677	91,001
Accrued Expenses	-	1,165	1,165
Deferred Revenue	-	2,228	2,228
Other Liabilities	-	526	526
	<hr/>	<hr/>	<hr/>
Total Liabilities	2,133	503,335	505,468
	<hr/>	<hr/>	<hr/>
Net Assets Held in Trust for Pension Benefits	420,865	4,316,586	4,737,451
	<hr/>	<hr/>	<hr/>

City of Philadelphia
Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Fiscal Year Ended June 30, 2006

Schedule IV

Amounts in thousands of USD

	Gas Works Retirement Reserve Fund	Municipal Pension Fund	Total
Additions			
Contributions:			
Employer's Contributions	15,056	331,766	346,822
Employees' Contributions	-	48,910	48,910
Total Contributions	<u>15,056</u>	<u>380,676</u>	<u>395,732</u>
Investment Income:			
Interest and Dividends	11,552	65,100	76,652
Net Gain in Fair Value of Investments	26,080	403,144	429,224
(Less) Investments Expenses	(1,870)	(16,781)	(18,651)
Securities Lending Revenue	56	12,041	12,097
(Less) Securities Lending Expenses	(34)	(11,343)	(11,377)
Net Investment Gain	<u>35,784</u>	<u>452,161</u>	<u>487,945</u>
Miscellaneous Operating Revenues	-	2,157	2,157
Total Additions	<u>50,840</u>	<u>834,994</u>	<u>885,834</u>
Deductions			
Personal Services	-	3,384	3,384
Purchase of Services	-	1,056	1,056
Materials and Supplies	-	102	102
Employee Benefits	-	2,034	2,034
Pension Benefits	31,399	608,682	640,081
Refunds of Members' Contributions	-	4,791	4,791
Other Operating Expenses	-	147	147
Total Deductions	<u>31,399</u>	<u>620,196</u>	<u>651,595</u>
Change in Net Assets	<u>19,441</u>	<u>214,798</u>	<u>234,239</u>
Net Assets - July 1, 2005	401,424	4,101,788	4,503,212
Net Assets - June 30, 2006	<u><u>420,865</u></u>	<u><u>4,316,586</u></u>	<u><u>4,737,451</u></u>

City of Philadelphia
 Combining Statement of Fiduciary Net Assets
 Agency Funds
 June 30, 2006

Schedule V

Amounts in thousands of USD

	<u>Escrow Fund</u>	<u>Employee Health & Welfare Fund</u>	<u>Departmental Custodial Accounts</u>	<u>Total</u>
<u>Assets</u>				
Cash on Deposit and on Hand	-	-	124,572	124,572
Equity in Treasurer's Account	7,600	13,089	-	20,689
Investments	-	-	20,746	20,746
Due from Other Funds	-	-	777	777
	<u>7,600</u>	<u>13,089</u>	<u>146,095</u>	<u>166,784</u>
Total Assets	<u>7,600</u>	<u>13,089</u>	<u>146,095</u>	<u>166,784</u>
<u>Liabilities</u>				
Vouchers Payable	-	91	-	91
Payroll Taxes Payable	-	7,883	-	7,883
Funds Held in Escrow	7,600	5,115	146,095	158,810
	<u>7,600</u>	<u>13,089</u>	<u>146,095</u>	<u>166,784</u>
Total Liabilities	<u>7,600</u>	<u>13,089</u>	<u>146,095</u>	<u>166,784</u>
Net Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

City of Philadelphia
Statement of Changes in Fiduciary Net Assets
Agency Funds
For the Fiscal Year Ended June 30, 2006

Schedule VI

Amounts in thousands of USD

	Balance 7-1-2005	Additions	Deductions	Balance 6-30-2006
<u>Escrow Fund</u>				
<u>Assets</u>				
Equity in Treasurer's Account	6,928	311,974	311,302	7,600
<u>Liabilities</u>				
Funds Held in Escrow	6,928	311,971	311,299	7,600
Vouchers Payable	-	80	80	-
<u>Total Liabilities</u>	<u>6,928</u>	<u>312,051</u>	<u>311,379</u>	<u>7,600</u>
<u>Employee Health and Welfare Fund</u>				
<u>Assets</u>				
Equity in Treasurer's Account	9,016	796,391	792,318	13,089
<u>Liabilities</u>				
Vouchers Payable	527	5,746	6,182	91
Payroll Taxes Payable	3,690	724,356	720,163	7,883
Funds Held in Escrow	4,799	72,035	71,719	5,115
<u>Total Liabilities</u>	<u>9,016</u>	<u>802,137</u>	<u>798,064</u>	<u>13,089</u>
<u>Departmental Custodial Accounts</u>				
<u>Assets</u>				
Cash on Deposit and on Hand	79,278	249,971	204,677	124,572
Investments	25,219	1,466	5,939	20,746
Due from Other Funds	802	79	104	777
<u>Total Assets</u>	<u>105,299</u>	<u>251,516</u>	<u>210,720</u>	<u>146,095</u>
<u>Liabilities</u>				
Funds Held in Escrow	105,299	251,516	210,720	146,095
<u>Totals - Agency Funds</u>				
<u>Assets</u>				
Cash on Deposit and on Hand	79,278	249,971	204,677	124,572
Equity in Treasurer's Account	15,944	1,108,365	1,103,620	20,689
Investments	25,219	1,466	5,939	20,746
Due from Other Funds	802	79	104	777
<u>Total Assets</u>	<u>121,243</u>	<u>1,359,881</u>	<u>1,314,340</u>	<u>166,784</u>
<u>Liabilities</u>				
Vouchers Payable	527	5,826	6,262	91
Payroll Taxes Payable	3,690	724,356	720,163	7,883
Funds Held in Escrow	117,026	635,522	593,738	158,810
<u>Total Liabilities</u>	<u>121,243</u>	<u>1,365,704</u>	<u>1,320,163</u>	<u>166,784</u>

City of Philadelphia
 Budgetary Comparison Schedule
 Water Operating Fund
 For the Fiscal Year Ended June 30, 2006

Schedule VIII

Amounts in thousands of USD

	Budgeted Amounts			Final Budget to Actual Positive (Negative)
	Original	Final	Actual	
Revenues				
Locally Generated Non-Tax Revenue	463,059	456,766	460,436	3,670
Revenue from Other Governments	1,585	1,709	569	(1,140)
Revenue from Other Funds	41,284	33,850	29,254	(4,596)
Total Revenues	505,928	492,325	490,259	(2,066)
Expenditures and Encumbrances				
Personal Services	108,733	108,733	98,773	9,960
Pension Contributions	24,500	27,622	27,622	-
Other Employee Benefits	29,969	28,658	28,658	-
Sub-Total Employee Compensation	163,202	165,013	155,053	9,960
Purchase of Services	84,616	84,416	80,813	3,603
Materials and Supplies	35,143	35,380	34,016	1,364
Equipment	4,791	4,754	2,963	1,791
Contributions, Indemnities and Taxes	6,519	4,709	4,209	500
Debt Service	180,957	167,520	166,416	1,104
Payments to Other Funds	42,700	56,136	60,556	(4,420)
Total Expenditures and Encumbrances	517,928	517,928	504,026	13,902
Operating Surplus (Deficit) for the Year	(12,000)	(25,603)	(13,767)	11,836
Fund Balance Available for Appropriation, July 1, 2005	-	-	-	-
Operations in Respect to Prior Fiscal Years				
Commitments Cancelled - Net	12,000	12,000	13,781	1,781
Prior Period Adjustments	-	-	(14)	(14)
Adjusted Fund Balance, July 1, 2005	12,000	12,000	13,767	1,767
Fund Balance Available for Appropriation, June 30, 2006	-	(13,603)	-	13,603

City of Philadelphia
Budgetary Comparison Schedule
Water Residual Fund
For the Fiscal Year Ended June 30, 2006

Schedule IX

Amounts in thousands of USD

	<u>Budgeted Amounts</u>		<u>Actual</u>	Final Budget <u>to Actual</u> Positive <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Locally Generated Non-Tax Revenue	100	100	58	(42)
Revenue from Other Funds	<u>141,759</u>	<u>146,753</u>	<u>14,856</u>	<u>(131,897)</u>
Total Revenues	141,859	146,853	14,914	(131,939)
<u>Expenditures and Encumbrances</u>				
Personal Services	125,000	125,000	-	125,000
Payments to Other Funds	<u>16,794</u>	<u>16,794</u>	<u>16,794</u>	<u>-</u>
Total Expenditures and Encumbrances	<u>141,794</u>	<u>141,794</u>	<u>16,794</u>	<u>125,000</u>
Operating Surplus (Deficit) for the Year	<u>65</u>	<u>5,059</u>	<u>(1,880)</u>	<u>(6,939)</u>
Fund Balance Available for Appropriation, July 1, 2005	694	8,747	8,747	-
Fund Balance Available for Appropriation, June 30, 2006	<u>759</u>	<u>13,806</u>	<u>6,867</u>	<u>(6,939)</u>

City of Philadelphia
Budgetary Comparison Schedule
County Liquid Fuels Tax Fund
For the Fiscal Year Ended June 30, 2006

Schedule X

Amounts in thousands of USD

	Budgeted Amounts			Final Budget to Actual Positive (Negative)
	Original	Final	Actual	
Revenues				
Locally Generated Non-Tax Revenue	6	20	52	32
Revenue from Other Governments	4,907	4,916	4,805	(111)
Total Revenues	4,913	4,936	4,857	(79)
Expenditures and Encumbrances				
Personal Services	3,284	3,284	3,284	-
Purchase of Services	1,311	1,313	1,310	3
Materials and Supplies	260	308	302	6
Equipment	80	30	30	-
Payments to Other Funds	15	15	15	-
Total Expenditures and Encumbrances	4,950	4,950	4,941	9
Operating Surplus (Deficit) for the Year	(37)	(14)	(84)	(70)
Fund Balance Available for Appropriation, July 1, 2005	453	578	578	-
Operations in Respect to Prior Fiscal Years				
Commitments Cancelled - Net	90	80	80	-
Adjusted Fund Balance, July 1, 2005	543	658	658	-
Fund Balance Available for Appropriation, June 30, 2006	506	644	574	(70)

City of Philadelphia
 Budgetary Comparison Schedule
 Special Gasoline Tax Fund
 For the Fiscal Year Ended June 30, 2006

Schedule XI

Amounts in thousands of USD

	Budgeted Amounts			Final Budget to Actual Positive (Negative)
	Original	Final	Actual	
Revenues				
Locally Generated Non-Tax Revenue	21	50	154	104
Revenue from Other Governments	20,546	21,916	22,056	140
Total Revenues	20,567	21,966	22,210	244
Expenditures and Encumbrances				
Personal Services	12,409	7,962	7,962	-
Pension Contributions	500	500	500	-
Other Employee Benefits	500	500	500	-
Sub-Total Employee Compensation	13,409	8,962	8,962	-
Purchase of Services	2,921	7,574	7,573	1
Materials and Supplies	3,845	4,229	4,115	114
Equipment	590	-	-	-
Payments to Other Funds	31	31	31	-
Total Expenditures and Encumbrances	20,796	20,796	20,681	115
Operating Surplus (Deficit) for the Year	(229)	1,170	1,529	359
Fund Balance Available for Appropriation, July 1, 2005	583	869	869	-
Operations in Respect to Prior Fiscal Years				
Commitments Cancelled - Net	80	230	98	(132)
Adjusted Fund Balance, July 1, 2005	663	1,099	967	(132)
Fund Balance Available for Appropriation, June 30, 2006	434	2,269	2,496	227

City of Philadelphia
Budgetary Comparison Schedule
Hotel Room Rental Tax Fund
For the Fiscal Year Ended June 30, 2006

Schedule XII

Amounts in thousands of USD

	<u>Budgeted Amounts</u>		<u>Actual</u>	Final Budget <u>to Actual</u> Positive <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Taxes	40,065	37,200	34,566	(2,634)
Locally Generated Non-Tax Revenue	<u>25</u>	<u>80</u>	<u>126</u>	<u>46</u>
Total Revenues	40,090	37,280	34,692	(2,588)
<u>Expenditures and Encumbrances</u>				
Personal Services	90	90	89	1
Contributions, Indemnities and Taxes	<u>40,000</u>	<u>40,000</u>	<u>38,110</u>	<u>1,890</u>
Total Expenditures and Encumbrances	<u>40,090</u>	<u>40,090</u>	<u>38,199</u>	<u>1,891</u>
Operating Surplus (Deficit) for the Year	<u>-</u>	<u>(2,810)</u>	<u>(3,507)</u>	<u>(697)</u>
Fund Balance Available for Appropriation, July 1, 2005	-	-	-	-
<u>Operations in Respect to Prior Fiscal Years</u>				
Commitments Cancelled - Net	<u>-</u>	<u>-</u>	<u>3,507</u>	<u>3,507</u>
Adjusted Fund Balance, July 1, 2005	<u>-</u>	<u>-</u>	<u>3,507</u>	<u>3,507</u>
Fund Balance Available for Appropriation, June 30, 2006	<u>-</u>	<u>(2,810)</u>	<u>-</u>	<u>2,810</u>

City of Philadelphia
 Budgetary Comparison Schedule
 Aviation Operating Fund
 For the Fiscal Year Ended June 30, 2006

Schedule XIII

Amounts in thousands of USD

	Budgeted Amounts			Final Budget to Actual Positive (Negative)
	Original	Final	Actual	
Revenues				
Locally Generated Non-Tax Revenue	289,881	289,900	269,454	(20,446)
Revenue from Other Governments	2,300	2,300	1,161	(1,139)
Revenue from Other Funds	500	500	887	387
Total Revenues	292,681	292,700	271,502	(21,198)
Expenditures and Encumbrances				
Personal Services	55,723	55,723	52,665	3,058
Pension Contributions	11,300	13,858	13,858	-
Other Employee Benefits	14,929	13,957	13,957	-
Sub-Total Employee Compensation	81,952	83,538	80,480	3,058
Purchase of Services	91,357	91,357	78,128	13,229
Materials and Supplies	9,361	9,530	8,912	618
Equipment	7,546	7,377	3,684	3,693
Contributions, Indemnities and Taxes	4,012	2,426	1,407	1,019
Debt Service	94,947	94,947	88,221	6,726
Payments to Other Funds	7,201	7,201	6,637	564
Total Expenditures and Encumbrances	296,376	296,376	267,469	28,907
Operating Surplus (Deficit) for the Year	(3,695)	(3,676)	4,033	7,709
Fund Balance Available for Appropriation, July 1, 2005	18,339	26,537	26,537	-
Operations in Respect to Prior Fiscal Years				
Commitments Cancelled - Net	6,000	12,000	16,533	4,533
Prior Period Adjustments	-	-	4	4
Adjusted Fund Balance, July 1, 2005	24,339	38,537	43,074	4,537
Fund Balance Available for Appropriation, June 30, 2006	20,644	34,861	47,107	12,246

City of Philadelphia
 Budgetary Comparison Schedule
 Community Development Fund
 For the Fiscal Year Ended June 30, 2006

Schedule XIV

Amounts in thousands of USD

	Budgeted Amounts		Actual	Final Budget to Actual Positive (Negative)
	Original	Final		
Revenues				
Locally Generated Non-Tax Revenue	1,750	1,750	9,036	7,286
Revenue from Other Governments	115,722	95,722	56,681	(39,041)
Total Revenues	117,472	97,472	65,717	(31,755)
Other Sources				
Decrease in Unreimbursed Commitments	-	-	(8,747)	(8,747)
Total Revenues and Other Sources	117,472	97,472	56,970	(40,502)
Expenditures and Encumbrances				
Personal Services	5,079	5,079	4,714	365
Pension Contributions	1,076	1,195	1,093	102
Other Employee Benefits	1,535	1,416	1,342	74
Sub-Total Employee Compensation	7,690	7,690	7,149	541
Purchase of Services	89,537	89,537	72,045	17,492
Materials and Supplies	172	181	164	17
Equipment	43	34	31	3
Payments to Other Funds	30	30	23	7
Advances, Subsidies, Miscellaneous	20,000	20,000	-	20,000
Total Expenditures and Encumbrances	117,472	117,472	79,412	38,060
Operating Surplus (Deficit) for the Year	-	(20,000)	(22,442)	(2,442)
Fund Balance Available for Appropriation, July 1, 2005	-	(8,018)	(8,018)	-
Operations in Respect to Prior Fiscal Years				
Commitments Cancelled - Net	-	-	24,974	24,974
Prior Period Adjustments	-	8,018	-	(8,018)
Adjusted Fund Balance, July 1, 2005	-	-	16,956	16,956
Fund Balance Available for Appropriation, June 30, 2006	-	(20,000)	(5,486)	14,514

City of Philadelphia
Budgetary Comparison Schedule
Car Rental Tax Fund
For the Fiscal Year Ended June 30, 2006

Schedule XV

Amounts in thousands of USD

	<u>Budgeted Amounts</u>		<u>Actual</u>	Final Budget <u>to Actual</u> Positive <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Taxes	4,050	5,000	4,718	(282)
Locally Generated Non-Tax Revenue	<u>50</u>	<u>130</u>	<u>212</u>	<u>82</u>
Total Revenues	4,100	5,130	4,930	(200)
<u>Expenditures and Encumbrances</u>				
Purchase of Services	<u>6,500</u>	<u>6,500</u>	<u>6,500</u>	<u>-</u>
Operating Surplus (Deficit) for the Year	<u>(2,400)</u>	<u>(1,370)</u>	<u>(1,570)</u>	<u>(200)</u>
Fund Balance Available for Appropriation, July 1, 2005	<u>5,854</u>	<u>6,502</u>	<u>6,502</u>	<u>-</u>
Fund Balance Available for Appropriation, June 30, 2006	<u><u>3,454</u></u>	<u><u>5,132</u></u>	<u><u>4,932</u></u>	<u><u>(200)</u></u>

City of Philadelphia
Budgetary Comparison Schedule
Housing Trust Fund
For the Fiscal Year Ended June 30, 2006

Schedule XVI

Amounts in thousands of USD

	<u>Budgeted Amounts</u>		<u>Actual</u>	Final Budget to Actual Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Locally Generated Non-Tax Revenue	<u>-</u>	<u>10,100</u>	<u>10,661</u>	<u>561</u>
<u>Expenditures and Encumbrances</u>				
Purchase of Services	<u>-</u>	<u>1,725</u>	<u>1,725</u>	<u>-</u>
Operating Surplus (Deficit) for the Year	<u>-</u>	<u>8,375</u>	<u>8,936</u>	<u>561</u>
Fund Balance Available for Appropriation, July 1, 2005	-	-	-	-
Fund Balance Available for Appropriation, June 30, 2006	<u>-</u>	<u>8,375</u>	<u>8,936</u>	<u>561</u>

City of Philadelphia
 Budgetary Comparison Schedule
 General Capital Improvement Funds
 For the Fiscal Year Ended June 30, 2006

Schedule XVII

Amounts in thousands of USD

	Budgeted Amounts		Actual	Final Budget to Actual Positive (Negative)
	Original	Final		
Revenues				
Locally Generated Non-Tax Revenue	334,031	333,785	13,314	(320,471)
Revenue from Other Governments	217,020	217,266	23,844	(193,422)
Total Revenues	551,051	551,051	37,158	(513,893)
Other Sources (Uses)				
Decrease in Unreimbursed Commitments	-	-	(20,547)	(20,547)
Total Revenues and Other Sources	551,051	551,051	16,611	(534,440)
Expenditures and Encumbrances				
Capital Outlay	551,051	551,051	79,980	471,071
Operating Surplus (Deficit) for the Year	-	-	(63,369)	(63,369)
Fund Balance Available for Appropriation, July 1, 2005	-	-	(6,646)	(6,646)
Operations in Respect to Prior Fiscal Years				
Commitments Cancelled - Net	-	-	2,499	2,499
Revenue Adjustments - Net	-	-	454	454
Prior Period Adjustments	-	-	124	124
Other Adjustments	-	-	(576)	(576)
Adjusted Fund Balance, July 1, 2005	-	-	(4,145)	(4,145)
Fund Balance Available for Appropriation, June 30, 2006	-	-	(67,514)	(67,514)

City of Philadelphia
Schedule of Budgetary Actual and Estimated Revenues and Obligations
General Fund
For the Fiscal Year Ended June 30, 2006

Schedule XVIII

Amounts in thousands of USD

	Budgeted Amounts		FY 2006 Actual	Final Budget to Actual Positive (Negative)	FY 2005 Actual	Increase (Decrease)
	Original	Final				
Revenue						
Taxes						
Real Property Tax:						
Current	346,291	356,765	354,058	(2,707)	353,196	862
Prior Years	48,000	41,000	41,759	759	39,485	2,274
Total Real Property Tax	394,291	397,765	395,817	(1,948)	392,681	3,136
Wage and Earnings Taxes:						
Current	1,067,659	1,079,812	1,104,035	24,223	1,066,004	38,031
Prior Years	19,000	10,500	7,120	(3,380)	7,625	(505)
Total Wage and Earnings Taxes	1,086,659	1,090,312	1,111,155	20,843	1,073,629	37,526
Business Taxes:						
Business Privilege Taxes:						
Current	274,167	325,177	390,463	65,286	326,648	63,815
Prior Years	42,000	53,000	25,041	(27,959)	52,808	(27,767)
Total Business Privilege Tax	316,167	378,177	415,504	37,327	379,456	36,048
Net Profits Tax:						
Current	11,511	12,044	11,822	(222)	11,971	(149)
Prior Years	2,200	2,500	2,799	299	1,749	1,050
Total Net Profits Tax	13,711	14,544	14,621	77	13,720	901
Total Business Taxes	329,878	392,721	430,125	37,404	393,176	36,949
Other Taxes:						
Sales Tax	114,800	125,876	127,817	1,941	119,880	7,937
Amusement Tax	19,000	17,000	16,970	(30)	13,562	3,408
Real Property Transfer Tax	147,500	220,000	236,430	16,430	192,266	44,164
Parking Lot Tax	47,300	47,200	48,378	1,178	45,034	3,344
Miscellaneous Taxes	4,117	1,485	2,263	778	85	2,178
Total Other Taxes	332,717	411,561	431,858	20,297	370,827	61,031
Total Taxes	2,143,545	2,292,359	2,368,955	76,596	2,230,313	138,642
Locally Generated Non-Tax Revenue						
Rentals from Leased City Properties	6,075	5,310	5,005	(305)	5,054	(49)
Licenses and Permits	41,027	42,589	39,138	(3,451)	40,608	(1,470)
Fines, Forfeits, Penalties, Confiscated Money and Property	20,245	19,835	18,844	(991)	18,401	443
Interest Income	14,700	24,300	30,098	5,798	17,998	12,100
Service Charges and Fees	106,030	99,587	104,315	4,728	94,322	9,993
Other	55,639	38,313	38,510	197	24,499	14,011
Total Locally Generated Non-Tax Revenue	243,716	229,934	235,910	5,976	200,882	35,028
Revenue from Other Governments						
United States Government:						
Grants and Reimbursements	346,178	204,665	235,293	30,628	355,027	(119,734)
Commonwealth of Pennsylvania:						
Grants and Other Payments	412,877	466,082	405,582	(60,500)	432,304	(26,722)
Other Governmental Units	292,940	288,552	283,669	(4,883)	267,267	16,402
Total Revenue from Other Governments	1,051,995	959,299	924,544	(34,755)	1,054,598	(130,054)
Revenue from Other Funds of the City	27,574	28,229	24,887	(3,342)	26,333	(1,446)
Total Revenues	3,466,830	3,509,821	3,554,296	44,475	3,512,126	42,170

City of Philadelphia
Schedule of Budgetary Actual and Estimated Revenues and Obligations
General Fund
For the Fiscal Year Ended June 30, 2006

Schedule XVIII

Amounts in thousands of USD

	Budgeted Amounts		FY 2006 Actual	Final Budget	FY 2005 Actual	Increase (Decrease)
	Original	Final		to Actual Positive (Negative)		
Obligations						
General Government						
City Council	14,514	14,894	12,735	2,159	12,566	169
Mayor's Office:						
Mayor's Office	4,176	4,708	4,603	105	3,620	983
Scholarships	200	200	199	1	200	(1)
Mural Arts Program	849	849	832	17	786	46
Labor Relations	490	585	585	-	472	113
Mayor's Office of Information Services	11,364	11,794	11,717	77	11,549	168
Capital Program Office	1,904	2,038	1,843	195	2,829	(986)
Mayor's Office of Community Services	693	132	132	-	691	(559)
Law	13,848	14,902	14,799	103	15,237	(438)
City Planning Commission	3,294	3,294	3,138	156	3,353	(215)
Commission on Human Relations	2,056	2,056	2,035	21	2,163	(128)
Board of Revision of Taxes	9,523	9,523	8,133	1,390	7,617	516
Total General Government	62,911	64,975	60,751	4,224	61,083	(332)
Operation of Service Departments						
Housing	380	2,380	1,541	839	388	1,153
Managing Director	12,688	13,728	13,543	185	12,896	647
Police	480,231	487,536	480,283	7,253	477,259	3,024
Streets	122,443	129,584	127,726	1,858	125,522	2,204
Fire	169,921	173,930	172,301	1,629	173,475	(1,174)
Public Health	107,040	107,836	105,653	2,183	105,249	404
Office of Behavioral Health	14,612	14,612	14,445	167	14,682	(237)
Recreation	33,336	35,220	35,026	194	35,162	(136)
Fairmount Park Commission	13,129	13,501	13,453	48	15,219	(1,766)
Atwater Kent Museum	270	270	267	3	285	(18)
Camp William Penn	279	297	289	8	279	10
Public Property	159,261	172,452	169,993	2,459	167,306	2,687
Department of Human Services	655,604	578,047	557,741	20,306	600,679	(42,938)
Philadelphia Prisons	186,613	194,769	194,774	(5)	193,872	902
Office of Emergency Services	17,909	35,878	35,779	99	30,028	5,751
Office of Fleet Management	45,230	57,683	57,212	471	44,448	12,764
Licenses and Inspections	28,855	28,991	28,628	363	20,600	8,028
Board of L & I Review	206	206	178	28	176	2
Board of Building Standards	117	117	101	16	98	3
Zoning Board of Adjustment	442	442	414	28	419	(5)
Records	7,769	8,758	8,740	18	7,237	1,503
Philadelphia Historical Commission	316	316	272	44	294	(22)
Art Museum	2,000	2,000	2,000	-	2,000	-
Philadelphia Civic Center	-	-	-	-	2	(2)
Philadelphia Free Library	38,768	38,795	37,310	1,485	36,308	1,002
Total Operations of Service Departments	2,097,419	2,097,348	2,057,669	39,679	2,063,883	(6,214)
Financial Management						
Office of Director of Finance	62,353	43,102	42,919	183	42,098	821
Department of Revenue	17,658	17,707	16,649	1,058	16,381	268
Sinking Fund Commission	166,122	169,270	159,922	9,348	160,398	(476)
Procurement	4,348	4,973	4,599	374	5,213	(614)
City Treasurer	681	684	677	7	577	100
Audit of City Operations	7,101	7,625	7,330	295	7,137	193
Total Financial Management	258,263	243,361	232,096	11,265	231,804	292

City of Philadelphia
 Schedule of Budgetary Actual and Estimated Revenues and Obligations
 General Fund
 For the Fiscal Year Ended June 30, 2006

Schedule XVIII

Amounts in thousands of USD

	Budgeted Amounts		FY 2006 Actual	Final Budget to Actual Positive (Negative)	FY 2005 Actual	Increase (Decrease)
	Original	Final				
Obligations (Continued)						
City-Wide Appropriations Under the Director of Finance						
Fringe Benefits	753,499	760,221	760,221	-	706,233	53,988
Community College of Philadelphia	22,468	22,468	22,468	-	22,468	-
Legal Services	33,607	33,609	33,609	-	33,483	126
Hero Award	25	19	19	-	15	4
Refunds	500	23	20	3	14	6
Witness Fees	175	104	104	-	106	(2)
Contribution to School District	35,000	35,000	35,000	-	35,000	-
Total City-Wide Under Director of Finance	845,274	851,444	851,441	3	797,319	54,122
Promotion and Public Relations						
City Representative	47,287	47,287	47,199	88	45,596	1,603
Personnel						
Civic Service Commission	160	160	155	5	143	12
Personnel Director	4,391	4,565	4,421	144	4,276	145
Total Personnel	4,551	4,725	4,576	149	4,419	157
Administration of Justice						
Clerk of Quarter Sessions	4,348	4,522	4,297	225	4,413	(116)
Register of Wills	3,305	3,310	3,178	132	3,113	65
District Attorney	29,109	29,119	28,658	461	30,311	(1,653)
Sheriff	12,982	13,775	13,775	-	14,255	(480)
First Judicial District	107,388	112,544	112,544	-	119,375	(6,831)
Total Administration of Justice	157,132	163,270	162,452	818	171,467	(9,015)
City-Wide Appropriations Under the First Judicial District						
Juror Fees	1,412	1,595	1,595	-	1,746	(151)
Conduct of Elections						
City Commissioners	8,026	8,270	8,268	2	9,021	(753)
Total Obligations	3,482,275	3,482,275	3,426,047	56,228	3,386,338	39,709
Operating Surplus (Deficit) for the Year	(15,445)	27,546	128,249	100,703	125,788	2,461

City of Philadelphia
Schedule of Budgetary Actual and Estimated Revenues and Obligations
Water Operating Fund
For the Fiscal Year Ended June 30, 2006

Schedule XIX

Amounts in thousands of USD

	Budgeted Amounts		FY 2006 Actual	Final Budget	FY 2005 Actual	Increase (Decrease)
	Original	Final		to Actual Positive (Negative)		
Revenue						
Locally Generated Non-Tax Revenue						
Sales and Charges - Current	382,198	367,555	357,585	(9,970)	328,554	29,031
Sales and Charges - Prior Years	31,917	31,612	38,058	6,446	35,387	2,671
Fire Service Connections	1,658	1,689	2,057	368	1,452	605
Surcharges	4,740	4,952	4,693	(259)	4,887	(194)
Fines and Penalties	615	660	715	55	1,172	(457)
Miscellaneous Charges	1,463	1,216	1,109	(107)	1,206	(97)
Charges to Other Municipalities	23,500	34,727	35,647	920	35,349	298
Licenses and Permits	1,200	1,482	1,914	432	1,426	488
Interest Income	8,905	6,035	10,397	4,362	3,616	6,781
Fleet Management - Sale of Vehicles & Equipment	170	230	278	48	249	29
Contributions from Sinking Fund Reserve	5,319	5,319	5,666	347	4,401	1,265
Reimbursement of Expenditures	25	110	48	(62)	108	(60)
Repair Loan Program	1,244	921	1,892	971	1,758	134
Other	105	258	377	119	131	246
Total Locally Generated Non-Tax Revenue	463,059	456,766	460,436	3,670	419,696	40,740
Revenue from Other Governments						
State	1,585	1,596	332	(1,264)	418	(86)
Federal	-	113	237	124	83	154
Total Revenue from Other Governments	1,585	1,709	569	(1,140)	501	68
Revenue from Other Funds	41,284	33,850	29,254	(4,596)	31,272	(2,018)
Total Revenues	505,928	492,325	490,259	(2,066)	451,469	38,790
Obligations						
Mayor's Office of Information Services	1,341	1,341	1,292	49	1,034	258
Public Property	4,040	4,040	4,013	27	2,979	1,034
Office of Fleet Management	7,215	7,215	6,346	869	5,732	614
Water Department	235,403	253,048	245,634	7,414	218,235	27,399
Office of the Director of Finance	420	420	319	101	377	(58)
City-Wide Appropriation Under the Director of Finance:						
Pension Contributions	24,500	27,622	27,622	-	25,308	2,314
Other Employee Benefits	29,969	28,658	28,658	-	27,836	822
Contributions, Indemnities and Taxes	6,500	481	-	481	-	-
Department of Revenue	24,615	24,615	20,739	3,876	23,052	(2,313)
Sinking Fund Commission	180,957	167,520	166,416	1,104	156,547	9,869
Procurement Department	63	63	61	2	61	-
Law	2,905	2,905	2,926	(21)	2,928	(2)
Total Obligations	517,928	517,928	504,026	13,902	464,089	39,937
Operating Surplus (Deficit) for the Year	(12,000)	(25,603)	(13,767)	11,836	(12,620)	(1,147)

City of Philadelphia
 Schedule of Budgetary Actual and Estimated Revenues and Obligations
 Aviation Operating Fund
 For the Fiscal Year Ended June 30, 2006

Schedule XX

Amounts in thousands of USD

	Budgeted Amounts		FY 2006 Actual	Final Budget	FY 2005 Actual	Increase (Decrease)
	Original	Final		to Actual Positive (Negative)		
Revenue						
Locally Generated Non-Tax Revenue						
Concessions	26,000	26,000	22,623	(3,377)	21,522	1,101
Space Rentals	94,500	94,500	71,161	(23,339)	51,613	19,548
Landing Fees	53,000	53,000	51,429	(1,571)	50,501	928
Parking	26,000	26,000	30,187	4,187	27,239	2,948
Car Rentals	18,000	18,000	17,566	(434)	16,954	612
Payment in Aid - Terminal Building	18,000	18,000	16,510	(1,490)	6,326	10,184
Interest Earnings	1,610	1,610	3,816	2,206	1,666	2,150
Sale of Utilities	4,500	4,500	4,559	59	3,737	822
Passenger Facility charge	33,000	33,000	32,592	(408)	32,908	(316)
Overseas Terminal Facility Charges	250	250	224	(26)	112	112
International Terminal Charge	10,000	10,000	16,219	6,219	27,772	(11,553)
Other	5,021	5,040	2,568	(2,472)	5,995	(3,427)
Total Locally Generated Non-Tax Revenue	289,881	289,900	269,454	(20,446)	246,345	23,109
Revenue from Other Governments						
State	-	100	-	(100)	400	(400)
Federal	2,300	2,200	1,161	(1,039)	1,364	(203)
Total Revenue from Other Governments	2,300	2,300	1,161	(1,139)	1,764	(603)
Revenue from Other Funds	500	500	887	387	882	5
Total Revenues	292,681	292,700	271,502	(21,198)	248,991	22,511
Obligations						
Police	11,362	11,448	10,954	494	10,749	205
Fire	4,959	4,959	4,713	246	4,653	60
Public Property	23,546	23,546	23,138	408	22,036	1,102
Office of Fleet Management	7,609	7,609	4,522	3,087	3,148	1,374
City-Wide Appropriation Under the Director of Finance:						
Pension Contributions	11,300	13,858	13,858	-	12,506	1,352
Other Employee Benefits	14,929	13,957	13,957	-	13,559	398
Purchase of Services	4,146	4,146	2,571	1,575	2,348	223
Contributions, Indemnities and Taxes	2,512	362	-	362	-	-
Sinking Fund Commission	94,947	94,947	88,221	6,726	90,585	(2,364)
Commerce	119,725	120,203	104,199	16,004	101,383	2,816
Law	1,341	1,341	1,336	5	1,304	32
Total Obligations	296,376	296,376	267,469	28,907	262,271	5,198
Operating Surplus (Deficit) for the Year	(3,695)	(3,676)	4,033	7,709	(13,280)	17,313

City of Philadelphia

PENNSYLVANIA



Liberty Bell

STATISTICAL SECTION

Statistical Section

Financial Trends

These tables contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

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The City of Philadelphia implemented GASB Statement #34 in FY2002. Tables presenting government-wide information include information beginning in that year.



City of Philadelphia
Net Assets by Component
For the Fiscal Years 2002 Through 2006

Table 1

Amounts in millions of USD

(full accrual basis of accounting)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental Activities					
Invested in Capital Assets, Net of Related Debt	280.9	286.4	175.0	241.3	248.6
Restricted	427.0	426.8	484.1	516.5	471.5
Unrestricted	<u>(1,295.5)</u>	<u>(453.8)</u>	<u>(707.0)</u>	<u>(1,028.6)</u>	<u>(1,010.9)</u>
Total Governmental Activities Net Assets	<u>(587.6)</u>	<u>259.4</u>	<u>(47.9)</u>	<u>(270.8)</u>	<u>(290.8)</u>
Business-Type Activities					
Invested in Capital Assets, Net of Related Debt	199.1	478.6	541.0	548.4	537.4
Restricted	1,001.6	642.1	504.0	472.0	551.9
Unrestricted	<u>(106.3)</u>	<u>(12.7)</u>	<u>91.3</u>	<u>269.7</u>	<u>273.9</u>
Total Business-Type Activities Net Assets	<u>1,094.4</u>	<u>1,108.0</u>	<u>1,136.3</u>	<u>1,290.1</u>	<u>1,363.2</u>
Primary Government					
Invested in Capital Assets, Net of Related Debt	480.0	765.0	716.0	789.7	786.0
Restricted	1,428.6	1,068.9	988.1	988.5	1,023.4
Unrestricted	<u>(1,401.8)</u>	<u>(466.5)</u>	<u>(615.7)</u>	<u>(758.9)</u>	<u>(737.0)</u>
Total Primary Government Net Assets	<u>506.8</u>	<u>1,367.4</u>	<u>1,088.4</u>	<u>1,019.3</u>	<u>1,072.4</u>

City of Philadelphia
Changes in Net Assets
For the Fiscal Years 2002 Through 2006

Table 2

Amounts in millions of USD

(full accrual basis of accounting)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Expenses					
Governmental Activities:					
Economic Development	97.3	127.9	127.4	89.5	89.8
Transportation:					
Streets & Highways	110.9	99.8	109.9	119.0	116.0
Mass Transit	85.2	85.9	81.3	84.9	84.5
Judiciary and Law Enforcement:					
Police	674.9	755.2	793.8	817.1	836.0
Prisons	201.0	223.4	237.1	250.2	268.7
Courts	265.8	253.8	277.2	284.9	287.1
Conservation of Health:					
Emergency Medical Services	25.7	29.0	30.6	34.2	35.6
Health Services	1,147.8	1,196.5	1,174.6	1,275.0	1,411.9
Housing and Neighborhood Development	124.8	125.2	119.0	123.0	149.5
Cultural and Recreational:					
Recreation	84.5	109.5	118.4	68.3	73.3
Parks	44.2	26.2	32.6	30.2	28.9
Libraries and Museums	66.9	63.0	67.5	80.7	68.6
Improvements to General Welfare:					
Social Services	580.4	641.5	691.2	697.6	702.0
Education	81.8	57.1	58.6	61.6	59.9
Inspections and Demolitions	50.5	44.3	81.3	79.0	55.3
Service to Property:					
Sanitation	109.1	114.8	121.0	126.0	128.8
Fire	173.0	190.2	215.4	229.6	236.1
General Management and Support	521.8	524.8	576.9	519.9	574.8
Interest on Long Term Debt	169.7	130.2	98.3	138.2	136.9
Total Governmental Activities Expenses	<u>4,615.3</u>	<u>4,798.3</u>	<u>5,012.1</u>	<u>5,108.9</u>	<u>5,343.7</u>
Business-Type Activities:					
Water and Sewer	427.7	412.9	416.9	442.3	455.4
Aviation	197.9	244.5	261.0	269.5	303.1
Industrial and Commercial Development	3.8	2.2	2.5	4.7	2.1
Total Business-Type Activities Expenses	<u>629.4</u>	<u>659.6</u>	<u>680.4</u>	<u>716.5</u>	<u>760.6</u>
Total Primary government Expenses	<u>5,244.7</u>	<u>5,457.9</u>	<u>5,692.5</u>	<u>5,825.4</u>	<u>6,104.3</u>
Program Revenues					
Governmental Activities:					
Charges for Services:					
Economic Development	15.1	0.2	6.9	0.1	-
Transportation:					
Streets & Highways	1.3	1.1	1.5	1.9	2.2
Mass Transit	0.4	0.6	0.5	0.5	0.6
Judiciary and Law Enforcement:					
Police	1.4	2.2	2.4	2.2	7.2
Prisons	0.7	0.4	0.5	0.4	0.4
Courts	72.4	50.9	52.5	48.4	51.5
Conservation of Health:					
Emergency Medical Services	18.6	20.1	20.7	23.1	25.0
Health Services	10.0	10.2	11.6	13.5	14.0
Housing and Neighborhood Development	2.3	18.9	12.0	10.0	22.3
Cultural and Recreational:					
Recreation	14.5	14.3	13.0	0.8	0.4
Parks	1.6	1.9	1.7	0.9	0.4
Libraries and Museums	0.3	0.3	0.4	0.5	0.9
Improvements to General Welfare:					
Social Services	8.8	8.8	6.9	7.6	7.4
Inspections and Demolitions	0.5	0.5	0.8	0.7	0.7
Service to Property:					
Sanitation	1.2	1.8	2.0	2.1	1.8
Fire	0.3	0.1	0.1	0.5	0.4
General Management and Support	127.0	150.7	138.2	130.8	179.1
Operating Grants and Contributions	<u>1,834.2</u>	<u>1,907.2</u>	<u>1,958.7</u>	<u>2,067.2</u>	<u>2,142.1</u>
Capital Grants and Contributions	<u>19.9</u>	<u>17.3</u>	<u>19.6</u>	<u>9.1</u>	<u>21.4</u>
Total Governmental Activities Program Revenues	<u>2,130.5</u>	<u>2,207.5</u>	<u>2,250.0</u>	<u>2,320.3</u>	<u>2,477.8</u>

City of Philadelphia
Changes in Net Assets
For the Fiscal Years 2002 Through 2006

Table 2

Amounts in millions of USD

(full accrual basis of accounting)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Business-Type Activities:					
Charges for Services:					
Water and Sewer	350.9	385.4	401.6	450.6	470.8
Aviation	201.2	230.5	251.9	278.4	295.0
Industrial and Commercial Development	3.2	1.2	1.2	1.1	1.2
Operating Grants and Contributions	11.0	8.9	4.8	2.0	2.5
Capital Grants and Contributions	23.8	17.8	21.0	20.7	25.3
Total Business-Type Activities Program Revenues	<u>590.1</u>	<u>643.8</u>	<u>680.5</u>	<u>752.8</u>	<u>794.8</u>
Total Primary Government Revenues	<u>2,720.6</u>	<u>2,851.3</u>	<u>2,930.5</u>	<u>3,073.1</u>	<u>3,272.6</u>
Net (Expense)/Revenue					
Governmental Activities	(2,484.8)	(2,590.8)	(2,762.1)	(2,788.6)	(2,865.9)
Business-Type Activities	(39.3)	(15.8)	0.1	36.3	34.2
Total Primary Government Net Expense	<u>(2,524.1)</u>	<u>(2,606.6)</u>	<u>(2,762.0)</u>	<u>(2,752.3)</u>	<u>(2,831.7)</u>
General Revenues and Other Changes in Net Assets					
Governmental Activities:					
Taxes:					
Property Taxes	351.7	362.7	374.4	381.8	386.3
Wage & Earnings Taxes	1,271.2	1,301.9	1,345.9	1,373.0	1,424.9
Business Taxes	307.9	306.9	319.2	367.9	430.2
Other Taxes	286.1	294.7	342.1	406.4	457.7
Unrestricted Grants & Contributions	61.1	61.2	47.1	84.3	81.7
Interest & Investment Earnings	35.2	57.5	26.0	32.9	60.2
Special Items	-	(99.3)	-	-	-
Transfers	4.1	4.1	-	4.4	5.0
Total Governmental Activities	<u>2,317.3</u>	<u>2,289.7</u>	<u>2,454.7</u>	<u>2,650.7</u>	<u>2,846.0</u>
Business-Type Activities:					
Interest & Investment Earnings	45.4	33.5	6.6	15.8	43.8
Transfers	(6.9)	(4.1)	-	(4.4)	(4.9)
Total Business-Type Activities	<u>38.5</u>	<u>29.4</u>	<u>6.6</u>	<u>11.4</u>	<u>38.9</u>
Total Primary Government	<u>2,355.8</u>	<u>2,319.1</u>	<u>2,461.3</u>	<u>2,662.1</u>	<u>2,884.9</u>
Change in Net Assets					
Governmental Activities	(167.5)	(301.1)	(307.4)	(137.9)	(19.9)
Business-Type Activities	(0.8)	13.6	6.7	47.7	73.1
Total Primary Government	<u>(168.3)</u>	<u>(287.5)</u>	<u>(300.7)</u>	<u>(90.2)</u>	<u>53.2</u>

**City of Philadelphia
Fund Balances
Governmental Funds
For the Fiscal Years 2002 Through 2006**

Table 3

Amounts in millions of USD

(modified accrual basis of accounting)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Fund					
Reserved	337.5	240.9	152.2	190.7	193.3
Unreserved	139.0	(7.9) ¹	(148.1)	(36.4)	111.2
Total General Fund	<u>476.5</u>	<u>233.0</u>	<u>4.1</u>	<u>154.3</u>	<u>304.5</u>
All Other Governmental Funds					
Reserved	490.5	455.7	378.0	487.5	585.1
Unreserved, reported in:					
Special Revenue Funds	6.8	64.8	98.9	100.8	(52.0)
Debt Service funds	1.8	1.7	1.6	1.7	1.7
Capital Projects Funds	6.8	(98.1)	80.9	(6.3)	(67.1)
Permanent Funds	2.4	3.1	3.2	3.4	3.7
Total All Other Governmental Funds	<u>508.3</u>	<u>427.2</u>	<u>562.6</u>	<u>587.1</u>	<u>471.4</u>

¹ Effective April 15, 2003, the City implemented a change to the basis on which the Business Privilege Tax is collected requiring an estimated payment applicable to the next year's tax liability. A portion of these estimated tax payments are deferred in the general fund beginning in FY2003 because the underlying events had not occurred.

City of Philadelphia
Changes in Fund Balances
Governmental Funds
For the Fiscal Years 2002 Through 2006

Table 4

Amounts in millions of USD

(modified accrual basis of accounting)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Revenues					
Tax Revenue	2,255.6	2,253.8	2,379.0	2,535.2	2,708.5
Locally Generated Non-Tax Revenue	298.4	339.8	280.0	265.2	354.5
Revenue from Other Governments	1,790.2	2,049.5	1,922.3	2,242.0	2,223.2
Other Revenues	13.6	17.3	18.5	16.7	15.3
Total Revenues	4,357.8	4,660.4	4,599.8	5,059.1	5,301.5
Expenditures					
Current Operating:					
Economic Development	91.7	170.4	157.0	92.7	81.5
Transportation:					
Streets & Highways	71.8	78.1	75.9	77.7	78.8
Mass Transit	56.9	57.5	52.9	56.6	56.7
Judiciary and Law Enforcement:					
Police	665.2	727.3	752.0	770.9	798.0
Prisons	194.8	214.3	224.5	241.3	256.6
Courts	265.7	246.5	267.8	276.9	278.2
Conservation of Health:					
Emergency Medical Services	25.7	28.4	29.7	33.3	34.8
Health Services	1,146.0	1,192.7	1,170.3	1,271.1	1,407.7
Housing and Neighborhood Development	123.5	120.7	119.0	122.9	147.9
Cultural and Recreational:					
Recreation	64.4	94.0	65.7	58.3	59.8
Parks	32.5	24.2	23.8	23.7	23.4
Libraries and Museums	62.5	64.4	61.1	68.2	70.2
Improvements to General Welfare:					
Social Services	578.6	636.1	683.4	689.1	695.9
Education	81.8	57.1	58.6	61.5	59.9
Inspections and Demolitions	50.9	46.6	83.6	81.2	59.8
Service to Property:					
Sanitation	109.1	111.5	117.8	122.0	125.6
Fire	170.3	188.0	203.0	217.8	225.8
General Management and Support	420.8	450.9	472.4	477.1	537.5
Capital Outlay	277.8	162.2	126.0	103.1	97.9
Debt Service:					
Principal	130.0	106.8	105.7	95.8	86.2
Interest	116.0	112.3	101.6	101.0	99.9
Bond Issuance Cost	-	-	9.2	3.9	-
Total Expenditures	4,736.0	4,890.0	4,961.0	5,046.1	5,282.1
Excess of Revenues Over Expenditures	(378.2)	(229.6)	(361.2)	13.0	19.4
Other Financing Sources (Uses)					
Issuance of Debt	-	165.5	487.7	157.3	10.0
Bond Issuance Premium	-	-	4.8	-	-
Proceeds from Lease & Service Agreements	468.2	-	10.9	-	-
Bond Defeasance	-	(165.4)	(233.1)	-	-
Transfers In	703.5	449.4	442.9	581.4	433.1
Transfers Out	(693.5)	(445.2)	(442.9)	(577.0)	(428.1)
Total Other Financing Sources (Uses)	478.2	4.3	270.3	161.7	15.0
Special Items					
Business Privilege Tax Adjustment	-	(99.3) ¹	-	-	-
Net Change in Fund Balances	100.0	(324.6)	(90.9)	174.7	34.4
Debt Service as a Percentage of Non-capital Expenditures	5.6%	4.7%	4.3%	4.0%	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. \$99.3 million of these estimated tax payments were deferred in the general fund in FY2003 because the underlying events had not occurred.

Table 5

City of Philadelphia
Comparative Schedule of Operations
Municipal Pension Fund
For the Fiscal Years 1997 through 2006

Amounts in millions of USD

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Additions:										
Contributions:										
Employee Contributions	47.0	48.0	49.2	50.2	49.3	50.1	52.5	50.5	49.3	48.9
Employer's:										
City of Philadelphia	237.0	252.0	1,506.8 ¹	179.5	163.5	174.2	174.6	196.6	290.6	321.3
Quasi-Governmental Agencies	5.2	5.0	4.9	4.5	4.1	4.0	5.2	6.2	8.6	10.4
Total Employer's Contributions	242.2	257.0	1,511.7	184.0	167.6	178.2	179.8	202.8	299.2	331.7
Total Contributions	289.2	305.0	1,560.9	234.2	216.9	228.3	232.3	253.3	348.5	380.6
Interest & Dividends	111.2	115.3	119.3	124.9	133.8	109.3	74.4	68.4	74.6	65.1
Net Gain (Decline) in Fair Value of Investments	336.6	295.2	262.3	318.7	(422.8)	(359.6)	(3.9)	526.6	306.2	386.4
Net Securities Lending Revenue	0.5	1.3	1.5	1.5	2.0	2.2	1.0	0.8	0.9	0.7
Net Investment Income (Loss)	448.3	411.8	383.1	445.1	(287.0)	(248.1)	71.5	595.8	381.7	452.2
Miscellaneous Operating Revenue	0.3	0.4	0.2	0.2	0.6	0.7	2.4	1.3	0.4	2.1
<u>Total Additions</u>	<u>737.8</u>	<u>717.2</u>	<u>1,944.2</u>	<u>679.5</u>	<u>(69.5)</u>	<u>(19.1)</u>	<u>306.2</u>	<u>850.4</u>	<u>730.6</u>	<u>834.9</u>
Deductions:										
Pension Benefits	372.0	383.3	434.0	444.3	456.8	450.2	462.3	657.5	590.6	608.6
Refunds to Members	3.8	3.2	4.2	4.2	4.7	7.1	4.9	4.1	4.6	4.8
Administrative Costs	4.4	4.0	4.4	4.9	5.3	5.2	6.6	6.4	6.8	6.7
<u>Total Deductions</u>	<u>380.2</u>	<u>390.5</u>	<u>442.6</u>	<u>453.4</u>	<u>466.8</u>	<u>462.5</u>	<u>473.8</u>	<u>668.0</u>	<u>602.0</u>	<u>620.1</u>
Net Increase (Decrease)	357.6	326.7	1,501.6	226.1	(536.3)	(481.6)	(167.6)	182.4	128.6	214.8
Net Assets: Adjusted Opening Closing	2,563.4	2,922.1	3,248.8	4,750.3	4,976.4	4,440.1	3,958.5	3,790.8	3,973.2	4,101.8
	2,921.0	3,248.8	4,750.4	4,976.4	4,440.1	3,958.5	3,790.8	3,973.2	4,101.8	4,316.6
Ratios:										
Pension Benefits Paid as a Percent of:										
Net Members Contributions	861.11%	855.58%	964.44%	965.87%	1024.22%	1046.98%	971.22%	1417.03%	1321.25%	1380.05%
Closing Net Assets	12.74%	11.80%	9.14%	8.93%	10.29%	11.37%	12.20%	16.55%	14.40%	14.10%
Coverage of Additions over Deductions	194.06%	183.66%	439.26%	149.87%	-14.89%	-4.13%	64.63%	127.31%	121.36%	134.64%
Investment Earnings as % of Pension Benefits	120.51%	107.44%	88.27%	100.18%	-62.83%	-55.11%	15.47%	90.62%	64.63%	74.30%

¹ Includes \$1,250 million from the sale of Pension Obligation Bonds

**City of Philadelphia
Wage and Earnings Tax Taxable Income
For the Calendar Years 1996 Through 2005**

Table 6

Amounts in millions of USD

Year	City Residents			Non-City Residents			Total Taxable Income	Total Direct Rate
	Taxable Income	% of Total	Direct Rate ¹	Taxable Income	% of Total	Direct Rate ¹		
1996	13,637.3	58.53%	4.86000%	9,663.6	41.47%	4.22560%	23,300.9	4.59689%
1997	14,124.7	58.59%	4.84000%	9,983.1	41.41%	4.20820%	24,107.8	4.57837%
1998	14,914.5	58.59%	4.73845%	10,540.8	41.41%	4.11985%	25,455.3	4.48229%
1999	15,903.0	58.82%	4.65020%	11,133.8	41.18%	4.04310%	27,036.8	4.40020%
2000	16,759.8	59.07%	4.58850%	11,611.4	40.93%	3.98920%	28,371.2	4.34323%
2001	17,478.3	59.25%	4.55100%	12,020.4	40.75%	3.95670%	29,498.7	4.30883%
2002	17,615.6	59.54%	4.51930%	11,969.4	40.46%	3.92950%	29,585.0	4.28068%
2003	18,073.7	58.86%	4.48130%	12,635.0	41.14%	3.89640%	30,708.7	4.24064%
2004	18,428.5	58.31%	4.46250%	13,175.0	41.69%	3.88010%	31,603.5	4.21971%
2005	19,238.5	58.35%	4.33100%	13,733.7	41.65%	3.81970%	32,972.2	4.11803%

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 1998 through 2004 the rate changed on July 1st. For those years the direct rate is an average of the two rates involved during the calendar year.

Table 7

City of Philadelphia
Direct and Overlapping Tax Rates
For the Ten Fiscal Years 1997 through 2006

Tax Classification

Wage and Earnings Tax:

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
^a City Residents	4.8400%	4.7900%	4.6869%	4.6135%	4.5635%	4.5385%	4.5000%	4.4625%	4.3310%	4.3010%
Non-City Residents	4.2082%	4.1647%	4.0750%	4.0112%	3.9672%	3.9462%	3.9127%	3.8801%	3.8197%	3.7716%

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.

^d **Real Property: (% on Assessed Valuation)**

City	3.745%	3.745%	3.745%	3.745%	3.745%	3.745%	3.474%	3.474%	3.474%	3.474%
School District of Philadelphia	4.519%	4.519%	4.519%	4.519%	4.519%	4.519%	4.790%	4.790%	4.790%	4.790%
Total Real Property Tax	8.264%	8.264%	8.264%	8.264%	8.264%	8.264%	8.264%	8.264%	8.264%	8.264%
^e Assessment Ratio	30.28%	30.19%	30.35%	30.35%	30.32%	30.33%	30.12%	30.02%	29.70%	29.69%
Effective Tax Rate (Real Property Rate x Assessment Ratio)	2.502%	2.495%	2.508%	2.508%	2.506%	2.506%	2.489%	2.481%	2.454%	2.454%

The City and the School District of Philadelphia impose a tax on all real estate in the City. Real Estate Tax bills are sent out in December and are due and payable March 31st without penalty or interest. If you pay your bill on or before the last day of February, you receive a 1% discount.

Real Property Transfer Tax

City	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Commonwealth of Pennsylvania	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Total Real Property Transfer Tax	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

The 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.

^c **Business Privilege Taxes**

(% on Gross Receipts)	0.2950%	0.2875%	0.2775%	0.2650%	0.2525%	0.2400%	0.2400%	0.2300%	0.2100%	0.1900%
^f (% on Net Income)	6.5000%	6.5000%	6.5000%	6.5000%	6.5000%	6.5000%	6.5000%	6.5000%	6.5000%	6.5000%

Every individual, partnership, association and corporation engaged in a business, profession or other activity for profit within the City of Philadelphia must file a Business Privilege Tax Return.

^c **Net Profits Tax:**

^a City Residents	4.8400%	4.7900%	4.6869%	4.6135%	4.5635%	4.5385%	4.5000%	4.4625%	4.4625%	4.3310%
Non-City Residents	4.2082%	4.1647%	4.0750%	4.0112%	3.9672%	3.9462%	3.9127%	3.8801%	3.8801%	3.8197%

The 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.

Table 7

City of Philadelphia
Direct and Overlapping Tax Rates
For the Ten Fiscal Years 1997 through 2006

<u>Tax Classification</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Sales Tax										
City	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Commonwealth of Pennsylvania	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Total Sales Tax	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Amusement Tax	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
<i>This tax is 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.</i>										
Parking Lot Tax	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
<i>The 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.</i>										
Hotel Room Rental Tax	6.0%	6.0%	6.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
<i>This tax is 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.</i>										
Vehicle Rental Tax	-	-	-	-	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
<i>This tax is 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.</i>										

^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 sited, the previous fiscal year's rate was in effect from July 1 through December 31.

^c Rates apply to the tax year (previous calendar year) and the tax is due April 15th in the fiscal year sited.

^d Rates apply to the tax year (current calendar year) and the tax is due March 31st in the fiscal year sited.

^e The State Tax Equalization Board (STEB) annually determines a ratio of assessed valuation to true value for each municipality in the Commonwealth of Pennsylvania. The ratio is used for the purpose of equalizing certain state school aid distribution.

^f 60% of the Net Income portion of the Business Privilege Tax is allowed to be credited against the Net Profits Tax

**City of Philadelphia
Principal Wage and Earnings Tax Remitters ¹
Current Calendar Year and Nine Years Ago**

Table 8

Amounts in millions of USD

Remittance Range	2005			1996		
	# of Remitters (Employers)	Total Amount Remitted	Percentage of Total Remitted	# of Remitters (Employers)	Total Amount Remitted	Percentage of Total Remitted
Greater than \$10 million	13	310.1	22.84%	10	221.6	20.69%
Between \$1 million & \$10 million	140	343.9	25.33%	97	275.2	25.69%
Between \$100,000 & \$1 million	1,443	366.9	27.02%	1,088	284.4	26.55%
Between \$10,000 & \$100,000	8,458	252.3	18.58%	7,333	212.7	19.86%
Less than \$10,000	36,710	84.6	6.23%	36,174	77.2	7.21%
Total	46,764	1,357.8	100.00%	44,702	1,071.1	100.00%

¹ Wage & Earnings information for individual remitters is confidential

**City of Philadelphia
Assessed Value and Estimated Value of Taxable Property
For the Calendar Years 1997 through 2006**

Table 9

Amounts in millions of USD

Calendar Year of Levy ¹	Assessed Value ³	Less: Tax-Exempt Property ^{2,3}	Total Taxable Assessed Value	Total Direct Tax Rate ⁴	Estimated Actual Taxable Value ⁵
1997	12,490	3,271	9,219	3.745%	30,446
1998	12,494	3,293	9,201	3.745%	30,477
1999	12,628	3,387	9,241	3.745%	30,448
2000	12,864	3,413	9,451	3.745%	31,140
2001	13,254	3,513	9,741	3.745%	32,127
2002	13,762	3,603	10,159	3.745%	33,495
2003	14,326	3,705	10,621	3.474%	35,262
2004	14,813	3,867	10,946	3.474%	36,462
2005	15,072	4,040	11,032	3.474%	37,145
2006	15,803	4,372	11,431	3.474%	38,501

¹ Real property tax bills are sent out in November and are payable at one percent (1%) discount until February 28th, otherwise the face amount is due by March 31 without penalty or interest.

² Bill #1130, approved February 8, 1978, provides relief from real estate taxes on improvements to deteriorated industrial, commercial or other business property for a period of five years. Bill #982, approved July 9, 1990, changed the exemption period from five years to three years. Bill #225, approved October 4, 2000, extended the exemption period from three years to ten years.

Bill #1456A, approved January 28, 1983, provides for a maximum three year tax abatement for owner-occupants of newly constructed residential property. Bill #226, approved September 12, 2000, extended the exemption period from three years to ten years.

Legislative Act #5020-205 as amended, approved October 11, 1984, provides for a maximum thirty month tax abatement to developers of residential property.

Bill #274, approved July 1, 1997, provides a maximum ten year tax abatement for conversion of eligible deteriorated commercial or other business property to commercial non-owner occupied residential property.

Bill #788A, approved December 30, 1998, provides a maximum twelve year tax exemption, abatement or credit of certain taxes within the geographical area designated as the Philadelphia Keystone Opportunity Zone.

³ Source: Board of Revision of Taxes

⁴ per \$1,000.00 of assessed value

⁵ The State Tax Equalization Board (STEB) annually determines a ratio of assessed valuation to true value for each municipality in the Commonwealth of Pennsylvania. See Table 13.

**City of Philadelphia
Principal Property Tax Payers
Current Year and Nine Years Ago**

Table 10

Amounts in millions of USD

<u>Taxpayer</u>	<u>2006</u>			<u>1997</u>		
	<u>Assessment</u> ¹	<u>Rank</u>	<u>Percentage of Total Assessments</u>	<u>Assessment</u> ¹	<u>Rank</u>	<u>Percentage of Total Assessments</u>
Phila. Liberty Place	57.6	1	0.50%	-	-	-
Nine Penn Center Associates	54.1	2	0.47%	45.4	6	0.49%
Two Liberty Place	52.3	3	0.46%	-	-	-
HUB Properties Trust	49.6	4	0.43%	-	-	-
Franklin Mills Associates	48.4	5	0.42%	48.2	3	0.52%
Bell Atlantic	43.3	6	0.38%	54.9	2	0.60%
PRU 1901 Market LLC	32.9	7	0.29%	-	-	-
Maguire/Thomas	32.0	8	0.28%	31.6	8	0.34%
Commerce Square Partners	30.5	9	0.27%	-	-	-
Phila Shipyard Development Corp	30.3	10	0.27%	-	-	-
C S F Partnership	-	-	-	63.4	1	0.69%
One Liberty Place & Land Joint Venture	-	-	-	48.0	4	0.52%
LP Associates	-	-	-	46.1	5	0.50%
Maguire/Thomas Partners & Phila Plaza Assoc.	-	-	-	35.0	7	0.38%
1600 Market St. Associates	-	-	-	26.6	9	0.29%
Prudential Insurance	-	-	-	24.0	10	0.26%
	<u>431.0</u>		<u>3.77%</u>	<u>423.2</u>		<u>4.59%</u>
Total Taxable Assessments	<u>11,430.6</u>		<u>100.00%</u>	<u>9,219.0</u>		<u>100.00%</u>

¹ Source: Board of Revision of Taxes

City of Philadelphia
Real Property Taxes Levied and Collected
For the Calendar Years 1997 through 2006

Table 11

Amounts in millions of USD

Calendar Year of Levy	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	Percentage of Levy
1997	336.2	310.8	92.4%	21.7	332.5	98.9%
1998	338.6	311.9	92.1%	23.1	335.0	98.9%
1999	343.6	316.2	92.0%	22.4	338.6	98.5%
2000	349.3	322.0	92.2%	22.5	344.5	98.6%
2001	356.6	326.7	91.6%	21.4	348.1	97.6%
2002	368.2	340.4	92.5%	20.4	360.8	98.0%
2003	359.4	326.8	90.9%	19.9	346.7	96.5%
2004	372.5	340.9	91.5%	15.5	356.4	95.7%
2005	373.5	350.3	93.8%	6.4	356.7	95.5%
2006	388.0	322.3 ³	83.1%	-	322.3	83.1%

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, 2006

³ Includes collections through June 30, 2006. It is estimated that approximately 91% of the amount levied for 2006 will be collected within the year of levy.

City of Philadelphia
Ratios of Outstanding Debt by Type
For the Fiscal Years 1997 through 2006

Table 12

Amounts in millions of USD (except per capita)

Fiscal Year	Governmental Activities										Business-Type Activities					Total Primary Government	% of Personal Income ¹	Per Capita ¹
	General Obligation Bonds	Pension Service Agreement	Neighborhood Transformation Initiative	One Parkway Agreement	Sports Stadia Agreement	Central Library Project	Total Governmental Activities	General Obligation Bonds	Water Revenue Bonds	Airport Revenue Bonds	Total Business-Type Activities							
1997	2,029.4	-	-	-	-	-	2,029.4	74.7	1,536.4	461.4	2,072.5	4,101.9	12.80%	2,661.84				
1998	1,927.7	-	-	-	-	-	1,927.7	61.0	1,840.7	545.5	2,447.2	4,374.9	13.38%	2,857.54				
1999	2,081.2	1,297.4	-	-	-	-	3,378.6	51.0	1,793.7	976.2	2,820.9	6,199.5	18.10%	4,065.25				
2000	1,964.6	1,303.0	-	-	-	-	3,267.6	38.5	1,738.7	962.2	2,739.4	6,007.0	17.08%	3,951.97				
2001	2,137.6	1,296.8	-	-	-	-	3,434.4	24.5	1,679.5	943.0	2,647.0	6,081.4	16.35%	4,016.78				
2002	2,009.5	1,386.6	142.6	55.8	346.8	-	3,941.3	19.2	1,722.2	1,123.0	2,864.4	6,805.7	17.77%	4,540.16				
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	16.42%	4,455.21				
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	16.03%	4,539.47				
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	15.90%	4,731.48				
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	15.05%	4,720.78				

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statement.

¹ See Table 17 for Personal Income and Population Amounts

City of Philadelphia
Ratios of General Bonded Debt Outstanding
For the Fiscal Years 1997 through 2006

Table 13

Amounts in millions of USD (except per capita)

Fiscal Year	General Obligation Bonds	Assessed Taxable Value of Property ¹	Assessed Ratio ²	Actual Taxable Value of Property	% of Actual Taxable Value of Property	Per Capita ³
1997	2,029.4	9,219	30.28%	30,446	6.67%	1,316.94
1998	1,927.7	9,201	30.19%	30,477	6.33%	1,259.11
1999	2,081.2	9,241	30.35%	30,448	6.84%	1,364.72
2000	1,964.6	9,451	30.35%	31,140	6.31%	1,292.50
2001	2,137.6	9,741	30.32%	32,127	6.65%	1,411.89
2002	2,009.5	10,159	30.33%	33,495	6.00%	1,340.56
2003	1,903.3	10,621	30.12%	35,262	5.40%	1,279.96
2004	2,047.1	10,946	30.02%	36,462	5.61%	1,385.99
2005	1,950.8	11,032	29.70%	37,145	5.25%	1,326.17
2006	1,863.8	11,431	29.69%	38,501	4.84%	1,273.96

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statement.

¹ Source: Board of Revision of Taxes

² The State Tax Equalization Board (STEB) annually determines a ratio of assessed valuation to true value for each municipality in the Commonwealth of Pennsylvania. The ratio is used for the purpose of equalizing certain state school aid distribution.

³ See Table 17 for Population Amounts

City of Philadelphia
Direct and Overlapping Governmental Activities Debt
June 30, 2006

Table 14

Amounts in millions of USD

	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
<u>Governmental Unit</u>			
School District of Philadelphia	<u>2,386.8</u>	<u>100.00%</u>	<u>2,386.8</u>
¹ City Direct Debt			<u>3,983.4</u>
Total Direct and Overlapping Debt			<u><u>6,370.2</u></u>

Note:

Overlapping governments are those that coincide, in least in part, with the geographic boundaries of the City. The outstanding debt of the School District of Philadelphia is supported by property taxes levied on properties within the City boundaries. This schedule attempts to show the entire debt burden borne by City residents and businesses.

¹ Refer to Table 12

Legal Debt Margin Calculation for FY2006

¹ Assessed Value	9,893.4
² Debt Limit	1,335.6
³ Debt Applicable to Limit:	
Tax Supported General Obligation Debt:	968.2
Issued & Outstanding	217.6
Authorized but Unissued	
Total	<u>1,185.8</u>
Less: Amount set aside for repayment of general obligation debt	<u>-</u>
Total Net Debt Applicable to Limit	<u>1,185.8</u>
Legal Debt Margin	<u><u>149.8</u></u>

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Debt Limit	1,197.6	1,215.4	1,227.4	1,241.5	1,247.4	1,253.2	1,261.3	1,280.3	1,304.8	1,335.6
Total Net Debt Applicable to Limit	<u>815.9</u>	<u>885.6</u>	<u>973.6</u>	<u>939.2</u>	<u>1,152.7</u>	<u>1,163.6</u>	<u>1,202.2</u>	<u>1,159.1</u>	<u>1,205.5</u>	<u>1,185.8</u>
Legal Debt Margin	<u>381.7</u>	<u>329.8</u>	<u>253.8</u>	<u>302.3</u>	<u>94.7</u>	<u>89.6</u>	<u>59.1</u>	<u>121.2</u>	<u>99.3</u>	<u>149.8</u>
Total Net Debt Applicable to the Limit as a Percent of Total Debt	68.13%	72.86%	79.32%	75.65%	92.41%	92.85%	95.31%	90.53%	92.39%	88.78%

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
Pledged-Revenue Coverage
For the Fiscal Years 1997 through 2006

Table 16

Amounts in millions of USD

No.		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Water and Sewer Revenue Bonds											
1	Total Revenue and Beginning Fund Balance	394.4	411.1	393.9	391.8	380.6	390.8	454.2	421.6	463.5	504.0
2	Net Operating Expenses	228.7	228.6	233.9	237.8	242.6	242.9	250.2	262.0	277.7	284.2
3	Transfer To (From) Rate Stabilization Fund	20.9	30.7	(15.4)	(22.4)	(39.4)	(26.3)	16.8	(28.8)	(0.6)	21.6
4	Net Revenues	144.8	151.8	175.4	176.4	177.4	174.2	187.2	188.4	186.4	198.2
Debt Service:											
5	Revenue Bonds Outstanding	120.8	126.5	146.2	147.0	147.8	145.2	156.1	157.0	155.4	165.2
6	General Obligation Bonds Outstanding	3.9	3.1	2.3	1.5	1.3	0.6	-	-	-	-
7	Pennvest Loan	1.3	1.1	1.2	1.2	1.3	1.6	1.2	1.2	1.2	1.2
8	Total Debt Service	126.0	130.7	149.7	149.7	150.4	147.4	157.3	158.2	156.6	166.4
9	Net Revenue after Debt Service	18.8	21.1	25.7	26.7	27.0	26.8	29.9	30.2	29.8	31.8
10	Transfer to General Fund	4.1	4.1	4.1	4.1	4.1	4.1	4.1	-	4.4	5.0
11	Transfer to Capital Fund	14.7	15.1	15.6	15.9	15.9	16.1	16.0	16.4	16.7	16.9
12	Transfer to Residual Fund	-	1.9	6.0	6.7	7.0	6.6	9.8	13.8	8.7	9.9
13	Ending Fund Balance	-	-	-	-	-	-	-	-	-	-
Debt Service Coverage:											
	Coverage A (Line 4/Line 5)	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
	Coverage B (Line 4/Line 8 + Line 11)	1.03	1.04	1.06	1.07	1.07	1.07	1.08	1.08	1.08	1.08
Airport Revenue Bonds											
1	Project Revenues	109.4	108.2	124.5	130.4	148.0	146.5	168.4	183.3	185.1	200.8
2	Passenger Facility Charges	-	-	-	-	-	16.8	31.2	32.8	32.9	32.6
3	Revenue Available for Debt Service	109.4	108.2	124.5	130.4	148.0	163.3	199.6	216.1	218.0	233.4
4	Net Operating Expenses	41.2	41.2	47.0	51.8	59.6	56.3	67.0	71.9	71.3	77.2
5	Interdepartmental Charges	31.6	32.3	41.5	35.3	36.0	39.7	46.1	52.2	57.6	57.9
6	Total Expenses	72.8	73.5	88.5	87.1	95.6	96.0	113.1	124.1	128.9	135.1
Available for Debt Service:											
7	Revenue Bonds (Line 3-Line 4)	68.2	67.0	77.5	78.6	88.4	107.0	132.6	144.2	146.7	156.2
8	All Bonds (Line 3-Line 6)	36.6	34.7	36.0	43.3	52.4	67.3	86.5	92.0	89.1	98.3
Debt Service:											
9	Revenue Bonds	27.6	25.3	29.7	36.5	44.8	64.1	83.2	89.7	88.1	88.1
10	General Obligation Bonds	6.2	7.2	5.2	5.7	5.7	2.0	1.4	1.0	1.1	-
11	Total Debt Service	33.8	32.5	34.9	42.2	50.5	66.1	84.6	90.7	89.2	88.1
Debt Service Coverage:											
	Revenue Bonds Only - Test "A" (Line 7/Line 9)	2.47	2.65	2.61	2.15	1.97	1.67	1.59	1.61	1.67	1.77
	Total Debt Service - Test "B" (Line 8/Line 11)	1.08	1.07	1.03	1.03	1.04	1.02	1.02	1.01	1.00	1.12

Note:
The rate covenant of the Aviation issues permit inclusion of Unencumbered Project Fund Balances at the beginning of the period with project revenues for the period to determine adequacy of coverage.

Coverage "A" requires that Net Revenues equal 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. Airport Revenues and Expenses have been reduced by amounts applicable to the Outside Terminal Area and the Overseas Terminal as prescribed by the indenture.

City of Philadelphia
Demographic and Economic Statistics
For the Calendar Years 1996 through 2005

Table 17

Calendar Year	Population ¹	Personal Income ¹ <i>(thousands of USD)</i>	Per Capita Personal Income <i>(USD)</i>	Unemployment Rate ²
1996	1,541,692	32,055,321	20,792	6.3%
1997	1,531,923	32,694,799	21,342	5.6%
1998	1,525,955	34,248,049	22,444	5.0%
1999	1,520,064	35,169,398	23,137	5.2%
2000	1,513,701	37,193,547	24,571	4.9%
2001	1,498,501	38,290,004	25,552	6.2%
2002	1,486,594	40,353,074	27,145	7.0%
2003	1,477,055	41,817,124	28,311	6.8%
2004	1,471,255	43,776,836	29,755	6.4%
2005	1,463,281	45,878,124 ³	31,353	5.9%

¹ US Department of Commerce, Bureau of Economic Analysis

² US Department of Labor, Bureau of Labor Statistics

³ Estimated using the estimated rate of growth for the Philadelphia Metropolitan Area

**City of Philadelphia
Principal Employers
Current Calendar Year and Nine Years Ago**

Table 18

Listed Alphabetically

2006	1997
Albert Einstein Medical	---
Children's Hospital of Philadelphia	---
City of Philadelphia	City of Philadelphia
School District of Philadelphia	School District of Philadelphia
SEPTA	SEPTA
Temple University	---
Thomas Jefferson University Hospitals	Thomas Jefferson University Hospitals
United States Postal Service	United States Postal Service
University of Pennsylvania	University of Pennsylvania
University of Pennsylvania Hospital	---
---	Allegheny University of the Health Sciences
---	Bell Atlantic corp.
---	Cigna Corp.
---	CoreStates Financial Corp.

City of Philadelphia
Full Time Employees by Function
For the Fiscal Years 2003 through 2006

Table 19

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental Activities:				
Economic Development	9	9	6	6
Transportation:				
Streets & Highways	667	597	564	579
Mass Transit	1	1	1	1
Judiciary and Law Enforcement:				
Police	8,036	7,888	7,578	7,522
Prisons	1,991	2,002	2,227	2,228
Courts	3,500	3,471	3,450	3,403
Conservation of Health:				
Emergency Medical Services	311	300	289	255
Health Services	1,236	1,210	1,163	1,133
Housing and Neighborhood Development	120	110	105	97
Cultural and Recreational:				
Recreation	589	556	511	495
Parks	217	200	182	158
Libraries and Museums	829	774	726	812
Improvements to General Welfare:				
Social Services	2,218	2,220	2,196	2,140
Inspections and Demolitions	450	417	380	248
Service to Property:				
Sanitation	1,338	1,340	1,233	1,272
Fire	2,121	2,004	1,925	1,974
General Management and Support	2,494	2,369	2,253	2,347
Total Governmental Activities	<u>26,127</u>	<u>25,468</u>	<u>24,789</u>	<u>24,670</u>
Business Type Activities:				
Water and Sewer	2,415	2,342	2,326	2,239
Aviation	915	1,021	967	1,004
Total Business-Type Activities	<u>3,330</u>	<u>3,363</u>	<u>3,293</u>	<u>3,243</u>
Fiduciary Activities:				
Pension Trust	62	64	64	65
Total Primary Government	<u>29,519</u>	<u>28,895</u>	<u>28,146</u>	<u>27,978</u>

Note: Data for FY2002 is not available

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental Activities:					
Transportation:					
Streets & Highways					
Street Resurfacing (miles)	134	93	117	105	102
Potholes Repaired	11,593	24,182	23,179	20,862	18,203
Judiciary and Law Enforcement:					
Police					
Arrests	77,701	66,083	68,486	67,795	69,166
Calls to 911	3,319,936	3,269,276	3,290,786	3,270,114	3,321,896
Prisons					
Average Inmate Population	7,637	7,631	7,738	8,141	8,613
Inmate Beds (city owned)	7,382	7,382	8,283	8,405	8,605
Conservation of Health:					
Emergency Medical Services					
Medic Unit Runs	NA	NA	NA	NA	209,654
First Responder Runs	NA	NA	NA	NA	69,740
Health					
Patient Visits	342,742	320,833	317,184	337,770	330,000
Children Screened for Lead Poisoning	39,629	39,293	37,863	38,013	37,000
Cultural and Recreational:					
Parks					
Athletic Field Permits Issued	NA	NA	NA	NA	2,878
Libraries					
Items borrowed	7,024,391	7,056,608	6,963,935	6,294,315	6,188,637
Visitors to all libraries	6,226,316	6,440,990	6,216,973	5,517,569	6,103,354
Visitors to library website	970,970	1,353,626	1,661,794	2,044,518	2,594,527
Improvements to General Welfare:					
Social Services					
Children Receiving Services	NA	26,388	28,039	28,926	29,639
Children in Placement	NA	9,190	9,037	8,548	8,349
Youth Development Opportunities	24,676	37,024	44,222	40,149	42,401
Emergency Shelter Beds (average)	2,011	2,109	2,412	2,539	2,781
Transitional Housing Units (new placements)	615	458	489	597	448
Service to Property:					
Sanitation					
Refuse Collected (tons per day)	2,929	2,894	3,006	3,008	3,006
Recyclables Collected (tons per day)	149	175	169	157	155
Fire					
Fires Handled	NA	NA	NA	NA	9,523
Fire Marshall Investigations	NA	NA	NA	NA	2,734
Business Type Activities:					
Water and Sewer					
New Connections	83	110	106	137	207
Water Main Breaks	497	988	794	706	660
Average Daily Consumption (x 1000 gallons)	178,000	183,700	175,600	174,100	175,800
Peak Daily Consumption (x 1000 gallons)	200,300	208,600	201,700	210,000	207,400
Average Daily Sewage Treatment (x 1000 gallons)	409,230	478,130	476,110	478,670	430,170
Aviation					
Passengers Handled (PIA)	24,030,686	24,232,804	26,190,976	31,074,454	31,341,459
Air Cargo Tons (PIA)	544,875	565,653	568,898	599,758	591,815
Aircraft Movements (PIA and NPA)	590,563	654,758	584,214	629,885	625,692

¹ PIA (Philadelphia International Airport)-passenger aircraft and cargo. NPA (Northeast Philadelphia Airport)-private aircraft and cargo

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental Activities:					
Transportation:					
Streets & Highways					
¹ Total Miles of Streets	2,400	2,400	2,400	2,400	2,400
Streetlights	100,612	101,224	101,836	102,000	102,219
Judiciary and Law Enforcement:					
Police					
Stations and Other Facilities	33	33	33	33	33
Prisons					
Major Correctional Facilities	5	5	6	6	6
Conservation of Health:					
Health Services					
Health Care Centers	9	9	9	9	9
Cultural and Recreational:					
Recreation					
Recreation Centers	NA	164	164	165	165
² Athletic Venues	NA	1,121	1,121	1,121	1,117
Neighborhood Parks and Squares	NA	232	232	232	232
Parks					
Parks	NA	62	62	62	62
Baseball/Softball Fields	NA	106	106	106	106
Libraries					
Branch & Regional Libraries	55	55	54	53	54
Service to Property:					
Fire					
Stations and Other Facilities	63	63	63	63	64
Business Type Activities:					
Water and Sewer:					
Water Mains (miles)	3,168	3,169	3,169	3,169	3,169
Fire Hydrants	27,836	27,846	27,987	26,080	26,080
Storage Capacity (x 1000 gallons)	1,067,200	1,065,500	1,065,500	1,065,500	1,065,500
Sanitary Sewers (miles)	594	595	596	596	596
Storm Sewers (miles)	622	622	623	623	623
Treatment Capacity (x 1000 gallons)	1,044,000	1,044,000	1,044,000	1,044,000	1,044,000
³ Aviation					
Passenger Gates (PIA)	103	120	120	120	120
Terminal Buildings (square footage) (PIA)	1,563,000	2,415,000	2,415,000	2,415,000	2,415,000
Runways (length in feet) (PIA & NPA)	32,460	32,460	32,460	32,460	32,460

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.

City of Philadelphia

PENNSYLVANIA



Boat House Row along the Schuylkill River