Fact Sheet: City of Philadelphia FY25 Annual Comprehensive Financial Report

Key Takeaways:

- The City's FY25 Annual Comprehensive Financial Report (ACFR) received an unmodified opinion from the City Controller.
- On a budgetary basis, small changes from the Annual Financial Report (AFR) were made to actual General Fund revenue (-$8.5 million, -0.1 percent), and fund balance (-$8.5 million, -0.7 percent) totals for FY25.
- From FY24 to FY25 the City's General Fund balance grew by 7.4 percent.

What is the ACFR?

The Annual Comprehensive Financial Report (ACFR) is published by the Office of the Director of Finance each year by the end of February. This report is a full set of financial statements for the City, produced in compliance with Generally Accepted Accounting Principles (GAAP) in adherence to Government Accounting Standards Board (GASB) standards. The ACFR is audited by the City Controller and intended to present a transparent view of the City's finances for elected officials, residents, businesses, and current and potential investors. In addition to being a best practice for local governments, producing these annual audited financial statements keeps the City in line with the U.S. Securities and Exchange Commission's (SEC) continuing disclosure requirements and improves pricing to access capital markets.

What can we learn from the ACFR?

Designed to be a transparent summary of the City's finances for a given fiscal year, the ACFR is a good place to learn about the City's general financial condition. Did revenues exceed expenditures? How big is the fund balance? How much does the City still owe on the pension bonds issued in 1999? How much outstanding pension liability does the City have? What is the combined value of the City's assets? These are the kinds of questions – focused on the City's financial condition at the end of the previous fiscal year – that the ACFR is good at answering.

Here are some examples:

Change in Actual Fund Balance

The FY25 Fund Balance Exceed Targets and Prior Year

FY24	FY25	$ change	% change
$1.01 billion	$ 1.18 billion	$165.0 million	16.3%

The fund balance is the backstop for the City's budget. If things don't go as planned, ideally there are uncommitted dollars remaining in the fund balance carried forward that can help soften the impact. Fund balances can't be built up when obligations exceed revenues. Therefore, a declining fund balance can be a sign of fiscal stress.

Change in Tax and Locally Generated Non-Tax (LGNT) Revenue

Local Revenues (Tax and Locally Generated Non-Tax) Grew 7.4%

FY24	FY25	$ change	% change
$ 4.54 billion	$4.88 billion	$ 334.8 million	7.4%

Tax revenue and LGNT revenue are the City's locally generated revenue sources. Non-locally generated revenues like state or federal grants can show changes from year to year that represent policy changes outside of the City's control rather than changes in underlying economic activity. Focusing on locally generated revenues focuses on the City's resources impacted by local decisions and economic conditions. Any sustained decline in locally generated revenues would likely impact the City's ability to provide services. PICA Tax revenue is not included here because it is classified as Revenue from Other Governments.

Change in Revenue from Other Governments

Revenue from Other Governments Grew 8.1%

	FY24	FY25	$ change	% change
Other Gov't incl PICA	$765.1 million	$820.4 million	$55.2 million	7.2%
Federal + State	$299.4 million	$330.1 million	$30.7 million	10.3%
Total	**$1.07 billion**	**$1.15 billion**	**$86.0 million**	**8.1%**

The City receives substantial Revenue from Other Governments. The largest General Fund source of Revenue from Other Governments is the PICA Tax, with the remainder from State and Federal governments. Changes in non-PICA Tax

Revenue from Other Governments can represent the impact of policy changes outside of the City's control. Even though these factors are outside the City's control, these funds support essential services and form a significant portion of the City's budget.

Debt Service as a Percent of Spending

Debt Service as a Percent of Spending Remained Level

FY24	FY25
3.1%	3.1%

Payments toward debt service represent a balancing of past and present needs against future needs. Increasing the City's debt can help secure funding to address current and future needs but repaying that debt over time can limit the City's ability to address emergent needs in the future. Devoting a large portion of the City's budget to debt service creates a long-term fixed cost and reduces fiscal flexibility. The debt service figure presented in the ACFR represents debt service on the City's general obligation debt. It does not include other long-term obligations, like service agreements or pension obligation bond payments.

A Note on Long-Term Obligations:

The ACFR does not show the City's full long-term obligations on a budgetary basis. The City's General Obligation debt service, combined with other long-term obligations like pension obligation bonds and service-agreement debt are expected to be 7.5% in FY25 (and doesn't include other fixed costs) according to the City's FY26-30 Plan.

What *isn't* the ACFR good for?

As a thoroughly audited year-end review, the ACFR is great for overarching statements of financial condition and comparing to other jurisdictions. As a report that gets released more than halfway through the following fiscal year, the ACFR is not a good source of information for the latest trends or progress reports on the City's budget. Essentially, the ACFR can tell you in general terms how prepared the City is for a fiscal emergency. It is not intended to tell you how well the City is managing its current budget, like the Quarterly City Managers Report (QCMR) can, or project future spending and revenue trends, as done in the Five-Year Plan.

Why does it look different than budget documents?

Accounting

Most of the content in the ACFR is presented differently than the City's budget documents. Budget documents are shown with numbers that sync with the City's budget process as outlined in the City Charter. This approach, called the budgetary basis of accounting, is designed to streamline the deliberative and legislative side of the budget process. Most of the fund and financial statements in the ACFR are shown using different accounting methods, all in line with GASB standards. The Government-Wide Financial Statements use the accrual basis of accounting, and the governmental fund statements use a modified accrual basis of accounting. The Notes to the Financial Statements section of the ACFR has details on how the City uses different GASB standard bases of accounting. The City provides helpful comparison tables between the budgetary basis and modified accrual basis of accounting for each of the major governmental fund statements.

Auditing

Another difference with the ACFR compared to other City budget documents is that the financial statements in the ACFR are audited. This means that financial statements in the report have been methodically and externally reviewed in accordance with Generally Accepted Auditing Standards (GAAS) to ensure they represent the City's financial position fairly in all material respects. After the City Controller audits the ACFR financial statements developed by the City, the Controller's Office gives one of four opinions on the financial statements:

1. *Unmodified Opinion* – This is the best! It means that the auditors found the financial statements to be fair and materially accurate. The City of Philadelphia's FY25 ACFR received an unmodified opinion.
2. *Qualified Opinion* – Uh oh! This means the auditors found significant deviation from GAAP or a limit to the scope of the audit. In this case financial statements may still be relied upon "except for" the issue noted in the qualification.
3. *Adverse Opinion* – This is really bad! It means the auditors found material errors in the financial statements, and the errors were pervasive.
4. *Disclaimer of Opinion* – This is also really bad! It means the auditors suspected the statements included materially impactful and pervasive misstatements but weren't provided with documentation needed to pinpoint the impact and extent of the error.