

# **Pennsylvania Intergovernmental Cooperation Authority**



**Annual Report  
for  
Fiscal Year 1995**

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**October 17, 1995**

# PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

1429 Walnut Street - 14th Floor, Philadelphia, PA 19102

Telephone (215) 561-9160 – Fax (215) 563-2570

## BOARD OF DIRECTORS

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### Vice Chairperson

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Carol Gassert Carroll

Assistant Secretary

Assistant Treasurer

G. Fred DiBona, Jr.

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Secretary of the Budget

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## PROFESSIONAL ADVISORS

### Authority Counsel

Reed Smith Shaw & McClay

### Independent Auditors

Deloitte & Touche, LLP

## The Mission of the Authority

The mission of the Authority, as stated in its enabling legislation, 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.*

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## Pennsylvania Intergovernmental Cooperation Authority

14th Floor - 1429 Walnut Street, Philadelphia, PA 19102  
Telephone 215-561-9160 Fax 215-563-2570

October 17, 1995

To: The Governor and the 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, the City Council and the Controller of the City of Philadelphia  
Other Parties Concerned with the Restoration of Financial Stability of and Achieving Balanced  
Budgets for the City of Philadelphia

We are pleased to provide herewith the Annual Report of the Pennsylvania Intergovernmental Cooperation Authority ("PICA") for the fiscal year ended June 30, 1995.

PICA completed its fourth fiscal year of operations as of June 30, 1995. That fiscal year's activity included the issuance of PICA's Series of 1994 bonds in the amount of \$122 million as of December 1, 1994; continued PICA oversight and monitoring of City of Philadelphia ("City") financial progress, which progress has produced the City's third consecutive General Fund surplus and the return of City investment grade credit ratings; and PICA approval of a fourth Five-Year Financial Plan, which Plan includes balanced budgets and the prospect of five consecutive years of tax reductions beginning in fiscal year 1996.

The success of PICA's cumulative efforts to date as the agency charged by the Commonwealth with the responsibility for oversight and monitoring of the City's finances has been gratifying, and PICA's role in the City's ongoing recovery process continues. Focusing attention on needed strategic planning, continuing review and monitoring of the City's operating and capital budgets, monitoring compliance with the Five-Year Financial Plan currently in effect, oversight as to the commitment and expenditure of the remainder moneys borrowed by PICA for City capital projects, and promoting the institutionalization of required changes and of means of overcoming structural imbalance between City revenues and expenditures, all remain as PICA tasks. PICA also continues to serve as a source of objective information and opinion for the benefit of the citizens of the City and Commonwealth, as well as outside observers.

The members of the PICA Board appreciate the continuous support they have received from the Governor and the General Assembly and the ongoing cooperation of the Mayor, City Council and City Controller. Together we continue to assist Philadelphia in its long-term recovery process.

Stephen A. Van Dyck  
Chairperson

Charisse R. Lillie  
Vice Chairperson

Carol Gassert Carroll  
Treasurer

Edward J. DiDonato  
Secretary

G. Fred DiBona, Jr.  
Assistant Secretary  
Assistant Treasurer

## **PICA Annual Report Requirements**

The Pennsylvania Intergovernmental Cooperation Authority Act for Cities of First Class, Act of 1991, P.L. 9, No. 6 at §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.

§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. The City was burdened with a growing cumulative operating deficit, lacked resources to pay mounting overdue bills from vendors, had been pushed below the investment grade level by national rating agencies, had instituted an across-the-board hiring freeze, was in a mode in which the quality of municipal services being provided was rapidly eroding, and literally verged on bankruptcy. PICA was created through the efforts of Philadelphians and State officials who envisioned a structure which would provide the City with sufficient breathing room to put its revenue collection and spending processes in order, and to reach a consensus on its future priorities, assets and limitations. 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 State 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. It was designed to be a catalyst in the City re-evaluation of the role and priorities of municipal government.

### **Cooperation Agreement**

The Intergovernmental Cooperation Agreement negotiated by and between PICA and the City and finalized in January of 1992 formalized the relationship contemplated by the PICA legislation. The powers and duties of the respective participants envisioned in the legislation were put into place with the execution of the Agreement. PICA is much more than a vehicle to raise funds for Philadelphia. It has the responsibility to evaluate and approve annually revised Five-Year Financial Plans, to monitor compliance by the City with such Plans, and the power to withhold both substantial Commonwealth financial assistance and the net proceeds of the PICA Tax (after PICA debt service) should the City fail to comply with its duty to balance such Plan in each of its years.

### **The PICA 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 totals seven, is organized to evaluate the actions of the City, not to replace those who are properly charged with administration of City affairs or development of underlying policies. The Authority does not seek to create a self-perpetuating bureaucracy.

## **PICA Bond Issues**

An initial role of the Authority was the issuance of bonds to assist the City to avoid insolvency and to provide the funds directly required for that purpose and for essential capital programs. That role has been successfully completed and the Authority's "new money" bond issuance powers expired December 31, 1994. Future Authority action may include issuing bonds to refinance existing Authority debt in order to realize net debt service savings to the City. Through its debt issuance the Authority has provided in excess of \$1,082 million to directly assist the City, allocated to the following purposes:

<u>Purpose</u>	<u>Amount</u> <u>(thousands)</u>
Deficit Elimination/Indemnities Funding	\$ 256,200
Productivity Bank	20,000
Capital Projects	424,632
Retirement of Certain High Interest City Debt	<u>381,300</u>
<b>TOTAL</b>	<b><u>\$1,082,132</u></b>

During the latter part of fiscal 1995 the major national rating agencies upgraded the City's general obligation bond ratings to investment grade (Moody's Baa/Standard & Poor's BBB-/Fitch BBB-) and the City is now able to independently access capital markets.

## **The Five-Year Financial Plan Process**

PICA has consistently emphasized its strong belief that the City's efforts to fiscally rehabilitate itself depend upon its 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 remain as challenges which the City must deal with if it is to continue to move forward. Vision and management will determine whether the still formidable assets of the City of Philadelphia are applied intelligently and consistently.

Making Philadelphia run better as a local government requires much more than merely moving piles of paper from file A to file B more efficiently. The "opening up" of Philadelphia's government via effective planning can help to resolve many long-standing problems. As residents and businesses come to believe that City government is serious about providing improved services and treating them as customers, with the courtesy, consistency and common sense that they have every right to expect, the prospects for their continued association with the City should increase. The Plan process helps to document the City's intentions.



As mandated in the PICA Act (and as further refined by the Intergovernmental Cooperation Agreement), the Plan is to include:

- o 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
- o 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 development of the Plan (and the manner in which it is to be evaluated by PICA):

- o all projections of revenues and expenditures are to be based upon consistently applied reasonable and appropriate assumptions and methods of estimation;
- o revenues are to be recognized in the accounting period in which they become both measurable and available; and
- o 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 on 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 Authority (four of its five appointed members). The Authority's Board generally has required that conservative criteria be used, and the goal of the PICA process has been to base budget and Plan-making on those "building blocks" of credibility.

The Plan also is 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 generally accepted auditing standards, 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 (§209) and the Cooperation Agreement (§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. If a quarterly report indicates that the City is unable to project a balanced Plan and budget for its current fiscal year, the Authority may by the vote of a qualified majority declare the occurrence of a "variance", which is defined in §4.10 of the Cooperation Agreement 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 §1.01 of the Cooperation Agreement, the City's "Covered Funds" are the General Fund, General Capital Fund, Grants Revenue Fund and any other principal operating funds of the City which become part of the City's Consolidated Cash Account.

### **The Effect of a "Variance"**

The statute 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 once in PICA's history. In November of 1992, the City projected a variance of \$57 million (2.5%) for the 1993 fiscal year, and the Authority agreed with that assessment on December 9, 1992. Thereafter, until May of 1993, the City filed required monthly reports. The City was relieved of its burden 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.

As provided in §210(e) of the PICA Act, legal consequences flow from a determination by the Authority of the existence of a variance. In addition to the City's additional reporting responsibilities, it also is required to develop revisions to the Plan necessary to cure the variance. The remedies which PICA has available to it to deal with a continuing uncorrected variance are to direct the withholding of both specific Commonwealth funds due the City, and that portion of the 1.50% tax levied on the wages and income of residents of the City in excess of the amounts necessary to pay debt service on PICA's bonds. Any amounts withheld would be paid over to the City after correction of the variance.

### **PICA "Threshold" Policies**

From its inception PICA has held to the following policies in its evaluation of Philadelphia's Plans, initiatives, proposals and performance:

**Emphasis on Structural Change** - Consistent City failure to deal effectively with a long list of areas of government operations and service delivery contributed to the need for PICA. The City shall continually be encouraged to rethink existing policies and practices and to avoid sacrificing long-term progress for short-term gain.

**Focus on Long-Term Progress** - Meaningful strategic planning, institutionalization of appropriate change, focus on attaining long-term structural balance and on implementing pragmatic economic stimulus policies and procedures are matters of paramount importance and are to be emphasized in the PICA oversight process.

**Infrastructure Programs** - A meaningful capital program is a very visible and tangible element of a City's social contract with its residents. The capital program, including proper maintenance of capital assets, is a key element of the efforts of the City to restore long-term fiscal stability. City implementation of a consistent policy to adequately fund and staff infrastructure maintenance shall be continually encouraged.

Consistent Application of Stated Assumptions - Inconsistent application of unstated assumptions frequently caused pre-PICA City budgets to lack credibility, and made reliable assessment of prospects of attaining the results of such budgets impossible. PICA's Plan review process shall focus on assumptions utilized being both visible and consistent in their application.

Use of Credible Revenue Estimates - Realistic revenue estimates are a vital component of the City's budgeting and Plan preparation process and shall be a matter of primary concern in PICA's Annual Plan review process.

While it would be incorrect to claim that PICA threshold policies have resulted in all desired effects coming to fruition, they appear to have contributed to City procedural improvements. As an example, in its review of the four annual Plans submitted to it to date, PICA has successfully urged the City to reduce its General Fund revenue estimates by in excess of \$599 million.

### **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 assumptions and estimates has been the extensive cooperative professional relationship which has developed between PICA Staff and the Controller's Office. The mutually beneficial professional relationship includes ongoing cooperation on matters of common concern and regular staff meetings with respect to such matters; joint reviews of Plan components including appropriate joint meetings with City department heads and chief operating personnel pertinent thereto; 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 ongoing liaison with PICA Staff. The City Controller provides copies of all City audit reports and copies of special situation studies (such as its excellent "Mid-Year Economic and Financial Report") to PICA on a timely basis. The assistance provided to PICA by the City Controller is sincerely appreciated. Cooperation between its "oversight" and "watchdog" entities has substantially benefited the City.

### **Corporate Entities and The School District of Philadelphia**

"Corporate Entities" are defined in §1.01 of the Cooperation Agreement 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 look into 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 such City related institutions, but it anticipates doing so in the future.

## **The Work of PICA - Fiscal Year 1995**

### **Approval of the FY96-FY2000 Plan**

Review and recommendation for approval of the City's FY96-FY2000 Five-Year Financial Plan was a major element of PICA Staff activities during the 1995 fiscal year. PICA's comprehensive review of the Plan included assessment of the reasonableness of Plan revenue projections. The approved Plan includes a proposed cut in Wage, Earnings and Net Profits and Business Privilege Taxes, and estimates of the impact of the tax cuts on revenues were carefully weighed during the review process. Special attention was also paid to Department of Human Services revenue and obligation projections due to significant risk factors affecting that department.

Other areas that received particular attention in PICA's review of the Plan were the Economic Stimulus Program, and the Citywide Strategic Plan which was included as an appendix to the Financial Plan. PICA Staff also considered the current state of City finances and operations as described in the FY96-FY2000 Plan in relation to projected management initiatives and financial projections contained in the first five-year plan approved by PICA, the FY92-FY96 Five-Year Financial Plan. The Plan review process was marked by a substantial degree of cooperation among City and PICA participants, and PICA believes it was able to recommend significant positive changes to the Plan, which the City made before its formal submission to the Authority, particularly with respect to revenue estimates.

### **PICA Bond Issues**

In December of 1994, PICA issued its Series of 1994 Special Tax Revenue Bonds, which raised \$122 million in capital funds to support eligible projects in the City's FY95 capital budget. PICA determinations of eligibility for capital funding under criteria in the PICA Act were made by the Authority based on an extensive PICA Staff review of information provided by the City concerning capital projects that were proposed for PICA funding. With the expiration of the ability of PICA to issue new-money bonds with the end of the 1994 calendar year, future PICA bond issues are likely to be limited to refunding of outstanding PICA bonds when financial conditions make such action beneficial to the City. With the achievement of investment grade ratings from the major rating agencies in the spring of 1995, the City now has the capability to enter the market independently to provide funding for capital projects.

### **Strategic Planning**

PICA has consistently urged the City to undertake a strategic planning process to both assist in institutionalizing the management reforms that have been implemented to date, and to

also promote the further changes in the fundamental operations of City government that are necessary for the City to maintain financial stability over the long term. The City responded with a strategic planning process which began in the fall of 1993. This process resulted in a Strategic Plan for City government as a whole which was published as an appendix to the FY96-FY2000 Financial Plan in January of 1995. This Citywide Strategic Plan is a comprehensive statement of the issues facing City government and the general strategies and action steps that the City expects to follow in addressing these issues over the coming years.

The production of the Citywide plan is an important step, however, for the full value of the strategic planning process to be realized, individual departments and agencies still need to produce strategic plans which will translate the Citywide plan into specific actions that those agencies will undertake and measurable goals they plan to achieve. The latter plans are currently under development. PICA Staff will continue to monitor the City's progress in developing these departmental strategic plans, including their incorporation into future City budgets and Five-Year Financial Plans and their ongoing implementation.

### **City Capital Program**

Oversight of the capital program continued to be a key element in PICA's work in FY95. PICA Staff continued to advocate the need for improvements in the City's capital project management processes. The City has made progress in implementing project management software, which should enable improved scheduling and monitoring of capital project activities. In addition, improvements have been made to the accounting system that should enable improved monitoring of budget, encumbrance, and expenditure information by project. PICA Staff will continue to review City developments in this area, particularly with regard to full utilization of the capabilities of the new systems.

PICA Staff has continually noted the need for the City's capital program to be guided by an overall strategic plan. Progress in this area to date has been limited by the fact that the strategic planning process remains incomplete. PICA Staff expects to closely monitor the relationship of the capital program and capital budgets to the Citywide Strategic Plan, departmental strategic plans, and the Economic Stimulus Program.

### **Maintenance of City Facilities**

The need for an efficient maintenance program for all City facilities has been an ongoing PICA concern. Past preventive maintenance inadequacies led to substandard maintenance at City facilities, with direct impacts on service levels, and diversion of capital dollars from productive uses into otherwise unnecessary facility repair as maintenance problems developed over time into major capital repair requirements. To prevent these problems in the future, PICA Staff believes that the City must move from the current procedure of having separate facility maintenance units located within the various City departments, toward a consolidated Citywide facility maintenance program.

In the FY95-FY99 Five-Year Financial Plan, consolidation of facility maintenance activities was projected to be in place during FY95, but this did not occur. The City is currently implementing a computerized facility management system which is intended to assist in improving the efficiency of facility maintenance programs in various City departments. The system is expected to assist in scheduling routine and emergency maintenance activities and monitoring performance. The City anticipates that the system will improve the quality of information available about the maintenance needs of City facilities and the efficiency of existing maintenance efforts, which could assist in making the transition to a centralized program. The City also indicates an intent to hire a professional facilities manager to direct the Citywide maintenance program. While progress in the area of preventive maintenance is slowly being made, further progress is needed to insure that facilities are maintained to acceptable standards and that the level of the City's investment in maintenance is appropriate to reduce the City's costs over the long term.

### **The Tax Base and the Local Economy**

PICA Staff continued to monitor trends in employment and other economic indicators in FY95. A critical factor leading to the City's financial crisis was the erosion of jobs and residents from Philadelphia in the late 1980s and early 1990s. The overall level of jobs in the City has stabilized over the past two years, which is certainly a positive development in relation to prior trends. However, trends in City employment relative to national employment suggest that the slowdown in job loss may be mostly attributable to overall improvement in the national economy, not to a change in the long term competitiveness of the City with other locations nationally. Also, the trend of economic restructuring away from manufacturing and toward services is continuing, raising concerns about City resident income levels. Despite the recent improvements, there are still numerous reasons for concern about the City's economy and the impact it will have on the City's financial stability in the future. For this reason, it is essential that the City continue to place major emphasis on the Economic Stimulus Program and address the problems of business that are resulting in decisions to leave the City.

The City's high tax burden for individuals and businesses remains a major obstacle to economic development. The tax cut proposed in the FY96-FY2000 Plan is a major step toward addressing this problem. However, even with the implementation of the proposed tax reduction under the FY96-FY2000 Plan, significant tax differentials will remain between the City and competing locations in the suburbs and elsewhere. While much of the tax differential is driven by State and Federal policies, there is still a great deal the City government can do to promote a more competitive tax burden in the City. These include actions to increase productivity and cut costs, to better enforce City tax laws, and to make appropriate changes in the levels and mix of services provided consistent with a Strategic Plan. PICA Staff continues to press for such results.

## **Indemnities**

During 1995, the City continued to draw funds from the Special Indemnity Accounts created with \$31.3 million in PICA bond proceeds (from the Authority's 1992 bond issue) that were not needed to finance initially projected FY92 (\$23.5 million) and FY93 (\$7.8 million) deficits. As of June 30, 1995, in excess of \$9.1 million remained in such Accounts, including proceeds from the 1992 bond issue granted to the City by PICA and subsequent interest earnings. These funds continue to be available for indemnity payments associated with cases resolved under the Court of Common Pleas' Day Backward/Day Forward backlog reduction program.



## Goals for PICA - Fiscal Year 1996

The nature of PICA's mission, reproduced on page ii in the introductory section of this report, is such that its goals remain relatively unchanged from year to year. Those goals for FY96 include:

- o Continuing to focus attention on the need for City department and agency produced strategic plans which delineate specific actions to be undertaken and measurable goals to be achieved to assist in attaining the goals of the Citywide Plan.
- o Continuing oversight of PICA funded City capital projects, stressing essential improvements to City capital project management procedures and the benefits deriveable from interrelated strategic planning, capital planning and economic stimulus programs.
- o Continuing encouragement for the timely implementation of a consolidated Citywide facility maintenance program.
- o Encouraging continuing evaluation of potential opportunities to divest from providing services and functions that might better be privatized or handled by other governments, and also encouraging decisions as to how the City can best provide the services and functions that remain its responsibility.
- o Monitoring compliance with the Five-Year Financial Plan currently in effect while also reviewing and timely acting upon the revised Plan to be submitted early in calendar year 1996 for fiscal years FY97 to FY2001.

Offshoots of such goals include possible indepth studies of, and reports and recommendations on, City departments and operations pertinent to which PICA Staff has significant concerns; possible reviews of the operations of certain City "corporate entities" and their funding relationships with the City, also for the purpose of providing recommendations for improvements/economies.

PICA's overall goal continues to be assisting the City to reach a level where it is totally proactive in its approach to serving its citizenry, where, after performing a thorough and objective self-evaluation, it defines its prospects through the first decade of the next century, and then articulates and follows through with a service delivery philosophy consistent with the resources available to it. No less will be acceptable.

## **Future City Reporting to PICA**

The reporting system established in the Cooperation Agreement and in the PICA Act requires a regular flow of data from the City to PICA. That system is the fundamental device used by PICA Staff in its ongoing evaluation of City progress in its fiscal rehabilitation. PICA is generally satisfied as to the content and quality of the information being provided to it. A major concern however, is that many City managers do not as yet appear to perform their own ongoing evaluation of such available financial information. Until all such managers effectively utilize all of the financial management tools available to them the City will continue to operate at less than full effectiveness.

The Five-Year Financial Plan for the fiscal Year 1996-2000 (including Fiscal Year 1995) was presented to PICA on March 16, 1995 and approved by PICA on April 17, 1995. The City's Fiscal Year 1995 and Fiscal Year 1996 Operating Budgets and Fiscal Year 1996 to Fiscal Year 2001 Capital Program and Budget were amended by the City during June 1995 and the approved Plan was revised to incorporate such technical modifications as of July 12, 1995. PICA Staff reviewed the revised Plan and the related ordinances and determined that the technical changes from the approved Plan were both reasonable and appropriate. The Revised Plan was approved by the PICA Board on July 18, 1995.

Absent the occurrence of variance, receipt of an arbitration award which is at variance with the Plan or a determination by the City that further revisions to the Plan are necessary, the City will not submit another revised Plan until March of 1996. In the interim, the Authority will receive quarterly reports on the City's performance under the Plan, together with other data integrated by both the PICA Act and the Cooperation Agreement.

The reporting system established in the Cooperation Agreement and the PICA Act anticipates a regular flow of data to PICA, divided into several groups, which are described below:

**Quarterly Plan Reports.** Under the Cooperation Agreement (§409(b)), the Authority receives reports from the City on a quarterly basis (within 45 days after the end of each fiscal quarter) concerning the status of compliance with the Plan and associated achievement of initiatives. The Cooperation Agreement (§409(e)) also requires that the City provide reports to PICA concerning Supplemental Funds (*i.e.*, the Water and Aviation Funds) on a quarterly basis.

**Grants Revenue Fund Contingency Account Report.** The Cooperation Agreement provides that a report on the Grants Revenue Fund Contingency Account be prepared and submitted, by department, not later than 20 days after the close of each fiscal quarter. This report details the receipt and use of Federal and Commonwealth Funds by the City. A separate report details the eligibility for fund withholding by the Commonwealth (at PICA's direction) in the event

the City cannot propose the credible measures to balance the Plan after an extended period of intensive reporting and PICA review of proposed corrective efforts.

**Prospective Debt Service Requirements Report.** The Cooperation Agreement requires submission of a report detailing prospective debt service payments by the City, as well as lease payments, 60 days prior to the beginning of a fiscal quarter, and upon each issuance of bonds or notes or execution of a lease.

### **Time Table of FY96 Reporting Requirements**

<b>Due Date</b>	<b>Description</b>
October 20, 1995	Receipt of 1st Quarter FY96 Grants Revenue Fund Contingency Account report
November 1, 1995	Receipt of 3rd Quarter FY96 Debt Service Requirements report
November 15, 1995	Receipt of 1st Quarter FY96 Plan report, Supplemental Funds report and report concerning Commonwealth funds which may be withheld
January 22, 1996	Receipt of 2nd Quarter FY96 Grants Revenue Fund Contingency Account report
January 30, 1996	Receipt of 4th Quarter FY96 Debt Service Requirements report
February 16, 1996	Receipt of 2nd Quarter FY96 Plan report, Supplemental Funds report and report concerning Commonwealth funds which may be withheld
March 22, 1996	Submission of proposed revision to Plan and addition of FY2001
April 22, 1996	Receipt of 3rd Quarter FY96 Grants Revenue Fund Contingency Account report
May 1, 1996	Receipt of 1st Quarter FY97 Debt Service Requirements Report
May 15, 1996	Receipt of 3rd Quarter FY96 Plan report, Supplemental Funds report and report concerning Commonwealth funds which may be withheld
July 22, 1996	Receipt of 4th Quarter FY96 Grants Revenue Fund Contingency Account report
August 15, 1996	Receipt of 4th Quarter FY96 Plan report, Supplemental Funds report and report concerning Commonwealth funds which may be withheld

## Management Discussion of Financial Operations

### General Fund

All FY95 administration expenses of the Authority were funded from Authority earnings on its General Fund and on its Debt Service Reserve Funds (established from proceeds of PICA bond issues) and residual balances of similar earnings from prior fiscal years. No City or Commonwealth tax revenues were used to pay any portion of PICA's administrative costs in FY95, nor are any expected to be used in FY96 for such purpose.

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 bond indentures, and also directly from the proceeds of PICA Taxes to the extent investment income is insufficient. The latter allowable revenue source has not been utilized by the Authority in its operations to date.

PICA's annual General Fund budgets, since its inception, have all produced operating surpluses, although PICA has yet to experience what might be categorized as "normal" operations. The Authority's Series of 1994 bond issue added originally unanticipated General Fund expenses in FY95, and the Authority's potential refunding bond issue during FY96 could result in additional "core" annual expenses in FY96 and beyond.

Non-recurring expenses incurred in the General Fund in FY95 directly attributable to the 1994 bond issue (primarily financial advisor and rating agency fees) totaled \$67,900. Recurring annual expenses attributable to that bond issue (trustee and arbitrage rebate report fees) first incurred in FY95 totaled \$5,600.

As part of the General Fund budget adoption process, the budgeted fund balance was reduced, during FY95, to a residual amount equal to 17.5% of the proposed budget of the subsequent year (after provision for the portion of such fund balance appropriated to the budget of such subsequent year). Details as to the budgeted and actual fund balance at June 30, 1995 and as to the FY96 budget are as follows:

#### Budgeted Residual Fund Balance:

Fund Balance at June 30, 1994	\$1,058,518
Less: Fund Balance Utilized in FY95 Budget	<u>505,000</u>
Budgeted Fund Balance at June 30, 1995	553,518
Less: Fund Balance Utilized in FY96 Budget	<u>395,018</u>
Budgeted Residual Fund Balance (17.5% of \$905,717 adopted FY96 Budget)	<u>\$ 158,500</u>

Fund Balance at June 30, 1995 (Budgeted/Actual):

Budgeted Fund Balance at June 30, 1995	\$553,518
Add: Net FY95 "Better than Budget" Operating Results	<u>138,593</u>
Actual Fund Balance at June 30, 1995	<u>\$692,111</u>

General Fund Budget for FY96:

Revenues - General Fund Interest Earnings	\$ 24,199
Other Financing Sources:	
Utilization of Portion of Fund Balance	395,018
Transfer from Bond Issue Investment Earnings ("Reserved for subsequent PICA Administration" in the 1992 Bond Issue Debt Service Reserve Fund at June 30, 1995)	<u>486,500</u>
Total General Fund Budget for FY96	<u>\$905,717</u>

The philosophy underlying the Authority's General Fund operations remains that the Authority should (as noted in PICA's Annual Report for FY93) "maintain a personnel and expenditure level sufficient to permit it to respond to the demands placed upon it, but not so large as to present an opportunity either for the City to use PICA's resources to bypass the re-creation of its own management systems or to establish a permanent PICA structure that would develop its own reason for continued existence."

Special Revenue Fund

PICA's Special Revenue Fund receives PICA taxes (collected on its behalf by the Commonwealth), interest earnings on such collections, and net interest earnings on bond issue funds other than Capital Projects Funds (the earnings on Capital Projects Funds are restricted to use for grants to the City of Philadelphia for PICA approved capital projects). The Special Fund receipts are utilized to provide, monthly, from the first available funds in that month, one-sixth of the next semi-annual interest requirement on PICA bonds outstanding 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 the total required annual principal at the close of the month prior to such required date. Thus, bond interest and principal requirements paid on June 15, 1995 were available in their respective Debt Service Funds on May 31, 1995, and the balances in the Debt Service Funds at June 30, 1995 were composed of one-sixth of the semi-annual interest due December 15, 1995 and one-twelfth of the annual principal due June 15, 1996 (received from the Special Revenue Fund in early June of 1995) plus the accrued interest receivable on such balances as of June 30, 1995. After provision of monthly debt service requirements as discussed above, the residual balances in PICA's Special Revenue Fund are paid to the City of Philadelphia as grants to the City's General Fund.

The Special Revenue Fund earned in excess of \$223 thousand on its invested balances during FY95, and also received in excess of \$10,630 thousand of net interest earnings transferred in from other bond issue provided funds. Thus, PICA grants to the City of Philadelphia's General Fund during FY95 exceeded the equation (PICA taxes minus provision for PICA Debt Service -- monthly basis) by in excess of \$10,854 thousand.

### **Debt Service Funds**

The individual funds contained in PICA's combined Debt Service Funds operate in accordance with Trust Indenture mandated procedures. At June 30, 1995, the Fund equity of net assets held in the combined Debt Service Funds, by individual fund groups, consisted of:

Debt Service Fund -- Cash and short-term investments -- Held for 1/6 of interest due 12/1/95 and 1/12 of principal due 6/15/96 (Proceeds from Special Revenue Fund)	\$ 9,758,792
Debt Service Fund -- Accrued interest on above balances held in Debt Service Fund at 6/30/95	27,350
Debt Service Reserve Fund -- Cash and short-term investments -- Held for debt service reserve purposes as required by the Trust Indenture (bond issue provided funds)	<u>134,310,428</u>
Amount Available for Debt	144,096,570
Debt Service Fund -- Cash and short-term investments -- Reserved for subsequent PICA administration (Debt Service Reserve Fund earnings held for PICA FY96 operations - per adopted budget)	<u>486,500</u>
Fund Equity at June 30, 1995 -- Combined Debt Service Funds	<u>\$144,583,070</u>

### **Expendable Trust Funds**

During FY95, PICA disbursed, as a grant to the City of Philadelphia, the \$7.8 million it had raised through its 1992 Bond Issue to finance an anticipated FY93 deficit which did not occur (the Deficit Fund balance). This grant was made to the City's Special Indemnity Account to assist in the settlement of Court of Common Pleas' cases resolved under that Court's "Day Backward/Day Forward" backlog reduction program. PICA also disbursed, during FY95, remainder amounts held in Settlement Funds for costs related to debt issuance. Remaining costs of the 1994 Bond Issue, after Settlement Funds were exhausted, were paid from the PICA General Fund.

Expendable trust funds at June 30, 1995 consist of amounts held in separate funds, by bond issue involved, for specific PICA approved capital projects. The PICA Act restricts City use of PICA provided capital projects dollars to specific "emergency" and "productivity" projects approved by the PICA Board and, where necessary, by specified Commonwealth elected officials.

PICA, in connection with its three new-money bond issues, approved specific City capital projects totalling \$424,632 thousand, while providing bond issue funds of \$400,773 thousand for such projects. The difference, \$23,859 thousand, as anticipated, has been raised from investment earnings of funds dedicated to capital projects. At June 30, 1995, sufficient PICA controlled capital projects funds were available to complete all of the PICA approved projects.

### **Arbitrage Reportable Funds**

In accordance with IRS regulations, certain funds 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 grant funds and interest earnings thereon as yet unexpended by the City. As of June 30, 1995, such PICA provided funds as yet unexpended by the City included:

	Amount (in thousands)
Productivity Fund	6,909
Indemnity Fund	1,211
'95 Indemnity Fund	7,911
'92 Capital Projects Encumbered Funds	14,436
'93 Capital Projects Encumbered Funds	38,194
'93 Criminal Justice Project Encumbered Funds	7,076
'94 Capital Projects Encumbered Funds	18,609

### **General Fixed Assets**

The fixed assets of the Authority (leasehold improvements, furniture and equipment) are recorded at cost and their value totaled \$113,597 at June 30, 1995. During fiscal 1995, the Authority acquired new computer system components at a cost of \$11,467; and disposed of outdated computer system components, which had cost \$16,072, primarily by donation to the School District of Philadelphia.

## General Long-Term Debt

PICA's General Long-Term Debt Account Group activity for the year ended June 30, 1995 is summarized as follows:

	<u>Amount</u> <u>(in thousands)</u>
Outstanding Debt at July 1, 1994	\$1,156,665
Additional Debt Issued - 1994 Bond Issue	<u>122,020</u>
Total	\$1,278,685
Debt Retired	<u>41,170</u>
Outstanding Debt at June 30, 1995	<u>\$1,237,515</u>



**Appendix A:**

**Financial Statements**  
**and**  
**Report of Independent Auditors**

# **PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY**

**General Purpose Financial Statements and  
Supplemental Statements and Schedules for the  
Year Ended June 30, 1995 and Independent Auditors' Report**

# PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

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## INDEPENDENT AUDITORS' REPORT

To the Board of the Authority:

We have audited the accompanying general purpose financial statements of the Pennsylvania Intergovernmental Cooperation Authority (the "Authority") as of June 30, 1995 and for the year then ended, listed in the foregoing table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such general purpose financial statements present fairly, in all material respects, the financial position and results of operations of the various fund types and account groups of the Pennsylvania Intergovernmental Cooperation Authority at June 30, 1995 and for the year then ended, in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplemental statements and schedules listed in the foregoing table of contents, which are also the responsibility of the Authority's management, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements. Such supplemental statements and schedules have been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

*Deloitte + Touche LLP*

August 31, 1995

# PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

## COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS JUNE 30, 1995

ASSETS	Governmental Fund Types			Fiduciary Fund Type Expendable Trust	Account Groups		Total (Memorandum Only)
	General	Special Revenue	Debt Service		General Fixed Assets	Long-Term Debt	
CURRENT ASSETS:							
Cash and short-term investments	\$828,682		\$144,555,720	\$154,872,591			\$ 300,256,993
Accrued interest receivable	1,129	\$ 2,863	426,956	593,877			1,024,825
Accounts receivable - PICA taxes		3,829,555					3,829,555
Interfund receivable		399,606					399,606
Total current assets	829,811	4,232,024	144,982,676	155,466,468			305,510,979
PROPERTY, PLANT AND EQUIPMENT - Office furniture and equipment					\$113,597		113,597
OTHER ASSETS - Prepaid rent and security deposit	11,940						11,940
AMOUNT AVAILABLE IN DEBT SERVICE FUNDS FOR RETIREMENT OF LONG-TERM DEBT						\$ 144,096,570	144,096,570
AMOUNT TO BE PROVIDED FOR RETIREMENT OF LONG-TERM DEBT						1,093,418,430	1,093,418,430
TOTAL ASSETS	\$841,751	\$4,232,024	\$144,982,676	\$155,466,468	\$113,597	\$1,237,515,000	\$1,543,151,516
LIABILITIES AND FUND EQUITY							
CURRENT LIABILITIES:							
Accounts payable	\$ 97,883						\$ 97,883
Accrued payroll and taxes	51,757						51,757
Due to the City of Philadelphia		\$4,232,024					4,232,024
Bonds payable - current portion			\$ 399,606			\$ 48,730,000	48,730,000
Interfund payable						399,606	399,606
Total current liabilities	149,640	4,232,024	399,606			48,730,000	53,511,270
BONDS PAYABLE - Long-term portion						1,188,785,000	1,188,785,000
FUND EQUITY:							
Fund balances:							
Unreserved	692,111						692,111
Reserved for debt service			144,096,570				144,096,570
Reserved for benefit of the City of Philadelphia				\$155,466,468			155,466,468
Reserved for subsequent PICA administration			486,500		\$113,597		486,500
Investment in general fixed assets							113,597
Total fund equity	692,111		144,583,070	155,466,468	113,597		300,855,246
TOTAL LIABILITIES AND FUND EQUITY	\$841,751	\$4,232,024	\$144,982,676	\$155,466,468	\$113,597	\$1,237,515,000	\$1,543,151,516

See notes to general purpose financial statements.

# PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

## COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ALL FUND TYPES YEAR ENDED JUNE 30, 1995

	Governmental Fund Types			Fiduciary Fund Type	Total
	General	Special Revenue	Debt Service	Expendable Trust	(Memorandum Only)
REVENUES:					
PICA Taxes	\$ 54,368	\$209,212,651			\$209,212,651
Interest earned on investments		223,565	\$ 10,973,510	\$ 7,249,117	18,500,560
Total revenues	54,368	209,436,216	10,973,510	7,249,117	227,713,211
EXPENDITURES:					
Grants to the City of Philadelphia		110,268,723		89,210,317	199,479,040
Debt service:					
Principal			41,170,000		41,170,000
Interest			67,957,890		67,957,890
Administration:					
Operations	784,690				784,690
Capital outlay	11,467			921,284	11,467
Debt issuance costs					921,284
Total expenditures	796,157	110,268,723	109,127,890	90,131,601	310,324,371
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(741,789)	99,167,493	(98,154,380)	(82,882,484)	(82,611,160)
OTHER FINANCING SOURCES (USES) -					
Proceeds from debt issuance - For grants to the City of Philadelphia					
Operating transfers in (out)	375,382	(99,167,493)	109,330,665	117,849,902	117,849,902
Total other financing sources (uses)	375,382	(99,167,493)	109,330,665	107,311,348	117,849,902
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(366,407)		11,176,285	24,428,864	35,238,742
BEGINNING FUND BALANCES, JULY 1, 1994	1,058,518		133,406,785	131,037,604	265,502,907
ENDING FUND BALANCES, JUNE 30, 1995	\$ 692,111	\$ -	\$ 144,583,070	\$ 155,466,468	\$ 300,741,649

See notes to general purpose financial statements.

# PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

## NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 1995

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### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

**Organization and Structure** - The Pennsylvania Intergovernmental Cooperation Authority (the "Authority"), a body corporate and politic, was organized on June 5, 1991 and exists under and by virtue of the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (P.L. 9, No. 6) (the "Act"). Pursuant to the Act, the Authority was established to provide financial assistance to cities of the first class. The City of Philadelphia (the "City") currently is the only city of the first class in the Commonwealth of Pennsylvania (the "Commonwealth"). Under the Act, the Authority is administered by a governing Board consisting of five voting members and two ex officio nonvoting members. The Governor, the President pro tempore of the Senate, the Minority Leader of the Senate, the Speaker of the House of Representatives and the Minority Leader of the House of Representatives each appoints one voting member of the Board.

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

**Accounting Structure** - The Authority's general purpose financial statements include all funds and account groups of the Authority. The Authority utilizes fund accounting to facilitate the orderly recording of transactions involved in conducting its financial affairs. Its accounts are organized on the basis of fund types and account groups; each fund type may consist of several discrete funds. Each fund is a separate entity accounted for by a separate set of self-balancing accounts which comprise its assets, liabilities, reserves, fund balances, revenues and expenditures.

**Governmental Fund Types** - The General, Special Revenue and Debt Service Funds of the Authority utilize a "modified accrual basis" of accounting. Under this basis, certain revenues (those susceptible to accrual, readily measurable and available as to amount and anticipated as being readily collectible) are recorded on the accrual basis. All other revenues are recognized only when received in cash. Expenditures, with the exception of interest requirements on long-term debt, are accounted for on the accrual basis of accounting.

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

The Special Revenue Fund accounts for the proceeds of the PICA Tax (a tax levied on the wages and net profits of City of Philadelphia residents) remitted to the Authority via the Commonwealth. It is utilized to fund the debt service requirements of the Authority and to provide grants to the City. It encompasses the Revenue Fund established with the Trustee by the Trust Indenture (Note 3).

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 Combined Debt Service Fund includes the following individual funds established by the Trust Indenture:

- Debt Service Fund
- Debt Service Reserve Fund
- Bond Redemption Fund
- Rebate Fund

The latter two individual funds (Bond Redemption and Rebate) have not yet been required.

***Fiduciary Fund Type - Expendable Trust*** - These account for assets held by the Authority for expenditure for the benefit of the City. The principal and income of these funds must be expended for their designated purpose. These funds also utilize the modified accrual basis of accounting.

The Combined Expendable Trust Fund includes the following individual funds established by the Trust Indenture (Note 3):

- Capital Projects Fund
- Deficit Fund
- Settlement Fund

The latter two individual funds completed their designated purposes during the fiscal year ended June 30, 1995 and are presently inactive.

***Account Groups*** - Account groups are used to establish accounting control and accountability for the Authority's general fixed assets and its general long-term liabilities. The general fixed assets are not available for expenditure and the general long-term liabilities do not require use of financial resources during the current accounting period; therefore, neither is accounted for in the governmental or fiduciary fund types, but in self-balancing account groups, as described below:

- General Fixed Assets Account Group - General fixed assets of \$113,597 and their offsetting equity account, investment in general fixed assets, include the fixed assets of the Authority, primarily leasehold improvements, furniture and equipment. General fixed assets are recorded at cost. During fiscal 1995, the Authority acquired new computer system components at a cost of \$11,467; and disposed of outdated computer system components, which had cost \$16,072, primarily by donation to the School District of Philadelphia.
- General Long-term Debt Account Group - Includes the liabilities for the principal amount of debt payable. For financial statement purposes, all moneys reserved for debt service at the close of the year are considered available for debt reduction and the balance of these liabilities is offset by a deferred charge to future revenues (the PICA Tax). This procedure recognizes the legal requirement that sufficient revenue be raised in future years to cover debt service costs.

***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. 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 PICA Tax is recorded as revenue when available and measurable.



**Compensated Absences** - The Authority records all accrued employee benefits, including accumulated vacation, as a liability in the period benefits are earned. Accrued vacation at June 30, 1995 totaled \$25,170.

**Total Columns on Combined Statements** - Total columns on the combined statements are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles, neither is such data comparable to a consolidation. Interfund eliminations have not been made in aggregation of this data.

## **2. CASH AND SHORT-TERM INVESTMENTS**

Authority funds may be deposited in any bank that is insured by federal deposit insurance. 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. Under Pennsylvania Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit with their institution.

Investments in the 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) government obligations;
- (c) federal funds, unsecured certificates of deposits, time deposits or bankers acceptances of any domestic bank having a combined capital and surplus of not less than \$50,000,000;
- (d) federally insured deposits of any bank or savings and loan association which has a combined capital, surplus and undivided profits of not less than \$3,000,000;
- (e) (i) direct obligations of, or (ii) obligations, the principal of and interest 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 & Poors (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 mortgaged-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 letter of credit-backed issues of the Student Loan Marketing Association; local authority bonds of the U.S. Department of Housing & 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.

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 Guaranteed Investment Contracts that can be withdrawn without penalty.

At June 30, 1995, the carrying amount of the Authority's deposits (including certificates of deposit and time deposit open accounts) with financial institutions was \$14,403,351. The bank balance of \$14,495,650 was insured or collateralized as follows:

Insured	\$ 158,481
Uninsured and uncollateralized, but covered under the provisions of Act 72, as amended	<u>14,337,169</u>
Total deposits	<u>\$ 14,495,650</u>

The following is a schedule of investments of the Authority by type (other than certificates of deposit and time deposit open accounts) showing the carrying value (the lower of cost or amortized cost) and categorization as to credit risk at June 30, 1995:

	Total	Carrying Value		
		Credit Risk Category		
		(1)	(2)	(3)
U.S. Treasury notes	\$ 21,998,994			\$ 21,998,994
Federal Home Loan Mortgage Corp. discount notes	9,672,539			9,672,539
Commonwealth of Pennsylvania bonds	13,363,033			13,363,033
Repurchase agreements	<u>240,819,076</u>			<u>240,819,076</u>
Total investments	<u>\$285,853,642</u>			<u>\$285,853,642</u>

The three credit risk categories are defined as follows:

**Category**

- (1) Insured, registered or securities held by the entity or its agent (bank trust department) in the entity's name (name of the Authority)
- (2) Uninsured and unregistered, with securities held by the counterparty's 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.

During the year ended June 30, 1995, deposits and investments of the Authority were similar to those on hand at June 30, 1995 with respect to credit risk. Because of the nature of the investments and the dates they were purchased the market value of the investments approximates their carrying value at June 30, 1995.

### 3. SPECIAL TAX REVENUE BONDS

Through June 30, 1995, the Authority issued four series of Special Tax Revenue Bonds, as follows:

Series of	Amount Issued
1992	\$474,555,000
1993	643,430,000
1993A	178,675,000
1994	122,020,000

The following summary shows the changes in bonds payable recorded in the General Long-Term Debt Account Group for the year ended June 30, 1995:

Series of	July 1, 1994	Additions	Retirements	June 30, 1995
1992	\$ 337,885,000		\$33,725,000	\$ 304,160,000
1993	643,430,000		4,225,000	639,205,000
1993A	175,350,000		1,380,000	173,970,000
1994		<u>\$ 122,020,000</u>	<u>1,840,000</u>	<u>120,180,000</u>
	<u>\$1,156,665,000</u>	<u>\$ 122,020,000</u>	<u>\$41,170,000</u>	1,237,515,000
Less current portion				<u>(48,730,000)</u>
Long-term portion				<u>\$1,188,785,000</u>

In conjunction with its 1992, 1993 and 1993A bond offerings, the Authority entered into an Indenture of Trust dated as of June 1, 1992 which was subsequently amended and supplemented as of June 22, 1992, July 15, 1993 and August 15, 1993. An Amended and Restated Indenture of Trust dated as of December 1, 1994 (the "Trust Indenture") between the Authority and Meridian Bank, as trustee (the "Trustee") was entered into in conjunction with the Authority's 1994 bond offering and replaced (amended

and restated) the original indenture as amended and supplemented. 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 Trust Indenture.

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 proceeding 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, 1995 (\$209,607,326) equaled 179% of the maximum annual debt service (\$117,121,269) of the bonds outstanding at June 30, 1995 (the 1992, 1993, 1993A and 1994 Bonds).

Total annual debt service requirements (annual principal or sinking fund requirements and interest payments) on the outstanding bonds at June 30, 1995 are as follows:

<b>Fiscal Year Ending</b>	<b>Total Debt Service Requirements</b>
1996	\$ 117,105,506
1997	117,121,269
1998	117,030,998
1999	117,052,536
2000	117,075,834
2001	117,005,629
2002	117,096,394
2003	79,932,699
2004	77,102,426
2005	88,656,999
2006	98,072,574
2007	98,095,114
2008	81,009,466
2009	72,389,534
2010	65,559,859
2011	61,903,589
2012	61,885,579
2013	61,871,691
2014	61,850,404
2015	61,835,256
2016	61,804,394
2017	61,784,000
2018	52,661,113
2019	43,941,769
2020	43,933,288
2021	43,935,401
2022	34,000,844
2023	20,493,188

Details as to the purpose of each of the respective Series of bonds issued by the Authority to June 30,

1995 and as to bonds outstanding at that date follow. With respect to bonds issued during fiscal 1995 an analysis of the bond proceeds and their disposition as of June 30, 1995 is also presented below.

#### A. Series of 1992

The proceeds from the sale of the Series of 1992 Bonds were to be used to (i) 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, (ii) 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, (iii) make the required deposit to the Debt Service Reserve Fund (iv) capitalize interest on a portion of the Series of 1992 Bonds through June 15, 1993, (v) repay amounts previously advanced to the Authority by the Commonwealth of Pennsylvania to pay initial operating expenses of the Authority, (vi) fund a portion of the Authority's first fiscal year operating budget and, (vii) pay the costs of issuing the Series of 1992 Bonds.

Series of 1992 Bonds in the aggregate principal amount of \$136,670,000, initially scheduled to mature June 15, 2006, 2012 and 2022 were advance refunded on September 14, 1993 (the "Refunded 1992 Bonds") through an irrevocable trust created by using a portion of the proceeds of the Series of 1993A Bonds. The Refunded 1992 Bonds are no longer deemed to be outstanding under the Trust Indenture (see Note 4).

The details of Series of 1992 Bonds outstanding at June 30, 1995 are as follows:

Interest Rate	Maturing June 15	Amount
5.200 %	1996	\$ 36,765,000
5.400	1997	38,670,000
5.600	1998	40,765,000
5.750	1999	43,045,000
6.000	2000	45,520,000
6.000	2002	<u>99,395,000</u>
Total		<u>\$304,160,000</u>

The following table shows the annual principal or sinking fund requirements, interest payments and the total debt service requirements for the Series of 1992 Bonds outstanding at June 30, 1995:

Fiscal Year Ending	Principal or Sinking Fund Requirements	Interest	Total Debt Service Requirements
1996	\$36,765,000	\$17,452,788	\$54,217,788
1997	38,670,000	15,541,008	54,211,008
1998	40,765,000	13,452,828	54,217,828
1999	43,045,000	11,169,988	54,214,988
2000	45,520,000	8,694,900	54,214,900
2001	48,250,000	5,963,700	54,213,700
2002	51,145,000	3,068,700	54,213,700

## B. Series of 1993

The proceeds from the sale of the Series of 1993 Bonds were to be used to (i) make grants to the City to pay the costs of certain emergency capital projects (including capital improvements to the City's Criminal Justice and Correctional Facilities) to be undertaken by the City and other capital projects to increase productivity in the operation of City government, (ii) make a grant to the City for refunding of certain of the City's General Fund Obligation Bonds, (iii) make the required deposit to the Debt Service Fund and (iv) to pay the costs of issuing the Series of 1993 Bonds.

The details of Series of 1993 Bonds outstanding at June 30, 1995 are as follows:

Interest Rate	Maturing June 15	Amount
3.750 %	1996	\$ 8,605,000
4.000	1997	9,785,000
4.200	1998	10,085,000
4.400	1999	10,530,000
4.550	2000	11,005,000
4.700	2001	11,455,000
4.800	2002	12,095,000
4.900	2003	25,440,000
5.050	2004	23,860,000
5.150	2005	36,615,000
5.250	2006	47,920,000
5.350	2007	50,460,000
5.450	2008	36,075,000
5.500	2009	29,415,000
5.600	2015	92,365,000
5.750	2015	54,380,000
5.600	2016	10,000,000
5.625	2023	119,115,000
5.875	2023	<u>40,000,000</u>
Total		<u>\$639,205,000</u>

The following table shows the annual principal or sinking fund requirements, interest payments and the total debt service requirements for the Series of 1993 Bonds outstanding at June 30, 1995:

<b>Fiscal Year Ending</b>	<b>Principal or Sinking Fund Requirements</b>	<b>Interest</b>	<b>Total Debt Service Requirements</b>
1996	\$ 8,605,000	\$34,266,644	\$42,871,644
1997	9,785,000	33,943,956	43,728,956
1998	10,085,000	33,552,556	43,637,556
1999	10,530,000	33,128,986	43,658,986
2000	11,005,000	32,665,666	43,670,666
2001	11,455,000	32,164,939	43,619,939
2002	12,095,000	31,626,554	43,721,554
2003	25,440,000	31,045,994	56,485,994
2004	23,860,000	29,799,434	53,659,434
2005	36,615,000	28,594,504	65,209,504
2006	47,920,000	26,708,831	74,628,831
2007	50,460,000	24,193,031	74,653,031
2008	36,075,000	21,493,421	57,568,421
2009	29,415,000	19,527,334	48,942,334
2010	24,205,000	17,909,509	42,114,509
2011	21,920,000	16,540,439	38,460,439
2012	23,140,000	15,299,329	38,439,329
2013	24,440,000	13,989,891	38,429,891
2014	25,800,000	12,607,654	38,407,654
2015	27,240,000	11,149,256	38,389,256
2016	28,755,000	9,610,219	38,365,219
2017	30,360,000	7,982,750	38,342,750
2018	22,955,000	6,262,500	29,217,500
2019	15,535,000	4,958,781	20,493,781
2020	16,420,000	4,072,438	20,492,438
2021	17,355,000	3,136,313	20,491,313
2022	18,345,000	2,147,594	20,492,594
2023	19,390,000	1,103,188	20,493,188

### C. Series of 1993A

The proceeds from the sale of the Series of 1993A Bonds were to be used to (i) provide for the advance refunding of a portion of the Authority's Special Tax Revenue Bonds Series of 1992, in the aggregate principal amount of \$136,670,000, (ii) make the required deposit to the Debt Service Fund and (iii) to pay the costs of issuing the Series of 1993A Bonds.

The details of Series of 1993A Bonds outstanding at June 30, 1995 are as follows:

Interest Rate	Maturing June 15	Amount
3.800 %	1996	\$ 1,425,000
4.000	1997	645,000
4.050	1998	665,000
4.200	1999	695,000
4.350	2000	735,000
4.500	2001	750,000
4.600	2002	775,000
4.750	2003	5,095,000
4.850	2004	5,335,000
4.950	2005	5,595,000
5.050	2006	5,870,000
5.150	2007	6,165,000
5.250	2008	6,480,000
5.000	2013	12,000,000
5.000	2013	25,710,000
5.000	2022	<u>96,030,000</u>
Total		<u>\$173,970,000</u>



The following table shows the annual principal or sinking fund requirements, interest payments and the total debt service requirements for the Series of 1993A Bonds outstanding at June 30, 1995:

<b>Fiscal Year Ending</b>	<b>Principal or Sinking Fund Requirements</b>	<b>Interest</b>	<b>Total Debt Service Requirements</b>
1996	\$ 1,425,000	\$ 8,656,290	\$ 10,081,290
1997	645,000	8,602,140	9,247,140
1998	665,000	8,576,340	9,241,340
1999	695,000	8,549,408	9,244,408
2000	735,000	8,520,218	9,255,218
2001	750,000	8,488,245	9,238,245
2002	775,000	8,454,495	9,229,495
2003	5,095,000	8,418,845	13,513,845
2004	5,335,000	8,176,833	13,511,833
2005	5,595,000	7,918,085	13,513,085
2006	5,870,000	7,641,133	13,511,133
2007	6,165,000	7,344,698	13,509,698
2008	6,480,000	7,027,200	13,507,200
2009	6,825,000	6,687,000	13,512,000
2010	7,165,000	6,345,750	13,510,750
2011	7,525,000	5,987,500	13,512,500
2012	7,900,000	5,611,250	13,511,250
2013	8,295,000	5,216,250	13,511,250
2014	8,710,000	4,801,500	13,511,500
2015	9,145,000	4,366,000	13,511,000
2016	9,600,000	3,908,750	13,508,750
2017	10,080,000	3,428,750	13,508,750
2018	10,585,000	2,924,750	13,509,750
2019	11,120,000	2,395,500	13,515,500
2020	11,670,000	1,839,500	13,509,500
2021	12,255,000	1,256,000	13,511,000
2022	12,865,000	643,250	13,508,250

#### D. Series of 1994

The proceeds from the sale of the Series of 1994 Bonds were used to (i) 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, (ii) make the required deposit to the Debt Service Reserve Fund, and (iii) pay the costs of issuing the Series of 1994 Bonds.

The details of Series of 1994 Bonds outstanding at June 30, 1995 are as follows:

Interest Rate	Maturing June 15	Amount
5.200 %	1996	\$ 1,935,000
5.400	1997	2,035,000
5.600	1998	2,145,000
5.700	1999	2,265,000
5.900	2000	2,395,000
6.000	2001	2,535,000
6.100	2002	2,685,000
6.200	2003	2,850,000
7.000	2004	3,025,000
7.000	2005	3,240,000
6.500	2006	3,465,000
6.600	2007	3,690,000
6.700	2008	3,935,000
6.800	2009	4,200,000
7.000	2014	25,780,000
6.750	2021	54,000,000
Total		<u>\$ 120,180,000</u>

The following table shows the annual principal or sinking fund requirements, interest payments and the total debt service requirements for the Series of 1994 bonds outstanding at June 30, 1995.

Fiscal Year Ending	Principal or Sinking Fund Requirements	Interest	Total Debt Service Requirements
1996	\$ 1,935,000	\$ 7,999,785	\$ 9,934,785
1997	2,035,000	7,899,165	9,934,165
1998	2,145,000	7,789,275	9,934,275
1999	2,265,000	7,669,155	9,934,155
2000	2,395,000	7,540,050	9,935,050
2001	2,535,000	7,398,745	9,933,745
2002	2,685,000	7,246,645	9,931,645
2003	2,850,000	7,082,860	9,932,860
2004	3,025,000	6,906,160	9,931,160
2005	3,240,000	6,694,410	9,934,410
2006	3,465,000	6,467,610	9,932,610
2007	3,690,000	6,242,385	9,932,385
2008	3,935,000	5,998,845	9,933,845
2009	4,200,000	5,735,200	9,935,200
2010	4,485,000	5,449,600	9,934,600
2011	4,795,000	5,135,650	9,930,650
2012	5,135,000	4,800,000	9,935,000
2013	5,490,000	4,440,550	9,930,550
2014	5,875,000	4,056,250	9,931,250
2015	6,290,000	3,645,000	9,935,000
2016	6,710,000	3,220,425	9,930,425
2017	7,165,000	2,767,500	9,932,500
2018	7,650,000	2,283,863	9,933,863
2019	8,165,000	1,767,488	9,932,488
2020	8,715,000	1,216,350	9,931,350
2021	9,305,000	628,088	9,933,088

The following is an analysis of the Series of 1994 bond proceeds and their disposition at June 30, 1995:

Principal amount of Series of 1994 Bonds	\$122,020,000
Accrued interest to settlement	314,681
Original issue discount	(2,392,974)
Underwriters' discount	(901,728)
Insurance premiums	<u>(1,190,077)</u>
Total	<u>\$ 117,849,902</u>

Deposit to Debt Service Fund for accrued interest	\$ 314,681
Deposit to Debt Service Reserve Fund	9,935,200
Deposit to Capital Projects Fund	106,773,000
Issuance costs	<u>827,021</u>
Total	<u>\$ 117,849,902</u>

#### 4. REFUNDED 1992 BONDS - 1992 BONDS ESCROW FUND

A portion of the proceeds of the Series of 1993A Bonds was deposited into an irrevocable trust fund (the "1992 Bonds Escrow Fund") established and held by Meridian Bank, as escrow agent (the "Escrow Agent"), under and pursuant to the terms of an escrow deposit agreement, dated as of August 15, 1993 (the "Escrow Deposit Agreement") between the Authority and the Escrow Agent. The 1992 Bonds Escrow Fund is required to be invested in Government Obligations (as defined in the Indenture). Moneys in the 1992 Bonds Escrow Fund shall be used to provide for the advance refunding of the Series of 1992 Bonds of the maturities set forth in the following table in the aggregate principal amount of \$136,670,000 (the "Refunded 1992 Bonds"):

Maturities June 15	Par Amount
2006	\$15,140,000
2012	31,535,000
2022	89,995,000

The Escrow Agent shall use the moneys in the 1992 Bonds Escrow Fund to pay interest on the Refunded 1992 Bonds to June 15, 2002 and to redeem and pay on June 15, 2002, at a redemption price of 100%, the principal of the Refunded 1992 Bonds then outstanding.

At June 30, 1995, the 1992 Bonds Escrow Fund held cash and United States Treasury securities (at cost) in the amount of \$136,665,559 for the previously stated purpose. The maturing principal and interest on the securities held in escrow have been verified as being sufficient to provide for the payment of the interest and redemption prices of the Refunded 1992 Bonds on their scheduled redemption dates through June 15, 2002.

#### 5. DEFINED BENEFIT PENSION PLAN

**Plan Description** - The Authority covers all full-time employees in the State Employees' Retirement System (the "System"), which is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Pennsylvania to provide pension benefits for employees of state government and certain independent agencies. The System provides retirement, death, and disability benefits. Retirement benefits vest after 10 years of credited service. Employees who retire at age 60, or with 35 years of service if under age 60, are entitled to a normal annual retirement benefit. Members of the legislature and certain employees classified in hazardous duty positions can retire with full benefits at age 50. The general annual benefit is 2% of the member's highest three-year annual average salary times years of service.

The Authority's 1995 total and annual covered payroll was \$337,251.

**Contributions Required** - Covered employees are required to contribute to the System at a rate of 5% 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.

Participating agency contributions are also mandated by statute and are based upon an actuarially determined percentage of gross pay that is necessary to provide the System with assets sufficient to meet the benefits to be paid to System participants.

The Authority's 1995 total contribution to the System was \$24,457.

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

**Funding Status and Progress** - The amount of the total pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended, on an ongoing basis, to facilitate the assessment of the System's funding status and progress made in accumulating sufficient assets to pay benefits when due and to allow for appropriate comparison of this data among public employee retirement systems. The pension benefit obligation is calculated based on GASB Statement No. 5 and is independent of the actuarial funding method used to determine contributions to the System.

The pension benefit obligation was determined as part of an actuarial valuation at December 31, 1993. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 9.25% per year compounded annually, (b) projected salary increases of 4% per year compounded annually, attributable to inflation, (c) additional projected salary increases of approximately 2.5%, attributable to merit/promotion, and (d) no post-retirement benefit increases.

The pension benefit obligation of the System at December 31, 1993 (the latest available pension information) was as follows:

**Pension benefit obligation:**

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	\$ 4,887,065
Current employees:	
Accumulated employee contributions	2,166,958
Employer-financed, vested	4,391,135
Employer-financed, nonvested	<u>408,785</u>
 Total pension benefit obligation	 11,853,943
 Net assets available for benefits, at fair value	 <u>13,700,887</u>
 Net assets in excess of pension benefit obligation	 <u>\$ 1,846,944</u>

A comparative ten-year summary of the pension benefit obligation, which has been calculated in conformance with the requirements of GASB Statement No. 5, is presented in the System's 1994 financial statements. The ten-year summary is presented for purposes of additional analysis of System progress in accumulating sufficient assets to pay benefits when due.

## 6. LEASE OBLIGATIONS

The Authority is obligated under various operating leases, including a five-year lease for office space commencing 1992. The following is a schedule of all minimum lease payments:

1996	\$ 73,516
1997	37,825
1998	1,062
1999	1,062
2000	<u>1,062</u>
	<u>\$ 114,527</u>

Rental expense for the year ended June 30, 1995 was \$78,003.

\* \* \* \* \*

# PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

## SUPPLEMENTAL COMBINING BALANCE SHEET - ALL DEBT SERVICE FUNDS JUNE 30, 1995

ASSETS	Debt Service Fund				Debt Service Reserve Fund				Total
	1992	1993	1993A	1994	1992	1993	1993A	1994	
Current assets:									
Cash and short-term investments	\$4,518,149	\$3,572,637	\$840,107	\$827,899	\$48,021,378	\$63,324,850	\$13,515,500	\$9,935,200	\$134,796,928
Accrued interest receivable	13,411	9,850	2,044	2,045	147,143	194,724	27,230	30,509	399,606
TOTAL ASSETS	\$4,531,560	\$3,582,487	\$842,151	\$829,944	\$48,168,521	\$63,519,574	\$13,542,730	\$9,965,709	\$135,196,534
LIABILITIES AND FUND EQUITY									
Current liabilities - interfund payable - due to Special Revenue Fund					\$ 147,143	\$ 194,724	\$ 27,230	\$ 30,509	\$ 399,606
Fund equity:									
Fund balances reserved for:									
Debt service	\$4,531,560	\$3,582,487	\$842,151	\$829,944	47,534,878	63,324,850	13,515,500	9,935,200	134,310,428
Subsequent PICA administration					486,500				486,500
TOTAL LIABILITIES AND FUND EQUITY	\$4,531,560	\$3,582,487	\$842,151	\$829,944	\$48,168,521	\$63,519,574	\$13,542,730	\$9,965,709	\$135,196,534
									\$ 399,606
									144,096,570
									486,500
									\$144,982,676

# PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

## SUPPLEMENTAL COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - ALL DEBT SERVICE FUNDS YEAR ENDED JUNE 30, 1995

	Debt Service Fund				Debt Service Reserve Fund			
	1992	1993	1994	Total	1992	1993	1994	Total
Revenues - interest earned on investments	\$ 1,470,787	\$ 699,771	\$ 180,492	\$ 2,455,594	\$ 3,504,492	\$ 3,948,568	\$ 393,903	\$ 8,517,916
Expenditures:								
Principal	33,725,000	4,225,000	1,840,000	41,170,000				41,170,000
Interest	20,488,038	34,406,069	8,703,210	67,957,890				67,957,890
Total expenditures	54,213,038	38,631,069	6,200,573	109,127,890				109,127,890
Excess of revenues over (under) expenditures	(52,742,251)	(37,931,298)	(6,096,029)	(106,672,296)	3,504,492	3,948,568	393,903	8,517,916
Other financing sources (uses) - operating transfers in (out)	52,729,110	38,258,366	6,925,973	107,802,263	(3,393,374)	(3,948,568)	9,541,297	1,528,402
Excess of revenues and other sources over (under) expenditures and other uses	(13,141)	327,068	(13,904)	1,129,967	111,118		9,935,200	11,176,285
BEGINNING FUND BALANCES, JULY 1, 1994	4,544,701	3,255,419	856,055	8,656,175	47,910,260	63,324,850		124,750,610
ENDING FUND BALANCES, JUNE 30, 1995	\$ 4,531,560	\$ 3,582,487	\$ 842,151	\$ 9,786,142	\$ 48,021,378	\$ 63,324,850	\$ 9,935,200	\$ 134,796,928
								\$ 144,583,070



# PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

## SUPPLEMENTAL COMBINING BALANCE SHEET - ALL EXPENDABLE TRUST FUNDS JUNE 30, 1995

ASSETS	Capital Projects Fund			Total
	1992	1993	1994	
Current assets:				
Cash and short-term investments	\$36,481,232	\$30,624,469	\$87,766,890	\$154,872,591
Accrued interest receivable	<u>102,243</u>	<u>240,494</u>	<u>251,140</u>	<u>593,877</u>
TOTAL ASSETS	<u>\$36,583,475</u>	<u>\$30,864,963</u>	<u>\$88,018,030</u>	<u>\$155,466,468</u>
FUND BALANCES				
Reserved for City of Philadelphia	<u>\$36,583,475</u>	<u>\$30,864,963</u>	<u>\$88,018,030</u>	<u>\$155,466,468</u>
TOTAL FUND EQUITY	<u>\$36,583,475</u>	<u>\$30,864,963</u>	<u>\$88,018,030</u>	<u>\$155,466,468</u>

# PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

## SUPPLEMENTAL COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - ALL EXPENDABLE TRUST FUNDS YEAR ENDED JUNE 30, 1995

	Capital Projects Fund			Deficit Fund	Settlement Fund		
	1992	1993	1994	1992	1993A	1994	Total
Revenues - interest earned on investments	\$ 2,076,111	\$ 1,260,217	\$ 3,622,243	\$ 288,596	\$ 1,079	\$ 871	\$ 1,950
Expenditures:							
Grants to the City of Philadelphia:							
Approved capital projects	6,683,522	52,349,582	22,377,213	7,800,000			81,410,317
To augment indemnity account							7,800,000
Total grants to the City	6,683,522	52,349,582	22,377,213	7,800,000			89,210,317
Debt issuance costs					93,446	827,838	921,284
Total expenditures	6,683,522	52,349,582	22,377,213	7,800,000	93,446	827,838	921,284
Excess of revenues under expenditures	(4,607,411)	(51,089,365)	(18,754,970)	(7,511,404)	(92,367)	(826,967)	(919,334)
Other financing sources (uses):							
Proceeds from debt issuance - For grants to the City of Philadelphia					(23)	117,849,902	117,849,902
Operating transfers in (out)						(117,022,935)	(117,022,938)
Total other financing sources (uses)					(23)	826,967	826,944
Excess of revenues and other sources over (under) expenditures and other uses	(4,607,411)	(51,089,365)	88,018,030	(7,800,000)	(92,390)		(92,390)
BEGINNING FUND BALANCES, JULY 1, 1994	41,190,886	81,954,328		7,800,000	92,390		92,390
ENDING FUND BALANCES, JUNE 30, 1995	\$36,583,475	\$ 30,864,963	\$ 88,018,030	\$ -	\$ -	\$ -	\$ -
			\$155,466,468	\$155,466,468			\$155,466,468

# PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

## GENERAL FUND

### SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS) YEAR ENDED JUNE 30, 1995

	Budget	Actual	Over (Under) Budget
Revenues - interest earnings	\$ 2,600	\$ 54,368	\$ 51,768
Expenditures:			
Personnel - salaries and benefits	520,982	432,564	(88,418)
Professional services:			
Legal	80,000	33,255	(46,745)
Financial advisor	10,000	22,500	12,500
Audit	33,500	33,500	
Consulting/research	20,000		(20,000)
Interagency services	2,500	500	(2,000)
Trustee and bond issuance miscellaneous	48,500	129,459	80,959
Other:			
Rent	84,000	73,766	(10,234)
Computer software and minor hardware	7,500	4,237	(3,263)
Office supplies	5,000	5,061	61
Telephone	10,000	4,971	(5,029)
Subscriptions and reference services	6,000	2,366	(3,634)
Postage and express	11,500	12,402	902
Dues and professional education	6,500	8,373	1,873
Travel	5,000	924	(4,076)
General and administrative	12,000	5,874	(6,126)
Miscellaneous	10,000	14,938	4,938
Capital outlay - furniture, fixtures and equipment	10,000	11,467	1,467
Total - administration	882,982	796,157	(86,825)
Excess of expenditures over revenues	(880,382)	(741,789)	(138,593)
Other financing sources - transfers in - PICA draw for operations	375,382	375,382	
Excess of expenditures over revenues and other financing sources	(505,000)	(366,407)	(138,593)
BEGINNING FUND BALANCE JULY 1, 1994	1,058,518	1,058,518	
ENDING FUND BALANCE, JUNE 30, 1995	\$ 553,518	\$ 692,111	\$ (138,593)

# PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

## GENERAL FUND

### SUPPLEMENTAL STATEMENT OF CASH ACTIVITY YEAR ENDED JUNE 30, 1995

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Cash receipts:	
Revenues collected - interest	\$ 56,255
Other financing sources - operating transfers in from interest earnings on Debt Service Funds	<u>375,382</u>
Total cash receipts	431,637
Cash disbursements - expenditures paid - administration	<u>777,183</u>
Excess of cash disbursements over cash receipts	(345,546)
CASH AND SHORT-TERM INVESTMENTS, JUNE 30, 1994	<u>1,174,228</u>
CASH AND SHORT-TERM INVESTMENTS, JUNE 30, 1995	<u>\$ 828,682</u>

# PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

## SPECIAL REVENUE FUND

### SUPPLEMENTAL STATEMENT OF CASH ACTIVITY

YEAR ENDED JUNE 30, 1995

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Cash receipts:

Revenues collected:

PICA taxes	\$209,607,326
Interest	223,387
Other financing sources - operating transfers in from interest earnings on Debt Service Funds	<u>10,630,792</u>

Total cash receipts	<u>220,461,005</u>
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Cash disbursements:

Expenditures paid - grants to the City of Philadelphia	115,548,221
Other financing uses - operating transfers out for debt service requirements	<u>109,811,233</u>

Total cash disbursements	<u>225,359,454</u>
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EXCESS OF CASH EXPENDITURES OVER CASH RECEIPTS	(4,898,449)
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CASH AND SHORT-TERM INVESTMENTS, JUNE 30, 1994	<u>4,898,449</u>
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CASH AND SHORT-TERM INVESTMENTS, JUNE 30, 1995	<u>\$ -</u>
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# PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

## SUPPLEMENTAL SCHEDULE OF DEBT SERVICE AND EXPENDABLE TRUST FUNDS AND GENERAL LONG-TERM DEBT ACCOUNT GROUP BALANCE SHEET COMPONENTS BY BOND ISSUES - 1992 ISSUE JUNE 30, 1995

ASSETS	Debt Service	Expendable Trust	General Long-term Debt
Current assets:			
Cash and short-term investments	\$ 52,539,527	\$ 36,481,232	
Accrued interest receivable	<u>160,554</u>	<u>102,243</u>	
Total current assets	52,700,081	36,583,475	
Amount available in Debt Service Fund for retirement of long-term debt			\$ 52,066,438
Amount to be provided for retirement of long-term debt			<u>252,093,562</u>
TOTAL ASSETS	<u>\$ 52,700,081</u>	<u>\$ 36,583,475</u>	<u>\$ 304,160,000</u>
LIABILITIES AND FUND EQUITY			
Current liabilities:			
Interfund payable - due to Special Revenue Fund	\$ 147,143		
Bonds payable - current portion			\$ 36,765,000
Bonds payable - long-term portion			267,395,000
Fund equity:			
Fund balances reserved for:			
Debt service	52,066,438		
Benefit of the City of Philadelphia		36,583,475	
Subsequent PICA administration	<u>486,500</u>		
Total fund equity	<u>52,552,938</u>	<u>36,583,475</u>	
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 52,700,081</u>	<u>\$ 36,583,475</u>	<u>\$ 304,160,000</u>

# PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

## SUPPLEMENTAL SCHEDULE OF DEBT SERVICE AND EXPENDABLE TRUST FUNDS AND GENERAL LONG-TERM DEBT ACCOUNT GROUP BALANCE SHEET COMPONENTS BY BOND ISSUES - 1993 ISSUE JUNE 30, 1995

ASSETS	Debt Service	Expendable Trust	General Long-term Debt
Current assets:			
Cash and short-term investments	\$ 66,897,487	\$ 30,624,469	
Accrued interest receivable	<u>204,574</u>	<u>240,494</u>	
Total current assets	67,102,061	30,864,963	
Amount available in Debt Service Fund for retirement of long-term debt			\$ 66,907,337
Amount to be provided for retirement of long-term debt	<u>                    </u>	<u>                    </u>	<u>572,297,663</u>
TOTAL ASSETS	<u>\$ 67,102,061</u>	<u>\$ 30,864,963</u>	<u>\$ 639,205,000</u>
LIABILITIES AND FUND EQUITY			
Current liabilities:			
Interfund payable - due to Special Revenue Fund	\$ 194,724		
Bonds payable - current portion			\$ 8,605,000
Bonds payable - long-term portion			630,600,000
Fund equity:			
Fund balances reserved for:			
Debt service	66,907,337		
Benefit of the City of Philadelphia	<u>                    </u>	<u>\$ 30,864,963</u>	
Total fund equity	<u>67,102,061</u>	<u>30,864,963</u>	<u>                    </u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 67,102,061</u>	<u>\$ 30,864,963</u>	<u>\$ 639,205,000</u>

# PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

## SUPPLEMENTAL SCHEDULE OF DEBT SERVICE AND EXPENDABLE TRUST FUNDS AND GENERAL LONG-TERM DEBT ACCOUNT GROUP BALANCE SHEET COMPONENTS BY BOND ISSUES - 1993A ISSUE JUNE 30, 1995

ASSETS	Debt Service	Expendable Trust	General Long-term Debt
Current assets:			
Cash and short-term investments	\$ 14,355,607		
Accrued interest receivable	<u>29,274</u>		
Total current assets	14,384,881		
Amount available in Debt Service Fund for retirement of long-term debt			\$ 14,357,651
Amount to be provided for retirement of long-term debt	<u>                    </u>	<u>                    </u>	<u>159,612,349</u>
TOTAL ASSETS	<u>\$ 14,384,881</u>	<u>\$ -</u>	<u>\$ 173,970,000</u>
LIABILITIES AND FUND EQUITY			
Current liabilities:			
Interfund payable - due to Special Revenue Fund	\$ 27,230		
Bonds payable - current portion			\$ 1,425,000
Bonds payable - long-term portion			172,545,000
Fund equity:			
Fund balances reserved for debt service	14,357,651		
Total fund equity	<u>14,357,651</u>	<u>                    </u>	<u>                    </u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 14,384,881</u>	<u>\$ -</u>	<u>\$ 173,970,000</u>



# PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

## SUPPLEMENTAL SCHEDULE OF DEBT SERVICE AND EXPENDABLE TRUST FUNDS AND GENERAL LONG-TERM DEBT ACCOUNT GROUP BALANCE SHEET COMPONENTS BY BOND ISSUES - 1994 ISSUE JUNE 30, 1995

ASSETS	Debt Service	Expendable Trust	General Long-term Debt
Current assets:			
Cash and short-term investments	\$ 10,763,099	\$87,766,890	
Accrued interest receivable	<u>32,554</u>	<u>251,140</u>	
Total current assets	10,795,653	88,018,030	
Amount available in Debt Service Fund for retirement of long-term debt			\$ 10,765,144
Amount to be provided for retirement of long-term debt			<u>109,414,856</u>
TOTAL ASSETS	<u>\$10,795,653</u>	<u>\$88,018,030</u>	<u>\$120,180,000</u>
LIABILITIES AND FUND EQUITY			
Current liabilities:			
Interfund payable - due to Special Revenue Fund	\$ 30,509		
Bonds payable - current portion			\$ 1,935,000
Bonds payable - long-term portion			118,245,000
Fund equity:			
Fund balances reserved for:			
Debt service	10,765,144		
Benefit of the City of Philadelphia	<u></u>	<u>88,018,030</u>	
Total fund equity	<u>10,765,144</u>	<u>88,018,030</u>	
TOTAL LIABILITIES AND FUND EQUITY	<u>\$10,795,653</u>	<u>\$88,018,030</u>	<u>\$120,180,000</u>

# PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

## SUPPLEMENTAL SCHEDULE OF DEBT SERVICE AND EXPENDABLE TRUST FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE COMPONENTS BY BOND ISSUES - 1992 ISSUE YEAR ENDED JUNE 30, 1995

	Debt Service	Expendable Trust	Total
Revenues - interest earned on investments	\$ 4,975,279	\$ 2,364,707	\$ 7,339,986
Expenditures:			
Grants to the City of Philadelphia:			
Approved capital projects		6,683,522	6,683,522
To augment indemnity account		7,800,000	7,800,000
Debt service:			
Principal	33,725,000		33,725,000
Interest	20,488,038		20,488,038
Total expenditures	54,213,038	14,483,522	68,696,560
Excess of revenues under expenditures	(49,237,759)	(12,118,815)	(61,356,574)
Other financing sources (uses) - operating transfers in (out)	49,335,736	(288,596)	49,047,140
Excess of revenues and other sources over (under) expenditures and other uses	97,977	(12,407,411)	(12,309,434)
BEGINNING FUND BALANCES, JULY 1, 1994	52,454,961	48,990,886	101,445,847
ENDING FUND BALANCES, JUNE 30, 1995	\$ 52,552,938	\$ 36,583,475	\$ 89,136,413

# PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

## SUPPLEMENTAL SCHEDULE OF DEBT SERVICE AND EXPENDABLE TRUST FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE COMPONENTS BY BOND ISSUES - 1993 ISSUE YEAR ENDED JUNE 30, 1995

	Debt Service	Expendable Trust	Total
Revenues - interest earned on investments	\$ 4,648,339	\$ 1,260,217	\$ 5,908,556
Expenditures:			
Grants to the City of Philadelphia - approved capital projects		52,349,582	52,349,582
Debt service:			
Principal	4,225,000		4,225,000
Interest	34,406,069		34,406,069
Total expenditures	38,631,069	52,349,582	90,980,651
Excess of revenues under expenditures	(33,982,730)	(51,089,365)	(85,072,095)
Other financing sources (uses) - operating transfers in (out)	34,309,798		34,309,798
Excess of revenues and other sources over (under) expenditures and other uses	327,068	(51,089,365)	50,762,297
BEGINNING FUND BALANCES, JULY 1, 1994	66,580,269	81,954,328	148,534,597
ENDING FUND BALANCES, JUNE 30, 1995	\$ 66,907,337	\$ 30,864,963	\$ 97,772,300

# PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

## SUPPLEMENTAL SCHEDULE OF DEBT SERVICE AND EXPENDABLE TRUST FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE COMPONENTS BY BOND ISSUES - 1993A ISSUE YEAR ENDED JUNE 30, 1995

	Debt Service	Expendable Trust	Total
Revenues - interest earned on investments	\$ 851,445	\$ 1,079	\$ 852,524
Expenditures:			
Debt issuance costs		93,446	93,446
Debt service:			
Principal	1,380,000		1,380,000
Interest	8,703,210		8,703,210
Total expenditures	10,083,210	93,446	10,176,656
Excess of revenues under expenditures	(9,231,765)	(92,367)	(9,324,132)
Other financing sources (uses) - operating transfers in (out)	9,217,861	(23)	9,217,838
Excess of revenues and other sources under expenditures and other uses	(13,904)	(92,390)	(106,294)
BEGINNING FUND BALANCES, JULY 1, 1994	14,371,555	92,390	14,463,945
ENDING FUND BALANCES, JUNE 30, 1995	\$14,357,651	\$ -	\$14,357,651

# PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

## SUPPLEMENTAL SCHEDULE OF DEBT SERVICE AND EXPENDABLE TRUST FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE COMPONENTS BY BOND ISSUES - 1994 ISSUE YEAR ENDED JUNE 30, 1995

	Debt Service	Expendable Trust	Total
Revenues - interest earned on investments	\$ 498,447	\$ 3,623,114	\$ 4,121,561
Expenditures:			
Grants to the City of Philadelphia - approved capital projects		22,377,213	22,377,213
Debt issuance costs		827,838	827,838
Debt service:			
Principal	1,840,000		1,840,000
Interest	4,360,573		4,360,573
Total expenditures	6,200,573	23,205,051	29,405,624
Excess of revenues under expenditures	(5,702,126)	(19,581,937)	(25,284,063)
Other financing sources (uses):			
Proceeds from debt issuance - for grant to the City of Philadelphia		117,849,902	117,849,902
Operating transfers in (out)	16,467,270	(10,249,935)	6,217,335
Total other financing sources	16,467,270	107,599,967	124,067,237
Excess of revenues and other sources over expenditures and other uses	10,765,144	88,018,030	98,783,174
ENDING FUND BALANCES, JUNE 30, 1995	\$10,765,144	\$ 88,018,030	\$ 98,783,174