



CITY OF PHILADELPHIA

**Philadelphia Airport System
Municipal Securities Disclosure
Annual Financial Information
Fiscal Year Ended June 30, 2008**



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This report has been prepared pursuant to certain provisions of the following Continuing Disclosure Agreements, collectively referred to as the “Disclosure Agreements”:

- Continuing Disclosure Agreements dated July 23, 1998 and July 10, 2001 between the Philadelphia Authority for Industrial Development and the City of Philadelphia, Pennsylvania
- Continuing Disclosure Agreement dated July 10, 2001 between the City of Philadelphia, Pennsylvania and First Union National Bank
- Continuing Disclosure Agreements dated June 1, 2005, August 4, 2005 and August 1, 2007 between the City of Philadelphia, Pennsylvania and Digital Assurance Certification, L.L.C.

This report contains the following financial information and operating data which, together with the City of Philadelphia’s Comprehensive Annual Financial Report (“CAFR”), constitute the “Annual Financial Information” as defined in the Disclosure Agreements:

Recent Trends in Enplaned Passengers - Fiscal Years (FY) 2006 – 2009	Table 1
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In accordance with Section 3 of the Disclosure Agreements, the above-referenced tables and appendix are substantially similar to the type set forth in the Official Statements for the Philadelphia Authority for Industrial Development Airport Revenue Bonds, Series 1998A and Series 2001A and the City of Philadelphia, Pennsylvania Airport Revenue Bonds, Series 2001B, 2005B/C, 2005A and 2007A/B.

TABLE 1

**Philadelphia International Airport
Recent Trends in Enplaned Passengers
FY 2006 - FY 2009**

Airlines	FY 2006	FY 2007	Percent Increase (Decrease)	FY 2008	Percent Increase (Decrease)	First 6 Months (July - December)		
						FY 2008	FY 2009	Percent Increase (Decrease)
Domestic								
Scheduled Major / National								
US Airways	5,372,405	5,068,667	-5.65%	4,694,777	-7.38%	2,333,937	2,387,748	2.31%
Other	<u>5,128,102</u>	<u>5,079,144</u>	<u>-0.95%</u>	<u>5,309,353</u>	<u>4.53%</u>	<u>2,842,407</u>	<u>2,516,095</u>	<u>-11.48%</u>
	10,500,507	10,147,811	-3.36%	10,004,130	-1.42%	5,176,344	4,903,843	-5.26%
Scheduled Regional / Commuter	3,060,138	3,714,189	21.37%	3,965,290	6.76%	1,947,553	2,060,592	5.80%
Charter	<u>2,895</u>	<u>2,721</u>	<u>-6.01%</u>	<u>1,636</u>	<u>-39.88%</u>	<u>1,079</u>	<u>434</u>	<u>-59.78%</u>
Subtotal - Domestic	13,563,540	13,864,721	2.22%	13,971,056	0.77%	7,124,976	6,964,869	-2.25%
International								
Scheduled	2,007,885	1,984,250	-1.18%	2,080,261	4.84%	1,030,660	976,113	-5.29%
Charter	<u>3,572</u>	<u>2,720</u>	<u>-23.85%</u>	<u>1,656</u>	<u>-39.12%</u>	<u>146</u>	<u>343</u>	<u>134.93%</u>
Subtotal - International	2,011,457	1,986,970	-1.22%	2,081,917	4.78%	1,030,806	976,456	-5.27%
Total Enplaned Passengers	15,574,997	15,851,691	1.78%	16,052,973	1.27%	8,155,782	7,941,325	-2.63%

Note: The City's Fiscal Year Ends June 30.

TABLE 2

**Philadelphia International Airport
Airline Market Shares of Enplaned Passengers
Fiscal Year 2008**

<u>Airlines</u>	<u>Enplaned Passengers</u>	<u>Percent</u>
Domestic		
Scheduled Major / National		
US Airways	4,823,618	30.0%
Southwest	1,859,184	11.6%
American	700,757	4.4%
United	614,669	3.8%
Delta	571,173	3.6%
AirTran	504,389	3.1%
Northwest	452,213	2.8%
Continental	253,738	1.6%
Frontier	83,216	0.5%
Midwest	72,270	0.5%
USA 3000	<u>68,903</u>	<u>0.4%</u>
	10,004,130	62.3%
Scheduled Regional / Commuter		
US Airways Express		
Air Wisconsin	1,461,107	9.1%
Republic	1,231,656	7.7%
Piedmont	667,678	4.2%
PSA	161,245	1.0%
Chautauqua	<u>67,789</u>	<u>0.4%</u>
	3,589,475	22.4%
Other	<u>375,815</u>	<u>2.3%</u>
	3,965,290	24.7%
Charter	<u>1,636</u>	<u>0.0%</u>
Subtotal - Domestic	13,971,056	87.0%
International		
Scheduled		
US Airways	1,564,857	9.7%
Air Wisconsin	140,444	0.9%
British Airways	114,278	0.7%
Lufthansa	74,508	0.5%
Air France	56,920	0.4%
Air Jamaica	42,445	0.3%
Air Canada Jazz	41,435	0.3%
USA 3000	35,079	0.2%
Air Canada	10,122	0.1%
Piedmont	<u>173</u>	<u>0.0%</u>
	2,080,261	13.0%
Charter	<u>1,656</u>	<u>0.0%</u>
Subtotal - International	2,081,917	13.0%
Total Enplaned Passengers	16,052,973	100.0%

Note: The City's Fiscal Year Ends June 30.

TABLE 3

Philadelphia International Airport
Airline Market Shares of Landed Weight (in 1,000 lb. Units)
Fiscal Year 2008

<u>Airlines</u>	<u>Landed Weight</u>	<u>Percent</u>
Domestic		
Scheduled Major / National		
US Airways	5,872,724	24.7%
Southwest	2,746,246	11.5%
United	790,431	3.3%
American	778,053	3.3%
Delta	703,140	3.0%
AirTran	614,560	2.6%
Northwest	537,296	2.3%
Continental	284,767	1.2%
Midwest	106,316	0.4%
Frontier	97,894	0.4%
USA 3000	<u>81,622</u>	<u>0.3%</u>
	12,613,049	52.9%
Scheduled Regional / Commuter		
US Airways Express		
Air Wisconsin	1,828,253	7.7%
Republic	1,540,131	6.5%
Piedmont	1,013,612	4.3%
PSA	224,519	0.9%
Chautauqua	79,352	0.3%
Mesa	<u>74</u>	<u>0.0%</u>
	<u>4,685,941</u>	<u>19.7%</u>
Other	<u>471,357</u>	<u>2.0%</u>
	5,157,298	21.6%
Charter	<u>4,554</u>	<u>0.0%</u>
Subtotal - Domestic	17,774,901	74.6%
International		
Scheduled		
US Airways	2,424,939	10.2%
British Airways	279,575	1.2%
Air Wisconsin	183,676	0.8%
Lufthansa	150,266	0.6%
Air France	123,103	0.5%
Air Canada	81,021	0.3%
Air Jamaica	53,416	0.2%
USA 3000	39,247	0.2%
Piedmont	<u>999</u>	<u>0.0%</u>
	3,336,242	14.0%
Charter	<u>7,272</u>	<u>0.0%</u>
Subtotal - International	3,343,514	14.0%
All-Cargo Airlines	2,705,249	11.4%
Total Landed Weight	23,823,664	100.0%

Note: The City's Fiscal Year Ends June 30.

TABLE 4

**SUMMARY OF HISTORICAL PROJECT REVENUES AND EXPENSES
OF THE AIRPORT SYSTEM
CITY OF PHILADELPHIA
(Fiscal Years Ending June 30)
(Dollar Amounts are listed in thousands)**

<u>LINE</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<u>AMOUNTS AVAILABLE FOR DEBT SERVICE</u>					
1. Revenue deferred from prior year	\$17,768	\$18,688	\$22,876	\$9,621	(\$12,485)
1a. Deferred revenue adjustment			(3,714)	0	6,667
2. Space rentals	39,195	44,883	47,947	55,929	75,420
3. Landing fees	35,963	36,314	29,622	25,845	44,597
4. Ramp Area rentals	1,144	1,482	1,128	285	800
5. Terminal Payments-in-Aid	19,421	13,884	9,719	0	0
6. Outside Terminal Area Payments-in-Aid	0	982	0	0	0
7. International Terminal revenues	24,619	19,553	16,919	15,370	17,722
8. Revenue (deferred to subsequent year) / accrued for current year	(18,688)	(22,876)	(9,621)	12,485	(3,304)
9. Subtotal, Airline Rentals, Fees and Charges	119,422	112,910	114,876	119,535	129,418
10. Nonairline Revenues	62,732	71,599	84,187	90,105	119,533
11. Interest income	1,153	618	1,724	1,619	1,594
12. Total Project Revenues	183,307	185,127	200,787	211,259	250,544
13. Passenger Facility Charges (PFCs) Available for Debt Service	32,777	32,908	32,592	32,921	32,926
14. Portion of Fund Balance Attributable to Amounts Available for Debt Service	0	0	0	10,241	42,583
15. Total Amounts Available for Debt Service	216,084	218,035	233,379	254,421	326,053
<u>EXPENSES</u>					
16. Net Operating Expenses	71,863	71,348	77,152	87,073	99,820
17. Required Renewal Fund Deposit	0	0	0	0	0
18. Revenue Bond Debt Service	89,653	88,081	88,126	85,565	84,388
19. General Obligation Bond Debt Service	1,051	1,051	0	0	0
20. Interdepartmental Charges	52,218	57,555	57,860	70,670	89,136
21. Total Expenses	214,786	218,035	223,138	243,308	273,344
22. <u>NET REVENUE</u>	\$1,298	\$0	\$10,241	\$11,113	\$52,709
<u>RATE COVENANT TESTS OF THE ORIGINAL GENERAL ORDINANCE</u>					
23. Test A (Line 15- Line 16- Line 17) / (Line 18)	1.61	1.67	1.77	1.96	2.68
24. Test B (Line 15- Line 16- Line 17- Line 20) / (Line 18 + Line 19)	1.01	1.00	1.12	1.13	1.62

Note: The information presented above reconciles to the Basic Financial Statements contained in the City's Comprehensive Annual Financial Reports, which are audited by the Office of the City Controller

TABLE 5

**Philadelphia International Airport
History of Applications to Use PFC Revenues
Thru 12/31/2008**

<u>PFC Application No.</u>	<u>Approval Date</u>	<u>Initial Approved Amount</u>	<u>Amended Approved Amount</u>
93-02-U-00-PHL	05/15/1993	14,250,000	12,805,493
95-03-C-00-PHL	02/27/1995	101,500,000	94,683,960
95-04-U-00-PHL	10/13/1995	950,000	1,270,605
95-05-C-00-PHL	11/21/1995	14,000,000	14,000,000
98-06-C-00-PHL	02/11/1998	26,150,000	19,534,950
99-08-U-00-PHL	10/12/1999	672,000,000	999,267,790
01-09-C-00-PHL	02/22/2000	22,250,000	24,400,000
06-10-C-00-PHL	02/16/2006	<u>83,250,000</u>	<u>238,950,000</u>
Totals		934,350,000	1,404,912,798

TABLE 6**Philadelphia International Airport
PFC Revenues Through 12/31/2008**

<u>FY</u>	<u>COLLECTIONS</u>	<u>INTEREST</u>	<u>TOTAL REVENUES</u>
1993	14,484,101	142,790	14,626,891
1994	22,605,318	1,111,511	23,716,829
1995	21,828,173	2,285,485	24,113,658
1996	22,817,704	2,277,935	25,095,639
1997	27,229,901	1,837,334	29,067,235
1998	30,931,674	1,654,752	32,586,426
1999	29,408,652	2,018,264	31,426,916
2000	32,278,858	2,828,083	35,106,941
2001	31,880,729	3,362,695	35,243,424
2002	53,688,877	2,112,347	55,801,223
2003	43,961,971	1,537,729	45,499,700
2004	51,766,443	808,417	52,574,859
2005	61,378,549	1,284,025	62,662,574
2006	62,165,176	3,252,682	65,417,858
2007	65,328,768	5,047,045	70,375,813
2008	70,120,974	5,098,760	75,219,734
First 6 Months 2009	<u>27,356,465</u>	<u>1,344,257</u>	<u>28,700,722</u>
Totals	669,232,333	38,004,111	707,236,444
Expenditures thru 12/31/2008			<u>616,641,416</u>
Balance			<u>90,595,028</u>

Note: The City's Fiscal Year Ends June 30.

TABLE 7

**Philadelphia International Airport
Historical Enplaned Passengers**

FY	Domestic	International	Total	Total annual increase (decrease)
1990	7,400,854	379,667	7,780,521	
1991	7,322,959	388,954	7,711,913	-0.9%
1992	7,041,274	534,004	7,575,278	-1.8%
1993	7,645,396	582,621	8,228,017	8.6%
1994	7,777,184	607,718	8,384,902	1.9%
1995	8,419,133	634,955	9,054,088	8.0%
1996	8,538,732	665,334	9,204,066	1.7%
1997	9,502,168	890,094	10,392,262	12.9%
1998	10,601,187	1,104,443	11,705,630	12.6%
1999	10,737,979	1,329,813	12,067,792	3.1%
2000	10,652,391	1,326,524	11,978,915	-0.7%
2001	11,149,732	1,521,721	12,671,453	5.8%
2002	10,501,846	1,499,659	12,001,505	-5.3%
2003	10,519,234	1,617,391	12,136,625	1.1%
2004	11,149,952	1,938,821	13,088,773	7.8%
2005	13,427,191	2,063,378	15,490,569	18.4%
2006	13,563,540	2,011,457	15,574,997	0.5%
2007	13,864,721	1,987,072	15,851,793	1.8%
2008	13,971,056	2,081,917	16,052,973	1.3%
First 6 months				
2008	7,124,976	1,030,806	8,155,782	2.5%
2009	6,964,869	976,456	7,941,325	-2.6%
	Average annual percent increase			
1990-2001	3.8%	13.5%	4.5%	
1996-2001	5.5%	18.0%	6.6%	
2001-2008	3.3%	4.6%	3.4%	

Note: The City's Fiscal Year ends June 30.

FINANCIAL STATEMENTS OF THE DIVISION OF AVIATION

For purposes of calculating Scheduled Airline rentals, fees and charges, and demonstrating compliance with the Rate Covenant, Aviation Fund accounts are maintained on the accrual basis of accounting adjusted to meet the particular requirements of the General Airport Revenue Bond Ordinance of the City. Using this basis of accounting, revenues are recorded as they are earned, and operating expenses are recorded as they are incurred. In addition, principal payments on debt are recorded as an element of expense in lieu of depreciation, and equipment purchases and other capital outlays funded from operations are charged to expense in the year of acquisition.

For purposes of budgeting, Aviation Fund accounts are maintained on the modified accrual basis of accounting also referred to as the “legally enacted basis.” Under this basis, revenues are recorded in the year received. Obligations are recognized and recorded as expenses at the time they are paid or encumbered. A reserve is maintained for encumbrances at the close of the fiscal year, intended to be sufficient to liquidate the estimated related obligations.

The accounting policies of the City of Philadelphia, as reflected in the accompanying Aviation Fund financial statements, conform to accounting principles generally accepted in the United States of America for local government units as prescribed by the Governmental Accounting Standards Board. Accounting principles generally accepted in the United States of America for proprietary funds, such as the Aviation Fund, require that both earnings and expenses be recorded as they accrue, and that depreciation of fixed assets be recorded as an expense. The financial statements for fiscal year 2008 are presented in accordance with accounting principles generally accepted in the United States of America.

The financial statements contained in Appendix I are reconcilable with the Basic Financial Statements contained in the City’s Comprehensive Annual Financial Report for fiscal year 2008, which are audited by the Office of the Controller of the City of Philadelphia.

CITY OF PHILADELPHIA
AVIATION FUND
Appendix I

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CITY OF PHILADELPHIA
AVIATION FUND
Management's Discussion and Analysis
June 30, 2008
(Unaudited)

INTRODUCTION

The following discussion and analysis of the financial performance and activity of the City of Philadelphia Airport System (the Airport System) is to provide an introduction and understanding of the basic financial statements of the Philadelphia Aviation Fund (Aviation Fund) for the year ended June 30, 2008 (Fiscal 2008) with selected comparative information for the year ended June 30, 2007 (Fiscal 2007). Philadelphia International Airport (PHL, or the Airport) and Northeast Philadelphia Airport (PNE) comprise the Airport System, which is owned by the City of Philadelphia (the City) and operated by the Division of Aviation (the Division).

This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto that follow this section. The financial statements presented are for the Aviation Fund only, and are not intended to present fairly the financial position of the City as a whole and the results of its operations and cash flows. The Comprehensive Annual Financial Report (CAFR) of the City provides complete financial information as to the City and its component units.

AIRPORT ACTIVITIES AND HIGHLIGHTS

- ➔ **Financial Position:** The Airport continued to strengthen its financial position in Fiscal 2008, as revenues exceeded expenses by \$36.8 million, and assets exceeded liabilities by \$759.3 million (total net assets), a 5.1% increase from last year. This amount includes Aviation Fund unrestricted net assets of \$85.5 million to supplement continuing operations.
- ➔ **North American Satisfaction Study:** J.D. Power and Associates, in its 2008 North America Airport Satisfaction Study, ranked PHL highest among large airports in overall customer satisfaction. The study rated 27 specific attributes within six customer satisfaction factors, including airport accessibility, baggage claim, check-in/baggage check process, terminal facilities, security check, and food and retail services. PHL scored highest among its large airport peers in baggage claim and terminal facilities.
- ➔ **Passenger Traffic:** In Fiscal 2008, PHL set a new record in passenger traffic, surpassing previous records for passenger traffic set in the four preceding fiscal years. While passenger enplanements grew by 1.3%, aircraft operations and landed weight decreased 1.9% and 3.3% respectively. This variation is primarily due to system-wide capacity reductions and changes in aircraft fleet mix instituted by the major airlines to enhance economies and efficiencies.

Enplanements and Operations Activity at PHL			
	Fiscal 2008	Fiscal 2007	% Increase (Decrease) from 2007
Enplanements (Outbound passengers):	16,052,973	15,851,691	1.3%
Operations (Takeoffs & landings):	499,281	509,137	-1.9%
Landed Weight (1,000-pound units):	23,823,664	24,644,464	-3.3%

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- ➔ **Airport Revenue Bonds:** In August 2007, the City completed the sale of its Series 2007A and 2007B Airport Revenue Bonds totaling approximately \$255 million. Proceeds from the 2007A Bonds (\$172 million) are funding several new capital projects at PHL, including international terminal gate expansion, an infrastructure improvement program, design work for the expansion of Terminal F and design of a new in-line baggage system for Terminal B/C. The 2007B Bonds (\$83 million) refunded the Airport's Series 1997B Bonds. This transaction realized a net present value savings of approximately \$2.6 million.
- ➔ **Passenger Terminal World Recognition:** In its 2008 Annual Review, *Passenger Terminal World* named PHL one of its "Most Noteworthy Airports" for "centre city connections". The European-based periodical recognized PHL for its convenient access to center city Philadelphia by major interstate highways, regional rail service and a variety of taxi and shuttle choices. In the Annual Review, a panel of experts, considered nominations received through the magazine's website, and recognized 17 airports in 20 noteworthy categories. PHL was one of six North American airports to make the list.
- ➔ **Philadelphia Marketplace:** Philadelphia Marketplace Food and Shops in the B/C Terminal Complex was named "Best Food and Beverage Program" in 2008 among large airports in North America by Airports Council International – North America. The competition drew more than 120 entries from large, medium and small airports. Entries were evaluated on concessions goals, use of concepts/branding, design/layout, customer service and revenue performance..
- ➔ **International Air Service:** US Airways began nonstop service to London Heathrow International Airport in March 2008, and announced new nonstop service to Tel Aviv, Birmingham, England and Oslo, Norway starting in 2009. The nonstop flights to Tel Aviv, Birmingham and Oslo are the first ever from PHL. US Airways presently operates 24 daily flights to 20 destinations in 13 countries throughout Europe, and serves 13 Caribbean and Latin American destinations.
- ➔ **Low Fare Domestic Air Service:** Southwest Airlines increased its market share of enplaned passengers at PHL to 11.6% in Fiscal 2008 from 10.4% in Fiscal 2007. Southwest is PHL's second leading air carrier operating a total of 71 daily flights to 20 domestic cities at the end of Fiscal 2008.
- ➔ **Grant Funding:** In 2008, the Airport was awarded FAA grants totaling approximately \$21.4 million, including \$5.3 million in entitlement funds and \$16.1 million in discretionary dollars. These grants will fund airfield construction projects, a noise compatibility program and new environmental initiatives. In addition, in September 2008, PHL was awarded \$18 million in new funding from the Transportation Security Administration (TSA) for the construction of an in-line baggage handling system for Terminal D-E. The Airport also received \$2.6 million in grants from the Commonwealth of Pennsylvania for the Extension of Runway 17-35.
- ➔ **New Terminal D-E Connector and Security Checkpoint:** This project, which includes a 14-lane security screening checkpoint, advanced screening technology and ten new food and retail shops, opened to the public on December 30, 2008. The project will significantly improve

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passenger wait times in Terminal D-E, which accommodates 25% of total PHL passengers. The connector project is the first phase of a \$300 million Terminal D-E renovation, which also includes a ticketing lobby with 20 additional ticket counter positions; a 50,000 square foot baggage makeup area with 8 explosive detection machines; a 9,000 square foot bag claim connector featuring two new baggage carousels; and three new aircraft gates at the end of Concourse E.

- ➔ **Extension of Runway 17-35:** This project provides for a 1,040-foot extension of the Airport's east/west runway, from 5,460 feet to 6,500 feet. The extension enables narrow-body and regional jets, which account for 75% of aircraft operations at PHL, to use Runway 17-35, so as to reduce delays on the Airport's two primary runways. The runway extension was completed in December 2008 and commissioned by FAA on February 12, 2009. Projects costs totaled \$70 million, including design, construction and project management.
- ➔ **Capacity Enhancement Program:** In September 2008, the FAA issued a Draft Environmental Impact Statement (DEIS) for the Airport's Capacity Enhancement Program. The DEIS assessed the potential environmental impacts associated with various concept designs to enhance airport capacity and accommodate demand beyond the year 2020. After issuing the DEIS, the FAA conducted a series of public hearings within the Airport region. FAA expects to issue the final EIS in the Fall of 2009 and a Record of Decision in the first quarter of 2010.
- ➔ **Environmental Stewardship:** PHL's purchase of clean, renewable wind energy beginning in 2007 has earned the Airport a Green Power Award from the Citizens for Pennsylvania's Future (PennFuture). The Green Power awards recognize organizations and individuals for their work in promoting clean, renewable energy in Pennsylvania.
- ➔ **Exhibitions Program Celebrates 10th Anniversary:** In 2008, PHL's popular Exhibitions Program celebrated its ten year anniversary. One of the largest and longest running Airport art programs in the country, the Exhibitions Program has showcased nearly 200 exhibits featuring a variety of themes in various mediums and forms. The program started with one location in Terminal C in 1998 and has grown to 15 rotating display locations.

AIRLINE MERGERS

- ➔ **Delta Air Lines/Northwest Airlines:** Delta Airlines and Northwest Airlines, and subsidiaries, emerged from bankruptcy protection in April and May of 2007, respectively. On October 28, 2008, Delta and Northwest merged, thus creating the world's largest airline. The new carrier operates under the Delta name and is based in Atlanta, Georgia. In Fiscal 2008, Delta and Northwest operated 24 daily flights and 18 daily flights at PHL, respectively, accounting for an aggregate 6.4% of the Airport's enplaned passengers

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Management's Discussion and Analysis
June 30, 2008
(Unaudited)

DESCRIPTION OF PHILADELPHIA AIRPORT SYSTEM

PHL is classified by the Federal Aviation Administration as a large air traffic hub (enplaning 1.0% or more of the total passengers enplaned in the U.S.). According to data reported by Airports Council International – North America, PHL was ranked as the seventeenth busiest airport in the United States, serving 32.2 million passengers in 2007, and is presently the eleventh busiest in the world, and ninth in the nation, based on aircraft operations.

The Airport serves residents and visitors from a broad geographic area that includes eleven counties within four states: Pennsylvania, New Jersey, Delaware and Maryland. The Airport System consists of the following:

Philadelphia International Airport

- *Land.* Approximately 2,302 acres located partly in the southwestern section of the City and partly in the northeastern section of Delaware County, about 7.2 miles from center city Philadelphia.
- *Runways.* A four-runway system, capable of handling the largest commercial aircraft currently in operation.
- *Terminal Building.* Approximately 2.9 million square feet, consisting of seven terminal units (A West, A East, B, C, D, E and F). Terminal facilities principally include: ticketing areas, passenger holdrooms, baggage claim and approximately 160 food, retail and service establishments.
- *Cargo Facilities.* Located in seven major structures in and around Cargo City at the western end of the Airport.
- *Outside Terminal Area.* Consisting of a 14-story, 400-room hotel, seven rental car facilities and five parking garages and surface lots operated by the Philadelphia Parking Authority.

Northeast Philadelphia Airport

PNE is located on 1,153 acres situated within the City limits 10 miles northeast of center city Philadelphia. PNE serves as a reliever airport for PHL and provides for general aviation, air taxi, corporate, and occasional military use. The airport currently has no scheduled commercial service. There are presently eighty-five (85) T-hangars, eight (8) corporate hangars and six open hangars for general aviation activities. There are approximately 210 general aviation based aircraft at PNE.

BACKGROUND INFORMATION ON THE AVIATION FUND

The Aviation Fund is an enterprise fund of the City. Enterprise funds are established by governmental units to account for services that are provided to the general public on a user charge basis and are operated in a manner similar to business-type activities. The Aviation Fund was created and authorized as part of the Fiscal 1974 Operating Budget Ordinance approved by City Council on June 7, 1973 and made effective July 1, 1973.

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The Aviation Fund is self-supporting, using aircraft landing fees, terminal building rentals, concession revenue and other facility charges to fund annual expenses. The Airport's capital program is funded by airport revenue bonds issued by the City, federal and state grants, Passenger Facility Charges (PFCs) and operating revenues.

FINANCIAL STATEMENTS OVERVIEW

The basic financial statements of the Aviation Fund are designed to provide readers with a broad overview of Airport System finances, in a manner similar to the private sector. The financial statements are prepared in accordance with generally accepted accounting principles promulgated by the Government Accounting Standards Board (GASB).

Financial statements of the Aviation Fund continue to be presented on an accrual basis, and accordingly, income is recorded as earned and expenses as incurred. Operating revenues include charges for goods and services, rentals and concessions. Operating expenses include the purchase of services, payroll and employee benefits, materials and supplies and depreciation/amortization. Non-operating revenue and expense items include interest income, interest expense, PFC revenues and operating grants.

Aviation Fund financial activity is presented in three financial statements:

- The *Statement of Net Assets* presents information on all Aviation Fund assets and liabilities, classified between current and non-current. The difference between assets and liabilities is reported as *net assets*. Net assets is segregated into four components: invested in capital assets, net of related debt; restricted for capital projects; restricted for debt service; and unrestricted net assets.
- The *Statement of Revenues, Expenses and Changes in Fund Net Assets* presents revenue and expense activity for the current year. The difference between revenue and expense will either increase or decrease total net assets. The ending balance of net assets resulting from this increase or decrease is reflected on the Statement of Net Assets.
- The *Statement of Cash Flows* presents the actual inflow and outflow of cash by category during the year. The difference between the inflow and outflow of cash increases or decreases the total cash balance. The resulting ending cash balance is reflected on the Statement of Net Assets.

The Aviation Fund financial statements can be found on pages 15 through 17 of this report.

Notes to Financial Statements. The Notes provide additional information that is essential to a full understanding of the data provided in the Aviation Fund financial statements. The Notes to Financial Statements can be found on pages 18 through 43 of this report.

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Other information. In addition to the basic financial statements and accompanying notes, government accounting standards require presentation of *required supplementary information* (RSI) concerning the progress in funding employee pension benefit obligations. Discrete pension information is not available for the Aviation Fund, but is available for the City as a whole. Please see the Comprehensive Annual Financial Report (CAFR) of the City of Philadelphia for complete financial information for the City and its component units.

FINANCIAL POSITION

The following table summarizes the Airport System's assets, liabilities and net assets at June 30, 2008 and June 30, 2007:

City of Philadelphia – Aviation Fund
Statement of Net Assets
(amounts expressed in thousands)

	2008	2007	Increase (Decrease) from 2007	% Increase (Decrease) from 2007
Current and other assets	\$ 655,063	\$ 534,993	\$ 120,071	22.4%
Capital assets	1,474,348	1,404,354	69,994	5.0%
Total assets	2,129,411	1,939,347	190,065	9.8%
Long-term liabilities	1,255,346	1,119,050	\$ 136,296	12.2%
Other liabilities	114,727	97,725	17,002	17.4%
Total liabilities	1,370,073	1,216,775	153,298	12.6%
Net assets:				
Invested in capital assets, net of related debt	479,583	457,691	21,892	4.8%
Restricted for Capital Projects	81,674	79,714	1,960	2.5%
Restricted for Debt Service	112,613	110,507	2,107	1.9%
Unrestricted	85,468	74,659	10,808	14.5%
Total net assets	\$ 759,338	\$ 722,572	\$ 36,767	5.1%

Net Assets serves as a useful indicator of the Airport's financial position and is a measurement of the financial condition of the Airport at a specific point in time. At June 30, 2008, the Airport System's assets exceeded liabilities by \$759 million. Between Fiscal 2007 and Fiscal 2008, total net assets increased by \$37 million. Changes in total net assets are summarized below:

- **Total Assets** increased \$190 million due primarily to the sale of the Series 2007A Airport Revenue Bonds totaling \$172 million, during the first quarter of Fiscal 2008.
- **Total Liabilities** increased \$153 million due to the sale of the Series 2007A bonds totaling \$172 million, offset by bond principal payments of \$32 million, and an increase of \$13 million in construction payables and other payables.

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- **Invested in capital assets, net of related debt** increased by \$22 million. Capital assets, net of depreciation, and unspent bond proceeds increased \$70 million and \$104 million respectively. These increases were offset by an increase in debt of \$152 million, mostly from the issuance of the Series 2007A bonds. Although these capital assets assist the Airport in providing services to the traveling public, they are generally not available to fund operations of future periods.
- **Restricted for capital projects** represents funds available and restricted for construction of capital assets, reduced by debt payable on those funds. This balance increased by \$2.0 million in Fiscal 2008 due primarily to an increase in interest income dedicated to capital projects.
- **Restricted for debt service** increased \$2 million as a result of the issuance of the Series 2007A bonds discussed above.
- **Unrestricted net assets** increased by \$10.8 million. Unrestricted net assets may be used to supplement the Airport System's ongoing operations.

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The following table compares the changes in revenues, expenses and fund net assets between Fiscal 2008 and Fiscal 2007:

City of Philadelphia – Aviation Fund
Statement of Revenues, Expenses and Changes in Fund Net Assets
(amounts expressed in thousands)

	2008	2007	Increase (Decrease) from 2007	% Increase (Decrease) from 2007
Revenues:				
Operating income	\$ 238,357	\$ 243,210	\$ (4,853)	-2.0%
Operating grants and contributions	1,917	1,484	433	29.2%
Capital grants and contributions	33,603	22,409	11,193	49.9%
Passenger facility charges	64,855	66,029	(1,174)	-1.8%
Interest income	20,687	13,675	7,012	51.3%
Total revenues	<u>359,419</u>	<u>346,808</u>	<u>12,611</u>	<u>3.6%</u>
Expenses:				
Operating expenses	260,006	255,911	4,096	1.6%
Debt service interest	57,669	53,031	4,637	8.7%
Other expenses	5,441	5,368	74	1.4%
Total expenses	<u>323,116</u>	<u>314,310</u>	<u>8,807</u>	<u>2.8%</u>
Increase in Net Assets	<u>36,303</u>	<u>32,499</u>	<u>3,804</u>	<u>11.7%</u>
Net assets beginning of year	722,572	690,073	32,499	4.7%
Prior Period Adjustment	464	-	464	0.1%
Net assets adjusted beginning of year	<u>723,035</u>	<u>690,073</u>	<u>32,962</u>	<u>4.8%</u>
Net assets end of year	<u>\$ 759,338</u>	<u>\$ 722,572</u>	<u>\$ 36,767</u>	<u>5.1%</u>

Changes in net assets represent the results of operations and are useful indicators of whether the overall financial condition of the Airport has improved or declined during the year. In Fiscal 2008, net assets increased \$37 million, or 5.1%, from the prior year. This increase reflects Airport net income and capital contributions. In addition, approximately \$464,000 of this increase was due to an actuarial adjustment to the Fiscal 2008 beginning balance to correct an error in the Fiscal 2007 calculation of the City's actual contributions to its Net Pension Obligation. Airport income before capital contributions is composed of operating and non-operating revenues, net of expense. Capital contributions represent federal and state grants for approved capital projects.

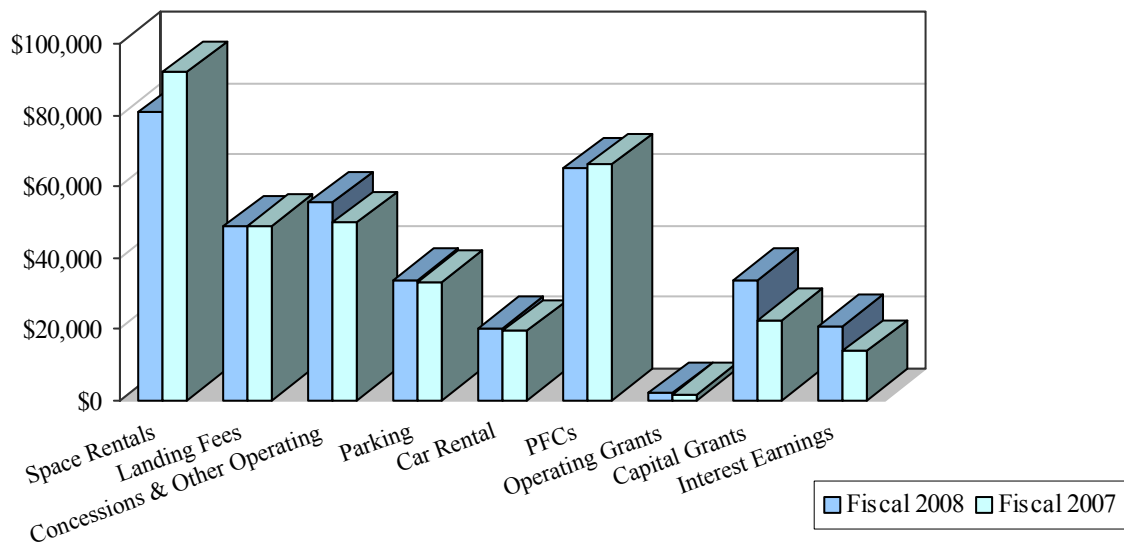
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Revenues

Approximately 66% of all revenue came from operating sources, which include space rentals, landing fees and revenues from parking, concessions and car rentals. PFCs account for another 18%, with the remainder coming from Federal and State grants, and interest earnings.

The graph below presents the major components of revenue for Fiscal 2008 and 2007, followed by explanations of significant changes in these categories between years.

Revenues by Source (Thousands)



- ➔ Operating revenues, which include the first five categories in the bar graph above, decreased approximately 2% in Fiscal 2008. Space rentals decreased primarily as a result of a net decrease in airline deferred revenue, which was partially offset by an 11% increase in terminal rental rates between Fiscal 2007 and Fiscal 2008. Landing fees remained relatively unchanged, while concessions, parking and car rentals increased as passenger counts continued to rise at PHL.
- ➔ PFC revenue decreased slightly although passenger traffic increased 1.3% in Fiscal 2008. There is no absolute correlation between PFC revenue and passenger traffic because: a) air travel tickets, which contain the PFC, are often sold in advance of the actual flight; and b) a PFC may not be imposed at every boarding point of an itinerary.
- ➔ Operating and capital grants increased in Fiscal 2008 due to an increase in grant-eligible expenditures during the year, most of which related to the completion of the extension of Runway 17-35 and noise mitigation projects. It should be noted that capital grant expenditures in any given year are dependent upon actual construction timelines for Airport capital projects.
- ➔ Interest earnings increased in Fiscal 2008 due to the investment of proceeds from the Series 2007A bonds.

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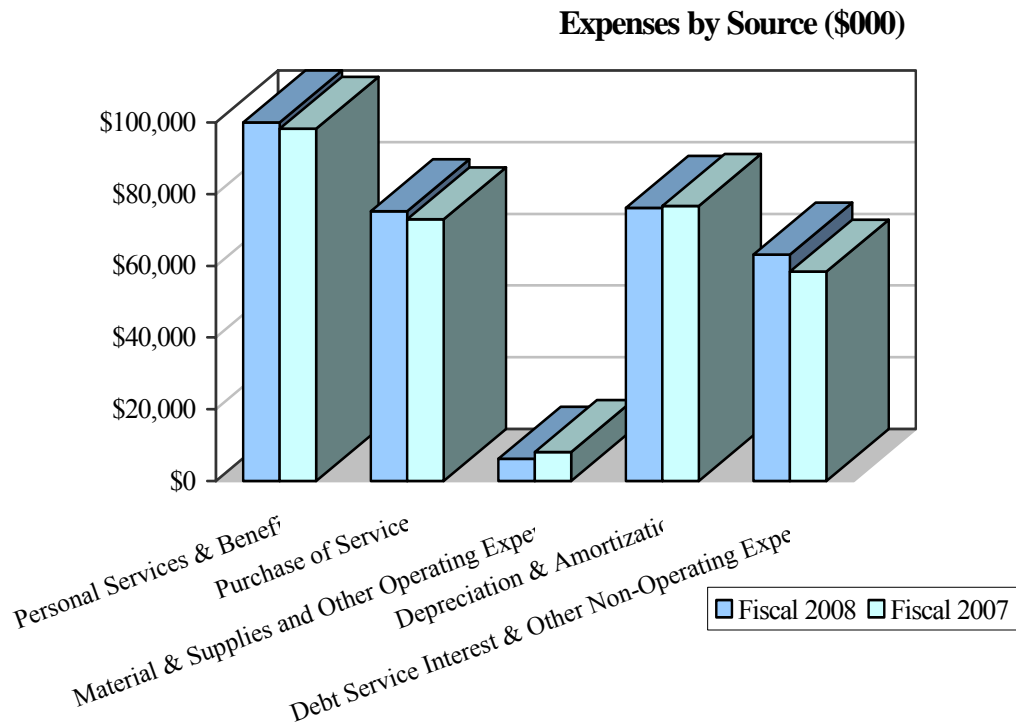
June 30, 2008

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Expenses

Airport expenses result from a wide range of services; wages, benefits and contractual services account for approximately 55% of total expenses. Depreciation and amortization comprise roughly 24% of the total, and the remainder consists of debt service interest and other operating and non-operating expenses.

The graph below presents the major components of expense for Fiscal 2008, followed by explanations of significant changes in these components from Fiscal 2007.



- ➔ Personal services and benefits increased 4% in Fiscal 2008 primarily due to increases in uniformed and non-uniformed wage rates and increased health care and pension costs.
- ➔ Purchase of services increased 3% in Fiscal 2008 due to: implementation of an Automated Vehicle Identification (AVI) system for commercial ground transportation operators; increased infrastructure maintenance; additional professional services related to construction management and environmental engineering services; and increases in rents for leased facilities.
- ➔ Material and supplies and other operating expenses decreased (23%) in Fiscal 2008 due to reduced purchases of vehicles, office equipment and office furnishings.
- ➔ Depreciation and amortization decreased slightly in Fiscal 2008 due to useful life extensions made to specific capital assets. In addition, certain capital facilities became fully depreciated in Fiscal 2008. The straight-line method is used to record depreciation.

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- ➔ Debt service interest increased in Fiscal 2008 due to the sale of the Series 2007A bonds in the amount of \$172 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

The Airport's investment in capital assets, net of accumulated depreciation, amounted to \$1.5 billion at the end of the current fiscal year. The following table presents the changes in capital assets for Fiscal 2008. It should be noted that some beginning balances have been reclassified to conform to current-year cost center presentation under the new Airport-Airline Use and Lease Agreement.

City of Philadelphia – Aviation Fund
Capital Assets
(amounts expressed in thousands)

	July 1, 2007	Additions	Deletions	June 30, 2008
<u>Non-Depreciable Business Type Assets</u>				
Land	\$ 88,353	\$ 80	\$ -	\$ 88,433
Construction in Progress	47,766	149,205	(120,725)	76,246
Total Non-Depreciable Business Type Assets	136,119	149,285	(120,725)	164,679
<u>Depreciable Business Type Assets</u>				
Buildings	1,638,803	80,218	-	1,719,021
Infrastructure	489,132	33,924	-	523,056
Equipment	42,699	4,143	(2,245)	44,597
Total Depreciable Business Type Assets	2,170,635	118,285	(2,245)	2,286,674
<u>Accumulated Depreciation</u>				
Capital Additions	(649,847)	(53,662)	-	(703,509)
Infrastructure	(228,831)	(19,367)	-	(248,198)
Equipment	(23,722)	(3,151)	1,576	(25,298)
Total Accumulated Depreciation	(902,400)	(76,181)	1,576	(977,005)
Net Depreciable Business Type Assets	1,268,235	42,104	(669)	1,309,669
Total Business Type Assets	\$ 1,404,354	\$ 191,389	\$ (121,395)	\$ 1,474,348

Capital Assets

Major capital asset events for which capital expenditures were incurred during Fiscal 2008 include the following:

- ➔ *Construction in Progress.* Additions to construction in progress totaled \$149.2 million at June 30, 2008. Major projects under construction at fiscal year-end included: expansion and modernization of Terminals D and E; extension of Runway 17-35; Facility Management System upgrade; taxiway reconstruction; and cargo ramp reconstruction. Substantially completed projects, identified below, were transferred from construction in progress to capital assets.

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➔ *Buildings, Infrastructure & Equipment.* Fixed asset additions totaled \$118.3 million during Fiscal 2008. Significant design and construction projects substantially completed during Fiscal 2008 include the following:

- Terminal D&E Expansion & Modernization – completed phases (\$46.8 million)
- Runway 17–35 Extension – completed phases (\$19.6 million)
- Terminal A East Renovations – completed phases (\$2.7 million)
- Employee Parking Lot Expansion (\$1.6 million)
- Facility Management System (\$2.9 million)
- Airport Master Plan/Environmental Impact Statement – completed phases (\$2.9 million)
- Apron and Taxiway Reconstruction (\$10.2 million)
- Noise Programs (\$1.1 million)
- Southwest Airlines Managed Improvements (\$2.3 million)

Long-Term Debt

Principal paid on debt instruments totaled \$114 million for Fiscal 2008, which included refunding the Series 1997B bonds in the amount of \$81.4 million plus \$1.6 million in call premium. The refunding realized a net present value savings of \$2.6 million. Interest payments on debt instruments totaled \$70.1 million for Fiscal 2008. The following table summarizes the changes in long-term debt, including the current portion, for Fiscal 2008:

City of Philadelphia – Aviation Fund
Changes in Long-Term Debt
(amounts expressed in thousands)

	July 1, 2007	Additions	Retirements/ Repayments	June 30, 2008
Revenue bonds	\$ 1,161,410	\$ 255,385	\$ 113,995	\$ 1,302,800

As of June 30, 2008, total revenue bonds payable, less current maturities of \$36.3 million, equated to \$78.90 per enplaned passenger, compared to \$71.26 as of June 30, 2007.

Due to financial instability within the bond insurance and credit markets that began in 2008, the City has taken certain steps to minimize market-related cost increases and to ensure compliance with the Amended and Restated General Airport Revenue Bond Ordinance of 1995 (the Bond Ordinance):

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- In June 2008, the City purchased a letter of credit from Wachovia Bank, N.A. to replace the surety policy originally purchased from FGIC related to the sinking fund reserve account for the Series 1998B Airport Revenue Bonds. Because FGIC was downgraded below the AA category, the surety policy no longer met the rating requirements of the Bond Ordinance. The Wachovia Bank letter of credit presently meets the Bond Ordinance's rating requirements.
- In December 2008, the outstanding balance of \$178.6 million of the Series 2005C Airport Revenue Refunding Bonds was reoffered under an irrevocable direct pay letter of credit (LOC) from TD Bank. The LOC replaces a bond insurance policy from MBIA Insurance Corporation issued simultaneously with the issuance of the 2005C bonds in June, 2005, and a liquidity facility for the 2005C bonds provided by JP Morgan Chase Bank, N.A. The LOC constitutes both a credit facility and liquidity facility under the Bond Ordinance and the Variable Rate Securities Agreement, and TD Bank will be a credit provider and liquidity provider under the Bond Ordinance and the Variable Rate Securities Agreement. The bonds have a weekly interest rate and maturity date of 2025.
- The Series 2005A and 2005B Bonds currently have MBIA Insurance Corporation surety policies for their sinking fund reserve requirements. Because MBIA was downgraded below the 'AA' category, the surety policies no longer meet the requirements of the Bond Ordinance. The City is presently working on refunding the 2005B bonds as well as the reserve fund surety for the Series 2005B bonds and is pursuing remedies to meet the ordinance requirements as it relates to the reserve fund surety for the 2005A bonds

BUDGETARY HIGHLIGHTS FROM FISCAL 2008

Actual expenditures for Fiscal 2008 were 2.1% higher than budgeted expenditures. The following factors contributed to this difference:

- Net interdepartmental charges were \$13.4 million higher than projected due to the following: higher than budgeted fringe benefit rates attributable to increasing costs for health care and pension; increased police costs due to enhanced security measures mandated by the Transportation Security Administration; and increased utility costs resulting from increases in natural gas and water/sewer costs.
- Net debt service was 1.1% (\$0.6 million) greater than budgeted as a result of higher than anticipated for interest rates on variable rate debt and a less than anticipated excess in sinking fund reserves accounts, which is used to pay debt service.
- The above increases were offset by less than budgeted expenditures for Division of Aviation personal services, contractual services, materials and supplies, equipment, and other direct expenses of \$9.0 million.

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KEY FACTORS AFFECTING THE FISCAL 2009 OPERATING BUDGET

The Airport System's Fiscal 2009 operating budget increased by 8.7% from Fiscal 2008 due to the following factors:

- A 13.0% increase in net interdepartmental charges due to anticipated increases in the citywide health care and pension costs.
- A 12.7% increase in utilities costs to adjust for Fiscal 2008 increases in natural gas and water/sewer rates, and anticipated electricity tariff increases for Fiscal 2009.
- Anticipated increases in annual tax payments to Delaware County taxing districts. PHL is situated in both Philadelphia County and Delaware County.
- A \$10.5 million increase (20.7%) in net debt service attributable to the anticipated completion of various capital projects funded by the 2005A and 2007A Bonds. Debt service on these capital projects was previously capitalized.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Philadelphia Airport System finances and to demonstrate the City's accountability for the funds it receives and disburses. For additional information concerning this report, please contact: Edward C. Anastasi, Deputy Director of Aviation - Finance and Administration, Terminal E, Philadelphia International Airport, Philadelphia, PA 19153.

CITY OF PHILADELPHIA
AVIATION FUND
Statement of Net Assets
June 30, 2008
(Unaudited)

ASSETS

Current assets:

Cash and cash equivalents	\$	103,053,490
Accounts receivable:		
Utility & aviation charges		2,110,567
Other		11,046,742
Total accounts receivable		13,157,309
Allowance for doubtful accounts		(1,245,662)
Inventories		2,934,146
Due from other governmental units		845,848
Total current assets		118,745,131

Restricted assets:

Cash and cash equivalents		423,605,077
Sinking funds and reserves held by fiscal agents		50,582,786
Grants from other governments for capital purposes		8,825,658
Passenger facility charges receivable		6,146,723
Interest receivable		4,541,355
Cash held by fiscal agent		30,780,650
Total restricted assets		524,482,249

Net pension assets

11,836,075

Property, plant and equipment:

Land		88,432,784
Infrastructure		523,055,902
Construction in progress		76,245,784
Buildings and equipment		1,763,618,275
Less: accumulated depreciation and amortization		(977,004,917)
Property, plant and equipment, net		1,474,347,828
Total assets		2,129,411,283

LIABILITIES

Current liabilities:

Vouchers payable		3,396,482
Accounts payable		9,735,566
Salaries and wages payable		2,951,169
Construction contracts payable		33,618,458
Accrued expenses		18,149,932
Deferred revenue		10,575,682
Current maturities of long-term bonded debt		36,300,000
Total current liabilities		114,727,289

Long-term liabilities:

General obligation bonds		-
Revenue bonds - principal amount		1,266,500,000
Unamortized discount on revenue bonds		(6,743,295)
Unamortized loss on retirement of bonds		(13,854,142)
Other long-term liabilities		9,443,188
Total long-term liabilities		1,255,345,751
Total liabilities		1,370,073,040

NET ASSETS

Invested in capital assets, net of related debt:		479,582,879
Restricted:		
Capital projects		81,674,094
Debt service		112,613,486
Unrestricted		85,467,784
Total net assets	\$	759,338,243

See notes to the financial statements.

CITY OF PHILADELPHIA
AVIATION FUND
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2008
(Unaudited)

Operating revenues:	
Charges for goods and services	\$ 71,807,780
Rentals and concessions	160,623,758
Miscellaneous operating revenues	5,925,273
Total operating revenues	<u>238,356,811</u>
Operating expenses:	
Personal services	62,924,125
Purchase of services	75,225,589
Materials and supplies	4,632,327
Employee benefits	39,474,973
Indemnities and taxes	1,568,449
Depreciation and amortization	76,180,892
Total operating expenses	<u>260,006,355</u>
Operating loss	<u>(21,649,544)</u>
Nonoperating revenues (expenses):	
Operating grants	1,917,216
Passenger facility charges	64,855,338
Interest income	20,687,036
Net pension obligation	(4,771,824)
Debt service, interest	(57,668,503)
Loss on disposal of property, net	(669,431)
Other revenue (expenses)	-
Total nonoperating revenues (expenses)	<u>24,349,832</u>
Income before capital contributions	2,700,288
Capital contributions	<u>33,602,655</u>
Change in net assets	<u>36,302,943</u>
Net assets beginning of period	722,571,538
Prior period adjustment	463,762
Net assets beginning of period, as adjusted	<u>723,035,300</u>
Net assets end of period	<u>\$ 759,338,243</u>

See notes to the financial statements.

CITY OF PHILADELPHIA
AVIATION FUND
Statement of Cash Flows
For the Year Ended June 30, 2008
(Unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from customers	\$ 241,025,511
Receipts from interfund services	896,394
Payments to suppliers	(82,157,438)
Payments to employees	(99,100,340)
Internal activity-payments to other funds	(4,970,321)
Other receipts (payments)	265,322
Net cash provided by operating activities	55,959,128

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES :

Grant proceed not specifically restricted for capital purposes	1,754,820
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Proceeds from capital debt	254,927,761
Capital contributions	32,647,100
Purchase of capital assets	(127,957,954)
Principal paid on capital debt	(115,623,700)
Interest paid on capital debt	(70,071,092)
Passenger facility charges	70,149,617
Other receipts (payments)	(759,257)
Net cash provided by capital and related financing activities	43,312,475

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sale and maturities of investments	(11,395,465)
Interest and dividends	27,665,085
	16,269,620

NET INCREASE IN CASH AND CASH EQUIVALENTS:

	117,296,043
Balance beginning of year	440,143,174
Balance end of year	\$ 557,439,217

RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating (loss)	\$ (21,649,544)
Adjustment to reconcile operating (loss) to net cash provided by operating activities:	
Depreciation and amortization	76,180,892
Changes in assets and liabilities:	
Decrease (increase) in receivables	2,004,023
(Increase) in inventories	95,210
(Increase) in payables	(5,921,643)
(Decrease) in other liabilities	(832,360)
(Decrease) in deferred revenue	6,082,550
Net cash provided by operating activities	\$ 55,959,128

See notes to the financial statements.

CITY OF PHILADELPHIA
AVIATION FUND
Notes to Financial Statements
June 30, 2008
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations

The Aviation Fund is a proprietary fund of the City of Philadelphia (City). It was created and authorized as part of the Fiscal 1974 Operating Budget Ordinance approved by City Council on June 7, 1973 and became effective July 1, 1973. This fund was established to facilitate administrative and financial operations necessary to maintain, improve, repair and operate Philadelphia International Airport and Northeast Philadelphia Airport. The financial statements presented are for the Aviation Fund only, and are not intended to present fairly the financial position of the City of Philadelphia as a whole and the results of its operations and cash flows. The comprehensive annual financial report of the City of Philadelphia provides complete financial information as to the City and its component units.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they are earned and expenses are recognized at the time obligations are incurred.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government wide and the proprietary fund financial statements to the extent that they do not conflict or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private sector guidance for their business type activities and enterprise funds. The City has elected not to follow subsequent private sector guidelines.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's ongoing operations. The principal operating revenue of the Aviation Fund is charges for the use of the airport facilities. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF PHILADELPHIA
AVIATION FUND
Notes to Financial Statements
June 30, 2008
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deposits and Investments

The Aviation Fund's deposits and investments are held in segregated operating and capital accounts and by an outside fiscal agent. Sinking funds and reserves are maintained in segregated investment accounts, to comply with reserve and other requirements of the bond covenants. No Aviation Fund accounts are commingled with other City funds. All highly liquid investments (except for repurchase agreements) with a maturity of three months or less are considered to be cash equivalents. Investments are recorded at fair value. Short-term investments are reported at cost, which approximates fair value.

Statutes authorize the City to invest in obligations of the Treasury, agencies, and instruments of the United States, repurchase agreements, collateralized certificates of deposit, bank acceptance or mortgage obligations, certain corporate bonds, and money market funds. Management is not aware of any violations of statutory authority or contractual provisions for investments for the year ended June 30, 2008.

Accounts Receivable

Accounts receivable included in current assets consists of billed and unbilled rentals and fees, which have been earned but not collected as of June 30, 2008. Credit balance receivables have been included in deferred revenue in the statement of net assets. The allowance for doubtful accounts is management's estimate of the amount of accounts receivable, which will be deemed to be uncollectible and is based upon specific identification. Unpaid accounts are referred to the City's law department if deemed uncollectible. Accounts are written off when recommended by the law department.

Inventories

Inventories consist of materials and supplies and are carried at amounts determined on a moving-average cost basis.

CITY OF PHILADELPHIA
AVIATION FUND
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted Assets

Restricted assets represent amounts that have been legally restricted by contracts or outside parties and are not available for payment of operating fund expenditures. The following represent restricted assets of the Aviation Fund:

- Funds available for construction, including grants due from other governments for capital purposes.
- Sinking funds and reserves reserved for debt service and construction, pursuant to revenue bond indentures.
- Passenger facility charges (PFCs), representing revenues collected from airlines based on the number of ticket sales for flights boarding passengers at Philadelphia International Airport, reserved for the funding of certain capital projects and debt service payments, as approved by the Federal Aviation Administration (FAA). Collection of PFCs began in the fall of 1992. All unexpended PFC funds, including accumulated interest, are classified as restricted assets.

Capital Assets

Capital assets include property, plant and equipment and infrastructure assets constructed or acquired by purchase with an initial individual cost in excess of \$5,000 and a useful life in excess of three years. Capital assets are recorded at cost.

Construction in progress includes construction costs, architects fees, construction manager's fees and capital administrative costs. At the commencement of construction, legal fees, consulting fees and capitalized interest costs are allocated to capital administration costs. Interest expense on tax-exempt bonds used for construction in progress is capitalized, net of related interest income earned on the invested funds during the construction period. After construction is completed, interest income and expense on these funds are recorded as non-operating revenue and expense. Construction in progress is transferred to capital assets when 80% of the estimated project costs have been expended. Depreciation commences in the year following the transfer.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives:

Buildings	20 to 50 years
Improvements other than buildings	10 to 25 years
Equipment	5 to 10 years

CITY OF PHILADELPHIA
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Management periodically reviews its long-lived assets for impairment. At present, management does not believe any impairment exists.

Deferred Revenue

Deferred revenue arises primarily from excess billings to signatory airlines and from advance payments received from air carriers. Such deferrals are ultimately included in income when earned, usually during the next year.

Revenues

Operating revenues consist primarily of the following:

- Charges for goods and services – landing fees, international terminal charges, and utility charges.
- Rental and concessions – space rentals, parking revenue, car rental and concession revenues. Income from lease contracts is recorded when earned. Adjustments to revenue resulting from audits of tenants are recorded as determined. Income from the Philadelphia Parking Authority for operation of the airport parking facilities is recorded in rental and concession income at the amount received. The amount recorded is subject to final audit adjustment.

Non-operating revenues consist primarily of the following:

- Operating grants.
- PFCs –revenue from PFCs is reserved for the funding of certain capital expenditures and debt service payments, as approved by the FAA.
- Interest income.

Capital contributions consist of federal and state grant reimbursements for capital expenditures.

Operating Expenses

Operating expenses consist primarily of personnel and administrative services, purchase of services and depreciation and amortization expense.

CITY OF PHILADELPHIA
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(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amortization of Discount on Bonded Debt and Loss on Retirement of Bonds

Discount and issuance costs are amortized over the life of the debt using the effective interest method. The loss on retirement of bonds is amortized on the straight-line method over the life of the new debt issued.

Pensions

For the year ended June 30, 2008, the City has implemented the provisions of the GASB Statement No. 50 *Pension Disclosures*, issued May 2007.

Other Post Employment Benefits

During fiscal year 2008, the City adopted GASB Statement No. 45, *Accounting for Post-Employment Benefits Other than Pensions* (OPEB), issued July 2004. The statement establishes standards for the measurement, recognition, and display of expenses/ expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information in the financial reports of state and local governments.

Compensated Absences

It is the City's policy to allow employees to accumulate earned but unused vacation benefits. Vacation pay is accrued as earned. Sick leave balances are not accrued in the financial statements because sick leave rights are non-vesting.

Management's Use of Estimates

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

2. DEPOSITS AND INVESTMENTS

For the year ended June 30, 2008, deposits and investments are included in the financial statements in current (operating fund) and restricted (capital fund) cash and cash equivalents, in sinking funds and reserves held by fiscal agents, and in cash held by fiscal agent.

CITY OF PHILADELPHIA
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2. DEPOSITS AND INVESTMENTS (continued)

Deposits

State statutes require banks to collateralize City deposits at amounts equal to or in excess of the City's balance. Such collateral is to be held in the City's name by the Federal Reserve Bank or the trust department of a commercial bank other than the pledging bank. At year-end, the Aviation Fund had no deposits. All funds were held in short and long term investments.

Investments

The City has established a comprehensive investment policy to minimize custodial credit risk for its investments. To minimize custodial risk, the City has selected custodian banks that are members of the Federal Reserve System to hold its investments. Delivery of the applicable investment documents to the City's custodian is required for all investments.

As of June 30, 2008 the fair value of the Aviation Fund's investments consisted of the following:

	<u>Fair Value</u>	<u>% of Total</u>
U.S. Government Securities	\$ 7,122,767	1%
U.S. Government Agency Securities	360,340,792	59%
Corporate Bonds	84,116,595	14%
Short-Term Investment Pools	114,216,280	19%
Repurchase Agreements	10,658,601	2%
Commercial Paper	31,246,010	5%
	<u>\$ 607,701,045</u>	

CITY OF PHILADELPHIA
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2. DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk: The City’s investment portfolio is managed to accomplish preservation of principal, maintain liquidity and maximize the return on the investments. To limit its exposure to fair value losses from rising interest rates the City’s investment policy limits investments to maturities of no longer than two years, except in sinking fund reserve portfolios.

	<u>Less Than 1</u> <u>Year</u>	<u>1 - 3 Years</u>	<u>More Than 3</u> <u>Years</u>
U.S. Government Securities	\$ 350,931	\$ 6,771,836	\$ -
U.S. Government Agency Securities	343,353,062	16,987,730	-
Corporate Bonds	83,614,730	501,865	-
Short-Term Investment Pools	114,216,280	-	-
Repurchase Agreements	-	-	10,658,601
Commercial Paper	31,246,010	-	-
	<u>\$ 572,781,013</u>	<u>\$ 24,261,431</u>	<u>\$ 10,658,601</u>

Credit Risk: The City’s credit risk is limited by investing in US Government securities (5.3%) or US Government Agency obligations (59.1%). The US Government Agency obligations must be rated AAA by Standard & Poor’s (S&P) or Aaa by Moody’s Investor Services (Moody’s). All US Government Securities meet the criteria. The City’s investment in commercial paper (9.6%) must be rated A1 by S&P and/or M1G1 by Moody’s and the senior long-term debt of the issuer must not be rated lower than A by S&P and/or Moody’s. Commercial paper is also limited to 25% of the portfolio. All commercial paper investments meet the criteria. Of the corporate bonds held by the City, 88% had an S&P rating of AAA to AA. Cash accounts are swept nightly and idle cash invested in money market funds (short-term investment pools). Short-term investment pools are rated AAAm by S&P and Aaa by Moody’s. The City limits its foreign currency risk by investing in certificates of deposit and bankers acceptances issued or endorsed by non-domestic banks that are denominated in US dollars providing that the banking institution has assets of not less than \$100 million and has a Thompson’s Bank Watch Service “Peer Group Rating” not lower than II. At the end of the fiscal year the City did not have any investments of that nature.

CITY OF PHILADELPHIA
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(Unaudited)

3. CASH HELD BY FISCAL AGENT

Cash held by fiscal agent consists of year-end cash and investment balances related to the net proceeds of Philadelphia Authority for Industrial Development's (PAID) Airport Revenue Bonds Series 1998A and 2001A. In accordance with GASB Interpretation No. 2, these bonds are considered by PAID to be conduit debt. Therefore, no assets related to the bond proceeds are reported in PAID's financial statements. Instead, the proceeds, which are held by a fiscal agent and disbursed at the City's discretion to pay for capital improvements at the airport, are shown as assets of the Aviation Fund.

4. CAPITAL ASSET ACTIVITY

The following schedule reflects the capital asset activity for the Aviation Fund during the year. Some beginning balances have been reclassified to conform to current year cost center presentation under the new Airport-Airline Use and Lease Agreement.

	Beginning Balance	Additions	Transfers/ Retirements	Ending Balance
Non-depreciable Assets				
Land	\$ 88,352,615	\$ 80,169	\$ -	\$ 88,432,784
Construction-in-progress	47,766,381	149,204,703	(120,725,300)	76,245,784
Total non-depreciable business type assets	<u>136,118,996</u>	<u>149,284,872</u>	<u>(120,725,300)</u>	<u>164,678,568</u>
Depreciable business type assets				
Buildings	1,414,548,378	68,875,906	-	1,483,424,284
Infrastructure	489,132,262	33,923,640	-	523,055,902
Equipment	42,699,317	4,143,042	(2,245,370)	44,596,989
Other improvements	224,254,622	11,342,380	-	235,597,002
Total depreciable business-type assets	<u>2,170,634,579</u>	<u>118,284,968</u>	<u>(2,245,370)</u>	<u>2,286,674,177</u>
Accumulated depreciation				
Infrastructure	(228,830,633)	(19,367,494)	-	(248,198,127)
Building & Improvement	(541,501,261)	(45,344,115)	-	(586,845,376)
Equipment	(23,722,432)	(3,151,150)	1,575,938	(25,297,644)
Other improvements	(108,345,637)	(8,318,133)	-	(116,663,770)
Total accumulated depreciation	<u>(902,399,963)</u>	<u>(76,180,892)</u>	<u>1,575,938</u>	<u>(977,004,917)</u>
Net depreciable business type assets	<u>1,268,234,616</u>	<u>42,104,076</u>	<u>(669,432)</u>	<u>1,309,669,260</u>
Total business type assets	<u>\$ 1,404,353,612</u>	<u>\$ 191,388,948</u>	<u>\$ (121,394,732)</u>	<u>1,474,347,828</u>

A portion of bond interest expense net of related interest income on unexpended funds is capitalized during the construction phase of the projects funded by the bonds. Net interest capitalized to construction in progress was \$6,320,404 for the fiscal year, which represents \$14,748,586 in interest expense net of \$8,428,182 of related interest income. Depreciation and amortization expense for the year was \$76,180,892.

CITY OF PHILADELPHIA
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5. DEFERRED REVENUE

Deferred revenue of \$10,575,682 consists of excess billing to the scheduled airlines, revenues received in advance and credit balance receivables at June 30, 2008.

6. ARBITRAGE REBATE

The Aviation Fund has several series of revenue bonds subject to federal arbitrage requirements. Federal tax legislation requires that the accumulated net excess of interest income on these issues over interest expense paid on the bonds be paid to the federal government at the end of a five year period. The arbitrage rebate liability as of June 30, 2008 was \$267,767 and is included in other long-term liabilities.

7. INTEREST RATE SWAPTION

Objective: In April 2002, the City entered into a swaption that provided the City's Aviation Department with an up-front payment of \$6,536,800. As a synthetic refunding of its 1995 Bonds, this payment approximated the present value savings as of April, 2002, of a refunding on June 15, 2005 based upon interest rates in effect at the time. The swaption gave JPMorgan Chase Bank, N.A. the option to enter into an interest rate swap with the Airport whereby JPMorgan Chase would receive fixed amounts and pay variable amounts.

Terms: JPMorgan Chase exercised its option to enter into the swap on June 15, 2005 and the swap commenced on that date. Under the swap, the Airport pays multiple fixed swap rates (starting at 6.466% and decreasing over the life of the swap to 1.654%). The rates are based on an amortizing notional schedule (with an initial notional amount of \$189,500,000) and when added to an assumption for remarketing, liquidity costs and cost of issuance will approximate the debt service of the refunded bonds. The swap's variable payments are based on the SIFMA Municipal Swap Index. If the rolling 180-day average of the SIFMA Municipal Swap Index exceeds 7.00%, JPMorgan Chase has the option to terminate the swap.

As of June 30, 2008, the swap had a notional amount of \$178,600,000 and the associated variable-rate bond had a \$178,600,000 principal amount. The bonds' variable-rate coupons are not based on an index but on remarketing performance. The bonds mature on June 15, 2025. The swap will terminate on June 15, 2025 if not previously terminated by JP Morgan Chase.

CITY OF PHILADELPHIA
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7. INTEREST RATE SWAPTION (Continued)

Fair Value: As of June 30, 2008, the swap had a negative fair value of (\$22,813,937). This means that if the swap terminated today, the Airport would have to pay this amount to JP Morgan Chase.

Risks: As of June 30, 2008, the Airport was not exposed to credit risk because the swap had a negative fair value. Should interest rates change and the fair value of the swap become positive, the Airport would be exposed to credit risk in the amount of the swap's fair value. In addition, the Airport is subject to basis risk should the relationship between SIFMA and the bonds change; if SIFMA resets at a rate below the variable bond rate, the synthetic interest rate will be greater than anticipated. The swap includes an additional termination event based on downgrades in credit ratings. The swap may be terminated by the Airport if JP Morgan Chase's ratings fall below A- or A3, or by JP Morgan Chase if the Airport's ratings fall below BBB or Baa2. However, because the Airport's swap payments are insured by MBIA, no termination event based on the Airport's ratings can occur as long as MBIA is rated at least A- or A3.

As of June 30, the rates were:

<u>Interest Rate Swap</u>	<u>Terms</u>	<u>Rates</u>
Fixed payment to JPMorgan Chase	Fixed	6.044%
Variable rate from JPMorgan Chase	SIFMA	<u>1.550%</u>
Net interest rate swap payments		4.494%
Variable rate bond coupon payments	Weekly resets	<u>5.350%</u>
Synthetic interest rate on bonds		<u><u>9.844%</u></u>

The 5.35% interest is a weighted average of the percentage of bonds that were owned by the liquidity bank and being charged 5% and those in the market with investors, which were at a rate of 7.9%. Because of the disruption in the markets, the City worked together with the Airport on restructuring the 2005C bonds with a letter of credit.

On December 23, 2008, the 2005C bonds were successfully remarketed with a letter of credit provided by TD Bank. The letter of credit will provide both a credit facility and liquidity facility. As a result, through February 2009, the weekly resets have been closely approximating the SIFMA-based rate from JP Morgan Chase.

CITY OF PHILADELPHIA
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7. INTEREST RATE SWAPTION (continued)

Swap Payments and Associated Debt: As of June 30, 2008, debt service requirements of the variable-rate debt and net swap payments for their term, assuming current interest rates remain the same, were as follows:

Fiscal Year Ending June 30	Variable Rate Bonds Principal	Variable Rate Bonds Interest	Interest Rate Swaps Net	Total Interest
2009	\$ 4,700,000	\$ 9,555,100	\$ 8,026,284	\$ 17,581,384
2010	5,300,000	9,303,650	7,815,066	17,118,716
2011	6,000,000	9,020,100	7,576,884	16,596,984
2012	6,700,000	8,699,100	7,307,244	16,006,344
2013	7,500,000	8,340,650	7,006,146	15,346,796
2014 - 2018	49,100,000	34,876,650	29,296,386	64,173,036
2019 - 2023	53,200,000	17,168,150	14,421,246	31,589,396
2024 - 2025	46,100,000	4,980,850	4,183,914	9,164,764
	<u>\$ 178,600,000</u>	<u>\$ 101,944,250</u>	<u>\$ 85,633,170</u>	<u>\$ 187,577,420</u>

As rates vary, variable rate bond interest payments and swap payments will vary. The swap increases the Aviation Fund's exposure to variable interest rates starting June 15, 2008 and thereafter to the extent that the rolling 180-day average of the SIFMA Municipal Swap Index exceeds 7.00%. Should that occur, JPMorgan Chase has the option to terminate the swap.

8. BONDS PAYABLE

General obligation (G.O.) bonds, payable out of Aviation Fund revenues, consist of bonds declared by statute to be self-sustaining from airport revenues. There are no G.O. bonds outstanding as of June 30, 2008.

In July 1997, Airport Revenue Refunding Bonds, Series 1997A in the amount of \$123,565,000 were issued. The proceeds of Series 1997A were used to: refund the City's Airport Revenue Bonds, Series 1978, Series 1984, and Series 1985; fund the deposit into the sinking fund reserve; and, pay costs of issuance relating to the bonds.

In March 1998, Airport Revenue Refunding Bonds, Series 1998A in the amount of \$123,405,000 were issued. The proceeds of these bonds were used to refund the City's Airport Revenue Bonds, Series 1988; fund the deposit into the sinking fund reserve; and, pay costs of issuance relating to the bonds.

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8. BONDS PAYABLE (continued)

In July 1998, Airport Revenue Bonds, Series 1998B in the amount of \$443,700,000 were issued. The proceeds of Series 1998B were used to prepay the City's fixed rental obligation under a lease with PAID (the PAID Lease). Under this lease, the City acquired a leasehold interest and will occupy, operate and manage certain new terminals and related improvements (the US Airways Project Facility), constructed with funds provided by the Series 1998A PAID Airport Revenue Bonds.

In July 2001, Airport Revenue Bonds, Series 2001A in the amount of \$187,680,000 were issued. The proceeds of Series 2001A were used to prepay an additional fixed rental obligation under the PAID Lease, attributable to completion costs of the US Airways Project Facility.

In July 2001, Airport Revenue Bonds, Series 2001B in the amount of \$40,120,000 were issued. The proceeds of Series 2001B were used to finance certain capital improvements to the airport system; fund the deposits into the sinking funds; finance capitalized interest; and, pay costs of issuance relating to the bonds.

In June 2005, Airport Revenue Refunding Bonds, Series 2005C in the amount of \$189,500,000 were issued. The proceeds of Series 2005C were used to refund \$183.9 million of the 1995A Series Airport Revenue Bonds, maturing from 2006 through 2025, and to pay issuance and insurance costs on the bonds. The cash flow required by the new bonds was the same as the cash flow required by the refunded bonds at the time of the sale. JP Morgan entered into a swaption agreement with the Airport on the 1995A bonds, in 2002, which agreement was exercised June 15, 2005. Subsequent to June 30, 2008, the Airport remarketed the 2005C bonds, to replace both the municipal bond insurance and a JP Morgan liquidity facility with a letter of credit provided by TD Bank.

In June 2005, Airport Revenue Bonds, Series 2005B in the amount of \$41,000,000 were issued. The proceeds of Series 2005B were used to finance a portion of the 2005 project, finance capitalized interest during construction of the project, and pay costs of issuance relating to the bonds.

In August 2005, Airport Revenue Bonds, Series 2005A sub-series (1), (2) and (3) in the amounts of \$59,860,000, \$22,575,000 and \$42,550,000, respectively, were issued. The proceeds of Series 2005A were used to finance a portion of the cost of Airport capital projects. Sub-series (1) are serial bonds and sub-series (2) and (3) are term bonds.

In August 2007, Airport Revenue Bonds, Series 2007A in the amount of \$172,470,000 were issued. The proceeds of Series 2007A were used to finance a portion of the 2007 Project (infrastructure improvements and design of terminal building enhancements), finance capitalized interest during the construction period and to pay the costs of issuing and insuring the bonds with municipal bond insurance and a surety policy.

CITY OF PHILADELPHIA
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8. BONDS PAYABLE (continued)

In August 2007, Airport Revenue Bonds, Refunding Series 2007B in the amount of \$82,915,000 were issued. The proceeds of Series 2007B were used to refund Revenue Bonds, Series 1997B and the costs of issuing and insuring the bonds with municipal bond insurance. The refunding structure of the 2007B bonds realized a net present value savings of approximately \$2.6 million or 3.22% of the principal amount of the refunded bonds. The early extinguishment of debt resulted in an accounting loss of approximately \$3.2 million, representing the difference between the reacquisition price of \$871.4 million and the amount of debt extinguished of \$81.4 million (less \$1.5 million unamortized discount). The resulting loss will be amortized over the life of the refunded bonds through 2027.

On June 9, 2008 the City purchased a letter of credit from Wachovia Bank, N.A. to replace the surety policy originally purchased from FGIC related to the sinking fund reserve account for the 1998B Airport Revenue Bonds. Because FGIC was downgraded below the 'AA' category, the surety policy no longer met the rating requirements of the General Airport Revenue Bond Ordinance. The letter of credit meets the ordinance's rating requirements.

The early extinguishment of debt can result in a loss on refunding, representing the difference between the reacquisition price plus unamortized premium, discount and issuance costs, and the amount of debt extinguished. The resulting loss is amortized annually over the life of the refunded bonds.

The amount of debt service payable for revenue bonds to maturity is as follows:

Years Ending	Total		
June 30	Principal	Interest	Debt Service
2009	\$ 36,300,000	\$ 69,125,937	\$ 105,425,937
2010	38,505,000	66,889,481	105,394,481
2011	47,400,000	64,422,381	111,822,381
2012	50,255,000	61,443,950	111,698,950
2013	53,355,000	58,277,212	111,632,212
2014-2018	297,025,000	240,586,653	537,611,653
2019-2023	294,820,000	157,210,019	452,030,019
2024-2028	303,300,000	83,652,769	386,952,769
2029-2033	124,560,000	27,347,687	151,907,687
2034-2038	57,280,000	6,461,625	63,741,625
Total	<u>\$ 1,302,800,000</u>	<u>\$ 835,417,714</u>	<u>\$ 2,138,217,714</u>

CITY OF PHILADELPHIA
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Total interest cost for the fiscal year was \$72,417,089 of which \$14,748,586 was capitalized and \$57,668,503 was recorded as non-operating expense.

Details of the various revenue bonds included in the financial statements are reflected on the following page. Airport Revenue Bonds Series 1998B and 2001A reflect the PAID outstanding balances, which are treated as conduit debt under GASB Interpretation 2. Payments on the conduit debt are guaranteed by General Airport Revenue Bonds Series 1998B and 2001A.

CITY OF PHILADELPHIA
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8. **BONDS PAYABLE** (continued)

Type of Debt	Description	Authorized and Issued	Included in Current Liabilities	Portion Due After June 30, 2009	Total Outstanding Bonded Debt	Final Maturity	Interest Percentage Rate
Airport Revenue Bonds - Series 1997A	Loan # 705	\$ 123,565,000	\$ 4,210,000	\$ 30,570,000	\$ 34,780,000	2015	5.00 - 6.00%
Airport Revenue Bonds - Series 1998A	Loan # 705	\$ 123,405,000	6,110,000	71,965,000	78,075,000	2016	5.25 - 6.00%
Airport Revenue Bonds - Series 1998B	Loan # 706	\$ 443,700,000	10,680,000	377,820,000	388,500,000	2028	4.25 - 5.38%
Airport Revenue Bonds - Series 2001A	Loan # 707	\$ 187,680,000	4,435,000	164,225,000	168,660,000	2028	4.00 - 5.50%
Airport Revenue Bonds - Series 2001B	Loan # 708	\$ 40,120,000	860,000	35,455,000	36,315,000	2031	4.00 - 5.25%
Airport Revenue Bonds - Series 2005B	Loan # 709	\$ 41,000,000	-	41,000,000	41,000,000	2020	Variable Rate
Airport Revenue Bonds - Series 2005C	Loan # 710	\$ 189,500,000	4,700,000	173,900,000	178,600,000	2025	Variable Rate
Airport Revenue Bonds - Series 2005A	Loan # 711	\$ 124,985,000	2,340,000	122,645,000	124,985,000	2035	4.50 - 5.00%
Airport Revenue Bonds - Series 2007A	Loan # 712	\$ 172,470,000	-	172,470,000	172,470,000	2037	5.00 - 5.00%
Airport Revenue Bonds - Series 2007B	Loan # 713	\$ 82,915,000	2,965,000	76,450,000	79,415,000	2027	4.50 - 5.00%
			<u>\$ 36,300,000</u>	<u>\$ 1,266,500,000</u>	<u>\$ 1,302,800,000</u>		
Airport General Obligation Bonds authorized and unissued at June 30, 2008			<u>\$ 62,500,000</u>				

CHANGES IN LONG-TERM DEBT:	Beginning Balance	Additions	Retirements/ Repayments	Ending Balance	Due Within One Year
Revenue bonds	\$ 1,161,410,000	\$ 255,385,000	\$ (113,995,000)	\$ 1,302,800,000	\$ 36,300,000
Less unamortized premium/ discount and loss on refunding	(22,393,410)	105,916	1,871,699	(20,415,795)	-
Total bonds	1,168,816,590	255,490,916	(112,123,301)	1,282,384,205	36,300,000
Workers compensation claims	3,914,024	1,347,602	(1,477,766)	3,783,860	-
Termination compensation payable	5,851,740	881,807	(684,451)	6,049,096	707,535
Legal liability	50,000	-	-	50,000	-
Arbitrage	654,080	-	(386,313)	267,767	-
	<u>\$ 1,175,385,134</u>	<u>\$ 257,720,325</u>	<u>\$ (114,671,831)</u>	<u>\$ 1,292,534,928</u>	<u>\$ 37,007,535</u>

CITY OF PHILADELPHIA
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9. FUND BALANCES

The following is a description of the restrictions for all net assets categories of the Aviation Fund:

- *Invested in Capital Assets, Net of Related Debt* reflects the investment in fixed assets net of accumulated depreciation and offset by debt service related to expended bond proceeds.
- *Restricted for Capital Projects* reflects the unexpended funds from bond proceeds and PFCs, which are reserved for construction of capital projects.
- *Restricted for Debt Service* reflects the unexpended funds from bond proceeds and PFCs, which are reserved for repayment of debt.
- *Unrestricted* reflects net assets available for current and future operations.

10. PRIOR PERIOD ADJUSTMENT

The beginning balance for unrestricted net assets increased by \$463,762 due to the recalculation of the prior year 2007 ending Net Pension Obligation by the actuary.

11. PENSION PLAN

The Aviation Fund contributes to the Municipal Pension Plan (City Plan) of the City of Philadelphia. Information for the City Plan as a whole is available in the Comprehensive Annual Financial Report (CAFR) of the City of Philadelphia for the year ended June 30, 2008. Required Supplementary Information is presented in the audited financial statement of the City Plan, which may be obtained from the Director of Finance of the City of Philadelphia.

Plan Description

The Philadelphia Home Rule Charter (the Charter) mandates that the City maintain an actuarially sound pension and retirement system. To satisfy that mandate, the City's Board of Pensions and Retirement maintains the single-employer Municipal Pension Plan (the Plan). The Plan covers all officers and employees of the City and officers and employees of five other governmental and quasi-governmental organizations. By authority of two ordinances and related amendments passed by City Council, the Plan provides retirement benefits as well as death and disability benefits. Benefits vary by the

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11. PENSION PLAN (continued)

Plan Description (continued)

class of employee. The Plan has two major classes of members – those covered under the 1967 Plan and those covered under the 1987 Plan. Both plans have multiple divisions.

Retirement Benefits

An employee who meets the age and service requirements of the particular division in which he participates is entitled to an annual benefit, payable monthly for life, equal to the employee's average final compensation multiplied by a percentage that is determined by the employee's years of credited service. The formula for determining the percentage is different for each division. If fund earnings exceed the actuarial assumed rate by a sufficient amount, an enhanced benefit distribution to retirees, their beneficiaries, and their survivors shall be considered. A deferred vested benefit is available to an employee who has 10 years of credited service, has not withdrawn contributions from the system, and has attained the appropriate service retirement age. Members of both plans may opt for early retirement with a reduced benefit. The Deferred Retirement Option Plan (DROP) was initiated on October 1, 1999. Under this plan employees that reach retirement age may accumulate their monthly service retirement benefit in an interest bearing account at the Board of Pensions for up to four (4) years and continue to be employed by the City of Philadelphia.

Death Benefits

If an employee dies from the performance of duties, his/her spouse, children or dependent parents may be eligible for an annual benefit ranging from 15% to 80% of the employee's final average compensation. Depending on age and years of service, the beneficiary of an employee who dies other than from the performance of duties will be eligible for either a lump sum benefit only or a choice between a lump sum or an annual pension.

Disability Benefits

Employees disabled during the performance of duties are eligible for an immediate benefit equal to contributions plus a yearly benefit. If the employee subsequently becomes employed, the benefit is reduced by a percentage of the amount earned. Certain employees who are disabled other than during the performance of duties are eligible for an ordinary disability payment if they apply for the benefit within one year of termination. If the employee subsequently becomes employed, the benefit is reduced by a percentage of the amount earned.

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11. PENSION PLAN (Continued)

Membership

Membership in the plan as of July 1, 2007 was as follows:

Retirees and beneficiaries currently receiving benefits	\$ 35,527
Terminated members entitled to benefits but not yet receiving benefits	1,301
Active members	<u>28,354</u>
 Total Members	 <u><u>\$ 65,182</u></u>

Funding Policy

Employee contributions are required by City Ordinance. For 1967 Plan members, employees contribute 3¾% of their total compensation that is subject to FICA and 6% of compensation not subject to FICA. 1987 Plan contribution rates are defined for the membership as a whole by Council Ordinance. Rates for individuals are then determined annually by the actuary so that total individual contributions satisfy the overall rate set by Council.

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

- The accrued actuarially determined normal costs.
- Amortization of the unfunded actuarial accrued liability determined as of July 1, 1985. The portion of that liability attributable to a class action lawsuit by pension fund beneficiaries (the Dombrowski suit) is amortized in level installments, including interest, over 40 years through June 30, 2009. The remainder of the liability is amortized over 34 years with increasing payments expected to be level as a percentage of each year's aggregate payroll.

CITY OF PHILADELPHIA
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11. PENSION PLAN (Continued)

Funding Policy (continued)

- Amortization in level dollar payments of the changes to the July 1, 1985 liability due to the following causes over the stated period:
 - non-active members’ benefit modifications (10 years)
 - experience gains and losses (15 years)
 - changes in actuarial assumptions (20 years)
 - active members’ benefit modifications (20 years)

Under the City’s current funding policy, the total required employer contribution for the current year amounted to \$517.9 million or 35.4% of covered payroll of \$1,461.6 million for the City as a whole. The City’s actual contribution was \$412.4 million, which met the Minimum Municipal Obligation as required by the Commonwealth of Pennsylvania’s Acts 205 and 189. The annual pension cost and related percentage contributed for the three most recent fiscal years for the Aviation Fund are as follows:

<u>June 30</u>	<u>Annual Pension Cost</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
2006	\$13,663,570	79.9%	\$(21,024,755)
2007	\$17,097,141	83.9%	\$(16,607,899)
2008	\$19,400,959	79.6%	\$(11,836,075)

The actuarial valuation used to compute the current year’s required contribution was performed as of July 1, 2007. Methods and assumptions used for that valuation include:

- the individual entry age actuarial cost method
- a five-year smoothed market value method for valuing investments
- a level percentage closed method for amortizing the unfunded liability
- an annual investment rate of return of 8.75%
- projected annual salary increases of 5.0% (including inflation)
- annual inflation of 2.75%
- no post-retirement benefit increases

Administrative costs are funded out of the Plan’s assets.

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11. PENSION PLAN (Continued)

Funding Status

The following schedule shows the funding status based on the latest actuary report for the City as a whole. The schedule of funding progress, which presents multiyear trend information about whether the actuarial value of the plan assets is decreasing over time relative to the actuarial accrued liability for benefits, can be found in the Required Supplementary Information section of the CAFR.

(in millions)						UAAL as a
Actuarial	Actuarial	Actuarial	Unfunded	Funded	Covered	Percent of
Valuation	Value of	Accrued	AAL	Ratio	Payroll	Covered
<u>Date</u>	<u>Assets</u>	<u>Liability (AAL)</u>	<u>(UAAL)</u>		<u>Payroll</u>	<u>Payroll</u>
7/1/2007	\$ 4,421.7	\$ 8,197.2	\$ 3,775.5	53.94%	\$ 1,351.8	279.29%

Net Pension Obligation

The City and other employers' annual pension cost and net pension obligation (NPO) for the Plan for the current year were as follows:

(in thousands)	
Annual Required Contribution (ARC)	\$ 536,874
Interest on Net Pension Obligation (NPO)	(60,685)
Adjustment to ARC	84,785
Annual Pension Cost	<u>560,974</u>
Contributions Made	<u>426,934</u>
Increase in NPO	134,040
NPO at Beginning of Year*	(693,545)
NPO at End of Year	<u><u>\$ (559,505)</u></u>
Interest Rate	8.75%
15 Year Amortization Factor (EOY)	8.18%

* The NPO at the beginning of the year differs from the NPO at June 30, 2007 by \$13.0 million due to a recalculation of the Contributions Made during fiscal 2007.

The required employer contribution for the Aviation Fund was 32.1% of covered payroll of \$60.4 million.

CITY OF PHILADELPHIA
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(Unaudited)

11. PENSION PLAN (Continued)

Summary of Significant Accounting Policies

Financial statements of the Plan are prepared using the accrual basis of accounting. Contributions are recognized as revenues when due, pursuant to formal commitments, as well as statutory or contractual requirements. Benefits and refunds paid are recognized when due and payable in accordance with the terms of the plan.

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

12. ACCUMULATED UNPAID SICK LEAVE

The Aviation Fund follows City policies regarding accumulation of sick leave. Sick leave can be accumulated to predetermined balances, but is payable only upon retirement or in some cases death. The City budgets for, and charges, the cost of sick leave as it is taken.

13. OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan description: The City of Philadelphia self-administers a single-employer, defined benefit plan and provides health care for five years subsequent to separation for eligible retirees. Certain union represented employees may defer their coverage until a later date but the amount that the City pays for their health care is limited to the amount that the City would have paid at the date of their retirement. The City also provides lifetime insurance coverage for all eligible retirees. Firefighters are entitled to \$7,500 coverage and all other employees receive \$6,000 in coverage. The Plan does not issue stand alone financial statements, and the accounting for the plan is reported within the financial statements of the City of Philadelphia.

Funding Policy: The City funds its retiree benefits on a pay-as-you-go basis. To provide health care coverage, the City pays a negotiated monthly premium for retirees covered by union contracts or pays the health care providers directly for non-unionized employees. For fiscal year 2008, the City paid \$75.8 million for retiree healthcare.

Annual OPEB Cost and Net OPEB Obligation: The City's annual other post employment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding, which if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty (30) years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the net OPEB obligation:

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June 30, 2008
(Unaudited)

13. OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continue)

	(in thousands)
Annual required contribution	\$ 83,249
Interest on net OPEB obligation	124
Annual OPEB cost	<u>83,373</u>
Payments made	<u>(79,705)</u>
Increase in net OPEB obligation	3,668
Net OPEB obligation – beginning of year	<u>-</u>
Net OPEB obligation – end of year	<u><u>\$ 3,668</u></u>

Funded Status and Funding Progress: As of July 1, 2007, the most recent (initial) actuarial valuation date, the City is funding OPEB on a pay as you go basis and accordingly, the unfunded actuarial accrued liability (UAAL) for benefits was \$1.1 billion. The covered annual payroll was \$1.5 billion and the ratio of the UAAL to the covered payroll was 73.3 percent.

The required schedule of funding progress, presenting the multi-year trend information about the actuarial value of the plan assets relative to the actuarial accrued liability, is contained in the comprehensive annual financial report of the City of Philadelphia.

Actuarial Methods and Assumptions: Projections of costs for financial reporting purposes are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing costs between the employer and the plan members.

Costs were determined according to the individual entry age actuarial cost method with the attribution period ending at each decrement age. This is consistent with the cost method used for the City of Philadelphia Municipal Retirement System. Unfunded liabilities are funded over a 30 year period as a level percentage of payroll, which is assumed to increase at a compound annual rate of 4% per year. The actuarial assumption included a 3.5% compound annual interest rate on the City's general investments.

CITY OF PHILADELPHIA
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June 30, 2008
(Unaudited)

14. OPERATING LEASES

Subsequent to June 30, 2007, the City and the participating airlines executed a new 4 year Airport-Airline Use and Lease Agreement effective July 1, 2007. The new Airline Agreement employs a residual cost center approach, wherein airline rates and charges are calculated to fund the annual net expense of PHL's airfield and terminal facilities, after taking into account non-airline revenues generated by the Airport. The rate-making provisions of the new agreement also provide for the creation and funding of Airport budgetary reserves to enhance PHL's financial capacity and flexibility.

The Aviation Fund's other operating leases consist primarily of leases of airport facilities for retail or other aviation related matters. Most assets constructed by lessees under terms of the lease revert to the City at the end of the lease term. Those assets are recorded at fair value, which is estimated replacement value less applicable depreciation. During fiscal year 2008, no such properties reverted to the City.

The Aviation Fund's most significant non-airline lease is with MarketPlace Redwood, LP for the development and management of the food and retail program throughout Philadelphia International Airport. The award-winning food and retail program consists of 159 shops, restaurants, retail carts and passenger services throughout Terminals A-West through F. The lease agreement provides for MarketPlace Redwood, LP to pay rentals to the City in the form of minimum annual guarantees and profit sharing.

Rental income from operating leases for the year was as follows:

Minimum rentals	\$ 26,123,372
Additional rentals	<u>137,503,507</u>
Total rental income	<u><u>\$ 163,626,879</u></u>

CITY OF PHILADELPHIA
AVIATION FUND
Notes to Financial Statements
June 30, 2008
(Unaudited)

14. OPERATING LEASES (continued)

As of year-end, future minimum rentals to be received under noncancelable operating leases are as follows:

Years Ending June 30	Future Payments
2009	\$ 19,333,947
2010	17,668,472
2011	15,293,687
2012	14,288,122
2013	7,023,993
2014-2018	32,381,748
2019-2023	21,471,197
2024-2028	12,955,323
2029-2033	13,465,128
Total	<u>\$ 153,881,617</u>

The separate cost and carrying amount of property held for leasing is not available.

15. RISK MANAGEMENT

The Aviation Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Aviation Fund is self-insured for worker's compensation and unemployment compensation and insured through insurance carriers for other coverage.

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

CITY OF PHILADELPHIA
AVIATION FUND
Notes to Financial Statements
June 30, 2008
(Unaudited)

15. RISK MANAGEMENT (continued)

At June 30, the amount of these liabilities for the City as a whole was \$261.1 million. This liability is the City's best estimate based on available information. Changes in the reported liability since June 30, 2006 resulted from the following:

	Beginning Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Liability
Fiscal 2007	\$ 270.7	\$ 85.3	\$ (80.1)	\$ 275.9
Fiscal 2008	\$ 275.9	\$ 74.2	\$ (89.0)	\$ 261.1

(in millions)

The City's unemployment and workers' compensation coverages are provided through its general fund and are funded by a prorata charge to the various funds. The City's payments for the year were \$3.2 million for unemployment compensation claims and \$52.3 million for workers' compensation claims.

The City's estimated outstanding workers' compensation liabilities are \$222.6 million discounted at 4% and \$299.5 million on an undiscounted basis. These liabilities include provisions for indemnity, medical and allocated loss adjustment expense (ALAE). Excluding the ALAE, the respective liabilities for indemnity and medical payments relating to workers compensation total \$201.9 million discounted and \$272.9 million undiscounted. The Aviation Fund's accrued liability for worker's compensation was \$3,783,860 at June 30, 2008. Further discrete information is not available for the Aviation Fund.

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

16. CONCENTRATION OF CREDIT RISK

US Airways is the principal airline serving Philadelphia International Airport. For Fiscal 2008, the airline, together with its US Airways Express affiliates accounted for approximately 63.0% of passengers enplaned at the airport. Operating revenues from US Airways and its affiliates totaled approximately \$97.0 million in Fiscal Year 2008, which represented approximately 40.0 % of total Aviation Fund operating revenues.

CITY OF PHILADELPHIA
AVIATION FUND
Notes to Financial Statements
June 30, 2008
(Unaudited)

17. CONTINGENCIES AND COMMITMENTS

As of June 30, 2008, the Aviation Fund had commitments of approximately \$24.5 million for operating expenses and \$225.1 million for capital assets and improvements. The Aviation Fund expects to fund these commitments through operations and through capital grants, bond proceeds, and passenger facility charges.

18. SUBSEQUENT EVENTS

In December 2008 the outstanding balance of \$178.6 million of Airport Revenue Refunding Bonds Series 2005C was reoffered under an irrevocable direct pay letter of credit (LOC) from TD Bank (the Bank). The LOC replaces a bond issuance policy from MBIA Insurance Corporation issued simultaneously with the issuance of the 2005C bonds in June 2005, and a liquidity facility for the 2005C bonds provided by JP Morgan Chase Bank, N.A. The LOC will constitute both a credit facility and liquidity facility under the Ordinance and the Variable Rate Securities Agreement, and the Bank will be a credit provider and liquidity provider under the Ordinance and the Variable Rate Securities Agreement. The bonds will have a weekly interest rate and maturity date of 2025.

The Airport Revenue Bonds Series 2005A and 2005B currently have MBIA Insurance Corporation surety policies for their sinking fund reserve requirements. Because MBIA was downgraded below the 'AA' category, the surety policies no longer meet the requirements of the General Airport Revenue Bond Ordinance. The City is working together with the airport on refunding the Series 2005B Bonds as well as the reserve fund surety for the 2005B bonds and is pursuing remedies to meet the ordinance requirements as it relates to the reserve fund surety for the 2005A bonds.

CITY OF PHILADELPHIA
AVIATION FUND

*Reconciliation of Fund Balance (Legally Enacted Basis) to
Net Assets (GAAP Basis)
For the Year Ended June 30, 2008
(Unaudited)*

Fund balance, legal basis June 30, 2008	\$ 61,412,637
Add assets not included in legal basis:	
Current assets	14,154,590
Fixed assets, net of depreciation	1,474,347,828
Restricted assets	524,482,249
Net pension asset	11,836,075
	<u>2,024,820,742</u>
Deduct liabilities not included in legal basis:	
Construction accounts payable	(33,618,458)
Current liabilities	(20,774,640)
Bonds payable	(1,282,202,563)
Other long-term liabilities	(9,443,188)
	<u>(1,346,038,849)</u>
Add (deduct) fund balance accounts included in legal basis:	
Reserve for encumbrance, current	22,896,591
Reserve for encumbrance, prior	(4,587,529)
Reserve for collectible accounts	834,651
	<u>19,143,713</u>
Net assets - GAAP basis, June 30, 2008	<u><u>\$ 759,338,243</u></u>

CITY OF PHILADELPHIA
AVIATION FUND
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2008
(Unaudited)
(Amounts in thousands)

	<u>Budgeted Amounts</u>			<u>Final Budget to Actual Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<u>Revenues</u>				
Taxes	\$ -	\$ -	\$ -	\$ -
Locally Generated Non-Tax Revenue	343,775	323,342	275,310	(48,032)
Revenue from Other Governments	2,500	2,000	1,755	(245)
Revenue from Other Funds	1,040	10,930	10,786	(144)
Total Revenues	347,315	336,272	287,851	(48,421)
<u>Expenditures and Encumbrances</u>				
Personal Services	64,734	64,734	60,310	4,424
Pension Contributions	18,750	18,951	18,951	-
Other Employee Benefits	17,624	20,240	20,240	-
Sub-Total Employee Compensation	101,108	103,925	99,501	4,424
Purchase of Services	103,389	101,567	81,398	20,169
Materials and Supplies	10,296	10,488	7,886	2,602
Equipment	7,539	7,348	3,273	4,075
Contributions, Indemnities and Taxes	5,078	4,260	1,565	2,695
Debt Service	101,150	101,150	84,529	16,621
Payments to Other Funds	24,467	24,289	4,970	19,319
Advances, Subsidies, Miscellaneous	-	-	-	-
Total Expenditures and Encumbrances	353,027	353,027	283,122	69,905
Operating Surplus (Deficit) for the Year	(5,712)	(16,755)	4,729	21,484
Fund Balance Available for Appropriation, July 1, 2007	51,904	42,583	42,583	-
<u>Operations in Respect to Prior Fiscal Years</u>				
Commitments Cancelled - Net (Budget Book)	12,000	15,000	14,015	(985)
Revenue Adjustments - Net	-	-	-	-
Prior Period Adjustments	-	-	83	83
Other Adjustments	-	-	-	-
Adjusted Fund Balance, July 1, 2007	63,904	57,583	56,681	(902)
Fund Balance Available for Appropriation, June 30, 2008	\$ 58,192	\$ 40,828	\$ 61,410	\$ 20,582