Pennsylvania Intergovernmental Cooperation Authority

Annual Report
for
Fiscal Year 2013

December 30, 2013

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY
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Table of Contents

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

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December 30, 2013

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-second anniversary, we are pleased to provide you with this annual report for the fiscal year ended June 30, 2013. The report provides an overview of PICA and its role, the work of PICA during fiscal year 2013, goals for fiscal year 2014, long term goals, audited financial statements for FY13, and a report of independent auditors.

One of PICA's major recent accomplishments was the December 10 appointment of Harvey Rice to the position of Executive Director. Mr. Rice will be the sixth Executive Director in PICA's history. The Board looks forward to working with Mr. Rice to continue the Authority's oversight of the City of Philadelphia's Five-Year Financial Plan process, while also pursing innovative ways to faithfully promote the goals of the PICA statute and the City's long-term financial strength.

I would like to take this opportunity to acknowledge and express the PICA 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.

Sam Katz

Sam Katz
Chair
PICA Board

The Mission of the Authority

The mission 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.

PICA Annual Report Requirements

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 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.

Overview - PICA and its Role

PICA Act

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. 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.

Cooperation Agreement

The Intergovernmental Cooperation Agreement (the "ICA" or "Agreement"), negotiated by and between PICA and the City and finalized in January of 1992, formalized the relationship contemplated by the PICA Act. The powers and duties of the respective participants envisioned in the legislation were put into place with the execution of the Agreement. PICA was designed to be much more than a vehicle to raise otherwise unavailable funds for Philadelphia. It has the responsibility to evaluate and approve annually revised Five-Year Financial Plans, to monitor compliance by the City with those Plans, and was granted the power 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 balance its Five-Year Financial Plan in each of its years.

Organization

The Authority 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 has issued 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.

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:

Purpose	Amount (Thousands)
Deficit Elimination/Indemnities	$ 269,000
Productivity Bank	20,000
Capital Projects	464,400
Retirement of Certain High Interest City Debt	384,300
TOTAL	$1,137,700

***Five-Year Financial Plan* Process**

PICA has consistently emphasized its firm belief that the City's continuing fiscal rehabilitation is dependent upon its continuing success in addressing both financial and managerial issues; that the process is less one dealing with finance than assessing the financial results of managerial decisions. Effective strategic planning and the institutionalization of change are matters which the City must continue to focus upon in order to assure that its considerable assets continue to be applied intelligently and consistently. The Plan process helps to document the City's intentions and the results of its actions.

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.

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 PICA Board (four of its five voting members). The Authority 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 a schedule of projected City capital commitments (and proposed sources of funding), 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, and 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 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.

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 Authority 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 of the City that become part of the City's Consolidated Cash Account.

<u>The Effect of a "Variance"</u>

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 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 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 FY93-FY98 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 FY10-FY14 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 which 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.

Philadelphia City Controller

An unforeseen benefit of the PICA Act's requirement that PICA solicit an opinion from the City Controller as to the reasonableness of Plan estimates has been the cooperative, professional relationship that has developed between PICA and City Controller's Office staff. This mutually beneficial relationship includes cooperation on matters of common concern; joint meetings with City department heads and chief operating personnel as part of the *Five-Year Financial Plan* review process; cooperation on capital project reviews and reviews of PICA-funded special purpose grants to the City; PICA assistance for Controller special situation studies; and specific Office of the Controller personnel assigned responsibility for effective liaison with PICA staff. The assistance provided to PICA by the City Controller is sincerely appreciated. Cooperation between the City's "oversight" and "watchdog" entities has substantially benefited the mission of each organization.

Providing Comment 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.

To date, PICA has not devoted any substantial attention to the operations of these City-related institutions, but it has offered its expertise to the School Reform Commission, the CEO of the School District of Philadelphia, and the Commonwealth Secretary of the Budget, and has provided informal assistance where appropriate.

The Work of PICA - Fiscal Year 2013

The FY14-FY18 *Five-Year Financial Plan*

PICA Staff engaged in an extensive review of the FY14-FY18 *Five-Year Financial Plan*, beginning in March when the Mayor proposed the Plan, and continuing through September. The Plan was formally submitted to PICA on July 3. Subsequently, the Plan was revised and resubmitted to PICA on September 3 to incorporate a Court of Common Pleas order to increase the City's payments to the health fund for International Association of Firefighters (IAFF) employees. The Plan was revised again and resubmitted to PICA on September 10 to reflect the City's decision to withdraw its appeal of an IAFF arbitration award covering the period FY10 through FY13. The September 10 submission was considered by the PICA Board at its meeting on September 17. The Board approved the Plan unanimously.

Reports

During FY13, PICA staff continued to issue monthly updates of the status of City revenue collections. These reports have proved useful for purposes of ensuring that City revenue projections in the Plan, and as updated throughout the year, are in line with actual collections. In addition, the reports have proved to be of interest to the general public.

PICA staff also continued to issue quarterly analyses of the City's *Quarterly City Managers Reports* (QCMR). The QCMR highlights the City's overall compliance with expenditure and revenue estimates in the Five-Year Plan, contains updated estimates of the year-end General Fund balance, and presents performance measures for major agencies. PICA staff analyses have been designed to distill and communicate the most important issues raised by the QCMR reports.

Testimony

During FY13, PICA's Executive Director Frances T. Burns testified before the Pennsylvania Public Employee Retirement Commission in a hearing on the challenges facing local pension systems across the Commonwealth. Ms. Burns' testimony focused on problems faced by the City of Philadelphia Public Employees Retirement System and potential policy solutions.

Pension Initiative

State and local government public employee pension systems around the country have been recognized as a major risk in the wake of the financial crisis of 2008 and 2009. Pension systems as currently structured are widely believed to be unsustainable. A 2011 study by the Center for Retirement Research at Boston College found that the Philadelphia Municipal Retirement System's 47 percent funded ratio in 2010 was the seventh lowest among 97 locally-administered public pension systems around the country. In the current fiscal year, the City's required pension contributions are budgeted at 46 percent of total wages and salaries. As of July 1, 2012, the City pension fund's actuarial value of assets stood at 48.1 percent of actuarial liabilities; fund assets were worth less than half of the amount required to finance benefits *already earned* by retirees and current employees. PICA and City officials agree that the pension system is the greatest risk to the City's financial future. The pension crisis threatens to reverse the progress the City has made in recent years in improving service levels and reducing tax rates.

In FY13, the PICA Board authorized PICA staff to undertake a comprehensive evaluation of the risks posed by the pension system and potential solutions. An independent consultant, Boomershine Consulting Group, LLC, was engaged to conduct an actuarial review of the pension system, identify financial risks to the City related to the pension system, and recommend possible strategies to mitigate risk. In support of this analysis, PICA requested the City Board of Pensions and Retirement actuary, Cheiron, to analyze the impact of alternative actuarial assumptions on the City's funding requirements. The alternatives analyzed included changes to assumptions regarding salary growth, plan design, investment returns, retirement rates, and mortality.

In conjunction with the commissioned analysis, PICA staff conducted research on problems related to the City pension system and potential solutions designed to reduce risk and achieve sustainable cost growth, while ensuring a competitive and efficient compensation package for City workers. Staff research has focused on comparisons of the City pension system with that in other major cities, the benefit structure of the system, actuarial assumptions, the City's funding requirements under state law, investment policy and strategy, investment results, pension system governance, and legal constraints on future policy reforms. Recognizing that the City has taken action in recent years to improve the sustainability of its pension system, staff plans to develop a set of recommendations for further initiatives that the City can take to reduce pension costs and risks in the future.

Goals for Fiscal Year 2014

Pension Initiative

In FY14, PICA staff will continue to synthesize results of its own work and commissioned analysis to produce a study analyzing the problems of the pension system and potential solutions. It is expected that the report will be released at a public forum. The goal will be to influence public opinion and catalyze the efforts of policy-makers to effect change through legislation and the collective bargaining and arbitration process.

***Five-Year Financial Plan* Review**

PICA staff looks forward to the review of the City's *Five-Year Financial Plan*, Fiscal Year 2015-Fiscal Year 2019. The Plan will need to produce reasonable revenue and expenditure projections and reasonable prospects for continued General Fund balance, while addressing the long-term issues facing the City.

Oversight of PICA-Funded Capital Projects

As of June 30, 2013, approximately $13 million in PICA funds designated for City capital projects remained to be spent. In FY14, 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.

Long-Term Goals for PICA

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 long-term financial problems that the City faces. The PICA Act refers to the need to address "underlying problems" that result in deficits. The Authority interprets this phrase broadly, to include socioeconomic trends, fiscal policy and management, and strategic planning for public sector activities to address Philadelphia's problems.

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 the 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. This quarterly report 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, that these projections be based on reasonable assumptions and indicate a positive General Fund balance for five years, has contributed to financial stability over the past two decades. Since FY91 and FY92, 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 (FY04, FY09, and FY10). The current fiscal year, FY14, is projected to end with a surplus of $114.3 million.

Notwithstanding the achievement of disciplined financial projections and ongoing budget monitoring, the City remains challenged by structural financial problems that pose risks to long-term financial stability. To adequately address these problems – socioeconomic distress, weak economic growth, high tax rates, and unsustainable pension costs, 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. In the future, PICA staff intends to increasingly emphasize ways the City can address these underlying problems, through its oversight of the Five-Year Financial Plan process, research publications, and advocacy.

Mayor Edward Rendell, soon after his election in 1991, during the early phase of the City's recovery from its fiscal crisis, famously likened Philadelphia's problem to that of a cancer patient suffering from a gunshot wound. He indicated that by resolving the City's financial crisis – bringing revenues and expenditures into balance – the City would have effectively addressed the immediate threat faced by the patient. But he also noted that without effectively addressing the cancer – the long-term structural problems facing Philadelphia – the prognosis for the city was bleak. With respect to the city's long term problems, the situation today is not unlike the Mayor's description two decades ago. While the City has maintained a balanced General Fund, many of the long-term problems faced by the city in the early 1990s remain, and some new ones have emerged.

These problems are wide ranging, and 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; a public school system widely perceived as inadequate; city financial responsibilities that are typically more broadly shared across the metropolitan region; under-maintained public facilities; systemic tax enforcement problems; and a lack of transparency about public costs and performance.

The framers of the PICA Act contemplated that the Authority would be a catalyst for addressing the City's root problems by helping it create *processes* that would identify and publicize key problems, create consensus for solutions, and ensure that those solutions were implemented. The 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, and not only 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 system must be City-wide, encompassing central management agencies as well as agencies with responsibility for policy implementation and service delivery. Clearly, the City has made progress in these areas in recent years, with the revitalization of the planning function, progress at developing performance measurement, and increased focus on issues that require a coordinated multi-agency response. But much more remains to be done.

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 ten 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 focus will broaden 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.

The Authority intends to address these issues in three ways. First, it will conduct and sponsor research that emphasizes the "underlying problems" impacting City finances. Utilizing the resources of PICA staff, and outside consultants and experts, the Authority intends to publish a series of reports focusing on the City's major challenges. These challenges are likely to include: the City pension system; health benefits; tax enforcement; privatization; economic development; performance management; and regionalization of services. Second, the Authority will publicize its findings by convening forums on the issues it identifies as central to the City's fiscal future. Third, PICA intends to broaden its oversight of the City's Five-Year Financial Plan to emphasize not only structural balance, but also how well the Plan process is integrated with other management processes.

Appendix:

Financial Statements
and
Report of Independent Auditors

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

A Blended Component Unit of the City of Philadelphia

Financial Statements, Required Supplemental Information, and Other Additional Information
For the Year Ended June 30, 2013
With Independent Auditor's Report

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

TABLE OF CONTENTS

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, 2013 ("FY 13"). Please read it in conjunction with the Authority's financial statements, which begin on page 3.

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 three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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-two five-year financial plans. The most recent, revised Five-Year Financial Plan for fiscal year 2014 through fiscal year 2018, was approved by PICA on November 19, 2013.

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 four 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 the City's primary governmental activities.

The following is a summary of some of the highlights of the Authority's financial activity in FY 13:

- The Authority's total net position at the close of FY13 was ($329,451,460), representing a positive change in net position of $41,114,692 from the prior year. The largest contributor to the negative net position was $446,316,363 in bonds payable.
- The positive change in net position was primarily due to a reduction of $47,567,711 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 FY13 were $321,696,905 for grants to the City and $22,539,100 for interest on long-term debt. The most significant revenue source was $376,379,066 in PICA taxes.
- At the close of FY13, the combined fund balance in all governmental funds was $113,858,584. This amount included $20,840,479 in the general fund, $5,522,817 in the debt service funds, $72,462,424 in the debt service reserve fund, $1,992,878 in the rebate fund, and $13,039,986 in the capital projects funds.

Overview of the 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.

There are two government-wide financial statements: The Statement of Net Position and the Statement of Activities (pages 3 and 4). The Statement of Net Position presents information on all of the Authority's assets, deferred outlows 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 fiscal year 2013. 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.

Fund Financial Statements. The two fund financial statements are the Statement of Revenue, Expenditures, and Changes in Fund Balances – Governmental Funds and the Statement of Fund Net Position – Governmental Funds (pages 5 and 6). 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 the government-wide statements.

Notes to the Financial Statements. The notes provide additional information that is essential to gain a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 7 - 22 of this report.

Government-Wide Financial Statements

Statement of Net Position

PICA's total assets as of June 30, 2013 were $122,004,011, a decline of 8 percent from the previous year. The most significant changes were a decline of $11,560,028 in cash and cash equivalents, and a $4,088,748 increase in investments.

Total liabilities as of June 30, 2013 were $451,455,471, a decline of 10 percent from the previous year. The most significant changes in liabilities included an increase of $1,985,000 in current portion of bonds payable and a decline of $49,552,711 in noncurrent portion of bonds payable. The decline in the noncurrent portion of bonds payable reflects payments of principal for maturing bonds.

Table 1

Net Position

	June 30		Percent Change
	2013	2012	2012-13
ASSETS			
Cash and cash equivalents			
Held by trustee	$44,565,729	$50,398,607	-12%
Other	7,581,111	13,308,261	-43%
Investments	61,848,940	57,760,192	7%
PICA taxes receivable	4,976,942	4,665,043	7%
Fair value of derivative instruments	3,006,319	3,411,847	-12%
Accrued interest receivable	2,429	12,718	-81%
Bond issuance costs	--	2,377,011	-100%
Other assets	--	20,571	-100%
Prepaid expenses	22,541	--	
Total assets	122,004,011	131,954,250	-8%
LIABILITIES			
Accounts payable and accrued expenses	161,183	149,063	8%
Due to the City of Philadelphia	4,977,925	4,666,436	7%
Deferred revenue	--	1,666,923	-100%
Current portion of bonds payable	45,640,000	43,655,000	5%
Noncurrent portion of bonds payable	400,676,363	450,229,074	-11%
Total liabilities	451,455,471	500,366,496	-10%
NET POSITION			
Restricted for debt service	79,378,119	80,513,047	-1%
Restricted for benefit of City of Philadelphia	13,039,986	18,880,229	-31%
Unrestricted			
Board-designated for operating budget	600,000	600,000	0%
Undesignated (deficit)	(422,469,565)	(468,405,522)	-10%
Total net position	(329,451,460)	(368,412,246)	-11%

The Authority's net position as of June 30, 2013 is ($329,451,460). Of this amount, $79,378,119 is restricted for debt service. The amount restricted for debt service includes the following elements:

2009 and 2010 Debt Service Funds -- Current assets held for debt service payments due in FY14	$ 5,522,817
Debt Service Reserve Fund -- Current assets held for debt service reserve purposes as required by the Trust Indenture	72,462,424
Rebate Fund -- Current assets held for future potential rebate/debt service purposes	1,992,878
Total	79,978,119
Less: Debt Service Reserve Fund -- Current assets held for subsequent PICA administration purposes in FY14 per the adopted budget	(600,000)
Equals: Net position restricted for debt service at June 30, 2013	$79,378,119

Of the total net position, $13,039,986 is restricted for the benefit of the City. Unrestricted designated net position includes $600,000 designated by the PICA Board for Authority operations. The unrestricted, undesignated net position was ($422,469,565). The deficit in unrestricted, undesignated 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

Total expenses for FY13 were $345,742,875, an increase of 3 percent from the previous year. The most significant changes in expenses included a $13,410,469 increase in grants to the City, a $2,070,250 decline in interest on long-term debt, a $426,541 increase in investment expenses, and a $90,671 decline in general management and support. Total revenues for FY13 were $386,857,567, an increase of 2 percent from the prior year. The most significant changes in revenues included an $18,653,477 increase in PICA Taxes, a $7,243,178 decrease in investment income and a $5,126,143 decrease in settlement proceeds. In addition, revenue related to a forward delivery agreement held in the debt service reserve fund increased by $1,515,385.

Revenues exceed expenses by $41,114,692 in FY13, resulting in an increase in net position of that amount. Net position at the beginning of the year was $368,412,246. The implementation of GASB 63 and 65 resulted in a downward adjustment of $2,153,906 to net position as of the beginning of the year. This downward adjustment, combined with the change in net position during the year, resulted in an end of year net position of $329,451,460.

Table 2

Governmental Activities

	June 30		Percent Change
	2013	**2012**	**2012-13**
EXPENSES			
Grants to the City of Philadelphia	$321,696,905	$308,286,436	4%
General management and support	817,545	908,216	-10%
Interest on long-term debt	22,539,100	24,609,350	-8%
Investment expenses	466,221	39,680	1075%
Amortization of bond costs	223,104	223,817	0%
Total expenses	345,742,875	334,067,499	3%
REVENUES			
PICA taxes	376,379,066	357,725,589	5%
Amortization of bond premium	3,912,711	3,912,711	0%
Revenue related to forward delivery agreement	1,666,923	151,538	1000%
Investment income	996,088	8,239,266	-88%
Settlement proceeds	2,354,650	7,480,793	-69%
Other	1,548,129	1,683,321	-8%
Total	386,857,567	379,193,218	2%
CHANGE IN NET POSITION	41,114,692	45,125,719	-9%
Net position – beginning of year	(368,412,246)	(413,537,965)	-11%
Cumulative effect of a change in accounting principle	(2,153,906)	--	
Adjusted net position – beginning of year	(370,566,152)	(413,537,965)	-10%
Net position – end of year	(329,451,460)	(368,412,246)	-11%

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 2009 and 2010 debt service funds; the debt service reserve fund; the rebate fund; and the 1992, 1993, and 1994 capital project funds. A description of each fund is provided below.

General Fund. The General Fund accounts for all resources utilized for PICA operations. All FY13 administration expenses of the Authority were funded from earnings on its General Fund, a transfer of a portion of earnings of the Debt Service Reserve Fund to the General Fund, and the portion of the prior year's unassigned General 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 the Capital Projects Funds (the earnings on Capital Projects 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 Funds. The 2009 and 2010 debt service funds account for the accumulation of resources for, and payment of, debt service on the outstanding 2009 and 2010 series PICA bonds.

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.

Rebate Fund. The rebate fund accounts for resources that may be necessary to meet federal arbitrage requirements and/or debt service requirements. The only activity in this fund that occurred during FY13 was the increase from investment earnings.

Capital Projects Funds. The capital projects 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.

Previously, the Authority, in connection with 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, 2013, sufficient PICA controlled capital projects funds were available to complete all of the initially approved PICA projects and additional projects subsequently approved by the PICA Board. Additional funds remain to be reprogrammed. Capital project funds held for PICA capital project grants to the City totaled $13,039,986 at June 30, 2013.

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 net position for each of the Authority's nine governmental funds for the year ended June 30, 2013. In addition, the statement presents fund balances for each fund at the beginning and the end of FY13. Table 3 presents a summary of the information in this statement.

The Authority's governmental funds received $381,683,461 in revenue in FY13. This amount included $376,379,066 in PICA Tax revenue received in the PICA Tax Revenue Fund. Other major sources of revenue included settlement proceeds of $2,354,650 received in the General Fund, and investment income received in various funds. Expenditures in all governmental funds totaled $389,174,771 in FY13. This amount included: $313,492,063 in grants to the City from the PICA Tax Revenue Fund; $66,194,100 in debt service payments from the 2009 and 2010 debt service funds; $5,850,192 in grants to the City from the 1993 and 1994 capital projects funds; and $2,354,650 in payments of settlement proceeds to the City,

$817,545 in expenditures for PICA operations, and $466,221 in investment expenses 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 to the debt service funds to pay for principal and interest payments due on outstanding PICA bonds during FY13. 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 net position for FY13, which was ($7,491,310). Accordingly the total fund balance in all governmental funds declined from $121,349,894 as of June 30, 2012, to $113,858,584 as of June 30, 2013.

Table 3

Revenues, Expenditures and Fund Balances

in the Governmental Funds for the Fiscal Year ended June 30, 2013

	Revenue	Expenditures	Other Financing Sources (Uses)	Fund Balance June 30, 2013
General Fund	4,070,406	3,638,416	(948,129)	20,840,479
PICA Tax Revenue Fund	376,393,205	313,492,063	(62,901,142)	--
2009 Debt Service Fund	11,924	41,017,350	41,015,417	3,429,756
2010 Debt Service Fund	7,088	25,176,750	25,163,688	2,093,061
Debt Service Reserve Fund	1,189,516	--	(2,329,834)	72,462,424
Rebate Fund	1,373	--	--	1,992,878
1992 Capital Projects Fund	263	--	--	377,730
1993 Capital Projects Fund	441	422,746	--	449,901
1994 Capital Projects Fund	9,245	5,427,446	--	12,212,355
Total	381,683,461	389,174,771	--	113,858,584

Statement of Fund Net Position – Governmental Funds

The Statement of Fund Net Position – Governmental Funds presents assets, deferred outflows of resources, and liabilities for each of the Authority's nine governmental funds, as of June 30, 2013. Table 4 presents a summary of the information in this Statement.

Total assets and deferred outflows of resources for all governmental funds are $118,997,692. This amount includes $21,001,662 in the General Fund. General Fund assets include cash, cash equivalents, and investments. Total assets in the debt service reserve fund are $72,462,424, which includes cash, cash equivalents, and investments. The PICA Tax Revenue Fund includes $4,977,925 in assets, which include PICA Taxes and accrued interest receivable. Remaining governmental fund assets – in the debt service funds, capital projects funds, and rebate fund – are classified as cash or accrued interest receivable.

Total fund balances for all governmental funds are $113,858,584. Within the General Fund, the total fund balance is $20,840,479, of which $13,952,635 is committed for future swaption activity, and $6,887,844 is unassigned. This unassigned fund balance is available for Authority administration expenditures. Within the debt service reserve fund, total fund balance is $72,462,424, of which $71,862,424 is restricted for debt service, and $600,000 is commited 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 debt service and rebate funds are restricted for debt service or payment of an arbitrage rebate. The fund balances in the capital projects 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.

Table 4

Assets, Liabilities, and Fund Balances

in the Governmental Funds as of June 30, 2013

	Assets	Liabilities	Fund Balance
General Fund	$21,001,662	$161,183	$20,840,479
PICA Tax Revenue Fund	4,977,925	4,977,925	--
2009 Debt Service Fund	3,429,756	--	3,429,756
2010 Debt Service Fund	2,093,061	--	2,093,061
Debt Service Reserve Fund	72,462,424	--	72,462,424
Rebate Fund	1,992,878	--	1,992,878
1992 Capital Projects Fund	377,730	--	377,730
1993 Capital Projects Fund	449,901	--	449,901
1994 Capital Projects Fund	12,212,355	--	12,212,355
Total	$118,997,692	$5,139,108	$113,858,584

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 Authority's annual General Fund budgets, since its inception, have all produced surpluses.

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 FY14 General Fund expenditure budget totals $1,458,675, a decline of $26,937 from the FY13 General Fund operating budget. Table 5 presents a summary of the FY13 and FY14 General Fund budget.

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 FY14 are budgeted at $1,458,675. Expenditures for salaries and benefits comprise $698,675. The next largest category is additional oversight duties, at $350,000. 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 is budgeted at $248,000. Other expenses and capital outlay is budgeted at $162,000.

Table 5

General Fund Budget

	FY14	**FY13**	**Percent Change FY13-FY14**
REVENUES AND OTHER FINANCING SOURCES			
Interest earnings – General Fund	$7,000	$7,000	0%
Use of existing General Fund surplus	851,675	878,612	-3%
Other financing sources:			
Transfer of interest earnings from Debt Service Reserve Fund	600,000	600,000	0%
Total revenues and other financing sources	1,458,675	1,485,612	-2%
EXPENDITURES			
Salaries and benefits	698,675	570,612	22%
Professional services	248,000	290,000	-14%
Other expenses	157,000	165,000	-5%
Capital outlay	5,000	10,000	-50%
Additional oversight duties	350,000	450,000	-22%
Total expenditures	1,458,675	1,485,612	-2%

In FY13, actual PICA expenditures for operations were $817,545, well below the budgeted amount. This reflected actual expenditures that were below budget in all major categories.

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, 2013 is summarized as follows:

	Amount (in thousands)
Outstanding Debt at July 1, 2012	$ 452,935
Debt Retired	43,655
Outstanding Debt at June 30, 2013	$ 409,280

Economic Factors and Next Year's Budget

PICA Tax revenues reflect the underlying strength of the Philadelphia employment base, which has exhibited modest growth in recent years. It is expected that this trend will continue in FY14. Actual PICA Tax revenue increased at an average annual rate of 1.9 percent from FY08 to FY13. The City currently projects PICA Tax revenue to increase 3.5 percent in FY14.

In FY14, 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 specified by the Indenture is maintained. The process for spending PICA funds on PICA-approved capital projects will also continue in FY14, resulting in a continued reduction in the fund balance in the capital projects funds.

At this time, there are no major factors that are expected to significantly impact the Authority's operating expenditures in FY14. The budget for FY14 anticipates the use of $851,675 of the existing General Fund surplus as a revenue source. This should result in a reduction in the unassigned General Fund balance in FY14.

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 capital projects funds to encumbered funds accounts also maintained by PICA's Trustee. Once these funds are spent, the City requests reimbursement from the encumbered funds accounts. As of June 30, 2013, the balance in the three encumbered funds accounts was as follows:

	Amount (in thousands)
1992 Capital Projects Encumbered Funds	$649
1993 Capital Projects Encumbered Funds	$1,885
1994 Capital Projects Encumbered Funds	$1,731

Contacting PICA's Financial Management

This financial report is designed to present an accurate overview of the financial activities of the Authority during FY13. 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.

HEFFLER, RADETICH & SAITTA LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pennsylvania Intergovernmental Cooperation Authority

We have audited the accompanying financial statements of the governmental activities and each major fund of the Pennsylvania Intergovernmental Cooperation Authority, a blended component unit of the City of Philadelphia, (the Authority) as of and for the year ended June 30, 2013, 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 and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective net position of the governmental activities and each major fund of the Pennsylvania Intergovernmental Cooperation Authority, as of June 30, 2013, and the respective changes in net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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 Additional Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pennsylvania Intergovernmental Cooperation Authority's basic financial statements. The supplemental schedules of cash activity are presented for purposes of additional analysis and are not a required part of the basic financial statements.

These supplemental schedules are the responsibility of management and were derived from and relate 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 supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Change in Accounting Principle

As discussed in Note 8 to the financial statements, in 2013 the Authority adopted new accounting guidance, GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

Heffler, Radetich & Saitta, LLP

December 19, 2013

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY
STATEMENT OF NET POSITION
June 30, 2013

ASSETS

		Governmental Activities
Cash and cash equivalents:		
Held by trustee	$	44,565,729
Other		7,581,111
Investments		61,848,940
PICA taxes receivable		4,976,942
Fair value of derivative instruments		3,006,319
Accrued interest receivable		2,429
Prepaid expenses		22,541
Total assets		122,004,011

LIABILITIES

Accounts payable and accrued expenses		161,183
Due to City of Philadelphia		4,977,925
Current portion of bonds payable		45,640,000
Noncurrent portion of bonds payable		400,676,363
Total liabilities		451,455,471

NET POSITION		
Restricted for debt service		79,378,119
Restricted for the benefit of the City of Philadelphia		13,039,986
Unrestricted:		
Board-designated for operating budget		600,000
Undesignated (deficit)		(422,469,565)
Total net position		(329,451,460)
	$	122,004,011

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	Governmental Activities
Expenses:	
Grants to City of Philadelphia	$ 321,696,905
General management and support- general operations	817,545
Interest on long-term debt	22,539,100
Investment expenses	466,221
Amortization of bond costs	223,104
Total Expenses	345,742,875
Revenues:	
PICA taxes	376,379,066
Amortization of bond premium	3,912,711
Revenue related to forward delivery contract	1,666,923
Investment income	996,088
Settlement proceeds	2,354,650
Other	1,548,129
Total Revenues	386,857,567
Change in net position	41,114,692
Net position- July 1, 2012	(368,412,246)
Cumulative effect of a change in accounting principle	(2,153,906)
Adjusted net position - July 1, 2012	(370,566,152)
Net position- June 30, 2013	$ (329,451,460)

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY
STATEMENT OF FUND NET POSITION - GOVERNMENTAL FUNDS

	General	PICA Tax Revenue	Debt Service Funds 2010	Debt Service Funds 2009	Debt Service Reserve Fund	Rebate Fund	Expendable Trust Funds Capital Projects Funds 1992	Expendable Trust Funds Capital Projects Funds 1993	Expendable Trust Funds Capital Projects Funds 1994	Total Governmental Funds
Assets:										
Cash and cash equivalents	$7,581,111	$ -	2,092,858	3,429,412	$ 24,010,845	1,992,844	377,725	449,894	12,212,151	$ 52,146,840
Investments	13,397,757	-	-	-	48,451,183	-	-	-	-	61,848,940
PICA Taxes receivable	-	4,976,942	-	-	-	-	-	-	-	4,976,942
Accrued interest receivable	253	983	203	344	396	34	5	7	204	2,429
Prepaid expenses	22,541	-	-	-	-	-	-	-	-	22,541
Total assets	21,001,662	4,977,925	2,093,061	3,429,756	72,462,424	1,992,878	377,730	449,901	12,212,355	118,997,692
Liabilities:										
Accounts payable	$ 111,780	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 111,780
Accrued payroll and taxes	49,403	-	-	-	-	-	-	-	-	49,403
Due to the City of Philadelphia		4,977,925	-	-	-	-	-	-	-	4,977,925
Total liabilities	161,183	4,977,925	-	-	-	-	-	-	-	5,139,108
Fund balances:										
Restricted:										
For debt service	-	-	2,093,061	3,429,756	71,862,424	1,992,878				79,378,119
For benefit of City of Philadelphia	-	-	-	-	-	-	377,730	449,901	12,212,355	13,039,986
Committed:										
For subseqent PICA administration	-	-	-	-	600,000	-	-	-	-	600,000
For future swaption activity	13,952,635	-	-	-	-	-	-	-	-	13,952,635
Unassigned	6,887,844	-	-	-	-	-	-	-	-	6,887,844
Total fund balance	20,840,479	-	2,093,061	3,429,756	72,462,424	1,992,878	377,730	449,901	12,212,355	113,858,584
Total liabilities and fund balances	$ 21,001,662	$ 4,977,925	$ 2,093,061	$ 3,429,756	$ 72,462,424	$ 1,992,878	$ 377,730	$ 449,901	$ 12,212,355	118,997,692

Amounts reported for governmental activities in the statement of net assets are different due to:	
-	
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental fund statements	(409,280,000)
Fair value derivative instruments are not reported in the governmental funds statements	3,006,319
Premium on bonds is deferred in the government wide statements	(37,036,363)
Net assets of governmental activities	$ (329,451,460)

The accompanying notes are integral part of this statement

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	General	PICA Tax Revenue	Debt Service Funds 2010	Debt Service Funds 2009	Debt Service Reserve Fund	Rebate Fund	Expendable Trust Funds Capital Projects Funds 1992	Expendable Trust Funds Capital Projects Funds 1993	Expendable Trust Funds Capital Projects Funds 1994	Total Governmental Funds
Revenue:										
PICA taxes	$ -	376,379,066	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 376,379,066
Investment income	167,627	14,139	7,088	11,924	1,189,516	1,373	263	441	9,245	1,401,616
Settlement proceeds	2,354,650	-	-	-	-	-	-	-	-	2,354,650
Other	1,548,129	-	-	-	-	-	-	-	-	1,548,129
Total revenue	4,070,406	376,393,205	7,088	11,924	1,189,516	1,373	263	441	9,245	381,683,461
Expenditures:										
Grants to the City of Philadelphia	-	313,492,063	-	-	-	-	-	422,746	5,427,446	319,342,255
Settlement proceeds to City	2,354,650	-	-	-	-	-	-	-	-	2,354,650
Debt Service:										
Principal	-	-	16,335,000	27,320,000	-	-	-	-	-	43,655,000
Interest	-	-	8,841,750	13,697,350	-	-	-	-	-	22,539,100
Administration:										
Investment expenses	466,221	-	-	-	-	-	-	-	-	466,221
Operations	817,545	-	-	-	-	-	-	-	-	817,545
Total expenditures	3,638,416	313,492,063	25,176,750	41,017,350	-	-	-	422,746	5,427,446	389,174,771
Excess of revenues over (under) expenditures	431,990	62,901,142	(25,169,662)	(41,005,426)	1,189,516	1,373	263	(422,305)	(5,418,201)	(7,491,310)
Other financing sources (uses)-										
Net operating transfers in (out)	(948,129)	(62,901,142)	25,163,688	41,015,417	(2,329,834)	-	-	-	-	-
Change in net position	(516,139)	-	(5,974)	9,991	(1,140,318)	1,373	263	(422,305)	(5,418,201)	(7,491,310)
Fund Balances, July 1, 2012	21,356,618	-	2,099,035	3,419,765	73,602,742	1,991,505	377,467	872,206	17,630,556	121,349,894
Fund Balances June 30, 2013	$ 20,840,479	$ -	$ 2,093,061	$ 3,429,756	$ 72,462,424	$ 1,992,878	$ 377,730	$ 449,901	$ 12,212,355	$ 113,858,584

Reconciliation of change in fund balance to change in net position:	
Change in fund balance	$ (7,491,310)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the government-wide statements	43,655,000
Bond premium is amortized over the life of bonds in the government-wide statements	3,912,711
Bond issuance costs are amortized in the government wide statements	(223,104)
Derivative valuation adjustment is recognized as an asset and revenue in the government wide statements	(405,528)
Revenue from forward delivery contract in the government wide statements	1,666,923
Change in net position	$ 41,114,692

The accompanying notes are integral part of this statement

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION

Organization

The Pennsylvania Intergovernmental Cooperation Authority (the "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 (the "Act") for the purpose of providing financial assistance to the City of Philadelphia (the "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. 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 Governmental Accounting Standards Board is the authoritative standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant GASB policies recently adopted or being considered by the Authority:

GASB Statement No. 60, “Accounting and Financial Reporting for Service Concession Arrangements,” issued November 2010, was effective for the year ended December 31, 2012. The objective of this statement is to improve financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The Authority’s management has determined that this pronouncement has no impact on the Authority’s financial statements.

GASB Statement No. 61, “The Financial Reporting Entity: Omnibus- an Amendment of GASB Statements No. 14 and No. 34,” issued November 2010, was effective for the year ended December 31, 2013. The objective of this Statement is to improve financial reporting of component units for a government reporting entity. The Authority’s management has adopted this statement and has accordingly updated its financial reporting for the year ended June 30, 2013.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION- Continued

GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements" was effective for the year ended December 31, 2012. The objective of this statement is to incorporate into GASB's authoritative literature the applicable guidance previously presented in the following pronouncements issued before November 1989:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure.

The Authority adopted this statement for the year ended June 30, 2013.

GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position," issued in June 2011, was effective for the year ended December 31, 2012. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This statement alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The Authority adopted this statement for the year ended June 30, 2013 and has incorporated the required elements in the Authority's financial statements.

GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions an amendment of GASB statement No. 53," issued June 2011 was effective for the year ended December 31, 2012. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that established when the effective hedging relationship continues and hedge accounting should continue to be applied. The Authority noted that this statement did not impact the financial statements for the year ended June 30, 2013.

GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," issued March 2012, will be effective for the year ending December 31, 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The Authority adopted this statement for the year ended June 30, 2013 and has incorporated the required elements in the Authority's financial statements.

GASB Statement No. 66, "Technical Corrections – 2012 an amendment of GASB Statements No. 10 and No. 62," issued March 2012, will be effective for the year ending December 31, 2013. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," and No. 62, "Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." The Authority's management is in the process of evaluating this statement, but has not yet determined how its adoption will impact the Authority's financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION- Continued

GASB Statement No. 67, "Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25," issued June 2012, will be effective for the year ending December 31, 2014. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. The Authority's management is in the process of evaluating this statement, but has not yet determined how its adoption will impact the Authority's financial statements.

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27," issued June 2012, will be effective for the year ending December 31, 2015. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The Authority's management is in the process of evaluating, but has not yet determined how the adoption of this statement will impact the Authority's financial statements.

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 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 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 are maintained on 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 this 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 service funds for payments to be made early the following year.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION- Continued

Government-Wide and Fund Financial Statements - Continued

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 balances in the capital projects funds and all fund balance related to the debt service as restricted.

- 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. 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 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 first in the following order: restricted, committed and assigned as they are needed.

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

The PICA Tax (Special Revenue) Fund accounts for the proceeds of the PICA Tax remitted to the Authority via the Commonwealth of Pennsylvania (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 Trustee by the Trust Indenture (see Note 3).

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION- Continued

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 Debt Service Reserve Fund holds assets for debt service reserve purposes as required by the Trust Indenture. 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 assets on the Statement of Net Position as restricted for debt service.

The Expendable Trust Funds/Capital Projects 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. The Expendable Trust Funds/Capital Project 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 Expendable Trust Funds/Capital Projects Funds are included in net assets on the Statement of Net Position as restricted for the benefit of the City of Philadelphia.

PICA Tax

The "PICA Tax" was enacted by an ordinance adopted by City Council and approved by the Mayor of the City of Philadelphia 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 or less to be cash equivalents.

Investments

All investments are stated at fair value. Investment fair values are based on quoted market prices. Investment income is recorded as investment income on the statement of activities and includes any unrealized gains or losses earned during the period. The fair value of investments approximates original cost at June 30, 2013.

Bond Issuance Costs

Bond issuance costs are amortized on a straight-line basis over the term of the bonds. Effective July 1, 2012, with the adoption of GASB 63 and 65, the Authority appropriately adjusted the beginning net position at July 1, 2012 to reflect the write-off of all bond issuance costs (Note 8).

Deferred Inflows

Previously, under the accrual-basis accounting used in the government-wide financial statements, premiums received from debt service reserve forward delivery agreements are amortized over the term of the agreement and are reported as investment income when earned. The Authority received a premium of $1,970,000 on June 6, 2000, in exchange for the future earnings from the debt service reserve fund

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION- Continued

investments. The adoption of GASB 63 and 65 changed the accounting for this premium such that the entire remaining and unamortized amount of $1,666,923 is recognized as revenue for the year ended June 30, 2013 in the Statement of Activities. The agreement expires on June 15, 2023.

Under the modified accrual basis accounting used in the governmental fund financial statements, the premiums are recognized when received.

Bond Premium

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

Interfund Transfers

Interfund transfers are made on a regular basis to record the transfer of the portion of the PICA tax revenue withheld for debt service or the transfer of amounts due to the City of Philadelphia.

Subsequent Events

Management has evaluated subsequent events through December 19, 2013, the date the financial statements were available to be issued. There were no subsequent events noted that had an impact on the financial statements or related disclosures.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 CASH AND INVESTMENTS

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 of Pennsylvania or any political subdivision of the Commonwealth to eliminate the risk of uninsured funds. Under Pennsylvania Act 72 of 1971, as amended, the depositories may meet this requirement by pooling appropriate securities to cover all public funds on deposit with their institution.

Investments in the PICA Tax (Special Revenue) Fund, the Debt Service Funds, and the Expendable Trust Funds must be invested in accordance with the Trust Indenture (see Note 3).

The Trust Indenture restricts investments to the following types of securities:

(a) Obligations of the City of Philadelphia;

(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;

NOTE 2 CASH AND INVESTMENTS - Continued

(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 on 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 than 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; mortgaged-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 types specified in clauses (b) or (f) above and is rated "AAAm" or "AAAm-G" by S&P;

(i) Guaranteed investment contracts (GICs) with a bank, insurance company or other financial institution that is rated in one of the three highest rating categories by Moody's and S&P and which GICs are either insured by a municipal bond insurance company or fully collateralized at all times with securities included in (b) above.

NOTE 2 CASH AND INVESTMENTS - Continued

Investments in the Debt Service Reserve Fund may only be invested in the investments included in (b) through (i) above with a maturity of 5 years or less or GICs that can be withdrawn without penalty. At June 30, 2013, the carrying amount of the Authority's deposits with financial institutions (including certificates of deposit and shares in U.S. Government money market funds) and other short-term investments was $113,995,780. Account balances were insured or collateralized as follows:

Insured	$ 4,673,879
Other uninsured and uncollateralized, but covered under the provisions of Act 72, as amended	109,321,901
	$ 113,995,780

The Authority's deposits include bank certificates of deposit that have a remaining maturity at time of purchase of one year or less and shares in U.S. Government money market funds. U.S. Government agency investments with a remaining maturity of one year or less are classified as short-term investments.

All of the Authority's investments are category (1) credit risk. Credit risk categories are defined as follows:

(I) Insured or registered securities held by the entity or its agent (bank trust department) in the entity's name.

(2) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent in the entity's name.

(3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

NOTE 3 SPECIAL TAX REVENUE BONDS

The following summary shows the changes in bonds payable for the year ended June 30, 2013:

Series of	Outstanding July 1, 2012	Additions	Principal Repayments	Outstanding June 30, 2013	Amounts Due within One Year
2009	$ 276,100,000	-	$ 27,320,000	$ 248,780,000	$26,645,000
2010	176,835,000	-	16,335,000	160,500,000	16,995,000
	$ 452,935,000	-	$ 43,655,000	409,280,000	$43,640,000
			Add bond premiums	37,036,363	
				$ 446,316,363	

NOTE 3 SPECIAL TAX REVENUE BONDS - Continued

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 (the "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 (the "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 supplements to the 1994 Indenture. These supplements are between the Authority and U. S. Bank National Association (the "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's 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. The PICA Taxes collected during the year ended June 30, 2013 ($376,067,167) equaled approximately 563% of the maximum annual debt service ($66,014,150) of the bonds outstanding at June 30, 2013 (the 2009 and 2010 bonds).

Total annual debt service requirements (annual principal or sinking fund requirements and interest payments) on the outstanding bonds at June 30, 2013 are as follows:

Fiscal Year Ending	Total Debt Service Requirements
2014	$ 66,014,150
2015	65,821,100
2016	65,615,600
2017	65,412,600
2018	56,095,100
2019	47,152,100
2020	46,944,100
2021	37,319,600
2022	37,179,750
2023	23,076,000

NOTE 3 SPECIAL TAX REVENUE BONDS - Continued

Details as to the purpose of each of the respective series of bonds issued by the authority through June 30, 2013, 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 costs 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, l993A 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 ofbonds.

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

C. Series of 2009

The net proceeds from the sale of the Series of 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 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 cash flows required by the new bonds are $36.2 million more than the cash flow required by the refunded bonds. The economic loss on the refunding (the adjusted present value of these increased cash flows), as determined by the bond underwriters, was $28.1 million.

NOTE 3 SPECIAL TAX REVENUE BONDS - Continued

The details of Series of 2009 Bonds outstanding at June 30, 2013 are as follows:

Interest Rate	Maturing June 15	Amount
4.00	2014	4,395,000
5.00	2014	24,250,000
4.00	2015	375,000
5.00	2015	29,640,000
5.00	2016	31,485,000
5.00	2017	33,040,000
4.00	2018	900,000
5.00	2018	24,665,000
5.00	2019	18,110,000
5.00	2020	19,020,000
4.00	2021	1,965,000
5.00	2021	18,000,000
5.00	2022	20,945,000
4.25	2023	1,800,000
5.00	2023	20,190,000
		$248,780,000

The following table shows the annual principal or sinking fund requirements, interest payments and the total debt service requirements for the Series of 2009 bonds outstanding at June 30, 2013:

Fiscal Year Ending	Principal or Sinking Fund Requirements	Interest	Total Debt Service Requirements
2014	28,645,000	12,349,150	40,994,150
2015	30,015,000	10,960,850	40,975,850
2016	31,485,000	9,463,850	40,948,850
2017	33,040,000	7,889,600	40,929,600
2018	25,565,000	6,237,600	31,802,600
2019-2023	100,030,000	15,362,300	115,392,300

D. Series of 2010

The net proceeds from the sale of the Series of 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&B outstanding as of May 17, 2010, (2) to pay the costs of terminating an interest rate swap transaction related to the 2008 A&B bonds and (3) pay the cost of issuing the 2010 bonds. The cash out flows required by the new bonds is $61,000 less than the cash flow required by the refunded bonds. The economic gain on the refunding (the adjusted present value of the decrease in cash outflows), as determined by the bond underwriters, was $1.6 million.

NOTE 3 SPECIAL TAX REVENUE BONDS - Continued

The details of Series of 2010 Bonds outstanding at June 30, 2013 are as follows:

Interest Rate	Maturing June 15	Amount
5.000	2014	16,995,000
5.000	2015	17,670,000
5.000	2016	18,375,000
5.000	2017	19,110,000
5.000	2018	19,875,000
5.000	2019	20,650,000
5.000	2020	21,470,000
5.000	2021	12,925,000
5.000	2022	13,430,000
		160,500,000

The following table shows the annual principal or sinking fund requirements, interest payments and the total debt service requirements for the Series of 2010 Bonds outstanding at June 30, 2013:

Fiscal Year Ending	Principal or Sinking Fund Requirements	Interest	Total Debt Service Requirements
2014	16,995,000	8,025,000	25,020,000
2015	17,670,000	7,175,250	24,845,250
2016	18,375,000	6,291,750	24,666,750
2017	19,110,000	5,373,000	24,483,000
2018	19,875,000	4,417,500	24,292,000
2019-2022	68,457,000	7,804,250	76,279,250

NOTE 3 SPECIAL TAX REVENUE BONDS - Continued

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

2003 Basis Cap

Beginning July 15, 2003, the counterparty pays the Authority a fixed rate each month of .40% per year and the Authority will pay to the counterparty a variable rate based on the greater of (a) the average of the BMA for the month divided by the one-month LIBOR, less 70%, multiplied by the one-month LIBOR, times the notional amount times the day count fraction or (b) zero. The agreement matures June 15, 2022.

1999 Basis Cap

Beginning July 15, 2009, the counterparty pays the Authority a fixed rate each month of .46% per year and the Authority will pay to the counterparty a variable rate based on the greater of (a) the average of the BMA for the month divided by the one-month LIBOR, less 70%, multiplied by the one-month LIBOR, times the notional amount times the day count fraction or (b) zero. The notional agreement matures June 15, 2023.

Fair Value

Derivative instruments are summarized as follows:

	Current changes in Fair Value		Fair Value at June 30, 2013		
Government Activities	Classification	Amount	Classification	Amount	Notional Amount
Investment derivatives:					
2003 Basis Cap	Investment income:	$ 40,007	Investment:	$ 733,062	$ 96,030,000
1999 Basis Cap	Investment income:	$ 405,328	Investment:	$ 2,273,266	$ 228,715,000

NOTE 4 DEFINED BENEFIT PENSION PLAN

Plan description

The Authority covers all full-time employees in the 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.

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. The general annual benefit is 2% 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, 2013 was $343,645.

Contributions required

Covered employees are required to contribute to SERS at a rate of 6.25% 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 was required to contribute to SERS at a rate of 6.99% of the gross pay of its employees for the year ended June 30, 2013. The Authority contributed $25,981 to SERS during fiscal 2013.

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

NOTE 5 LEASE COMMITMENT

The Authority is obligated under an operating lease for office space, expiring December 31, 2019. The following is a schedule of future minimum lease payments:

Fiscal Year Ending June 30	Amount
2014	111,759
2015	115,112
2016	118,560
2017	122,115
2018	125,778
2019	21,014
	$614,338

Rent expense for the year ended June 30, 2013 was $113,135.

NOTE 6 SETTLEMENT PROCEEDS

In February 2013, the Authority received settlement payments aggregating $2,354,650 in connection with a Complaint for Violations of the Federal Securities Laws filed by the Securities and Exchange Commission against J.P. Morgan Securities LLC in connection with the Authority's 2003 bond issuance, and with a Consent Order for a Civil Money Penalty issued by the U.S. Comptroller of the Currency against JPMorgan Chase Bank, N.A. for violations of law and/or unsafe banking practices related to the sale of certain derivative financial products prior to 2005. All settlement proceeds were transferred to the City as voted and approved by the Board of Directors.

NOTE 7 COMMITMENTS AND CONTINGENCIES

The Authority entered into a certain Debt Service Reserve Forward Delivery Agreement (the "FDA") dated June 6, 2000. Under the FDA, beginning June 15, 2010 the provider was to deliver certain tax-exempt securities to the Authority to be held in the Debt Service Reserve Fund for the Bonds (Note 3). The Authority has received an opinion of counsel that investments provided under the FDA are to be treated as tax-exempt securities for purposes of the determination of the Rebate Amount. Accordingly, no provision has been made herein for such investments acquired under the FDA. However, there is uncertainty if such investments should actually be treated as taxable investments. If the investments are determined to be taxable, then the Authority could be required to pay additional rebate amounts. As of the date of the audit report, a legal determination has not been made to determine if the investments are taxable investments. Since no determination has been made concerning the investments' taxable status, the Authority has not accrued any rebate liability.

NOTE 8 CHANGE IN ACCOUNTING PRINCIPLE

The Authority has implemented GASB 63 and GASB 65. These statements established accounting and financial reporting standards to provide guidance for the reporting for deferred outflows of resources or deferred inflows of resources, for certain items that were previously reported as assets and liabilities. The current year financial statements reflect the changes required by these statements, which required the current year recognition of previously deferred revenue. Additionally, as a result of these changes in accounting principle, bond issuance costs were required to be expensed and beginning net position at July 1, 2012 was required to be adjusted to reflect the change in accounting principle. The following reconciliation provides the cumulative effect of the change in accounting principle to the net position at July 1, 2012:

Net position – July 1, 2012	$ (368,412,346)
Cumulative effect of change in accounting principle	(2,153,906)
Adjusted net position – July 1, 2012	$ (370,566,152)

SUPPLEMENTARY INFORMATION

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2013

	Budget (Original and Final)	Actual	Over (Under) Budget
Interest and short term investment earnings	$ 7,000	13,039	$ 6,039
Expenditures - administration			
Personnel - salaries and benefits	570,612	540,102	(30,510)
Professional services:			-
Legal	80,000	27,903	(52,097)
Audit	70,000	39,400	(30,600)
Consulting/research	100,000	52,147	(47,853)
Interagency services	5,000	-	(5,000)
Trustee	25,000	23,333	(1,667)
Miscellaneous	10,000		(10,000)
Rent	115,000	113,135	(1,865)
Computer software and minor hardware	10,000	449	(9,551)
Office supplies	3,000	1,248	(1,752)
Telephone	10,000	8,817	(1,183)
Subscription and reference services	7,000	615	(6,385)
Postage and express	5,000	2,316	(2,684)
Dues and professional education	1,000	550	(450)
Travel	2,000	-	(2,000)
General and administrative	9,000	7,530	(1,470)
Miscellaneous	3,000	-	(3,000)
	1,025,612	817,545	(208,067)
Capital outlays-furniture/fixtures and equipment	10,000	-	(10,000)
Addition oversight duties-studies/implementation	450,000	-	(450,000)
Total expenditures	1,485,612	817,545	(668,067)
Excess of expenditures over revenues	(1,478,612)	(804,506)	674,106
Other financing sources:			
Transfers in for PICA draw for operations	1,478,612	600,000	(878,612)
Excess (deficiency) of revenues and other financing sources over expenditures	-	(204,506)	(204,506)
Fund Balance, June 30, 2012	7,097,339	7,097,339	-
Fund Balance, June 30, 2013	$ 7,097,339	$ 6,892,833	$ (204,506)

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY
GENERAL FUND
SUPPLEMENTAL SCHEDULE OF CASH ACTIVITY
FOR THE YEAR ENDED JUNE 30, 2013

Cash receipts:	
Revenues collected - interest	$ 1,551,826
Settlement proceeds	2,354,650
Total cash receipts	3,906,476
Cash disbursements:	
Expenditures:	
Grants to the City of Philadelphia	2,354,650
Operating transfer out	6,461,431
Administration	817,545
Total cash disbursements	9,633,626
Excess cash receipts over cash disbursements	(5,727,150)
Cash, cash equivalents and short-term investments - beginning of year	13,308,261
Cash, cash equivalents and short-term investments - end of year	$ 7,581,111

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY
PICA TAX REVENUE FUND
SUPPLEMENTAL SCHEDULE OF CASH ACTIVITY
FOR THE YEAR ENDED JUNE 30, 2013

Cash receipts:	
Revenue collected:	
PICA taxes	376,067,167
Interest	15,262
Total cash receipts	376,082,429
Cash disbursements:	
Expenditures paid - grants to the City of Philadelphia	313,181,287
Other financing uses - operation transfers out for debt service requirements	62,901,142
Total cash disbursements	376,082,429
Excess cash disbursements over cash receipts	-
Cash, cash equivalents and short-term investments - beginning of year	-
Cash, cash equivalents and short-term investments - end of year	$ -