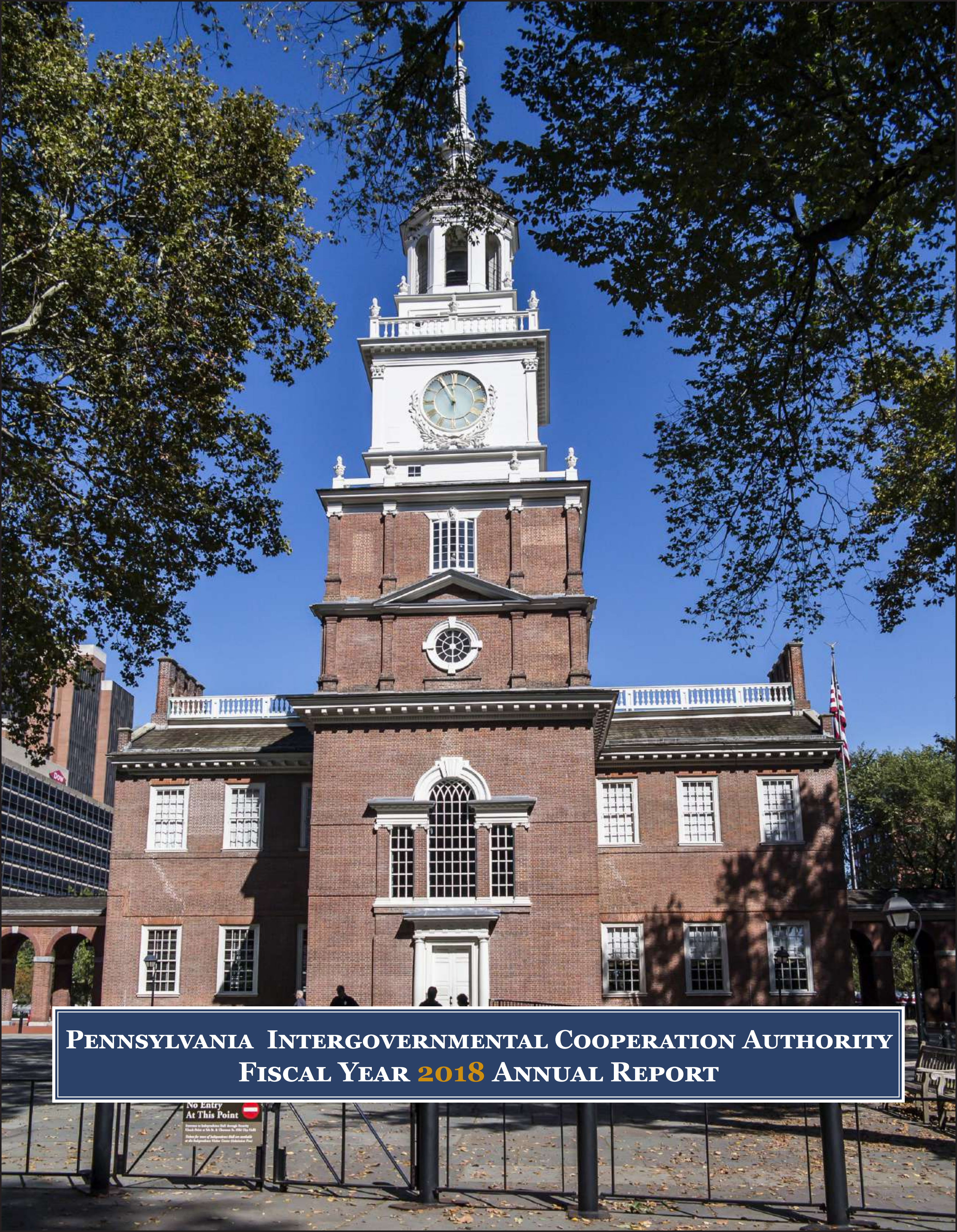

Pennsylvania Intergovernmental Cooperation Authority
Fiscal Year 2018 Annual Report

Pennsylvania Intergovernmental Cooperation Authority

1500 Walnut Street, Suite 1600, Philadelphia, PA 19102

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PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

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October 16, 2018

To: The Governor and General Assembly of the Commonwealth of Pennsylvania
The Chairperson and the Minority Chairperson of the Appropriations Committee of the Pennsylvania Senate
The Chairperson and the Minority Chairperson of the Appropriations Committee of the Pennsylvania House of Representatives
The Mayor, City Council and the Controller of the City of Philadelphia

As the Pennsylvania Intergovernmental Cooperation Authority (PICA) marks its twenty-seventh anniversary, we are pleased to provide you with this annual report for the fiscal year ended June 30, 2018. The report provides an overview of PICA's role in the city's continuing fiscal rehabilitation, describes this past fiscal year's highlights, establishes fiscal year 2019 objectives, outlines long term goals, and includes audited financial statements for fiscal year 2018.

I would like to take this opportunity to acknowledge and express the Board's sincere appreciation for the continuous support the Authority receives from the Governor and the General Assembly. This support and cooperation are vital for PICA's continuing success.

Sincerely,

Kevin Vaughan

Kevin Vaughan
Chairperson

The purpose of the Authority is stated in its enabling legislation, the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (Act of June 5, 1991, P.L. 9, No. 6) (the "PICA Act"), Section 102. The language is as follows:

> Policy.--It is hereby declared to be a public policy of the Commonwealth to exercise its retained sovereign powers with regard to taxation, debt issuance and matters of Statewide concern in a manner calculated to foster the fiscal integrity of cities of the first class to assure that these cities provide for the health, safety and welfare of their citizens; pay principal and interest owed on their debt obligations when due; meet financial obligations to their employees, vendors and suppliers; and provide for proper financial planning procedures and budgeting practices. The inability of a city of the first class to provide essential services to its citizens as a result of a fiscal emergency is hereby determined to affect adversely the health, safety and welfare not only of the citizens of that municipality but also of other citizens in this Commonwealth.
>
> Legislative intent.--
>
> (1) It is the intent of the General Assembly to:
>
> (i) provide cities of the first class with the legal tools with which such cities can eliminate budget deficits that render them unable to perform essential municipal services;
>
> (ii) create an authority that will enable cities of the first class to access capital markets for deficit elimination and seasonal borrowings to avoid default on existing obligations and chronic cash shortages that will disrupt the delivery of municipal services;
>
> (iii) foster sound financial planning and budgetary practices that will address the underlying problems which result in such deficits for cities of the first class, which city shall be charged with the responsibility to exercise efficient and accountable fiscal practices, such as:
>
> (A) increased managerial accountability;
> (B) consolidation or elimination of inefficient city programs;
> (C) recertification of tax-exempt properties;
> (D) increased collection of existing tax revenues;
> (E) privatization of appropriate city services;
> (F) sale of city assets as appropriate;
> (G) improvement of procurement practices including competitive bidding procedures; and
> (H) review of compensation and benefits of city employees; and
>
> (iv) exercise its powers consistent with the rights of citizens to home rule and self-government.

(2) The General Assembly further declares that this legislation is intended to remedy the fiscal emergency confronting cities of the first class through the implementation of sovereign powers of the Commonwealth with respect to taxation, indebtedness and matters of Statewide concern. To safeguard the rights of the citizens to the electoral process and home rule, the General Assembly intends to exercise its power in an appropriate manner with the elected officers of cities of the first class.

(3) The General Assembly further declares that this legislation is intended to authorize the imposition of a tax or taxes to provide a source of funding for an intergovernmental cooperation authority to enable it to assist cities of the first class and to incur debt of such authority for such purposes; however, the General Assembly intends that such debt shall not be a debt or liability of the Commonwealth or a city of the first class nor shall debt of the authority payable from and secured by such source of funding create a charge directly or indirectly against revenues of the Commonwealth or city of the first class.

The Pennsylvania Intergovernmental Cooperation Authority Act for Cities of First Class, Act of 1991, P.L. 9, No. 6 at Section 203(b)(5) requires PICA:

> To make annual reports within 120 days of the close of the Authority's fiscal year commencing with the fiscal year ending June 30, 1992, to the Governor and the General Assembly describing its progress with respect to restoring the financial stability of assisted cities and achieving balanced budgets for assisted cities, such reports to be filed with the Governor, with the presiding officers of the Senate and the House of Representatives, with the Chairperson and the Minority Chairperson of the Appropriations Committee of the Senate and the Chairperson and the Minority Chairperson of the House of Representatives and with the Governing Body, Mayor and Controller of the assisted city.

Section 207 of the PICA Act further provides for an annual audit to be included with the Annual Report, as follows:

> Every Authority shall file an annual report with the Chairperson and the Minority Chairperson of the Appropriations Committee of the Senate and the Chairperson and the Minority Chairperson of the Appropriations Committee of the House of Representatives, which shall make provisions for the accounting of revenues and expenses. The Authority shall have its books, accounts and records audited annually in accordance with generally accepted auditing standards by an independent auditor who shall be a certified public accountant, and a copy of his audit report shall be attached to and be made a part of the Authority's annual report. A concise financial statement shall be published annually in the Pennsylvania Bulletin.

I. Introduction

Background

The Pennsylvania Intergovernmental Cooperation Authority ("PICA") was created in 1991 to assist the City of Philadelphia (the "City") in overcoming a severe financial crisis. At that time, the City was burdened with a growing cumulative operating deficit, lacked resources to pay mounting overdue bills from vendors, had seen its credit ratings drop below the investment grade level by national rating agencies, had instituted an across-the-board hiring freeze, and was in a mode in which the quality of municipal services was rapidly eroding.

PICA was created through the joint efforts of concerned Philadelphians and state officials who envisioned a structure that would assist the City in putting its revenue collection and spending processes in order. As a result, the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (Act of June 5, 1991, P.L. 9, No. 6) (the "PICA Act") was enacted. The PICA Act was a compromise fashioned to meet the requirements of the Pennsylvania Constitution, the concept of local government Home Rule, and the interests of the Commonwealth in the preservation of the financial integrity of its municipalities. PICA's role, a combination of cooperation, assistance and oversight, was determined to be of vital importance in both a financial and political sense. PICA was designed to address the City's short-term financing needs, while overseeing a long-term financial planning process that would restore the confidence of investors, citizens, and public officials in the ability of the City to maintain financial stability over the long-term.

PICA Act

The PICA Act provides that the Authority shall have certain financial and oversight functions. At the outset, PICA had the power to issue bonds for the benefit of the City. Such power to issue debt for those original purposes has expired; however, PICA remains authorized under the PICA Act to issue refunding bonds and grant or lend the proceeds to the City.

Under the PICA Act, PICA also has 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 annually by the City.

PICA was designed to address the City's short-term financing needs, while overseeing a long-term financial planning process that would restore the confidence of investors, residents, and public officials in the ability of the City to maintain financial stability over the long-term. As such, PICA has the responsibility to evaluate and approve annually submitted five year financial plans in order to monitor the City's compliance with those plans. PICA's enforcement authority with regard to the City's compliance allows PICA to instruct the Commonwealth Secretary of the Budget to withhold substantial Commonwealth financial assistance and the net proceeds of the PICA Tax (after PICA debt service), should the City fail to adhere to the requirements of the PICA Act in maintaining compliance with the current five year plan.

The issuance of bonds, which were intended to provide the funds necessary to allow the City to avoid insolvency and continue essential capital investment, was an important initial role of PICA. Through debt issuance and capital program earnings, PICA has made available $1.138 billion to directly assist the City, allocated to the following purposes: deficit elimination/indemnities, productivity bank, capital projects, and retirement of certain high interest debt. PICA's bond issuance powers are currently limited to the refinancing of existing PICA debt to realize net debt service savings.

Governance

Under the PICA Act, PICA is administered by a governing Board consisting of five voting members and two ex-officio nonvoting 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 appoint one voting member to the Board. The ex-officio members are presently the Director of Finance of the City of Philadelphia and the Budget Secretary of the Commonwealth of Pennsylvania. The current Members of the Board are as follows:

Table 1: Current PICA Board Members

Board Member	Position	Appointing Authority
Kevin Vaughan	Chairperson	Governor of Pennsylvania
Alan Kessler, Esq.	Vice Chair	Minority Leader of the Pennsylvania State Senate
Michael Karp	Secretary/Treasurer	Speaker of the Pennsylvania House of Representatives
James Cawley	Assistant Secretary/Treasurer	President Pro Tempore of the Pennsylvania State Senate
Tina Byles Williams	Member	Minority Leader of the Pennsylvania House of Representatives

Each Board member is committed to the fiscal stability and financial improvement of the City. Board members are appointed and serve two year terms.

Operations

The Board determined at the outset that PICA should not become overburdened with staff, preferring instead to impress upon the City the necessity for Philadelphia to develop and implement its own solutions to its problems. The Authority's staff, which during much of the past fiscal year totaled six, is organized to evaluate the progress of the City in taking actions that will maintain financial balance and address underlying problems that contribute to fiscal imbalances. PICA staff issues reports on the City's Five Year Financial Plans and issues relating to financial stability. The reports have been designed to assist those properly charged with responsibility for policy development and administration within the City, and also to inform the general public.

PICA's Oversight Authority

PICA was founded on the Commonwealth's public policy interests to "foster the fiscal integrity of cities of the first class… and provide for proper financial planning procedures and budgeting practices," as explained in the section of the PICA Act dedicated to legislative intent. In a discussion of sound financial planning and budgetary practices, the PICA Act "charge[s]" Philadelphia with the "responsibility to exercise efficient and accountable fiscal practices," including: managerial accountability, consolidation/elimination of inefficient city programs, recertification of tax-exempt properties, increased collection of existing taxes, privatization of services, sale of city assets, improvement of procurement and competitive bidding practices, and review of compensation and benefits of city employees.

The legislative intent, as evident throughout the PICA Act, includes assuring that the City is prepared to manage not only the fiscal pressure Philadelphia was experiencing at the time PICA was established, but also to avert such potential situations in the future and safeguard against their consequences. Thus, the PICA Act grants the Authority the ability to "make recommendations to an assisted city concerning its budgetary and fiscal affairs."

To this end, PICA and the City entered into an agreement largely based on the provisions of the PICA Act, known as the Intergovernmental Cooperation Agreement (the "Agreement"). The Agreement provides PICA with broad access to all data pertaining to City and other Corporate Entities' finances (Corporate Entities include the School District of Philadelphia, for example). The underlying principle in both documents is that in order to facilitate the City's "fiscal integrity," PICA was intended, since its inception, to have a wide purview over City financial data, which ultimately extends to PICA's authority to "[conduct] such independent audits, examinations or studies of the City as the Authority deems appropriate."

Consequently, PICA has consistently emphasized that the City's continuing fiscal rehabilitation is dependent upon its continuing success in addressing both financial and managerial issues.

Financial Assistance to the City

The issuance of bonds to provide the funds necessary to allow the City to avoid insolvency and continue essential capital investment was an important initial role of the Authority. That role has been successfully completed. Under the PICA Act, the Authority's authorization to issue "new money" bonds to finance City operating deficits or capital projects expired on December 31, 1994. Authorization to issue cash flow deficit financing bonds expired on December 31, 1996. PICA's bond issuance powers are currently limited to the refinancing of existing PICA debt to realize net debt service savings.

Through debt issuance and capital program earnings, the Authority has made available $1.138 billion to directly assist the City, allocated to the following purposes:

Table 2: Financial Assistance Provided to the City of Philadelphia	
Purpose	Amount
Deficit Elimination/Indemnities	$269,000,000
Productivity Bank	20,000,000
Capital Projects	464,400,000
Retirement of Certain High Interest City Debt	384,300,000
Total	**$1,137,700,000**

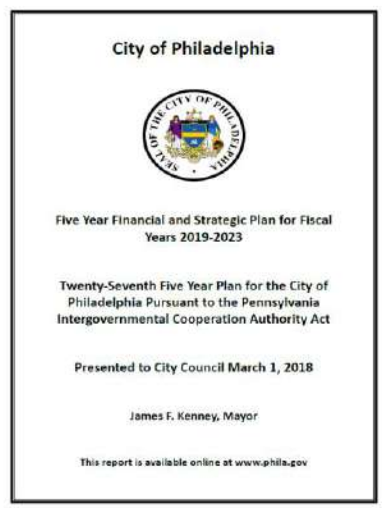
Five Year Financial Plan Process

PICA is mandated with assessing the City's annual Five Year Financial Plan. The framework for evaluating the Plan is provided by the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class ("the Act").

As mandated in the PICA Act (and as further refined in the ICA), the *Five Year Financial Plan* is required to include:

- Projected revenues and expenditures of the principal operating funds of the City for five fiscal years (the current fiscal year and the next four); and

- Components to (i) eliminate any projected deficit for the current fiscal year; (ii) restore to special fund accounts money from those accounts used for purposes other than those specifically authorized; (iii) balance the current fiscal year budget and subsequent budgets in the Plan through sound budgetary practices, including, but not limited to, reductions in expenditures, improvements in productivity, increases in revenues, or a combination of such steps; (iv) provide procedures to avoid a fiscal emergency condition in the future; and (v) enhance the ability of the City to regain access to the short- and long-term credit markets.


City of Philadelphia

Five Year Financial and Strategic Plan for Fiscal Years 2019-2023

Twenty-Seventh Five Year Plan for the City of Philadelphia Pursuant to the Pennsylvania Intergovernmental Cooperation Authority Act

Presented to City Council March 1, 2018

James F. Kenney, Mayor

This report is available online at www.phila.gov

There also are statutorily mandated standards for the development of the Plan (and the manner in which it is to be evaluated by PICA):

- all projections of revenues and expenditures are to be based upon consistently applied reasonable and appropriate assumptions and methods of estimation;

- revenues are to be recognized in the accounting period in which they become both measurable and available; and

- cash flow projections are to be made based upon reasonable and appropriate assumptions as to sources and uses of cash, including factors intended to provide a complete picture of cash demands.

The PICA Act also mandates standards for the basis for estimation of City revenues:

City sources - current or proposed tax rates, historical collection patterns, and generally recognized econometric models;

State sources - historical patterns, currently available levels, or levels proposed in a budget by the Governor;

Federal sources - historical patterns, currently available levels, or levels proposed in a budget by the President or in a Congressional budget resolution; and

Non-tax sources - current or proposed rates, charges or fees, historical patterns and generally recognized econometric models.

Deviations from such standards for estimation of revenues and appropriations, which are proposed to be used by the City are to be disclosed specifically to the Authority and approved by a "qualified majority" of the Board (four of its five voting members). The Board generally has required that conservative criteria be used, and the PICA process has led to credible budgets and Plans over the past two decades.

The five year financial plan is also required to include debt service projections for existing and anticipated City obligations; a schedule of payments for legally-mandated services projected to be due during the term of the Plan; a schedule showing the number of authorized employee positions (filled and unfilled) inclusive of estimates of wage and benefit levels for various groups of employees. The Plan is also accompanied by a schedule of projected City capital commitments (and proposed sources of funding).

The PICA Act requires that the Authority solicit an opinion or certification from the City Controller, prepared in accordance with auditing standards generally accepted in the United States, with respect to the reasonableness of the assumptions and estimates in the Plan. The PICA Act does not, however, require that the Controller's determinations bind the Authority in its evaluation of a proposed Plan.

Finally, the PICA Act stipulates that approval of a financial plan is contingent upon a "qualified majority" of the Board (four of its five voting members).

Once a Plan is approved by the Authority, the City is required to stay "in compliance" with the current Plan. If the City's finances deviate from an approved Plan, in other words, if actual revenues or expenditures vary from those projected in a currently approved Plan, it is considered out of compliance, and the PICA Act and Agreement provisions pertaining to a "variance" are triggered. In this event, the City must submit to PICA an explanation, remedial action plan, and supplemental reports until regaining compliance with the current Plan.

However, if the City executes an extraordinary contract, a contract not in compliance with the current Plan, that contract is not void by virtue of being out of compliance, but the City must submit a proposed revision to the Plan incorporating those costs for consideration by the Board.[1] Collective bargaining agreements and arbitration awards require revisions as well, if they are out of compliance with a currently approved Plan. Each of these categories trigger their own respective timeframes for submission of proposed revisions and subsequent Board consideration.

The PICA Act (Section 209) and the ICA (Section 409(b)) require submission of quarterly reports by the City concerning its compliance with the current Plan within 45 days of the end of a fiscal quarter. The City fulfills this requirement through the quarterly submission to PICA, and publication of, its *Quarterly City Managers Report* ("QCMR"). If a QCMR indicates that the City is unable to project a balanced Plan and budget for the current fiscal year, the Board may, by the vote of a qualified majority, declare the occurrence of a "variance," which is defined in Section 4.10 of the ICA as follows:

> (i) a net adverse change in the fund balance of a Covered Fund of more than one percent (1%) of the revenues budgeted for such Covered Fund for that fiscal year is reasonably projected to occur, such projection to be calculated from the beginning of the fiscal year for the entire fiscal year, or (ii) the actual net cash flows of the City for a Covered Fund are reasonably projected to be less than ninety-five percent (95%) of the net cash flows of the City for such Covered Fund for that fiscal year originally forecast at the time of adoption of the budget, such projection to be calculated from the beginning of the fiscal year for the entire fiscal year.

As defined in Section 1.01 of the ICA, the City's "Covered Funds" are the General Fund, General Capital Fund, Grants Revenue Fund and any other principal operating funds that become part of the City's Consolidated Cash Account.

Effect of a Variance

The PICA Act mandates the submission of monthly reports to PICA by the City in the event of a determination by the Authority of the occurrence of a variance. That situation has occurred twice in PICA's history. In November of 1992, the City projected a variance of $57 million (2.5%) for FY93, and the Authority agreed with that assessment on

[1] Agreement, Section 5.06.

December 9, 1992. Thereafter, until May 1993, the City filed required monthly reports. The City was relieved of its obligation to make monthly reports when the Authority approved the City's plan of correction in conjunction with its approval of the City's *Five Year Financial Plan* for FY1993-FY1998 in May of 1993.

In February 2009, the City projected a variance of $47 million, and the Authority agreed with that assessment on February 20, 2009. Thereafter, until September 2009, the City filed required monthly reports. The City was relieved of the requirement to make monthly reports when the Authority approved the City's plan of correction in conjunction with its approval of the *Five Year Financial Plan* for FY2010-FY2014 in September of 2009.

As provided in Section 210(e) of the PICA Act, legal consequences flow from a determination by the Authority of the existence of a variance. Along with additional reporting responsibilities, the City must develop Plan revisions adequate to cure the variance. The remedies that PICA has available to deal with a continuing variance are to direct the withholding of specific Commonwealth funds due to the City and that portion of the PICA Tax – a tax of 1.5 percent levied on the wages, earnings, and net profits of Philadelphia residents – in excess of the amount necessary to pay PICA debt service. Any amounts withheld would be paid over to the City after correction of the variance.

Comments on Pending Legislation

In accordance with its oversight duties, PICA continues to provide comments and fiscal analysis on City legislation that impacts the City's fiscal situation. Further, PICA fulfills its responsibility to evaluate certain legislation before the General Assembly, in accordance with the PICA Act Section 203(c)(5), which empowers the Authority "to make recommendations to the Governor and the General Assembly regarding legislation or resolutions that affect Commonwealth aid or mandates to an assisted city or that concern an assisted city's taxing power or relate to an assisted city's fiscal stability."

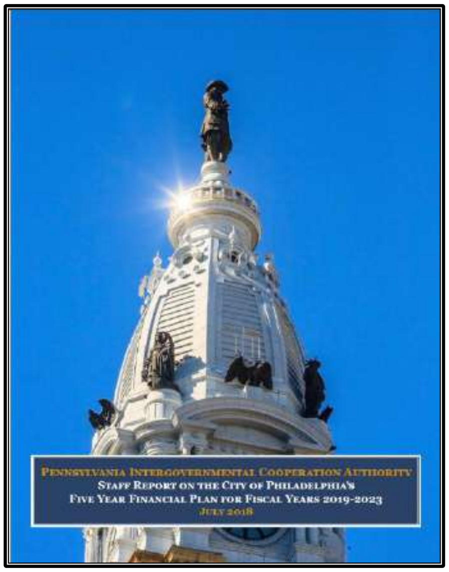
Corporate Entities and The School District of Philadelphia

"Corporate Entities" are defined in Section 1.01 of the ICA as "an authority or other corporate entity, now existing or hereafter created, of which one or more members of its governing board are appointed by the Mayor and which performs governmental functions for the City…" The Agreement provides that the City shall cooperate with PICA in any PICA request to examine the operations of either the Corporate Entities or the School District of Philadelphia ("School District").

In November 2017, the SRC voted to dissolve, ending its control over the School District on June 30, 2018, which effectively returned control to the City. The risks involved with this transition, such as the School District's projected funding stream and budgetary deficits, have been addressed in our *Staff Report on the City FY2019-FY2023 Five Year Financial Plan*. PICA will continue to monitor the City's commitments related to the School District.

II. PICA in Action - FY2018 Highlights

Review of the City's FY2019-2023 Five Year Financial Plan



The Mayor's proposed Five Year Financial Plan was submitted to Council on March 1, 2018, and formally submitted to PICA on June 26, 2018. As part of our review process, PICA staff met with numerous City departments to discuss their budget, service delivery measures, and their future plans. PICA then issued a comprehensive Staff Report on the City's five year plan, and in July, the Board approved the City's *FY2019-FY2023 Five Year Financial Plan* ("The Plan").

PICA staff engaged in an extensive review of the Plan, which involved assessing the reasonability of its assumptions and methods of estimation and ensuring each fiscal year had a projected positive year-end fund balance, pursuant to the requirements in the PICA Act. The objective of this report was to provide an overview of the Plan, analyze its projections, identify and discuss potential risks, evaluate spending and personnel staffing trends, assess indicators of financial health, and make a recommendation for PICA Board action.

Once again, PICA retained an expert economist as a consultant on City revenue projections for the Plan review process. Charles Swanson, Ph.D., is a professor of Economics at Temple University. Along with PICA staff, he analyzed the reasonability of the City's revenue projections in each year of the Plan. His work involves meeting with City officials, understanding their revenue models, and comparing his projections to the City's in order to assess reasonability. Swanson prepares an analysis of his findings for PICA staff, who use this information in preparing the annual Staff Report on the Five Year Plan.

Review of the City's FY2018-2022 Five Year Financial Plan

In accordance with the PICA Act and the Intergovernmental Cooperation Agreement, in April 2018, the City of Philadelphia submitted a revision to the *City's FY2018-FY2022 Five Year Financial Plan, as Revised in September 5, 2017* (the "September Plan"). The revision was promulgated by the issuance of two interest arbitration awards in March 2018, that provided for wage increases which were not included in the September Plan. The two interest arbitration awards were issued to Deputy Sheriffs and Register of Wills employees, both under the Fraternal Order of Police Lodge No. 5, and to AFSCME District Council 33, Local 159 and Local 1637, which covers Correctional Officers.

As such, PICA staff analyzed this revised "April Plan" to ensure that the City demonstrated that revenues sufficient to pay the costs of the awards were available in the affected fiscal years of the financial plan. After issuance of our report and Board consideration, this April Plan was unanimously approved by the Board on April 17, 2018.

After approval of the April Plan, only one major bargaining unit remained without a current contract, the International Association of Fire Fighters (the "IAFF"). On May 17, 2018, an arbitration award was issued which caused the City to be out of compliance with the currently approved FY2018-FY2022 Plan or the "April Plan." However, the timing of a plan revision for this arbitration award overlapped the impending submission of the City's new Plan for FY2019-FY2023. Therefore, the City requested to submit the revision with its new FY2019-FY2023 Plan, in which it would demonstrate how the City would pay for the IAFF arbitration award.

Due to this unique timing, the Board deferred consideration of the IAFF arbitration award's provisions until the submission by the City of its upcoming FY2019-2023 Plan. Therefore, waiving the requirement that the City submit a revision to its current FY2018-2022 Plan on account of the IAFF arbitration award, until such time as the City submitted its annual Five Year Plan for FY2019-2023.

DROP Study

Pursuant to Board Resolution No. 4, approved unanimously on August 31, 2016, PICA engaged the services of the Center for Retirement Research at Boston College ("CRR") to conduct an update of their 2010 study of the City of Philadelphia's Deferred Retirement Option Plan ("DROP"). Lead by Mr. Jean-Pierre Aubry, Director of State and Local Research at the CRR, the report provided an analysis of the costs of the DROP program— both from the inception of the program and since the last study was conducted in 2010— and the effect it had on retirement age of employees in the City of Philadelphia's Municipal Retirement System.

The study found that estimated costs for the DROP program since the last study was conducted in 2010, ranged from $41 million to $62.2 million, based on investment return assumptions of 7.7 percent and 3 percent, respectively. Total estimated costs for the DROP program since 1999, when the program was established, ranged from $277.2 million and $236.9 million, based on investment return assumptions of 7.7 percent and 3 percent, respectively.

Further, the study found that the DROP program increased the retirement age by 1.7 years, on average, across all City of Philadelphia Municipal Retirement System employees. Specifically, Police and Fire union members experienced an increase of 4.8 years and 5.9 years, respectively, while other municipal employees experienced a very small increase in retirement age of approximately 0.2 years.

Monitoring Overtime Spending

Beginning in FY2016, PICA staff began closely monitoring overtime spending across City departments, issuing an annual overtime report and three quarterly overtime spending updates. City officials had emphasized overtime reduction as a savings measure in its *Five Year Financial and Strategic Plan for Fiscal Years 2017-2021*, requiring certain departments to produce quarterly overtime spending plans to be reviewed regularly throughout the year. As a result, the City managed to reduce overtime costs by almost $10 million from FY2016 to FY2017. However, as the City's emphasis on reducing overtime waned, and was then eliminated from subsequent five year plans, overtime costs again spiked in FY2018. This development increased PICA's concerns surrounding the City's excessive overtime spending.

Thus, PICA staff in FY2018 delved into the causes of excessive overtime spending, adding sections on staffing and leave usage (absenteeism) to its second *Annual Overtime Report for Fiscal Year 2017*. Additionally, PICA staff focused on recommendations for reducing overtime costs in its quarterly overtime updates—recommendations based on independent research and historical data. Finally, staff formulated a strategy for taking a more proactive role in the City's overtime cost reduction efforts.

Whereas the City had made some progress in reducing overtime in FY2017, overtime costs spiked in FY2018, demonstrating that overtime spending remains an important issue and that the City, in partnership with PICA, should renew its emphasis on reducing overtime costs. Therefore, PICA staff will continue to closely monitor and report on overtime spending in FY2019 and beyond, in an effort to bring these high costs back within a reasonable, responsible level.

Analysis of Police Court Overtime

At the June 2017 PICA Board Meeting, the Board authorized PICA staff to perform an initial review and analysis of Police court overtime to determine whether a comprehensive formal study by an outside consultant would be beneficial to the City in reducing costs. In fiscal year 2017, Police court overtime amounted to $66.4 million, of which approximately $21 million was related to Police court overtime.

As part of this review, we met with the three primary agencies involved with Police court overtime costs, including the Philadelphia Police Department ("PPD"), the District Attorney's Office ("DAO"), and the First Judicial District ("FJD").

PICA staff found the existence of numerous inconsistencies and a lack of coordination among the three agencies and concluded that a more thorough review, analysis and evaluation was warranted. Therefore, PICA staff recommended the Board consider commissioning a comprehensive review and assessment of the current practices and procedures in place relating to Police court overtime usage. This study's objective would be to develop recommendations that will streamline Police court overtime with an emphasis on reducing overtime costs.

New Police Headquarters

In May 2017, the City announced plans to acquire property located at 400 N. Broad Street for its new Police Department Headquarters. Since the new acquisition costs were above the allocated costs within the approved City's FY2018-2022 Five Year Plan, the City submitted an Extraordinary Contract Request to PICA, as required by the ICA. After numerous inquiries with the City's legal counsel and several meetings with the City's Finance Director, City Treasurer, and Department of Public Property Commissioner, PICA ascertained that the proper funding level was included in the City's FY2018-2022 Five Year Plan, and approved the Extraordinary Contract Request. PICA will continue to monitor this acquisition as appropriate.

Monthly and Quarterly Financial Updates

During FY2018, PICA staff continued to issue monthly updates on the status of City tax revenue collections. These reports track City revenue performance by comparing actual collections to current projections throughout the year.

PICA staff also issued quarterly analyses of the City's Quarterly City Managers Reports ("QCMR"). The QCMR tracks the City's quarterly performance with respect to expenditure and revenue estimates, updates estimates quarterly, and assesses performance measures for major agencies. PICA staff analyses have been designed to distill and communicate the most important issues raised by the QCMR.

Conferences

In October 2017, PICA convened regional economists, policy analysts, City officials, and general stakeholders at the Federal Reserve Bank of Philadelphia for our fourth annual fall conference, entitled "*The Path to Affordable Housing for All Philadelphians.*" A panel of experts in the fields of city planning, real estate market research, and affordable housing development presented on the current state of Philadelphia's affordable housing stock, plans for developing an appropriate level of affordable housing and preservation of the affordable housing already available in the City. The panelists included: Anne Fadullon, Director of Planning and Development for the City of Philadelphia; Kevin Gillen, Ph.D., Senior Research Fellow at the Lindy Institute for Urban Innovation at Drexel University, and Senior Economic Advisor at Houwzer Realty; and Peter Angelides, Ph.D., a Principal at Econsult Solutions and faculty member at the University of Pennsylvania. Following the panel presentation, an open discussion was held to further discuss strategies for ensuring that affordable housing will be available and attainable for future generations of Philadelphians.

In February 2018, PICA convened regional economists, City officials, and the City's economic consultant for an annual conference on revenue models and projections for the upcoming Five Year Financial Plan. Presenters included the City's consultant, IHS Markit and the City of Philadelphia Budget Director, along with input from the City of Philadelphia Department of Revenue, Federal Reserve Bank of Philadelphia staff, academics from local universities, and other economic consultants and experts. Moderating this conference was Herb Taylor, Ph.D., an adjunct professor of economics at Temple University and former vice president and corporate secretary at the Federal Reserve Bank of Philadelphia.

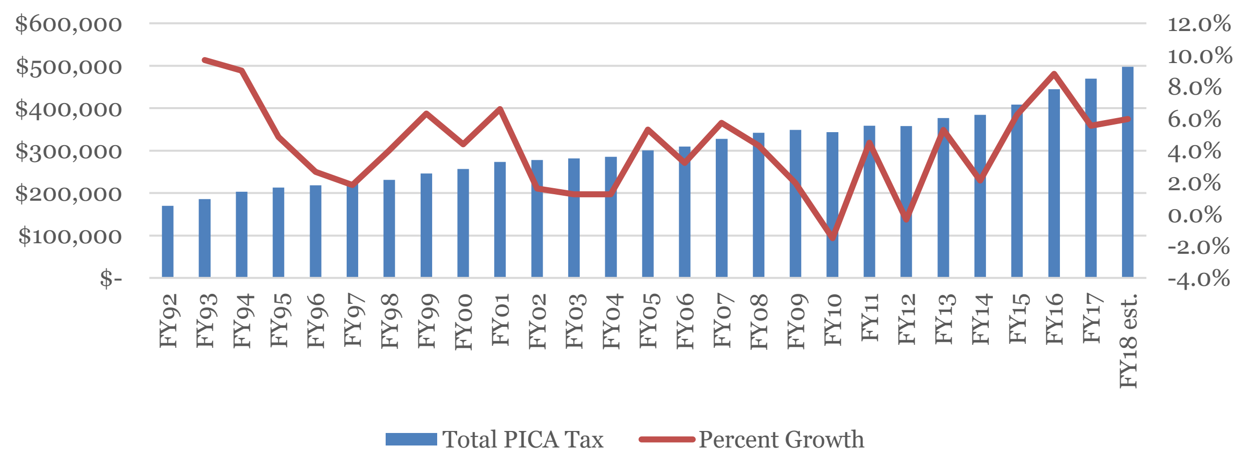
Executive Director Presentations

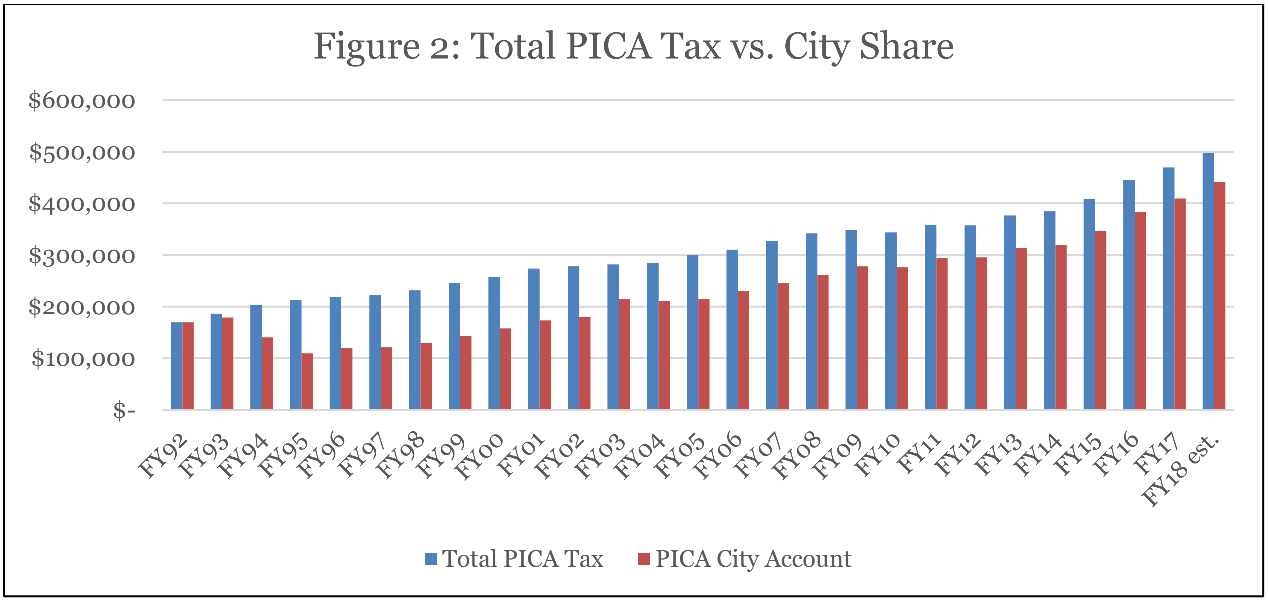
Throughout the fiscal year, PICA's Executive Director presented on various aspects of public finance, including a presentation on PICA's role for students at the University of Pennsylvania, as well as speaking to a seminar sponsored by the Association of Government Accountants on the role of PICA and the financial challenges currently faced by the City. In addition, the Executive Director was a panelist at the Markets Group 4th Annual Pennsylvania Institutional Investor Forum and spoke about "Obligation Based Decision Making for Pension Plans."

PICA Bond Ratings

This past fiscal year, PICA's credit rating remained unchanged at 'AAA' from Fitch, and 'AAA' from Standard & Poor's. The rationale for the high ratings was that PICA bonds are limited obligations, payable from pledged revenues that are supported by consistently positive economic factors and a strong legal framework. Please see Figure 1 for PICA tax revenue and growth rates, and Figure 2 for a breakdown of PICA tax totals as compared to the City's share.

Figure 1: PICA Tax Revenue





Board Meetings

The Board meets monthly throughout the year on the third Tuesday of each month. The meeting schedule is considered and approved by the Board during its July meeting, which is posted on PICA's website. From the outset, the Board has conducted these public meetings to maintain its accountability and transparency to the citizens of Philadelphia and its appointing authorities on the state level.

At the request of the Board, various officials presented testimony at PICA's public Board meetings on significant issues relating to the City's financial condition and operational challenges over the course of FY2018. This included presentations on the Philadelphia pension system, potential state and federal funding cuts, sweetened beverage tax legal issues, overtime management, excessive police court overtime, and untimely bank reconciliation issues. Presenters included representatives from the Philadelphia Board of Pensions and Retirement, the City Solicitor's Office, the Managing Director's Office, Police Department, District Attorney's Office, and the City Treasurer.

In addition, the Board also heard public testimony from Paul Levy, the President and CEO of the Center City District, and Rob Wonderling, President of the Greater Philadelphia Chamber of Commerce, on commercial property tax matters.

New Office Lease

PICA's office lease expired at the end of August 2018. At the direction of the Executive Director, a search for new office space began in February 2017. After interviewing several real estate brokers, it was decided to retain Geis Realty Group to assist PICA with the process of relocating or renewing the office space lease.

During the summer months of July and August 2017, PICA staff toured numerous potential office spaces in buildings throughout center city. The staff analyzed potential office sites, narrowed the selection down, and requested proposals from three potential lessors in November 2017. After a lengthy review, evaluation, and negotiation process, PICA remained in its current office space, at considerable savings over the expiring lease, and the other office spaces under consideration. Additionally, the building's management agreed to perform renovations to the office, completing several aesthetic and functional improvements.

The monthly rental payment on the expiring lease was over $11,000. Under the new lease monthly rental payments were reduced to just over $8,700 initially, increasing to $11,000 over 6 years. As rental prices increase in center city, PICA staff was able to reduce the lease costs, ultimately saving tax dollars.

Social Media

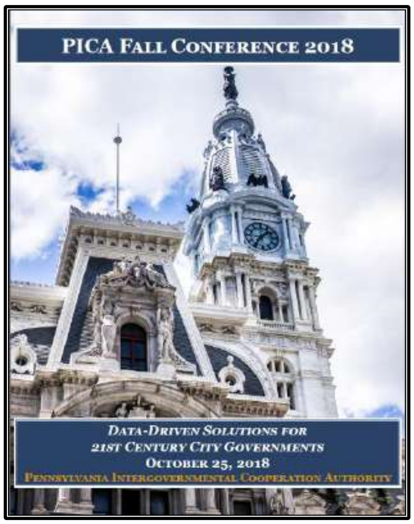
Following the launch of the PICA Facebook page in FY2016, PICA officially launched its Twitter feed in fiscal year 2017. PICA staff uses both social media outlets to distribute PICA reports and share news articles pertaining to the fiscal health of the City, with the goal of providing a valuable and informative public service. PICA staff also "live tweets" the proceedings of its Annual Meeting. PICA's Twitter feed has been particularly popular, gaining over 300 followers in its first two years of operation.

III. Fiscal Year 2019 Objectives

Five Year Financial Plan

PICA staff will review, analyze and report on the City's *FY2020-FY2024 Five Year Financial Plan*. As with all five year plans or revisions, it must demonstrate reasonable revenue and expenditure projections that result in positive year end fund balance in the General Fund, while addressing the long-term financial issues facing the City.

PICA Fall Conference



PICA has chosen "*Data-Driven Solutions for 21st Century City Governments*," as the topic for its upcoming fifth annual fall conference reflecting the importance of the use of data to solve big cities' most pressing issues. The conference will be held at the Federal Reserve Bank of Philadelphia on October 25, 2018. Presenters will include: Tim Wisniewski, Chief Data Officer and Director of the Office of Open Data and Digital Transformation for the City of Philadelphia; Anjali Chainani, Director of Policy for the Mayor of Philadelphia and GovLabPHL; Tracy McKee, Chief Data Officer for the City of Baltimore; and Kendra Parlock, Director of the Baltimore Mayor's Office of Sustainable Solutions. These panelists will present their most innovative data-based projects followed by an open discussion with other invited guests. The purpose of the event is to gather government officials, economists, policy-makers, academics, and other experts in the field to discuss strategies, ideas, and best-practices for applying data in an effort to address challenges facing modern city governments.

Police Court Overtime Study

After an initial inquiry conducted by PICA staff found the existence of numerous inconsistencies and a lack of coordination among the three agencies involved in Police court overtime, the Board unanimously approved a motion in June 2018 for an independent study on Police Court Overtime. This study's objective will be to develop recommendations that will streamline Police court overtime with an emphasis on reducing overtime costs.

To this end, PICA staff developed and published a Request for Proposal in June 2018 and received responses from interested vendors. A selection committee was formed to evaluate each respondent's proposal against stated criteria. After evaluating the proposals, the selection review committee recommended the professional services contract be awarded to Baker Tilly International. As such, the Board unanimously approved a resolution in September 2018 to contract with Baker Tilly for these professional consulting services. The work is set to begin in early November with a five month time frame for completion. PICA will publish the final report when complete.

Bank Account Reconciliation Task Force

During the financial statement opinion audit of the City's FY2017 Comprehensive Annual Financial Report ("CAFR"), a material weakness was identified pertaining to the City's bank reconciliation procedures.

Specifically, monthly bank reconciliations were not being performed and there was a $33.3 million discrepancy between the City's book balance and the bank balance. This condition was identified as a risk in our *Staff Report on the City's FY2019-FY2023 Five Year Financial Plan*, because the General Fund year-end fund balance could be negatively impacted.

As part of the City's corrective action plan to remedy this condition, the City hired an independent public accounting firm to help eliminate the backlog of reconciliations and to identify recommendations for improving the City Treasurer's bank reconciliation process. In addition, a Reconciliation Task Force was established to provide oversight, accountability, and transparency during the implementation of the City's corrective action plan. The Task Force is co-Chaired by the current City Treasurer, Rasheia Johnson, and former City Controller Jonathan Saidel. The Task Force meets bi-weekly to ensure the bank reconciliations are proceeding on a timely basis, to establish and enhance controls, and to report on the progress to the public. A final report on the firm's findings and recommendations is expected by December 2018.

As part of PICA's continued oversight role, PICA's Executive Director serves as a non-voting member of the Task Force. PICA will continue to provide oversight on the City's corrective action plan and report as appropriate.

Pension Funding

The funded status of the City's Municipal Retirement System is one of the most critical financial challenges facing the City. Since FY2010, the actuarial value of assets increased from $4.3 billion to $5.1 billion, while the actuarial liability increased from $9.3 billion to $11.2 billion. The funded ratio of the system declined from 47.0 to 45.3 percent, over the same time period.

In FY2019 PICA will continue to monitor the unfunded liability of the pension system, the funded ratio, and the City's plan to increase the ratio to 80 percent over the next 12 years.

Recurring Reports and Functions

PICA staff will continue issuing its monthly revenue reports, reports on the Quarterly City Managers Report, quarterly overtime reports, and annual reports. PICA will also continue its other re-occurring core functions related to reviewing extraordinary contracts and considering City capital requests.

City Departmental Performance

The City's budget process is evolving as a result of PICA's advocacy and City Council's legislation for program-based budgeting. Under the new budget process, which began to be implemented in FY2017, resources are displayed by program, taking into account direct and indirect costs and revenues generated by the program. The City has also been adopting performance measures associated with each program, in order to assess impact, efficiency and return on investment. As of FY2019, there are 31 departments participating in this new budgeting format. The remaining 22 departments will be phased in over the next two years, at which time all City departments will be integrated into the process by FY2021.

Upon completion of this process, PICA will review and analyze the new performance metrics established for each department and will issue a report evaluating the City's new approach to City-wide performance measurement.

Philadelphia Beverage Tax

In July of 2018, the Supreme Court of Pennsylvania upheld the legality of the Philadelphia beverage tax, thus exhausting the state-level challenges to the tax and releasing the revenue collected from the tax to be spent on dedicated programs. As a result, PICA will shift from monitoring those legal challenges to ensuring revenue from the tax is spent on the programs to which is dedicated—Community Schools, expansion of quality Pre-K programs, and the City's Rebuilding Community Infrastructure initiative.

Monitoring Overtime Spending

In order to combat excessive overtime costs for FY2019, PICA staff has formulated a proactive strategy in the City's overtime cost reduction efforts. This strategy includes reaching out to departments early in the fiscal year to obtain their overtime spending plans, and meeting with these departments' executive staffs individually to discuss measures they have put in place to control overtime costs. To date, we have met with the Police Department, Sheriff's Department, and Fleet Management, to name a few. PICA will continue to monitor overtime costs and allocations in its quarterly reports.

Policy Reports and Issue Papers

PICA will continue to publish periodic issue papers and targeted reports, in addition to its routine reports. In addition, PICA will identify pressing policy and management issues impacting the City's fiscal future and publish reports on these issues when necessary. Some issues that may warrant PICA's attention include: the funded ratio of the pension fund and other pension-related matters, specific drivers of excessive overtime spending, and technological upgrades associated with the modernization of City government systems.

PICA Funded Capital Projects

As of June 30, 2018, approximately $5,901,983 in PICA funds designated for City capital projects remained to be spent. In FY2019, PICA staff, working with City budget and capital program staff, will continue to oversee the expenditure of PICA capital funds to ensure that they are allocated to projects that meet the specific criteria defined in the PICA Act.

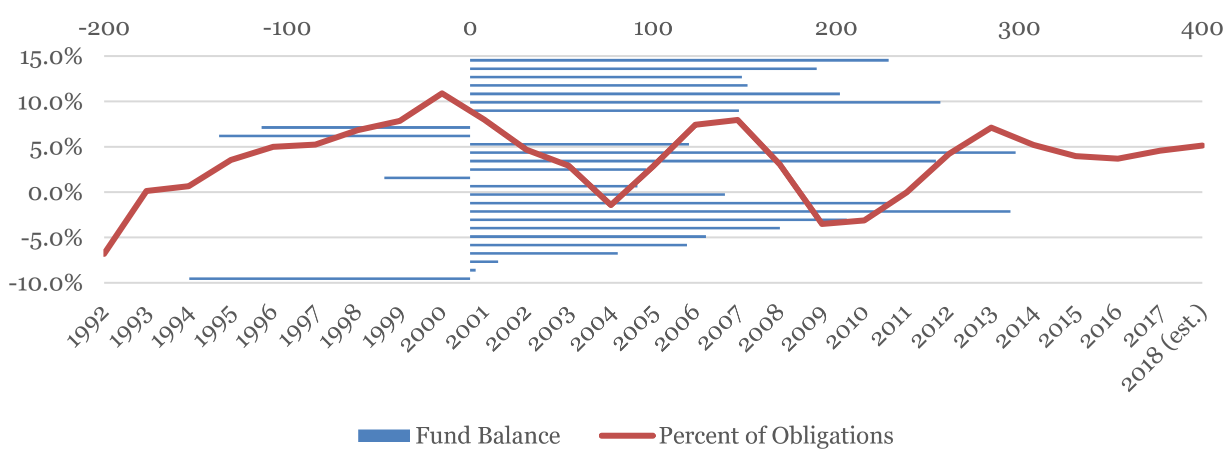
IV. PICA's Long-Term Goals

Since its inception, PICA's oversight of the City's long-term financial planning process has emphasized the need for the planning to incorporate initiatives to address the City's long-term financial challenges. The PICA Act refers to the need to address such "underlying problems," which the Authority interprets broadly to include socioeconomic trends, fiscal policy and management, and strategic planning for public sector activities to address Philadelphia's challenges.

Budget Reform

To date, the City has been successful in implementing key reforms relating to the budgeting and long-term financial planning process. These reforms were largely due to new requirements under the PICA Act, which mandated not only a five year financial plan, but also quarterly reporting to PICA on the status of current year revenues and expenditures in relation to the five year plan. Quarterly reporting has resulted in a much more detailed process of monitoring revenues and expenditures at the agency level, which has contributed to the City's ability to maintain budget compliance. The five year plan, in turn, has contributed to the City's ability to maintain structural balance, with recurring revenues and expenditures aligned. The statutory requirement to project revenues and expenditures for five years, and that these projections be based on reasonable assumptions and indicate a positive General Fund balance for five years, have contributed to financial stability over the past two decades. Since FY1991 and FY1992, when the City posted General Fund deficits that PICA financed through its initial bond issues, the City has ended the fiscal year with a surplus in every year except three (FY2004, FY2009, and FY2010). The current fiscal year is projected to end with a surplus as well.

Figure 3: General Fund Balance in Dollars and as a Percentage of Obligations

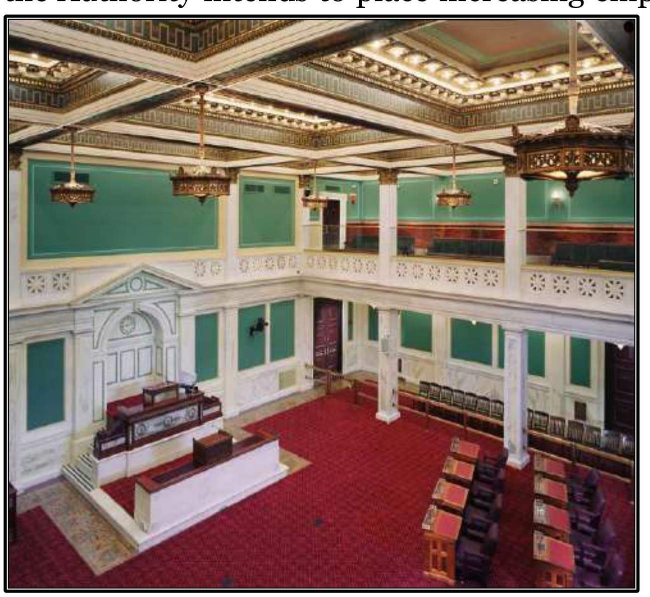


Policy Oversight

The framers of the PICA Act contemplated that the Authority would be a catalyst for addressing the City's root problems by helping create *processes* that would identify and publicize key problems, create consensus for solutions, and ensure that those solutions are implemented. The PICA Act states that it was the intent of the General Assembly, when it approved the PICA Act, to "foster sound financial planning and budgetary practices that will address the underlying problems which result in…deficits for cities of the first class…" The legislature intended that the City's budget and five year plan should be vehicles to address policy problems facing the City, not just tools for managing financial and physical resources.

For this to occur, the five year plan must be embedded in policy-making and management systems that span a broad range of government functions – policy development, strategic planning, budgeting, program evaluation, and communication of performance and results. This approach must be City-wide, encompassing central management agencies, as well as agencies with responsibility for policy implementation and service delivery. The City has made progress in these areas, with the revitalization of the planning function, progress at developing performance measurement, the institution of program-based budgeting, and increased focus on issues that require a coordinated multi-agency response. However, more remains to be done, especially with identifying appropriate departmental performance measures that are directly correlated to the budget process. This would promote transparency and accountability for the efficient delivery of City services.

Under current legislation, the Authority's role in oversight of the City will end in 2023, when all outstanding PICA bonds are retired. In the final five years of PICA's existence, the Authority intends to place increasing emphasis on the relationship between the five year plan process, the budget process, and the other management systems that are essential to ensure that the City can make progress toward addressing the underlying problems that impact its fiscal health. While PICA will continue to focus on the maintenance of structural financial balance, its oversight will also continue to expand to emphasize the integration of financial management within the policy-making and management systems of the City. This broader focus is consistent with the intent of the legislature when it approved the PICA Act in 1991 and with the academic and professional literature on performance management.



Continued Monitoring of Challenges Facing the City

Notwithstanding the achievement of disciplined financial projections and ongoing budget monitoring, the City is still confronting structural financial challenges that pose risks to long-term financial stability. To adequately address these problems – socioeconomic distress, weak economic growth, high tax rates, unsustainable pension costs, and tax delinquencies, among others – requires a financial planning process that is closely linked to broader management systems that are capable of addressing and solving the toughest public problems. The challenges facing the City include: high taxes generally; an unusual mix of taxes that may be especially damaging to the City's economic prospects; an unsustainable pension system; a fragmented and expensive system of employee health benefits; an inadequately funded public school system; city financial responsibilities that are typically more broadly shared across the metropolitan region; under-maintained public facilities and infrastructure; systemic tax enforcement problems; and an unfunded Budget Stabilization Reserve. In the future, PICA will continue to emphasize ways the City can address these underlying problems through its oversight of the Five Year Financial Plan process, research publications, and advocacy.

Appendix

Independent Auditor’s Report
and
Financial Statements

Pennsylvania Intergovernmental Cooperation Authority

A Blended Component Unit of the City of Philadelphia

Financial Statements with Required Supplementary Information and Supplementary Information

Year Ended June 30, 2018
with Independent Auditor's Report

MaherDuessel

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PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

(A Blended Component Unit of the City of Philadelphia)

YEAR ENDED JUNE 30, 2018

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Supplementary Information:

MaherDuessel

Independent Auditor's Report

Board of Directors
Pennsylvania
Intergovernmental
Cooperation Authority

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pennsylvania Intergovernmental Cooperation Authority (Authority), a blended component unit of the City of Philadelphia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority as of June 30, 2018, and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Authority adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions."* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and historical pension and other post-employment benefit information on pages i through x and pages 34 through 38, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying combining nonmajor fund financial statements, schedule of cash activity – General Fund, and schedule of cash activity – PICA Tax Revenue Fund (collectively, supplementary information) on pages 39 through 42 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Maher Duessel

Harrisburg, Pennsylvania
September 25, 2018

Management's Discussion and Analysis

The Board of the Pennsylvania Intergovernmental Cooperation Authority (the "Authority" or "PICA") offers the following narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2018 ("FY2018"). Please read it in conjunction with the Authority's financial statements, which begin on page 1.

Using this Annual Report

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise four components:

(1) Government-wide financial statements – which provide both long-term and short-term information about the Authority's overall financial condition.
(2) Fund financial statements – which provide a more detailed look at major individual funds.
(3) Notes to the financial statements – which explain some information contained in the financial statements and provide more detailed data.
(4) Supplementary information – which further explain and support the information in the financial statements.

Brief Description and Financial Highlights

PICA is a blended component unit of the City of Philadelphia ("City"). PICA is a body corporate and politic, a public authority and instrumentality of the Commonwealth of Pennsylvania ("Commonwealth"). It was created in 1991 to assist the City in overcoming a severe fiscal crisis by issuing bonds to finance the accumulated operating deficit of the City, and by overseeing the creation of a long-term financial planning process. Since 1991, the City has submitted, and PICA has approved, twenty-seven five-year financial plans. PICA approved the Five-Year Financial Plan for fiscal years 2019 through 2023, on July 25, 2018.

PICA is governed by a Board consisting of five voting members appointed by the following state officials: 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. The Board also includes two non-voting, *ex officio* members: The Secretary of the Budget of the Commonwealth and the Director of Finance of the City. The Authority currently employs six full-time staff.

The financial activity and statements presented in this report reflect only the financial activity of PICA. However, as a blended component unit of the City, the Authority's financial activity is included in the City's *Comprehensive Annual Financial Report*, as part of governmental activities. The following is a summary of some of the highlights of the Authority's financial activity in FY2018:

- The Authority's total net position at the close of FY2018 was ($99,643,122), representing a positive change in net position of $38,912,858 from the prior year. The largest contributor to the negative net position was $168,505,000 in bonds payable.
- The positive change in net position was primarily due to a reduction of $45,440,000 in bonds payable from the prior year. This reduction reflected scheduled payments of bond principal during the year.
- The Authority's most significant expenses in FY2018 were $454,213,607 for grants to the City and $10,655,100 for interest on long-term debt. The most significant revenue source was $498,713,153 in PICA taxes.
- At the close of FY2018, the combined fund balance in all governmental funds was $87,334,174. This amount included $19,396,644 in the General Fund, $56,430,450 in Debt Service Reserve Fund, and $11,507,080 in the nonmajor governmental funds (consisting of $3,965,407 in the 2009 and 2010 Debt Service Funds, $2,027,656 in the Rebate Fund, and $5,514,017 in the Special Revenue Funds).

Overview of Financial Statements

Government-Wide Financial Statements. The government-wide financial statements provide information about the activities of the Authority as a whole. They are reported using the economic resource measurement focus and the accrual basis of accounting. In these statements, all current year revenues and expenses are taken into account, regardless of when cash is received or paid.

There are two government-wide financial statements: The Statement of Net Position and the Statement of Activities (pages 1 and 2). The Statement of Net Position presents information on all of the Authority's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Over time, increases or decreases in net position should indicate whether the financial position of the Authority is improving or deteriorating. The Statement of Activities presents information showing how the Authority's net position changed during FY2018. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Fund Financial Statements. The two governmental fund financial statements are the Statement of Revenue, Expenditures, and Changes in Fund Balance; and the Balance Sheet (pages 3 and 4). A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Authority maintains nine governmental funds and information for each fund is presented separately in the fund financial statements.

It is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Both fund financial statements provide a reconciliation to facilitate this comparison between the fund statements and government-wide statements.

Notes to the Financial Statements. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 5 through 33.

Supplementary Information. In addition to the basic financial statements, and the accompanying notes, this report also presents additional information in two separate sections: required supplementary information and supplementary information.

> Required Supplementary Information: Certain information regarding the General Fund operating budget, the proportionate share of the collective net pension and other post-employment benefit (OPEB) liability, and the contributions to the Commonwealth's pension and OPEB system is presented in this section. This required supplementary information can be found immediately following the notes to the financial statements.

> Supplementary Information: The combining nonmajor governmental fund financial statements and the schedules of cash activity for both the General Fund and the PICA Tax Revenue Fund are presented in this section. The supplementary information can be found immediately following the Required Supplementary Information.

Government-Wide Financial Statements

Statement of Net Position

PICA's total assets as of June 30, 2018 were $92,012,229, a decrease of 11.5 percent from the previous year. The most significant changes were an increase of $7,882,796 in other cash and cash equivalents, offset by decreases in ($15,487,032) in investments, ($2,290,398) in cash and cash equivalents held by trustee, ($1,838,608) in PICA taxes receivable, and ($280,344) in fair value of derivative instruments.

Total deferred outflows of resources as of June 30, 2018 totaled $517,999, an increase of 17.9 percent from the prior year, with a majority of the increase attributable to the implementation of GASB Statement No. 75, related to OPEB, and the remaining increase representing deferred changes in assumptions related to the valuation of the pension liability.

Table 1: Net Position

	FY2018	FY2017	Percent Change
Assets			
Cash and cash equivalents			
Held by trustee	$21,273,393	$23,563,791	-9.7%
Other	19,483,412	11,600,616	68.0%
Investments	46,604,947	62,091,979	-24.9%
PICA taxes receivable	3,003,005	4,841,613	-38.0%
Fair value of derivative instruments	1,545,187	1,825,531	-15.4%
Accrued interest receivable	59,256	26,929	120.0%
Prepaid expenses	39,450	22,139	78.2%
Equipment, net	3,579	5,719	-37.4%
Total Assets	**$92,012,229**	**$103,978,317**	**-11.5%**
Deferred Outflows of Resources			
Deferred outflows related to pension	$404,302	$368,048	9.9%
Contributions subsequent to measurement date:			
OPEB	32,829	0	100.0%
Pension	80,868	71,225	13.5%
Total Deferred Outflows of Resources	**$517,999**	**$439,273**	**17.9%**
Liabilities			
Accounts payable and accrued expenses	$126,284	$146,287	-13.7%
Due to the City of Philadelphia	3,003,005	4,841,613	-38.0%
Current portion of bonds payable	38,760,000	45,440,000	-14.7%
Current portion of net OPEB liability	32,829	0	100.0%
Net pension liability	1,383,379	1,386,907	-0.3%
Noncurrent portion of net OPEB liability	1,044,664	0	100.0%
Noncurrent portion of bonds payable	147,217,805	189,890,517	-22.5%
Total Liabilities	**$191,567,966**	**$241,705,324**	**-20.7%**
Deferred Inflows of Resources			
Deferred inflows related to pension	$508,745	$140,081	263.2%
Deferred inflows related to OPEB	96,639	0	100.0%
Total Deferred Inflows of Resources	**$605,384**	**$140,081**	**332.2%**
Net Position			
Net investment in capital assets	$3,579	$5,719	-37.4%
Restricted for:			
Debt service	61,823,513	71,363,113	-13.4%
Benefit of the City of Philadelphia	5,514,017	5,449,859	1.2%
Unrestricted	(166,984,231)	(214,246,476)	-22.1%
Total Net Position	**($99,643,122)**	**($137,427,785)**	**-27.5%**

Total liabilities as of June 30, 2018 were $191,567,966, a decrease of 20.7 percent from the previous year. The most significant change in liabilities included a decrease of ($42,672,712) in the noncurrent portion of bonds payable, a decrease of ($6,680,000) in the current portion of bonds payable, and a decrease of ($1,838,608) in due to the City of Philadelphia. The decline in the noncurrent portion of bonds payable reflected payments of principal for maturing bonds. The only increase in liabilities of $1,077,493, pertained to the recognition of the net OPEB liability as required by the implementation of GASB Statement No. 75.

Total deferred inflows of resources as of June 30, 2018, were $605,384, an increase of 332.2 percent over the prior year, representing the changes in proportion and difference between the Authority's contributions and proportionate share of contributions related to its pension plan, and the newly recognized OPEB.

The Authority's total net position as of June 30, 2018, was ($99,643,122). Of this amount, $61,823,513 was restricted for debt service. The amount restricted for debt service includes the following elements:

Restricted for Debt Service	
Debt Service Reserve Fund	
Current assets held for debt service reserve purposes as required by Trust Indenture	$56,430,450
2009 and 2010 Debt Service Funds	
Current assets held for debt service payments due in FY2019	3,965,407
Rebate Fund	
Current assets held for future potential rebate/debt service purposes	2,027,656
Sub-Total	$62,423,513
Less: Debt Service Reserve Fund	
Current assets held for subsequent PICA administration purposes in FY2019 per the adopted budget	(600,000)
Net Position restricted for debt service at June 30, 2018	**$61,823,513**

Of the total net position, $5,514,017 was restricted for the benefit of the City, to be used for capital projects. Unrestricted net position/(deficit) of ($166,984,231) includes $600,000 committed by the PICA Board for Authority operations. The deficit in unrestricted net position was due primarily to long-term debt outstanding in excess of total assets. In the future, as the Authority continues to retire outstanding debt, its net position should improve.

Statement of Activities

As shown in Table 2, total expenses for FY2018 were $466,592,845, an increase of 10.1 percent from the previous year. The most significant changes in expenses included a $44,696,004 increase in grants to the City, offset by a $2,607,500 decline in interest on long-term debt. Total revenues for FY2018 were $505,505,703, an increase of 7.5 percent from the prior year. The most significant changes in revenues included a $33,530,869 (or 7.2 percent) increase in PICA taxes, and an increase of $1,598,917 in investment income.

Revenues exceed expenses by $38,912,858 in FY2018, resulting in an increase in net position of that amount. Net position/(deficit) at the beginning of the year was ($137,427,785). Factoring in an adjustment due to the implementation of GASB Statement No. 75 related to the OPEB liability, the yearend net position/(deficit) for FY2018 is ($99,643,122).

Table 2: Activities	FY2018	FY2017	Percent Change
Expenses			
Grants to City of Philadelphia	$454,213,607	$409,517,603	10.9%
General management and support	1,584,845	1,025,637	54.5%
Interest on long-term debt	10,655,100	13,262,600	-19.7%
Investment expenses	139,293	46,742	198.0%
Total Expenses	**$466,592,845**	**$423,852,582**	**10.1%**
Revenues			
PICA taxes	$498,713,153	$465,182,284	7.2%
Amortization of bond premium	3,912,712	3,912,711	0.0%
Investment income	2,286,657	687,740	232.5%
Other income	593,181	549,447	8.0%
Total Revenues	**$505,505,703**	**$470,332,182**	**7.5%**
Change in Net Position	**$38,912,858**	**$46,479,600**	**-16.3%**
Net Position			
Beginning of fiscal year	($137,427,785)	($183,907,385)	-25.3%
Adjustment due to GASB implementation	(1,128,195)	0	--
End of fiscal year	**($99,643,122)**	**($137,427,785)**	**-27.5%**

Governmental Fund Financial Statements

The Authority's 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 collectible within the current period or soon enough thereafter to pay liabilities of the current period. Both governmental fund financial statements are reconciled to the government-wide financial statements.

PICA maintains nine governmental funds. They include: the general fund; the PICA tax revenue fund; the debt service reserve fund; the 2009 and 2010 debt service funds; the rebate fund; and the 1992, 1993, and 1994 special revenue funds. A description of each fund is provided below.

General Fund. The General Fund accounts for all resources utilized for PICA operations. All FY2018 administration expenses were funded from earnings on the General Fund, a transfer of a portion of earnings on the Debt Service Reserve Fund to the General Fund, and the portion of the prior year's unassigned General Fund fund balance.

PICA Tax Revenue Fund. The PICA Tax Revenue Fund accounts for the receipts of PICA tax revenue and its allocation to other PICA funds and to the City in accordance with the PICA bond indenture. The fund receives PICA taxes, interest earnings on such collections, and net interest earnings on bond issue funds other than Special Revenue Funds (the earnings on Special Revenue Funds are restricted to providing grants to the City for PICA-approved capital projects). These funds are utilized to provide monthly, from the first available funds in that month, one-sixth of the next semi-annual interest requirement, and one-twelfth of the next annual principal requirement on PICA bonds outstanding, in a manner calculated to provide the total required semi-annual interest and annual principal payments at the close of the month prior to each required payment. After provision of monthly debt service requirements, the residual balances in the PICA Tax Revenue Fund are paid to the City as grants to the City General Fund.

Debt Service Reserve Fund. The Debt Service Reserve Fund contains assets sufficient to meet the debt service reserve requirement for PICA bonds, as required under the trust indenture. Current year investment earnings are transferred to other funds to pay current year debt service requirements and to finance a portion of each year's administrative expenses in the General Fund.

The General, PICA Tax Revenue, and Debt Service Reserve Funds are considered major funds, while the funds below are considered to be nonmajor.

Debt Service Funds. The 2009 and 2010 debt service funds account for the accumulation of resources for, and payment of, debt service on outstanding 2009 and 2010 series PICA bonds.

Rebate Fund. The Rebate Fund accounts for resources that may be necessary to meet federal arbitrage requirements and/or debt service requirements.

Special Revenue Funds. The special revenue funds account for resources that have been allocated to fund City capital projects. They include amounts held separately by bond issue from which such funds were provided, for purposes of grants to the City for specific PICA-approved capital projects. The PICA Act restricts the City's use of PICA capital funding to specific "emergency" and "productivity" projects approved by the PICA Board and, where necessary, by certain Commonwealth elected officials.

The Authority, in connection with its four new-money bond issues, approved specific City capital projects totaling approximately $426 million, while providing bond issue funds of approximately $400.8 million for such projects. The difference, $25.2 million, as anticipated, has been raised from investment earnings of funds dedicated to capital projects. At June 30, 2018, sufficient PICA-controlled special revenue funds (nonmajor funds) were available to complete all the initially approved PICA projects and additional projects subsequently approved by the PICA Board. Additional funds remain to be reprogrammed. Special revenue funds (nonmajor funds) held for PICA capital project grants to the City totaled $5,514,017 at June 30, 2018.

Statement of Revenue, Expenditures, and Changes in Fund Balances – Governmental Funds

The Statement of Revenue, Expenditures, and Changes in Fund Balances – Governmental Funds, presents revenues, expenditures, other financing sources and uses, and change in fund balance for the Authority's nine governmental funds for the year ended June 30, 2018. In addition, the statement presents fund balances at the beginning and at the end of FY2018. Table 3 presents a summary of the information in this statement.

Table 3: Revenues, Expenditures, and Changes in Fund Balance

	Revenues	**Expenditures**	**Other Financing Sources/(Uses)**	**Fund Balance (June 30, 2018)**
Governmental Fund				
General	$811,194	$1,250,328	$89,583	$19,396,644
PICA Tax Revenue	498,935,984	454,213,607	(44,722,377)	0
Debt Service Reserve	1,665,252	139,293	(10,362,225)	56,430,450
Total Major	**$501,412,430**	**$455,603,228**	**($54,995,019)**	**$75,827,094**
Nonmajor:				
2010 Debt Service	162,003	24,292,500	24,121,666	2,022,179
2009 Debt Service	211,152	31,802,600	30,873,353	1,943,228
Rebate	23,592	0	0	2,027,656
1992 Special Revenue	36	0	0	2,882
1993 Special Revenue	2,179	0	0	187,320
1994 Special Revenue	61,943	0	0	5,323,815
Total Nonmajor	**460,905**	**$56,095,100**	**54,995,019**	**11,507,080**
Total Governmental Funds	**$501,873,335**	**$511,698,328**	**$ 0**	**$87,334,174**

The Authority's governmental funds received $501,873,335 in revenue in FY2018. This amount included $498,713,153 in PICA taxes received in the PICA Tax Revenue Fund. Other major sources of revenue included $1,665,252 in investment income in the Debt Service Reserve Fund and $460,905 in investment income in the nonmajor funds. Expenditures in all governmental funds totaled $511,698,328 in FY2018. This amount included: $454,213,607 in grants to the City from the PICA Tax Revenue Fund; $56,095,100 in debt service payments from the 2009 and 2010 Debt Service Funds (nonmajor funds); $139,293 in investment expenses, and $1,250,328 in expenditures for PICA operations, all of which were paid from the General Fund.

Other financing sources and uses included various operating transfers among funds. Funds were transferred from the PICA Tax Revenue Fund and the Debt Service Reserve Fund to the 2010 and 2009 Debt Service Funds (nonmajor funds) to pay for principal and interest payments due on outstanding PICA bonds during FY2018. Funds were also transferred from the Debt Service Reserve Fund to the General Fund to cover a portion of PICA's operating costs.

The sum of revenues, expenditures and other financing sources and uses for all governmental funds equals the change in fund balance for FY2018, which was ($9,824,993). Accordingly, the total fund balance in all governmental funds decreased from $97,159,167 as of July 1, 2017, to $87,334,174 as of June 30, 2018, or approximately a 10.1 percent decline.

Balance Sheet – Governmental Funds

The Balance Sheet – Governmental Funds, presents assets, liabilities, and fund balance for the Authority's nine governmental funds as of June 30, 2018. Total assets for all governmental funds are $90,463,463. This amount includes $19,522,928 in the General Fund, of which $39,450 represents prepaid expenses. General Fund assets include cash and cash equivalents and investments. Total assets in the Debt Service Reserve Fund are $56,430,450, which includes cash and cash equivalents and investments. The remaining governmental fund assets – in the debt service funds and special revenue funds (nonmajor funds) and PICA Tax Revenue Fund – are classified as cash and cash equivalents, PICA taxes receivable, or accrued interest receivable. Table 4 presents a summary of the information in this Statement.

Table 4: Balance Sheet

	Assets	**Liabilities**	**Fund Balance (June 30, 2018)**
Governmental Fund			
General	$19,522,928	$126,284	$19,396,644
PICA Tax Revenue	3,003,005	3,003,005	0
Debt Service Reserve	56,430,450	0	56,430,450
Total Major	**$78,956,383**	**$3,129,289**	**$75,827,094**
Nonmajor			
2010 Debt Service	2,022,179	0	2,022,179
2009 Debt Service	1,943,228	0	1,943,228
Rebate	2,027,656	0	2,027,656
1992 Special Revenue	2,882	0	2,882
1993 Special Revenue	187,320	0	187,320
1994 Special Revenue	5,323,815	0	5,323,815
Total Nonmajor	**11,507,080**	**0**	**11,507,080**
Total Governmental	**$90,463,463**	**$3,129,289**	**$87,334,174**

Total fund balances for all governmental funds are $87,334,174. Within the General Fund, the total fund balance is $19,396,644, of which $14,184,868 is committed for future swaption activity and $5,211,776 is unassigned. This unassigned fund balance is available for Authority administration expenditures. Within the Debt Service Reserve Fund, total fund balance is $56,430,450, of which $55,830,450 is restricted for debt service, and $600,000 is committed to subsequent PICA administration. In recent years, the Authority has annually transferred $600,000 from the Debt Service Reserve Fund to the General Fund to finance a portion of PICA's operating expenditures. The fund balances in the 2009 and 2010 Debt Service Funds and Rebate Fund (nonmajor funds) are restricted for debt service. The fund balances in the special revenue funds (nonmajor funds) are restricted for the benefit of the City. These funds can only be used to finance City capital projects that meet specific criteria contained in the PICA Act.

General Fund Budget

The PICA Act allows the Authority several sources of income to support its operations. The statute specifically provides that the Authority may draw earnings from the various funds and accounts created pursuant to its Trust Indenture, and also directly from the proceeds of PICA Taxes to the extent investment income is insufficient. The latter allowable revenue source has never been utilized by the Authority.

The PICA Act requires that the Authority adopt an annual budget (for the fiscal year commencing July 1) before March 1 of each year and also stipulates its format and additional information to be provided to the Governor and General Assembly of the Commonwealth.

The philosophy underlying the Authority's General Fund budget is that the Authority should maintain a personnel and expenditure level sufficient to permit it to respond to the demands placed upon it. The FY2019 General Fund operating budget totals $1,586,000, a slight reduction from the FY2018. Table 5 presents a summary of the FY2018 and FY2019 General Fund budgets, as well as actual figures for FY2018.

The Authority's General Fund administrative expenditures are financed through a transfer of $600,000 in interest earnings from the Debt Service Reserve Fund, appropriation of a portion of the existing General Fund surplus, and interest earnings. Total expenditures in FY2019 are budgeted at $1,586,000. Expenditures for salaries and benefits comprise $955,000. The next largest category is additional oversight duties at $250,000. This line item is reserved for special projects, commissioned research, or other needs that may arise during the fiscal year related to financial oversight of the City. Professional services are budgeted at $190,000. Other expenses and capital outlay is budgeted at $191,000.

Table 5: General Fund Budget

	FY2019 Budget	FY2018 Budget	FY2018 Actual	Percent Change FY2018 vs. FY2019 Budget
Revenues and Other Financing Sources				
Interest Earnings – General Fund	$18,000	$15,000	$45,846	20.0%
Use of Existing General Fund Surplus	968,000	972,800	604,482	-0.5%
Other Financing Sources: Transfer of Interest Earnings from Debt Service Reserve Fund	600,000	600,000	600,000	0.0%
Total Revenues and Other Financing Sources	**$1,586,000**	**$1,587,800**	**$1,250,328**	**-0.1%**
Expenditures				
Salaries and benefits	$955,000	$895,000	$916,089	6.7%
Professional services	190,000	213,000	125,089	-10.8%
Other expenses	188,500	177,300	154,150	6.3%
Capital outlay	2,500	2,500	0	0.0%
Additional oversight duties	250,000	300,000	55,000	-16.7%
Total Expenditures	**$1,586,000**	**$1,587,800**	**$1,250,328**	**-0.1%**

In FY2018, actual PICA expenditures for operations were $1,250,328, well below the budgeted amount. This reflected actual expenditures that were below budget in all major categories, except salaries and benefits. Actual salaries and benefits were higher than projected, primarily due to higher than anticipated employee benefit costs. These higher costs were taken into consideration in the FY2019 budget. Professional services, including legal, audit, and consulting, were below budgeted amounts, because PICA maintains a consistent level, year-to-year, for services pertaining to arbitrage and legal advice, which are only used to the extent they are needed in any given year. Actual costs for capital outlays and additional oversight duties were also below budgeted amounts.

Debt

The Authority issued four series of bonds from 1992 to 1994 to finance the City's operating deficit, provide funding for City capital projects, establish a revolving loan fund to finance productivity-enhancing projects for the City, and for other purposes. PICA's statutory authorization to issue new-money bonds for capital or deficit financing expired on December 31, 1994. Since that time, the Authority has issued seven series of refunding bonds with the objective of lowering debt service costs. The most recent series of refunding bonds was issued in 2010.

By far the largest portion of the Authority's net deficit reflects its bonds payable. Proceeds from the PICA Tax, as well as the corresponding interest earned, are in part utilized to fund debt service requirements. The Authority's bonds payable activity for the year ended June 30, 2018 is summarized as follows:

Bond Payable Activity	
Outstanding Debt at July 1, 2017	$213,945,000
Debt Retired	45,440,000
Outstanding Debt at June 30, 2018	**$168,505,000**

Economic Factors and Next Year's Budget

PICA Tax revenues reflect the underlying strength of the Philadelphia employment base, which has exhibited modest to strong growth in recent years. It is expected that this trend will continue in FY2019.

In FY2019, the Authority will continue to receive PICA Tax revenues in accordance with existing agreements between the City, Commonwealth, and PICA. These revenues will be allocated to the Debt Service Funds to meet debt service requirements on the outstanding series of 2009 and 2010 bonds. If necessary, PICA Tax revenues will be allocated to the Debt Service Reserve Fund to ensure that the debt service reserve requirement required under the Trust Indenture is maintained. The process for spending PICA funds on PICA-approved capital projects will also continue in FY2019, resulting in a continued reduction in the fund balance in the special revenue funds (nonmajor funds).

At this time, there are no major factors that are expected to significantly impact the Authority's operating expenditures in FY2019. The budget for FY2019 anticipates the use of $968,000 of the existing General Fund surplus as a revenue source. This should result in a reduction in the unassigned General Fund balance in FY2019.

Additional Information

In accordance with IRS regulations, certain funds already granted to the City by PICA continue to be classified as PICA Arbitrage Reportable Funds until the City expends such funds for the purpose for which they were provided. Accordingly, and also for oversight purposes, PICA tracks the uses/balances of such funds and interest earnings thereon until they are spent by the City. When the City encumbers funds for PICA-funded capital projects, the funds are transferred from the special revenue funds (nonmajor funds) to encumbered funds accounts also maintained by PICA's Trustee. Subsequent to incurring the capital expenditure, the City requests reimbursement from the encumbered funds accounts. As of June 30, 2018, the balance in the three encumbered funds accounts was as follows:

Capital Projects Encumbered Funds	
1992 Capital Projects Encumbered Funds	$586,596
1993 Capital Projects Encumbered Funds	1,565,060
1994 Capital Projects Encumbered Funds	3,750,327
Total	**$5,901,983**

Contacting PICA's Financial Management

This financial report is designed to present an accurate overview of the financial activities of the Authority during FY2018. If you have questions about this report or require additional information about the Authority's finances, please contact PICA staff at Pennsylvania Intergovernmental Cooperation Authority, 1500 Walnut Street, Suite 1600, Philadelphia, PA 19102.

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

(A Component Unit of the City of Philadelphia)

STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES

JUNE 30, 2018

Assets		
Cash and cash equivalents:		
Held by Trustee	$	21,273,393
Other		19,483,412
Investments		46,604,947
PICA taxes receivable		3,003,005
Fair value of derivative instruments		1,545,187
Accrued interest receivable		59,256
Prepaid expenses		39,450
Equipment, net		3,579
Total Assets		92,012,229
Deferred Outflows of Resources		
Deferred outflows related to pension		404,302
Contributions subsequent to measurement date:		
Other post-employment benefits		32,829
Pension		80,868
Total Deferred Outflows of Resources		517,999
Liabilities		
Accounts payable and accrued expenses		126,284
Due to City of Philadelphia		3,003,005
Current portion of bonds payable		38,760,000
Current portion of net other post-employment benefit liability		32,829
Net pension liability		1,383,379
Noncurrent portion of net other post-employment benefit liability		1,044,664
Noncurrent portion of bonds payable		147,217,805
Total Liabilities		191,567,966
Deferred Inflows of Resources		
Deferred inflows related to pension		508,745
Deferred inflows related to other post-employment benefits		96,639
Total Deferred Inflows of Resources		605,384
Net Position		
Net investment in capital assets		3,579
Restricted for:		
Debt service		61,823,513
Benefit of the City of Philadelphia		5,514,017
Unrestricted		(166,984,231)
Total Net Position	$	(99,643,122)

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

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

(A Component Unit of the City of Philadelphia)

STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES

YEAR ENDED JUNE 30, 2018

Expenses:	
Grants to City of Philadelphia	$ 454,213,607
General management and support - general operations	1,584,845
Interest on long-term debt	10,655,100
Investment expenses	139,293
Total Expenses	466,592,845
Revenues:	
PICA taxes	498,713,153
Amortization of bond premium	3,912,712
Investment income	2,286,657
Other income	593,181
Total Revenues	505,505,703
Change in Net Position	38,912,858
Net Position:	
Beginning of year - as originally stated	(137,427,785)
Effect of implementation of GASB Statement No. 75	(1,128,195)
End of year	$ (99,643,122)

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

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

(A Component Unit of the City of Philadelphia)

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2018

	General	PICA Tax Revenue	Debt Service Reserve Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Assets:					
Cash and cash equivalents	$ 19,483,412	$ -	$ 9,812,801	$ 11,460,592	$ 40,756,805
Investments	-	-	46,604,947	-	46,604,947
PICA taxes receivable	-	3,003,005	-	-	3,003,005
Accrued interest receivable	66	-	12,702	46,488	59,256
Prepaid expenses	39,450	-	-	-	39,450
Total Assets	$ 19,522,928	$ 3,003,005	$ 56,430,450	$ 11,507,080	$ 90,463,463
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable	$ 63,767	$ -	$ -	$ -	$ 63,767
Due to the City of Philadelphia	-	3,003,005	-	-	3,003,005
Accrued payroll and taxes	62,517	-	-	-	62,517
Total liabilities	126,284	3,003,005	-	-	3,129,289
Fund Balance:					
Restricted:					
For debt service	-	-	55,830,450	5,993,063	61,823,513
For benefit of City of Philadelphia	-	-	-	5,514,017	5,514,017
Committed:					
For subsequent PICA administration	-	-	600,000	-	600,000
For future swaption activity	14,184,868	-	-	-	14,184,868
Unassigned	5,211,776	-	-	-	5,211,776
Total fund balance	19,396,644	-	56,430,450	11,507,080	87,334,174
Total Liabilities and Fund Balance	$ 19,522,928	$ 3,003,005	$ 56,430,450	$ 11,507,080	$ 90,463,463

Amounts reported for governmental activities in the statement of net position are different due to:	
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	$ (168,505,000)
Fair value of derivative instruments is not reported in the governmental funds	1,545,187
Capital assets are not financial resources and, therefore, are not reported in the governmental funds	3,579
Net pension liability and related deferred inflows and outflows of resources are not reported in the governmental funds	(1,406,954)
Net OPEB liability and related deferred inflows and outflows of resources are not reported in the governmental funds	(1,141,303)
Premium on bonds is reported in the government-wide statements	(17,472,805)
Net position - governmental activities	$ (99,643,122)

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

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

(A Component Unit of the City of Philadelphia)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2018

	General	PICA Tax Revenue	Debt Service Reserve Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
PICA taxes	$ -	$ 498,713,153	$ -	$ -	$ 498,713,153
Investment income	238,023	202,821	1,665,252	460,905	2,567,001
Other	573,171	20,010	-	-	593,181
Total revenues	811,194	498,935,984	1,665,252	460,905	501,873,335
Expenditures:					
Grants to the City of Philadelphia	-	454,213,607	-	-	454,213,607
Debt service:					
Principal	-	-	-	45,440,000	45,440,000
Interest	-	-	-	10,655,100	10,655,100
Administration:					
Investment expenses	-	-	139,293	-	139,293
Operations	1,250,328	-	-	-	1,250,328
Total expenditures	1,250,328	454,213,607	139,293	56,095,100	511,698,328
Excess (Deficiency) of Revenues Over (Under) Expenditures	(439,134)	44,722,377	1,525,959	(55,634,195)	(9,824,993)
Other Financing Sources (Uses):					
Transfers in (out)	89,583	(44,722,377)	(10,362,225)	54,995,019	-
Net Change in Fund Balance	(349,551)	-	(8,836,266)	(639,176)	(9,824,993)
Fund Balance:					
Beginning of year	19,746,195	-	65,266,716	12,146,256	97,159,167
End of year	$ 19,396,644	$ -	$ 56,430,450	$ 11,507,080	$ 87,334,174

Reconciliation of change in fund balance to change in net position:	
Change in fund balance	$ (9,824,993)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the government-wide statements	45,440,000
Bond premium is amortized over the life of the bonds in the government-wide statements	3,912,712
Cost of capital outlays is allocated over their estimated useful lives as depreciation in the government-wide statements	(2,140)
Pension expense difference between governmental funds and government-wide statements	(319,269)
Other post-employment benefit expense difference between governmental funds and government-wide statements	(13,108)
Derivative valuation adjustment is recognized as an asset and revenue/expense in the government-wide statements	(280,344)
Change in net position	$ 38,912,858

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

1. Summary of Significant Accounting Policies and Organization

Organization

The Pennsylvania Intergovernmental Cooperation Authority (Authority) was created on June 5, 1991 by virtue of the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (P.L. 9, No. 6), 53 P.S. 12720.101 et seq., as amended (Act) for the purpose of providing financial assistance to the City of Philadelphia (City) in overcoming a severe financial crisis. Under the Act, the Authority is administered by a governing Board consisting of five voting members and two ex-officio nonvoting members. The ex-officio members are presently the Director of Finance of the City and the Budget Secretary of the Commonwealth of Pennsylvania (Commonwealth). 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. Future operations of the Authority may be subject to legislative action.

The Act provides that the Authority shall have certain financial and oversight functions. The Authority had the power to issue bonds to grant or lend the proceeds thereof to the City. Such power to issue debt for such purposes has expired; however, the Authority remains authorized under the Act to issue refunding bonds and grant or lend the proceeds to the City.

Under the Act, the Authority also has 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.

The Authority is considered a blended component unit of the City.

The accounting policies of the Authority conform to generally accepted accounting principles (GAAP) as applicable to municipalities. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The GASB is the authoritative standard-setting body for establishing governmental accounting and financial reporting principles.

The following is a summary of the significant GASB policies adopted by the Authority in the current fiscal year:

- GASB Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,"* Statement No. 82, *"Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73,"* and Statement No. 85, *"Omnibus 2017."* These statements revise and establish reporting requirements for most governments that provide pension and post-employment benefits to their employees. As a result of this implementation, the governmental activities net position was restated as follows:

Net position at July 1, 2017 - as originally stated	$ (137,427,785)
Net OPEB liability at July 1, 2017	(1,142,525)
Contributions subsequent to the measurement date	14,330
Net position at July 1, 2017 - restated	$ (138,555,980)

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on the activities of the primary government. All material interfund accounts and transactions have been eliminated in the government-wide financial statements.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Authority reports the following major governmental funds:

The **General Fund** is used to account for the administrative operations of the Authority, for which a budget is adopted annually.

The **PICA Tax Revenue (Special Revenue) Fund** accounts for the proceeds of the PICA Tax remitted to the Authority via the Commonwealth. It is utilized to fund the debt service requirements of the Authority and to provide grants to the City. It encompasses the Revenue Fund established with the Trustees by the Trust Indentures (see Note 5).

The **Debt Service Reserve Fund** holds assets for debt service reserve purposes as required by the Trust Indentures.

The Authority reports the following nonmajor governmental funds:

The **2010 and 2009 Debt Service Funds** account for the accumulation of financial resources for the payment of principal and interest on the Authority's long-term debt. The **Rebate Fund** is maintained in order to fund future potential rebates and/or debt service requirements. The Debt Service Funds also include the Bond Redemption Fund, which has not yet been required. The aggregate fund balances of the Debt Service Funds are included in net position on the Statement of Net Position as restricted for debt service.

The **1992, 1993, and 1994 Special Revenue Funds** account for assets held by the Authority for expenditures for the benefit of the City. The principal and income of these funds must be expended for their designated purpose. PICA did not grant any funds to the City during the year ended June 30, 2018. The 1992, 1993, and 1994 Special Revenue Funds also include the Deficit and Settlement funds, which completed their designated purpose in prior years and are presently inactive. The aggregate fund balances of the 1992, 1993, and 1994 Special Revenue Funds are included in net position on the Statement of Net Position as restricted for the benefit of the City.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues from the PICA Tax (a tax levied by the City on the wages and net profits of Philadelphia residents and businesses) are recorded when the Authority is advised by the Commonwealth of the amounts to be remitted and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Authority cannot and does not account for any PICA Tax due to, but not yet collected, by the City.

Governmental fund financial statements use a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become susceptible to accrual; that is, when they become both "measurable" and "available to finance expenditures of the current period." The Authority considers amounts collected within 60 days after year-end on all governmental funds to be available and recognizes them as revenues of the current year. Expenditures are recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt services funds for payments to be made early the following year.

In the governmental fund financial statements, fund balances are classified as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The Authority did not have any fund balance classified as nonspendable at year-end.

- Restricted: This classification includes amounts for which constraints have been placed on the use of resources which are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Management has classified all fund balance in the special revenue funds and debt service funds as restricted (except as noted below).

- Committed: This classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Directors (Board). These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same course of action that was employed when the funds were initially committed. Management has classified any fund balance that is related to the budget or that has been designated for future swaption activity as committed.

- Assigned: This classification includes amounts that are constrained by management's intent to be used for a specific purpose, but are neither restricted nor committed. This intent should be expressed by the Board or an official, such as the Executive Director. The Authority did not have any fund balance classified as assigned at year-end.

- Unassigned: This classification is the residual fund balance for the General Fund. It also represents fund balance that has not been classified as assigned, committed, restricted, or nonspendable. Management has classified the remaining portion of the General Fund fund balance as unassigned.

When fund balance resources are available for a specific purpose from multiple classifications, the Authority will generally use the most restrictive funds in the following order: restricted, committed, and assigned as they are needed.

PICA Tax

The "PICA Tax" was enacted by an ordinance adopted by the City Council and approved by the Mayor of the City on June 12, 1991 (Bill No. 1437). The tax levy is one and one-half percent (1.5%) on the wages and net profits of City residents and businesses. The PICA Tax is collected by the Department of Revenue of the Commonwealth, utilizing the City Revenue and Law Departments (collectively) as its agent, and remitted to the Treasurer of the Commonwealth for disbursement to the Authority's Trustee. The Authority does not administer the collection of the PICA Tax from taxpayers.

Cash and Cash Equivalents

The Authority considers all short-term debt securities purchased with a maturity of three months of less to be cash equivalents.

Investments

All investments are stated at fair value. Investment income is recorded on the Statement of Activities and includes any unrealized gains or losses earned during the period.

Bond Premium

The premium on bonds payable is being amortized on a straight-line basis over the term of the bonds.

Capital Assets

Capital assets, which include equipment, are reported in the government-wide financial statements. All capital assets are capitalized at cost and updated for additions and retirements during the year. The Authority does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Capital assets of the Authority are depreciated using the straight-line method over the useful lives of the assets. The estimated useful life of the equipment is five years.

Compensated Absences

Accrued expenses include an accrual for vacation pay earned but not taken as of June 30, 2018 of $62,517.

Pension

For purposes of measuring the net pension lability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the State Employees' Retirement System (SERS) and additions to/deductions from SERS' fiduciary net position have been determined on the same basis as they are reported by SERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures at the date of the financial statements and reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

2. Deposits and Investments

Deposits

Authority funds may be deposited in any bank that is insured by the Federal Deposit Insurance Corporation. To the extent that such deposits exceed federal insurance, the depositories must deposit (with their trust department or other custodians) obligations of the United States, the Commonwealth, or any political subdivision of the Commonwealth to eliminate the risk of uninsured funds. Under Act 72 of 1971 Session of the Pennsylvania General Assembly (Act 72), as amended, the depositories may meet this requirement by pooling appropriate securities to cover all public funds on deposit with their institution.

At June 30, 2018, the Authority's deposits consist of the following:

Cash	$ 1,560,791
Certificates of deposit	3,675,000
Total deposits	$ 5,235,791

The Authority's deposits include bank certificates of deposit that have a remaining maturity, at the time of purchase, of one year or less. U.S. Treasury and Agency obligations with a remaining maturity of one year or less are classified as short-term investments.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority has no policy, other than as noted above, that further limits it custodial credit risk. As of June 30, 2018, the Authority's book balance was $5,235,791 and the bank balance was $5,307,720. Of the bank balance, $3,925,000 was covered by federal depository insurance and $1,382,720 was collateralized under Act 72.

Investments

As of June 30, 2018, the Authority had the following investments:

	Fair Value	Cost	Maturity Date
Money market funds	$ 35,521,014	$ 35,521,014	N/A
U.S. Treasury and Agency obligations	16,083,259	16,390,404	07/18-10/23
Municipal bonds/short-term notes	30,521,688	30,807,370	08/18-04/19
	$ 82,125,961	$ 82,718,788	

The Authority complies with Pennsylvania statutes (72 P.S. Section 301.1 and Section 3603) which enumerate the permissible investments for funds of the Commonwealth. These statutes are applicable to the Authority as a result of Section 311(b) of the Act. Specifically, all funds of the Authority, including the proceeds of bonds, which are not required for immediate use may be invested in other obligations of an assisted city, or in obligations of the Federal Government or of the Commonwealth, or obligations which are legal investments of Commonwealth funds, including certain types of commercial paper.

Investments in the PICA Tax Revenue Fund, the Debt Service Funds, and the 1992, 1993, and 1994 Special Revenue Funds must be invested in accordance with the various Trust Indentures.

The Trust Indentures restrict investments to the following types of securities:

(a) Obligations to the City;

(b) Other government obligations;

(c) Federal funds, unsecured certificates of deposit, time deposits, or bankers' acceptances of any domestic bank having a combined capital and surplus of not less than $50,000,000;

(d) Federally insured deposits of any bank or savings and loan association which has a combined capital, surplus, and undivided profits of not less than $3,000,000;

(e) (i) Direct obligations of, or (ii) obligations, the principal of and interest of which are unconditionally guaranteed by any state of the United States of America, the District of Columbia, or the Commonwealth of Puerto Rico, or any political subdivision or agency thereof, other that the City, whose unsecured, uninsured, and unguaranteed general obligation debt is rated, at the time of purchase, "A" or better by Moody's and Standard & Poor's (S&P);

(f) Commercial paper (having original maturities of not more than 270 days) rated at the time of purchase "P-1" by Moody's and "A-1" or better by S&P;

(g) Repurchase agreements collateralized by direct obligations of, or obligations the payment of principal and interest on which are unconditionally guaranteed as to full and timely payment by, the United States of America; and direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; consolidated debt obligations and letter of credit-backed issues of the Federal Home Loan Banks; participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; debentures of the Federal Housing Administration; mortgage-backed securities (except stripped mortgage securities which are valued greater than par on the portion of unpaid principal) and senior debt obligations of the Federal National Mortgage Association; participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association; guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; debt obligations and letters of credit-backed issues of the Student Loan Marketing Association; local authority bonds of the U.S. Department of Housing and Urban Development; and guaranteed Title XI financing of the U.S. Maritime Administration;

(h) Money market mutual fund shares issued by a fund having assets not less than $100,000,000 (including any such fund from which the Trustee or any of its affiliates may receive compensation) which invests in securities of the type specified in clauses (b) or (f) above and is rated “AAAm” or “AAAm-g” by S&P.

Investments in the Debt Service Reserve Fund may be only invested it the investments included in (b) through (h) above with a maturity of five years or less or guaranteed investment contracts that can be withdrawn without penalty.

Custodial Credit Risk - Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in the possession of an outside party. The Authority has no policy, other than as noted above, that further limits its custodial credit risk.

All of the Authority’s investments are insured and registered securities held by the entity or its agent (bank trust department) in the entity’s name, with the exception of money market funds which are not exposed to custodial credit risk because those investments are not evidenced by securities in book entry or paper form.

Concentration of Credit Risk - The Authority places no limit on the amount the Authority may invest in any one issuer. More than 5% of the Authority’s investments were invested in the following:

Investment	Fair Value	% of Total Investments
Chicago Illinois Board of Education	$ 15,600,691	19%
State of Texas	8,678,868	11%
State of Illinois	6,242,129	8%

Credit Risk - The Authority investments had the following level of exposure to credit risk at June 30, 2018:

Investment	Fair Value	Rating
Money market funds	$ 197,878	Unrated
Money market funds	35,323,136	AAA
U.S. Treasury and Agency obligations	16,083,259	AA
Municipal bonds/short-term notes	11,026,779	B
Municipal bonds/short-term notes	6,242,129	BBB-
Municipal bonds/short-term notes	8,678,868	SP-1
Municipal bonds/short-term notes	4,330,506	Unrated
Municipal bonds/short-term notes	243,406	N/A

Interest Rate Risk – The Authority does not have a formal investment policy, other than as noted above, that further limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Fair Value of Investments - Investments and derivatives are recorded at fair value as of June 30, 2018. GASB Statement No. 72, *"Fair Value Measurement and Application,"* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement establishes a hierarchy of value inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest, and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 - Investments whose values are based on quoted prices (unadjusted) for identical assets (or liabilities) in active markets that a government can access at the measurement date.

- Level 2 - Investments with inputs - other than quoted prices included within Level 1 - that are observable for an asset (or liability), either directly or indirectly.

- Level 3 - Investments with unobservable inputs for an asset (or liability) and may require a degree of professional judgement.

The following table summarizes the Authority's investments within the fair value hierarchy as of June 30, 2018:

	Fair Value Measurements Using			
Investment Type	Level 1	Level 2	Level 3	Total
Money market funds	$ 35,521,014	$ -	$ -	$ 35,521,014
U.S. Treasury and Agency obligations	16,083,259	-	-	16,083,259
Municipal bonds/short-term notes	-	30,521,688	-	30,521,688
Total	$ 51,604,273	$ 30,521,688	$ -	$ 82,125,961

The Authority's Level 1 investments are based on active market quotes. The Authority's Level 2 investments are based on secondary market quotes.

3. Interfund Transfers

The composition of interfund transfers for the year ended June 30, 2018 is as follows:

	Transfers In	Transfers Out	Net Transfers In (Out)
General Fund	$ 600,000	$ 510,417	$ 89,583
PICA Tax Revenue Fund	2,580,181	47,302,558	(44,722,377)
Debt Service Reserve Fund	600,000	10,962,225	(10,362,225)
Nonmajor governmental funds:			
Debt Service Fund - 2010	24,274,272	152,606	24,121,666
Debt Service Fund - 2009	31,075,579	202,226	30,873,353
Total	$ 59,130,032	$ 59,130,032	$ -

Interfund transfers are made on a regular basis to record the transfer of the portion of the PICA tax revenue withheld for debt service, operating transfers from the debt service reserve funds as permitted under the Trust Indenture, and transfers of the basis cap payments used for debt service.

4. Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance July 1, 2017	Deletions	Additions	Balance June 30, 2018
Equipment	$ 10,699	$ -	$ -	$ 10,699
Less: Accumulated depreciation	(4,980)	-	(2,140)	(7,120)
Equipment, net	$ 5,719	$ -	$ (2,140)	$ 3,579

Depreciation for the year ended June 30, 2018 was $2,140 and is reflected in the Statement of Activities.

5. Special Tax Revenue Bonds

The following summary shows the changes in bonds payable for the year ended June 30, 2018:

Series of:	Outstanding July 1, 2017	Additions	Principal Repayments	Outstanding June 30, 2018	Amounts Due Within One Year
2009	$ 125,595,000	$ -	$ 25,565,000	$ 100,030,000	$ 18,110,000
2010	88,350,000	-	19,875,000	68,475,000	20,650,000
Total	$ 213,945,000	$ -	$ 45,440,000	168,505,000	$ 38,760,000
			Add bond premiums	17,472,805	
				$ 185,977,805	

In conjunction with its 1992 bond issue, the Authority entered into an Indenture of Trust dated as of June 1, 1992 which was supplemented by a First Supplemental Indenture of Trust dated as of June 22, 1992 (1992 Indenture). Two 1993 bond issues were issued pursuant to the 1992 Indenture as amended and supplemented, respectively, by a Second Supplemental Indenture of Trust dated as of July 15, 1993, and a Third Supplemental Indenture of Trust dated as of August 15, 1993.

In conjunction with its 1994 bond issue, the Authority entered into an Amended and Restated Indenture of Trust dated as of December 1, 1994 (1994 Indenture). The 1994 Indenture replaced the 1992 Indenture as amended and supplemented by the Second Supplemental Indenture of Trust and Third Supplemental Indenture of Trust. Subsequent bond issues in 1996, 1999, 2003, 2006, 2008, 2009, and 2010 were issued pursuant to the 1994 Indenture as amended and supplemented, respectively, by supplements dated May 15, 1996, April 1, 1999, June 1, 2003, June 1, 2006, May 1, 2008, June 1, 2009, and May 1, 2010.

Only the Series 2009 and 2010 bonds are currently outstanding. These bonds were issued, respectively, pursuant to the Sixth and Seventh Supplemental Indentures to the 1994 Indenture. These supplemental indentures are between the Authority and the U.S. Bank National Association (Trustee). The Trustee's responsibilities include ensuring that the proceeds of the PICA Tax (see Note 1) received by it are used to fund the debt service payments (bond principal and interest) required under the 1994 Indenture, as amended.

Each series of bonds issued by the Authority are limited obligations of the Authority and the principal, redemption premium, if any, and interest thereon, are payable solely from a portion of the PICA Tax.

To issue additional bonds, the Trust Indenture requires that the Authority collection of PICA Taxes in any twelve consecutive months during the fifteen-month period immediately preceding the date of issuance of such additional bonds equals at least 175% of the maximum annual debt service requirement on the bonds outstanding after the issuance of the additional bonds for the 2009 Trust Indenture and 300% of the same for the 2010 Trust Indenture. The PICA Taxes collected during the year ended June 30, 2018 ($500,551,761) equaled approximately 1062% of the maximum annual debt service ($47,152,100) of the bonds outstanding at June 30, 2018 (the 2009 - $23,078,350 and 2010 - $24,073,750 bonds).

Total annual debt service requirements (annual principal or sinking fund requirements and interest payments) on the outstanding bonds at June 30, 2018 are as follows:

Fiscal Year Ending	Total Debt Service Requirements
2019	$ 47,152,100
2020	46,944,100
2021	37,319,600
2022	37,179,750
2023	23,076,000

Details as to the purpose of each of the respective series of bonds issued by the Authority through June 30, 2018, and as to bonds outstanding at that date follow.

A. Series of 1992, 1993, 1993A, and 1994

The proceeds from the sale of the Series of 1992, 1993, 1993A, and 1994 Bonds were used to (1) make grants to the City to fund the fiscal year 1991 General Fund cumulative deficit and the projected fiscal years 1992 and 1993 General Fund deficits, (2) make grants to the City to pay the cost of certain emergency capital projects to be undertaken by the City and other capital projects to increase productivity in the operation of City government, (3) make the required deposit to the Debt Service Reserve Fund, (4) capitalize interest on a portion of the Series of 1992 Bonds through June 15, 1993, (5) repay amounts previously advanced to the Authority by the Commonwealth to pay initial operating expenses of the Authority, (6) fund a portion of the Authority's first fiscal year operating budget, (7) make a grant to the City for refunding of certain of the City's General Fund Obligation Bonds, (8) provide for the advance refunding of a portion of the Authority's Special Tax Revenue Bonds, Series of 1992, and (9) pay the costs of issuing each series of bonds.

The Refunded 1992, 1993, 1993A, and 1994 Bonds are no longer deemed to be outstanding under the Trust Indenture.

B. Series of 1996, 1999, 2003, 2006, and 2008 A and B

The proceeds from the sale of the Series of 1996, 1999, 2003, 2006, and 2008 A and B Bonds, together with other available funds, were used to (1) provide for the advance refunding of outstanding Authority Special Tax Revenue Bonds, (2) pay the premium for a Debt Service Reserve Fund insurance policy to satisfy Debt Service Reserve Fund Requirements, and (3) pay the costs of issuing each series bonds.

The Refunded 1996, 1999, 2003, 2006, and 2008 A and B Bonds are no longer deemed to be outstanding under the Trust Indentures.

C. Series of 2009 (2009 Bonds)

The net proceeds from the sale of the 2009 Bonds were used to (1) provide for the current refunding of all of the Authority's Special Tax Revenue Bonds, Series of 1999, outstanding as of May 15, 2009, (2) pay all the costs of terminating an interest rate Swaption related to the 1999 Bonds, and (3) pay the cost of issuing the 2009 Bonds. The proceeds of these bonds were used to refund the remaining portion of the 1999 Series maturing through 2023 in the total amount of $326,865,000.

The following table shows the annual principal or sinking fund requirements, interest payments, and the total debt service requirements for the 2009 Bonds outstanding at June 30, 2018:

Fiscal Year Ending	Interest Rate	Principal or Sinking Fund Requirements	Interest	Total Debt Service
2019	5%	$ 18,110,000	$ 4,968,350	$ 23,078,350
2020	5%	19,020,000	4,062,850	23,082,850
2021	4% and 5%	19,965,000	3,111,850	23,076,850
2022	5%	20,945,000	2,133,250	23,078,250
2023	4.25% and 5%	21,990,000	1,086,000	23,076,000
		$ 100,030,000	$ 15,362,300	$ 115,392,300

D. Series of 2010 (2010 Bonds)

The net proceeds from the sale of the 2010 Bonds were used to (1) provide for the current refunding of all of the Authority's Special Tax Revenue Bonds, Series of 2008 A and B, outstanding as of May 17, 2010, (2) to pay the costs of terminating an interest swap transaction related to the 2008 A and B Bonds, and (3) pay the cost of issuing the 2010 Bonds.

The following table shows the annual principal or sinking fund requirements, interest payments and the total debt service requirements for the 2010 Bonds outstanding at June 30, 2018:

Fiscal Year Ending	Interest Rate	Principal or Sinking Fund Requirements	Interest	Total Debt Service
2019	5%	$ 20,650,000	$ 3,423,750	$ 24,073,750
2020	5%	21,470,000	2,391,250	23,861,250
2021	5%	12,925,000	1,317,750	14,242,750
2022	5%	13,430,000	671,500	14,101,500
		$ 68,475,000	$ 7,804,250	$ 76,279,250

In June 2003 and 2004, the Authority entered into basis cap transactions with the counterparty as follows:

Investment Derivative Instruments

As of June 30, 2018, the Authority's basis caps did not meet the criteria for effectiveness as a hedging instrument. Therefore, they are reported as investment derivative instruments.

			Fair Value at June 30, 2018:		
Governmental Activities	Classification	Amount	Classification	Amount	Notional Amount
Investment Derivatives:					
2003 Basis Cap	Investment Income:	$ 8,253	Investment:	$ 450,765	$ 47,910,000
1999 Basis Cap	Investment Income:	17,874	Investment:	1,068,295	89,130,000

The Authority entered into two basis cap transactions with JPMorgan Chase Bank, one in June 2003 related to the 2003 swap and one in April 2004 related to the 1999 swaption. For the 2003 basis cap transaction, beginning in June 15, 2003, the counterparty pays the Authority a fixed rate each month of .40% per year times the notional amount times the day count fraction and the Authority will pay the counterparty a variable rate based on the greater of (a) the average of Securities Industry and Financial Markets Association (SIFMA) for the month divided by one-month London Interbank Offered Rate (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 the agreement equals the notional amount and term of the 2003 interest rate swap noted above.

For the 1999 basis cap transaction, beginning June 15, 2009, the counterparty pays the Authority a fixed rate each month of .46% per year times the notional amount times the day count fraction and the Authority will pay the counterparty a variable rate based on the greater of (a) the average of SIFMA for the month divided by 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 the agreement equals the notional amount and term of the 1999 interest rate swap noted above.

If the ratio of SIFMA/LIBOR rises sharply, the anticipated benefit may not be realized.

Fair Value – As of June 30, 2018, the 2003 basis cap had a positive fair value of $450,765. This means that the Authority would receive this amount to terminate the 2003 basis cap.

As of June 30, 2018, the 1999 basis cap had a positive fair value of $1,068,295. This means that the Authority would receive this amount to terminate the 1999 basis cap. The fair values of these swaps were measured using the zero-coupon discount method and are categorized within Level 2 of the fair value hierarchy.

Termination Risk – The basis caps include an additional termination event based on credit ratings. The basis caps may be terminated by the Authority if the counterparty's ratings fall below A- or A3 and collateral is not posted within 15 days.

6. Defined Benefit Pension Plan

Plan Description

The Authority covers all full-time employees in the Pennsylvania State Employees' Retirement System (SERS) which was established as of June 27, 1923, under the provisions of Public Law 858, No 331. SERS is the administrator of a cost-sharing, multiple-employer defined benefit retirement system established by the Commonwealth to provide pension benefits for employees of state government and certain independent agencies.

SERS is a component unit of the Commonwealth and is included in the Commonwealth's financial report as a pension trust fund. SERS also issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Commonwealth of Pennsylvania, State Employees' Retirement Board, 30 North Third Street, P.O. Box 1147, Harrisburg, Pennsylvania, 17108.

Benefits Provided

SERS provides retirement, death, and disability benefits. Retirement benefits vest after five years of credited service. Employees who retire with three years of service at age 60, or with 35 years of service if under age 60, are entitled to a normal annual retirement benefit. Members of the General Assembly and certain employees classified in hazardous duty positions can retire with full benefits at age 50, with at least three years of service. For employees hired prior to January 1, 2011, the general annual benefit provided by statute is 2.5% of the member's highest three-year average salary times years of service. Effective January 1, 2011, the general annual benefit required by statute was reduced to 2.0% of the member's highest three-year annual average salary times years of service times class of service multiplier. The Authority's total and annual covered payroll for the year ended June 30, 2018 was $496,274.

Contributions Required

Covered employees are required by statute to contribute to SERS at a rate of 6.25% (Class A3 and AA employees) and 9.30% (Class A4) of their gross pay. The contributions are recorded in an individually identified account which is also credited with interest, calculated quarterly to yield 4% per annum, 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.

The employer contribution rate for each fiscal year is certified by the SERS Board based on the annual actuarial valuation conducted by the SERS actuary. The Authority actuarily determined contribution rate was 20.70% and 20.80% (Class A3/A4) and 29.95% and 34.44% (Class AA) of the gross pay of its employees during the year ended June 30, 2018. The Authority contributed $161,514 and $131,564 to SERS during the fiscal years 2018 and 2017, respectively.

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

At June 30, 2018, the Authority reported a liability of $1,383,379 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental entities, actuarially determined. At December 31, 2017, the Authority's proportion was .008%, which represents a .0008% increase on its proportion measured as of December 31, 2017.

For the year ended June 30, 2018, the Authority recognized pension expense of $480,783.

At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 52,335	$ 43,512
Changes of assumptions	154,970	-
Net difference between projected and actual earnings on pension plan investments	-	44,002
Changes in proportion and differences between Authority contributions and proportionate share of contributions	196,997	421,231
Authority contributions subsequent to the measurement date	80,868	-
Total	$ 485,170	$ 508,745

Deferred outflows of resources totaling $80,868 related to pensions, resulting from Authority contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending June 30:	Amount
2019	$ (2,286)
2020	(10,184)
2021	(26,709)
2022	(67,817)
2023	2,553

Actuarial Methods and Assumptions

The following methods and assumptions were used in the December 31, 2017 actuarial valuations. These methods and assumptions were applied to all periods included in the measurement period.

Actuarial cost method	Entry age
Amortization method	Straight-line amortization of difference between projected and actual earnings on pension plan investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees that are provided benefits
Investment rate of return	7.25% net of expenses, including inflation
Projected salary increases	Average of 5.60% with range of 3.70% - 8.90%, including inflation
Asset valuation method	Fair (market) value
Inflation	2.60%
Mortality	Projected RP-2000 mortality tables adjusted for actual plan experience and future improvement
Cost-of-living adjustments	Ad hoc

Every five years, SERS is required to conduct an actuarial experience study to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. The *18th Investigation of Actuarial Experience*, which was published in March of 2016, analyzed experience from 2011 through 2015. The SERS Board accepted the actuarial assumptions set forth in the *18th Investigation of Actuarial Experience* at its March 2016 meeting.

In addition to the five-year experience study, SERS reviews its investment return assumption in light of economic conditions every year. The next SERS review will occur in July 2018, and will be used for its 2018 annual valuation.

The long-term expected real rate of return on pension plan investments is determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class included on the pension plan's target asset allocation as of December 31, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Private Equity	16%	8.00%
Global Public Equity	43%	5.30%
Real Estate	12%	5.44%
Multi-Strategy	12%	5.10%
Fixed Income	14%	1.63%
Cash	3%	-0.25%
Total	100%	

The information above is based on a 7.25% assumed investment rate of return. At its April 2017 meeting, the SERS Board approved a reduction in the assumed investment rate of return to 7.25%. As a result of a portfolio examination, several changes were made to the asset allocation during the fourth quarter of 2017. The portfolio was restructured to add Multi-Strategy as a new asset class. Targets will be updated to reflect the new assumed investment rate of return and asset classes in the 2018-2019 Investment Plan.

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flow used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary. Based on those assumptions, SERS' fiduciary net position was projected to be available to make all projected future benefit payments of current and non-active SERS members. Therefore, the long-term expected rate of return on SERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following represents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Authority's proportionate share of the net pension liability	$ 1,755,939	$ 1,383,379	$ 1,064,238

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued SERS financial report.

Payables to the Pension Plan

There were no amounts payable to the pension plan as June 30, 2018.

7. Other Post-Employment Benefits (OPEB)

Plan Description

The Authority covers all full-time employees in the Retired Employees Health Program (REHP). The REHP is a single-employer, defined benefit OPEB plan that includes Commonwealth agencies and some component units. The REHP is established as a trust equivalent arrangement. The REHP is administered by the Pennsylvania Employees Benefit Trust Fund (PEBTF), which acts as a third-party administrator under an administrative agreement with the Commonwealth. The REHP is provided as part of collective bargaining agreements with most Commonwealth labor unions. All policy decisions and types and levels of benefits for the REHP fall under the purview of the Commonwealth's Executive Board, Secretary of Administration. The REHP does not have a governing board.

The Authority does not participate in the REHP trust and, as such, does not contribute to the trust, but instead contributes under a separate payment arrangement.

Benefits Provided

The Commonwealth sponsors REHP for eligible retirees and their dependents to receive subsidized health coverage for the retiree’s lifetime.

Eligible employees who retire from the state and meet one of the following eligibility criteria are eligible to receive REHP benefits:

- 25 or more years of service
- 20 or more years of service and superannuation age – 60 for general employees (age 55 or 65 for employees subject to Act 120 of 2010)
- Disability retirement – requires five years of service

Spouses and dependents are eligible for subsidized post-employment medical coverage while the retiree is alive. The Patient Protection and Affordable Care Act (PPACA), signed into law on March 23, 2010, increased the dependent child age limit to age 26 and applied to the Commonwealth effective January 1, 2011.

Contributions

The Authority's contribution rate to the REHP is determined by annual agreement with the Commonwealth of Pennsylvania and the Philadelphia Regional Port Authority (PRPA).

The Authority does not participate in the trust and, as such, contributes the actual fiscal year benefit payments attributable to its retirees. During the year ended June 30, 2018, the Authority's required contribution to the REHP was $101 biweekly per employee for July through December 2017 and $224 biweekly per employee January through June 2018. The Authority's contributions to the REHP for the years ended June 30, 2018 and 2017 were $32,829 and $14,330, respectively.

Health Care Reform

PPACA was signed into law in 2010 with the purpose of increasing the number of Americans with health insurance coverage. There are several provisions within PPACA with potentially significant short- and long-term cost implications for employers. In future years, there may continue to be increased cost impact to the extent the health and welfare program experiences increased utilization due to these changes, all of which are assumed to be in place indefinitely.

OPEB Liabilities, OPEB Expense, and Deferred Outflows and Inflows of Resources Related to OPEB

At June 30, 2018, the Authority reported a liability of $1,077,493 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

The Authority's portion of the net OPEB liability was allocated based on a projections of the Authority's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating governmental entities, actuarily determined. At June 30, 2017, the Authority's proportion of the net OPEB liability was approximately 0.0054 percent.

For the year ended June 30, 2018, the Authority recognized OPEB expense of $45,937.

At June 30, 2018, the Authority reported deferred outflows and inflows of resources related to OPEB from the following sources:

Deferred Outflows of Resources for OPEB	
Contributions subsequent to the measurement date	$ 32,829
Total deferred outflows of resources for OPEB	$ 32,829
Deferred Inflows of Resources for OPEB	
Changes of assumptions	$ 96,639
Total deferred inflows of resources for OPEB	$ 96,639

Deferred outflows of resources related to Authority OPEB contributions subsequent to the measurement date totaling $32,829 will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred inflows of resources for OPEB will be recognized in pension expense as follows:

2019	$ 23,705
2020	23,705
2021	23,705
2022	23,705
2023	1,819
	$ 96,639

Actuarial Methods and Assumptions

The following methods and assumptions were used in the June 30, 2017 actuarial valuation. These methods and assumptions were applied to all periods included in the measurement period:

Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll, 30-year open amortization (fresh start each year)
Investment rate of return	5.00%
Projected salary increases	Average of 5.60% with range of 3.70% - 8.90%, including inflation
Inflation	2.60%
Mortality rate	Projected RP-2000 Mortality Tables (using projection scale AA) adjusted for actual plan experiences and future improvement
Healthcare trend increases:	
Initial rate for medical benefits	6.00% for both Medicare and non-Medicare
Ultimate rate for medical benefits	3.90% for both Medicare and non-Medicare
Year ultimate trend rate reached	2075

The Commonwealth's SERS performs experience studies periodically to determine reasonable and appropriate economic and demographic assumptions for valuing the defined benefit pension plan. The inflation assumption selected by the SERS Board during an April 2017 meeting are also used for the retiree health benefit valuation.

One significant assumption where the recommendation of the experience study is not applicable to this retiree health benefit valuation is the discount rate. Since REHP has insufficient assets to meet future years' projected benefit payments, as prescribed by GASB Statements No. 74 and 75, the discount rate was based on the 20-year Bond Buyer General Obligation Index municipal bond rate as of the measurement date. The discount rate was 3.58% as of June 30, 2017 and 2.85% as of June 30, 2016.

Medicare Part D subsidy payments are not reflected under GASB Statement No. 45 (predecessor statement to GASB No. 75) which is consistent with GASB Technical Bulletin 2006-1.

Discount Rate

The discount rate used to measure the total pension liability was 3.58%. Since REHP has insufficient assets to meet next year's projected benefit payments, as prescribed by GASB Statements No. 74 and 75, the discount rate will be based on the index rate for 20-year tax-exempt general obligation municipal bond index rate with an average rating of AA/Aa or higher as of the measurement date. The Commonwealth elected to determine the discount rate using the Bond Buyer 20-Bond General Obligation Index. Since REHP has insufficient assets to meet projected benefit payments, the municipal bond rate was applied to all periods of the projected benefit payments to determine the total OPEB liability. The projection of cash flows used to determine the single discount rate for each measurement period assumed that employer contributions will be made based on the current funding policy for future years.

Sensitivity of the Authority's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net OPEB liability calculated using the discount rate of 3.58%, as well as what the Authority's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58%) or 1-percentage-point higher (4.58%) than the current rate.

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
Authority's proportionate share of the net OPEB liability	$ 1,250,147	$ 1,077,493	$ 935,497

Sensitivity of the Authority's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the Authority's proportionate share of the net OPEB liability calculated using the healthcare cost trend rate of 6%, grading down to 3.90%, as well as what the Authority's proportionate share of the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (5.0% grading down to 2.90%) or 1-percentage-point higher (7% grading down to 4.90%) than the current rate.

	1% Decrease (2.90%)	Current Trend Rate (3.90%)	1% Increase (4.90%)
Authority's proportionate share of the net OPEB liability	$ 907,840	$ 1,077,493	$ 1,289,103

8. Lease Commitment

The Authority is obligated under an operating lease for office space, expiring August 31, 2018. The lease was amended on June 15, 2018 to extend the term through August 31, 2024. The following is a schedule of future minimum lease payments:

Fiscal Year Ending June 30	Amount
2019	$ 107,533
2020	106,170
2021	108,500
2022	120,368
2023	122,912
2024	125,456
2025	20,980
	$ 711,919

Rent expense, including utilities, for the year ended June 30, 2018 was $114,355.

REQUIRED SUPPLEMENTARY INFORMATION

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

(A Blended Component Unit of the City of Philadelphia)

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - OPERATIONS

YEAR ENDED JUNE 30, 2018

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Revenues - administration:				
Interest and short-term investment earnings	$ 15,000	$ 15,000	$ 45,846	$ 30,846
Expenditures - administration:				
Personnel - salaries and benefits	895,000	895,000	916,089	(21,089)
Professional services:				
Legal	35,000	35,000	23,350	11,650
Audit	60,000	60,000	58,920	1,080
Consulting/research	100,000	100,000	27,044	72,956
Trustee	18,000	18,000	15,775	2,225
Rent	134,000	134,000	114,355	19,645
Computer software and minor hardware	15,000	15,000	9,993	5,007
Office supplies	2,500	2,500	1,169	1,331
Telephone	7,000	7,000	3,451	3,549
Subscription and reference services	1,000	1,000	1,098	(98)
Postage and express	1,300	1,300	588	712
Dues and professional education	1,500	1,500	-	1,500
Travel	1,000	1,000	2,385	(1,385)
General and administrative	8,000	8,000	10,719	(2,719)
Printing	5,000	5,000	9,959	(4,959)
Miscellaneous	1,000	1,000	433	567
	1,285,300	1,285,300	1,195,328	89,972
Capital outlays - furniture/fixtures and equipment	2,500	2,500	-	2,500
Addition oversight duties - studies/ implementation	300,000	300,000	55,000	245,000
Total expenditures - administration	1,587,800	1,587,800	1,250,328	337,472
Excess of Expenditures over Revenues	(1,572,800)	(1,572,800)	(1,204,482)	368,318
Other Financing Sources:				
Transfers in for PICA draw for operations	600,000	600,000	600,000	-
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures	(972,800)	(972,800)	(604,482)	368,318
Fund Balance, June 30, 2017	972,800	972,800	5,716,948	4,744,148
Fund Balance, June 30, 2018	$ -	$ -	$5,112,466	$5,112,466

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

(A Blended Component Unit of the City of Philadelphia)

SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE COLLECTIVE NET PENSION LIABILITY

COMMONWEALTH OF PENNSYLVANIA STATE EMPLOYEES' RETIREMENT SYSTEM PLAN

YEAR ENDED JUNE 30, 2018

	2017*	2016	2015	2014
Authority's proportion of the collective net pension liability	0.0080%	0.0072%	0.0068%	0.0078%
Authority's proportionate share of the collective net pension liability	$ 1,383,379	$ 1,386,907	$ 1,235,584	$ 1,074,154
Authority's employee covered payroll	$ 496,274	$ 433,971	$ 409,647	$ 428,514
Authority's proportionate share of the collective net pension liability as a percentage of its employee covered payroll	278.75%	319.59%	301.62%	250.67%
Plan fiduciary net position as a percentage of the total pension liability	63.00%	57.80%	58.90%	64.80%

* The amount presented for this fiscal year was determined as of the calendar year-end that occurred within the fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the Authority is presenting information for those years for which information is available.

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

(A Blended Component Unit of the City of Philadelphia)

SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS

COMMONWEALTH OF PENNSYLVANIA STATE EMPLOYEES' RETIREMENT SYSTEM PLAN

YEAR ENDED JUNE 30, 2018

	2017*	2016	2015	2014
Contractually required contribution	$ 153,554	$ 110,642	$ 94,374	$ 73,598
Contributions in relation to the contractually required contribution	151,901	112,913	102,102	72,530
Contribution deficiency (excess)	$ 1,653	$ (2,271)	$ (7,728)	$ 1,068
Authority's employee covered payroll	$ 496,274	$ 433,971	$ 409,647	$ 428,514
Contributions as a percentage of employee covered payroll	30.61%	26.02%	24.92%	16.93%

* The amount presented for this fiscal year was determined as of the calendar year-end that occurred within the fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the Authority is presenting information for those years for which information is available.

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

(A Blended Component Unit of the City of Philadelphia)

SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE COLLECTIVE NET OPEB LIABILITY

COMMONWEALTH OF PENNSYLVANIA RETIRED EMPLOYEES HEALTH PROGRAM

YEAR ENDED JUNE 30, 2018

	2017*
Authority's proportion of the collective net OPEB liability	0.0054%
Authority's proportionate share of the collective net OPEB liability	$ 1,077,493
Authority's employee covered payroll	$ 315,915
Authority's proportionate share of the collective net OPEB liability as a percentage of its employee covered payroll	341.07%
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%

* The amount presented for this fiscal year was determined as of the calendar year-end that occurred within the fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the Authority is presenting information for those years for which information is available.

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

(A Blended Component Unit of the City of Philadelphia)

SCHEDULE OF THE AUTHORITY'S OPEB CONTRIBUTIONS

COMMONWEALTH OF PENNSYLVANIA
RETIRED EMPLOYEES HEALTH PROGRAM

YEAR ENDED JUNE 30, 2018

	2017*
Contractually required contribution	$ 10,193
Contributions in relation to the contractually required contribution	14,330
Contribution deficiency (excess)	$ (4,137)
Authority's employee covered payroll	$ 315,915
Contributions as a percentage of employee covered payroll	4.54%

* The amount presented for this fiscal year was determined as of the calendar year-end that occurred within the fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the Authority is presenting information for those years for which information is available.

SUPPLEMENTARY INFORMATION

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

(A Blended Component Unit of the City of Philadelphia)

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2018

	Debt Service Funds			Special Revenue Funds			Total Nonmajor Governmental Funds
ASSETS	2010	2009	Rebate Fund	1992	1993	1994	
Assets:							
Cash and cash equivalents	$ 2,006,146	$ 1,923,196	$ 2,024,854	$ 2,878	$ 187,061	$ 5,316,457	$ 11,460,592
Accrued interest receivable	16,033	20,032	2,802	4	259	7,358	46,488
Total Assets	$ 2,022,179	$ 1,943,228	$ 2,027,656	$ 2,882	$ 187,320	$ 5,323,815	$ 11,507,080
FUND BALANCE							
Fund Balance:							
Restricted:							
For debt service	$ 2,022,179	$ 1,943,228	$ 2,027,656	$ -	$ -	$ -	$ 5,993,063
For benefit of City of Philadelphia	-	-	-	2,882	187,320	5,323,815	5,514,017
Total restricted fund balance	2,022,179	1,943,228	2,027,656	2,882	187,320	5,323,815	11,507,080
Total Fund Balance	$ 2,022,179	$ 1,943,228	$ 2,027,656	$ 2,882	$ 187,320	$ 5,323,815	$ 11,507,080

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

(A Blended Component Unit of the City of Philadelphia)

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2018

	Debt Service Funds			Special Revenue Funds			Total Nonmajor Governmental Funds
	2010	2009	Rebate Fund	1992	1993	1994	
Revenues:							
Investment income	$ 162,003	$ 211,152	$ 23,592	$ 36	$ 2,179	$ 61,943	$ 460,905
Total revenues	162,003	211,152	23,592	36	2,179	61,943	460,905
Expenditures:							
Debt service:							
Principal	19,875,000	25,565,000	-	-	-	-	45,440,000
Interest	4,417,500	6,237,600	-	-	-	-	10,655,100
Total expenditures	24,292,500	31,802,600	-	-	-	-	56,095,100
Excess (Deficiency) of Revenues Over (Under) Expenditures	(24,130,497)	(31,591,448)	23,592	36	2,179	61,943	(55,634,195)
Other Financing Sources (Uses):							
Transfers in (out)	24,121,666	30,873,353	-	-	-	-	54,995,019
Net Change in Fund Balance	(8,831)	(718,095)	23,592	36	2,179	61,943	(639,176)
Fund Balance:							
Beginning of year	2,031,010	2,661,323	2,004,064	2,846	185,141	5,261,872	12,146,256
End of year	$ 2,022,179	$ 1,943,228	$ 2,027,656	$ 2,882	$ 187,320	$ 5,323,815	$ 11,507,080

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

(A Blended Component Unit of the City of Philadelphia)

SCHEDULE OF CASH ACTIVITY - GENERAL FUND

YEAR ENDED JUNE 30, 2018

Cash receipts:	
Revenues collected - interest and other income	$ 811,194
Transfers in	8,869,656
Total cash receipts	9,680,850
Cash disbursements:	
Administration	1,287,637
Transfers out	510,417
Total cash disbursements	1,798,054
Excess cash receipts over cash disbursements	7,882,796
Cash, cash equivalents, and short-term investments - beginning of year	11,600,616
Cash, cash equivalents, and short-term investments - end of year	$ 19,483,412

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

(A Blended Component Unit of the City of Philadelphia)

SCHEDULE OF CASH ACTIVITY - PICA TAX REVENUE FUND

YEAR ENDED JUNE 30, 2018

Cash receipts:	
PICA taxes	$ 500,551,761
Investment Income	202,821
Other Income	20,010
Total cash receipts	500,774,592
Cash disbursements:	
Expenditures paid - grants to the City of Philadelphia	456,052,215
Other financing uses - transfers out for debt service requirements	44,722,377
Total cash disbursements	500,774,592
Excess cash receipts over cash disbursements	-
Cash, cash equivalents, and short-term investments - beginning of year	-
Cash, cash equivalents, and short-term investments - end of year	$ -

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY
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