
**PHILADELPHIA
REGIONAL PORT AUTHORITY**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
YEARS ENDED JUNE 30, 2008 and 2007**

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Independent Auditor's Report

To the Board of Directors
of the Philadelphia Regional Port Authority

We have audited the accompanying financial statements of the Philadelphia Regional Port Authority (the Authority) as of June 30, 2008 and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Authority as of and for the year ended June 30, 2007 were audited by other auditors whose report, dated September 21, 2007, expressed an unqualified opinion on those financial statements.

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

As discussed in Note 1, the financial statements present only the Authority and do not purport to, and do not, present fairly the financial position of the Commonwealth of Pennsylvania, and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Philadelphia, PA
September 5, 2008

Thompson, Cobb, Bazilio & Associates, P.C.

**PHILADELPHIA REGIONAL PORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008 AND 2007**

This section of the Philadelphia Regional Port Authority's (the Authority) annual financial report represents management's discussion and analysis of the Authority's financial performance during the fiscal year that ended June 30, 2008.

OVERVIEW

The Philadelphia Regional Port Authority (the Authority) is an independent agency of the Commonwealth of Pennsylvania. With the financial support of the Commonwealth of Pennsylvania, the Authority was created for the purpose of owning and developing the Philadelphia region's public port facilities. The Authority's mission is the management, maintenance, marketing, and promotion of the public port facilities along the Delaware River in Philadelphia. The Authority is a landlord port organization that leases its facilities to its terminal operators. The terminal operators are responsible for cargo handling and security operations and pay variable and fixed lease revenues to the Authority.

The Executive Director reports to an appointed Board of Directors. The Board is responsible for general port policy and decisions. The Board is comprised of eleven members including a Chairman who is selected by the Governor. Four members are appointed by the Governor; four by each legislative caucus; and one from Philadelphia, Delaware, and Bucks County governments.

The Authority works with the terminal operators to modernize and improve its facilities on a regular basis and to market those facilities to current and prospective users. In order to meet the needs of our tenants and shipping customers, the Authority continues to provide capital improvements to enhance the facilities' operational efficiencies and capacities. Having accessible and modern port facilities enables Pennsylvanian and regional shippers the ability to lower their overall transportation costs.

FINANCIAL HIGHLIGHTS

Fiscal Year 2008

- o The Authority did not issue any new debt or loan obligations in 2008.
- o In 2008, total operating revenues amounted to \$6,073,988 resulting in a decrease of 2.1%.
- o Total operating expenses increased 14.2% to \$25,133,392.
- o The Authority's Commonwealth operating appropriation decreased 1.3% to \$ 6,501,000.
- o In February of 2008, Citibank (the swap counterparty) notified the Authority that an alternate rate event occurred on the 2003 Series bond. The rate event was triggered because the Securities Industry and Financial Markets Association (SIFMA) municipal bond index exceeded 71% of the 30-day London Interbank Offered Rate (LIBOR) average rate for the preceding 180 days. In this mode, the swap counterparty was obligated to pay the Authority 71% of 30-day LIBOR and the PRPA was obligated to pay the bondholders of the 2003 series bond the auction rate or 175% of the SIFMA rate in the case of failed auctions. The difference in these rates caused the Authority to incur additional interest expenses of \$280,462 during the fiscal year. Since the end of fiscal year June 30, 2008, the Authority has terminated the 2003 Series Bond and related swaption, and issued new fixed rate debt to finance the defeasement.

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- In March of 2008, a \$5,890,601 judgment that was received for damages related to the collapse of the Tioga Marine Terminal frame supported building. From the judgment amount, \$928,172 was disbursed for cargo losses.
- The Commonwealth's Department of General Services contributed capital in the amount of \$31,606,761 for the construction of the Pier 74 Annex Warehouse, maintenance dredging projects, and the acquisition of two Liebherr mobile harbor cranes.
- Contributions of \$7,500,000 were received for the acquisition of Piers 122 / 124 and related property from the Commonwealth's Department of Community and Economic Development and CSX Railroad.

Fiscal Year 2007

- The Authority did not issue any new debt or loan obligations.
- In 2007, total operating revenues amounted to \$6,203,906 resulting in an increase of 12.9%. The Authority settled an outstanding lease issue with Kinder Morgan; the tenant at the Tioga II bulk transfer berth. Variable revenue increased 3.6% to \$1,727,414 due to additional cargo tonnage handled at Pier 82 and Pier 84, which increased by \$32,259 and \$79,950, respectively.
- Operating expenses increased 3.0% to \$22,002,893.
- Net non-operating revenues increased 8.9% to \$4,966,031. Other Government Appropriations (non-capital) increased 263.6 % to \$2,187,538. This is due to an accounting recognition as revenue of \$1,240,000 of prior year restricted appropriations that were recorded as funds received in advance since they were not spent in the year received.
- The Authority's Commonwealth operating appropriation increased 6.4% to \$6,585,500.
- According to the loan agreement, the frame supported building loan interest rate calculation changed from 65% of LIBOR to 65% of the bank's prime rate.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority operates on a fiscal year basis. Accordingly, basic financial statements have been presented for the fiscal years ended June 30, 2008 and June 30, 2007. This report includes the basic financial statements of the Authority. The Statement of Net Assets, the Statement of Revenues, Expenses, and Change in Net Assets and the Statement of Cash Flows provide information about the activities of the Authority and present a longer-term view of the Authority's finances. These statements detail the Authority's activities that were financed in the short- term, as well as, what remains for future spending.

The Authority reports its activities as an enterprise fund, a type of proprietary fund. Enterprise funds are used to report business-type activities of a governmental unit. Enterprise fund financial reporting focuses on the determination of operating income (loss), change in net assets, financial position, and cash flows. These statements report the Authority's net assets and changes in them. The Authority's net assets - the difference between total assets and total liabilities - are one way to measure the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net assets are indicators of whether its financial health is improving or deteriorating.

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The Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets are benchmarks that reflect the Authority's financial status. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

FINANCIAL ANALYSIS

Statement of Net Assets

Fiscal Year 2008

Total assets for 2008 increased 30.5% to \$143,773,884. In 2008, current assets were \$7,835,421, an increase of 112.5%. The significant increase in current assets is due to the following increases: unrestricted cash by \$1,982,768, temporary investments-Treasury payroll account by \$677,111, DGS receivable for capital projects by \$935,717 and prepaid/deferred expense by \$343,158.

Restricted assets decreased 21.3% to \$9,129,066 in 2008. This decrease was due to expenditures for the Intermodal Incentive Program in the amount of \$810,649 and the expenditure of \$1,770,739 for the addition of heat/humidification at Pier 38. Additionally, the Swap Reserve fund was reduced by \$268,247 to offset the cost of the alternate rate event that occurred on the 2003 Series bonds.

In 2008, net capital assets increased 34.2% to \$125,676,134. Land assets increased \$8,411,973 because of the acquisition of Pier 122 /124 and Tioga land parcels. Construction-in-progress increased by \$15,209,464 due to the Pier 74 warehouse project. The acquisition of two Liebherr cranes for Piers 82 and the Tioga Marine terminal increased equipment cost by \$5,438,000 and maintenance dredging increased land improvements by \$4,418,583.

Total liabilities decreased 7.6% to \$53,689,933. Current liabilities decreased 12.6% to \$12,472,680. This is primarily due to a reduction in capital and non-capital appropriations received in advance. These liabilities are relieved when expenditures of program funds are made for the specified purposes. In 2008, expenditures for the Intermodal Incentive Program and the addition of heat/humidification at Pier 38 reduced the Authority's grants received in advance. Long-term debt outstanding was reduced 6.0% to \$40,113,442 to reflect principal payments of \$387,684 for the Sovereign/PIDA loan and \$2,200,000 for the 2003 Series bond.

Fiscal Year 2007

The 2007 fiscal year reflects a net asset increase of 8.9% to \$52,016,674. Total assets increased 3.5% to \$110,142,020. In 2007, current assets increased 32.4% to \$3,686,940. This is due primarily to an increase in prepaid insurance and other prepaid expenses of \$691,123.

Restricted assets increased 25.7% to \$11,595,117 due to receipt of non-operating Commonwealth appropriations for the Authority's Intermodal Incentive program, and an unexpended Commonwealth community revitalization appropriation. Net capital assets increased 0.6% to \$93,633,555.

Total liabilities decreased by 0.8% to \$58,125,346. Long-term debt outstanding was reduced 14.6% to \$42,693,737 as a result of the bond and loan repayments. Current liabilities increased 91.4% to \$14,273,564 primarily due to an increase of capital and non-capital appropriations received in advance and the inclusion of a \$5,820,000 bond premium amortization as a current liability due to the pending defeasement of the 2003 bond.

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CONDENSED STATEMENT OF NET ASSETS

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2008</u> <u>%</u> <u>Change</u>	<u>2007</u> <u>%</u> <u>Change</u>
Current Assets	\$ 7,835,421	\$ 3,686,940	\$ 2,784,199	112.5	32.4
Restricted Assets	9,129,066	11,595,117	9,223,035	(21.3)	25.7
Capital Assets, Net	125,676,134	93,633,555	93,052,116	34.2	0.6
Other Non-current Assets	<u>1,133,263</u>	<u>1,226,408</u>	<u>1,319,553</u>	(7.6)	(7.1)
Total Assets	<u>143,773,884</u>	<u>110,142,020</u>	<u>106,378,903</u>	30.5	3.5
Current Liabilities	12,472,679	14,273,564	7,456,192	(12.6)	91.4
Long-term Debt Outstanding	40,113,442	42,693,737	49,995,308	(6.0)	(14.6)
Other Non-current Liabilities	<u>1,103,812</u>	<u>1,158,045</u>	<u>1,168,204</u>	(4.7)	(0.9)
Total Liabilities	<u>53,689,933</u>	<u>58,125,346</u>	<u>58,619,704</u>	(7.6)	(0.8)
Net Assets:					
Invested in Capital Assets, Net of Debt	80,077,098	44,766,340	41,525,802	78.9	7.8
Restricted for Debt Service	5,927,201	6,051,106	5,761,719	(2.0)	5.0
Restricted for Capital Grants	502,955	575,028	738,185	(12.5)	(22.1)
Restricted for Other Purposes	49,136	-	-	100.0	-
Unrestricted	<u>3,527,561</u>	<u>624,200</u>	<u>(266,507)</u>	465.1	(334.2)
Total Net Assets	<u>\$ 90,083,951</u>	<u>\$ 52,016,674</u>	<u>\$ 47,759,199</u>		

The change in net assets were attributable to:

	<u>2008</u>	<u>2007</u>
Operating and Non-operating Activities	\$ 2,926,818	\$ (1,345,638)
Depreciation and Amortization	<u>(10,777,917)</u>	<u>(9,478,105)</u>
	(7,851,099)	(10,823,743)
Capital Grants, Appropriations, Contributions and Transfers	45,918,376	15,081,218
Change in Net Assets	<u>\$ 38,067,277</u>	<u>\$ 4,257,475</u>

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STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Fiscal Year 2008

In 2008, total operating revenues decreased 2.1% to \$6,073,988. This decrease is primarily attributed to a reduction in variable tonnage at Pier 84 of \$258,145. Additionally, 2007 revenues were escalated due to one-time occurrences of outstanding lease issues for Kinder Morgan --Tioga II resulting in an increase of \$218,076.

In fiscal year 2008, total operating expenses, including depreciation was \$25,133,392 representing an increase of 14.2%. In 2008, personnel expense was \$7,934,784, an increase of 7.2%. This increase is attributed to cost of living increases for administrative personnel and contract increases for bargaining unit personnel as well as several positions being filled.

General and administrative expenses increased 33.5% to \$1,867,126. This was due primarily to increased professional fees of \$459,423 expended because of the Authority's role as the local sponsor of the Channel Deepening Project.

Marketing and business development expenses increased 36.0% to \$875,823. An \$86,000 increase in professional fees was for the engagement of a new government affairs firm and a public relations campaign. Port promotion expense increased \$108,167 due to the following initiatives: the design/printing of a new facilities brochure, printing of a port service telephone directory, and a redesign of the website.

Port operations expenses increased 19.3% to \$3,677,742. The primary reason for this increase was contractual expenses of \$336,512. Engineering and planning expenditures for several projects, Tioga Cogeneration project and Packer Avenue Crane Electrification and refrigeration enhancements, were expensed during this current year because they were not funded. Insurance increased \$203,978 or 14%. This is primarily attributed to overall increases of insurance expenditures for PAMT crane property and liability insurance. Additionally, the Authority is responsible for the property insurance for the two Liebherr mobile cranes acquired in December 2007.

In 2008, depreciation and amortization expense increased 13.7% to \$10,777,917. The operating loss was \$19,054,764, an increase of 20.7 %.

The net non-operating revenue (expenses) increased 125.6% to \$11,203,665. The major reason for this increase was a \$5,890,601 judgment award made to the Authority for damages incurred as a result of the collapsed Tioga Marine Terminal frame supported building. Interest expense increased 8.6% to \$2,373,360 as a result of a variable swap rate occurrence on the 2003 series bond (discussed later) and other expenses decreased 38.6% as a result of a \$1,471,522 decrease in the current year's pass-through grants. Prior year pass-through grants increased \$800,000 due to two National Oceanographic and Atmospheric Administration (NOAA) PORTS payments and a \$600,000 grant to fund a dredge material transportation demonstration project. Interest income decreased 24.8% to \$402,416 due to declining interest rates for qualified funds. This resulted in a net loss of \$7,851,099, which was a decrease of 27.5% from the previous year.

Total capital appropriations and contributions for 2008 were \$41,413,363, an increase of 288.7%. The Commonwealth's Department of General Services contributed capital amount was \$31,606,761, an increase of \$21,968,313 from 2007. This is primarily due to the construction of the Pier 74 Annex Warehouse, maintenance dredging projects, and the acquisition of two Liebherr mobile

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harbor cranes. Additionally, contributions of \$7,500,000 were received for the acquisition of Piers 122 / 124 and related property from the Commonwealth's Department of Community and Economic Development and CSX Railroad.

Fiscal Year 2007

In 2007, total-operating revenues amounted to \$6,203,906 resulting in an increase of 12.9%. This increase is primarily attributed to increased lease revenue from port operations. Fixed lease revenue increased 16.9% or \$647,998. In addition to the annual cost of living escalations, fixed lease revenue increased primarily due to renegotiated facility leases at the Tioga bulk transfer berth and Pier 84 leading to increases of \$382,330 and \$97,000, respectively. Variable revenue increased 3.6% to \$1,727,414 due to additional cargo tonnage handled at Pier 82 and Pier 84, which increased by \$32,259 and \$79,950, respectively.

Operating expenses, including depreciation, was \$22,002,893; representing an increase of 3.0%. In 2007 personnel expense was \$7,400,079, an increase of 5.4%. This increase is attributed to cost of living increases for administrative personnel and bargaining unit personnel received an increase as stipulated in the contract.

In fiscal year 2007, general and administrative expenses were \$1,398,357, representing a decrease of 22.5%. The decrease was attributed to a \$592,690 decrease in legal fees. This included \$380,000 of legal expenses that was capitalized for the Pier 122 and 124 land acquisition.

Marketing and business development expenses decreased 11.8% to \$644,086. This is due to decreases in port promotion of \$46,259 and professional fees of \$26,435.

In 2007, port operations costs decreased 2.5% to \$3,082,266. This was primarily attributable to decreases in expenditures for port planning of \$146,391 and insurance of \$104,778. Contractual costs increased \$176,940 or 36.2% primarily due to roof, electrical and sprinkler system maintenance performed at PRPA facilities.

In 2007, depreciation and amortization expense increased 9.7% to \$9,478,105. The Authority incurred an operating loss of \$15,789,774 resulting in a decrease of 0.4 %.

The net non-operating revenue (expenses) increased 8.9% to \$4,966,031. Interest income increased 70.8% to \$535,392 as a result of additional operating appropriations and bond payments being made earlier in the fiscal year. Other government appropriations (non-capital) for 2007 was \$2,187,538; an increase of 263.3%. This is due to an accounting recognition as revenue of \$1,240,000 of prior year restricted appropriations that were recorded as funds received in advance since they were not spent in the year received. Primary government appropriations increased 6.4% to \$6,585,500. Other expenses increased 73.2% to \$2,012,267 because of payments for the PORTS program and a significant increase in activity for the Intermodal Incentive programs.

Loss before contributions in 2007 was \$10,823,743; a decrease of 4.1%. Total capital appropriations and contributions for 2007 were \$15,081,218; 16.9% decrease. In 2007, capital grants were \$10,654,303 a decrease of \$2,579,017 or 19.5%. This decrease is primarily due to a reduction in DGS capital funds contributed during the period. Transfers In were limited to the Authority's Series 2003 debt service payments, which for 2007 was \$4,426,915.

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STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2008</u> % <u>Change</u>	<u>2007</u> % <u>Change</u>
Operating Revenues					
Leases	\$ 6,073,988	\$ 6,203,906	\$ 5,495,916	(2.1)	12.9
Other Income	4,640	9,213	10,321	(49.6)	(10.7)
Total Operating Revenues	<u>6,078,628</u>	<u>6,213,119</u>	<u>5,506,237</u>	(2.2)	12.8
Operating Expenses					
Personnel Expenses	7,934,784	7,400,079	7,022,685	7.2	5.4
General and Administrative	1,867,126	1,398,357	1,803,740	33.5	(22.5)
Marketing and Business Development	875,823	644,086	730,090	36.0	(11.8)
Port Operations	3,677,742	3,082,266	3,160,454	19.3	(2.5)
Depreciation and Amortization	10,777,917	9,478,105	8,637,938	13.7	9.7
Total Operating Expenses	<u>25,133,392</u>	<u>22,002,893</u>	<u>21,354,907</u>	14.2	3.0
Operating Loss	<u>(19,054,764)</u>	<u>(15,789,774)</u>	<u>(15,848,670)</u>	20.7	(0.4)
Non-operating Revenues (Expenses)					
Investment Income - Treasury	14,655	44,782	66,279	(67.3)	(32.4)
Interest Income	402,416	535,392	313,462	(24.8)	70.8
Other Governmental Appropriation (Non-Capital)	2,252,523	2,187,538	601,614	3.0	263.6
Primary Governmental Appropriation	6,501,000	6,585,500	6,189,900	(1.3)	6.4
Insurance Proceeds	-	21,401	1,072,673	(100.0)	(98.0)
Tioga Judgement - Fabric Building	5,862,340	-	-	100.0	-
Interest Expense	(2,373,360)	(2,185,304)	(2,290,517)	8.6	(4.6)
Debt Service Expense	(221,131)	(211,011)	(229,536)	4.8	(8.1)
Other Expenses	(1,234,777)	(2,012,267)	(1,162,101)	(38.6)	73.2
Net Non-operating Revenues	<u>11,203,665</u>	<u>4,966,031</u>	<u>4,561,774</u>	125.6	8.9
Change in Net Assets before Capital Appropriations, Contributions and Transfers	<u>(7,851,099)</u>	<u>(10,823,743)</u>	<u>(11,286,896)</u>	(27.5)	(4.1)
Capital Appropriations, Contributions and Transfers					
Capital Appropriations and Contributions	41,413,363	10,654,303	13,233,320	288.7	(19.5)
Transfers In - DCED Debt Service Payment	4,505,013	4,426,915	4,923,828	1.8	(10.1)
Total Capital Appropriations, Contributions and Transfers	<u>45,918,376</u>	<u>15,081,218</u>	<u>18,157,148</u>	204.5	(16.9)
Change in Net Assets	38,067,277	4,257,475	6,870,252	794.1	(38.0)
Total Net Assets, Beginning of Year	<u>52,016,674</u>	<u>47,759,199</u>	<u>40,888,947</u>	8.9	16.8
Total Net Assets, Ending of Year	<u>\$ 90,083,951</u>	<u>\$ 52,016,674</u>	<u>\$ 47,759,199</u>	73.2	8.9

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CAPITAL ASSETS

Fiscal Year 2008

The net capital asset value for 2008 was \$125,676,134, which represents an increase of \$32,042,578 or 34.2%.

Property increased 12.2% to \$163,866,977 because of the acquisition of Pier 122 /124 and Tioga land parcels. Construction in process increased 177.9 % to \$23,757,943 primarily due to the Pier 74-warehouse project. Equipment increased 16.2% to \$39,047,074 due to the acquisition of two Liebherr mobile cranes for Piers 82 and the Tioga Marine terminal. Maintenance dredging increased 116.4 % to \$8,215,423.

Fiscal Year 2007

The net capital asset value for 2007 was \$93,633,556, which represents an increase of 0.6%.

Property increased 4.4 % to \$146,112,553. Dredging increased 44.4% to \$3,796,840 and Construction in progress increased 40.9% to \$8,548,479 because of the start of the Pier 74 Annex project.

Philadelphia Regional Port Authority Capital Assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2008</u> <u>% Change</u>	<u>2007</u> <u>% Change</u>
Property	\$ 163,866,977	\$ 146,112,533	\$ 139,992,074	12.2	4.4
Equipment	39,047,074	33,609,071	33,320,916	16.2	0.9
Dredging	8,215,423	3,796,840	2,628,532	116.4	44.4
Construction in Progress	23,757,943	8,548,479	6,065,855	177.9	40.9
Sub-Total	<u>234,887,417</u>	<u>192,066,923</u>	<u>182,007,377</u>	22.3	5.5
Accumulated Depreciation and Amortization	<u>(109,211,283)</u>	<u>(98,433,367)</u>	<u>(88,955,261)</u>	10.9	10.7
Net Capital Assets	<u>\$ 125,676,134</u>	<u>\$ 93,633,556</u>	<u>\$ 93,052,116</u>	34.2	0.6

BANK LOANS AND NOTES PAYABLE

In fiscal year 2003, the Authority received a \$3.79 million loan from Sovereign Bank to purchase the Tioga frame-supported warehouse. A restructuring of that loan occurred in 2004, which included receiving a \$1,440,000 low-interest loan from the Pennsylvania Industrial Development Authority (PIDA). This was used to pay down the original loan.

Fiscal Year 2008

Total loans outstanding decreased 13.7% to \$2,407,685. Total current portions of loans outstanding increased 1.3% to \$387,684. Noncurrent portion decreased 16.1% to \$2,021,001.

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Fiscal Year 2007

Total loans outstanding decreased 11.9% to \$2,790,302. Total current portions of loans outstanding decreased 1.3% to \$382,617. The non-current portion increased 13.7% to 2,407,685.

Philadelphia Regional Port Authority Loans Payable

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2008</u> <u>% Change</u>	<u>2007</u> <u>% Change</u>
Bank Loans					
Balance, beginning	\$ 1,512,000	\$ 1,728,000	\$ 1,944,000	(12.5)	(11.1)
Repayments	(216,000)	(216,000)	(216,000)	-	-
Balance, ending	<u>1,296,000</u>	<u>1,512,000</u>	<u>1,728,000</u>	(14.3)	(12.5)
PIDA Loan					
Balance, beginning	1,278,302	1,440,000	1,440,000	(11.2)	-
Repayments	(166,617)	(161,698)	-	3.0	-
Balance, ending	<u>1,111,685</u>	<u>1,278,302</u>	<u>1,440,000</u>	(13.0)	(11.2)
Total	<u>\$ 2,407,685</u>	<u>\$ 2,790,302</u>	<u>\$ 3,168,000</u>	(13.7)	(11.9)
Current portion	\$ 387,684	\$ 382,617	\$ 377,698	1.3	1.3
Non-current portion	<u>2,021,001</u>	<u>2,407,685</u>	<u>2,790,302</u>	(16.1)	(13.7)
Total Loans Payable	<u>\$ 2,408,685</u>	<u>\$ 2,790,302</u>	<u>\$ 3,168,000</u>	(13.7)	(11.9)

BONDS PAYABLE

The 2003 Series bond interest rate is comprised of a 5.19% fixed rate and also a variable rate component. The variable component is in the form of a swap. Unless an alternate rate event occurs, the Authority receives a floating rate payment from Citibank equal to the floating rate on the 2003 Series bonds. The same amount is paid out to the bondholders. In this variable rate scenario, the net effect is "0." This has been the case since the inception of the bond until February 2008. (See Note 8 for more details).

Fiscal Year 2008

Bonds payable decreased 5.0% to \$41,700,000. The total current portion was increased 4.5% to \$2,300,000. The non-current portion was reduced to \$39,400,000 or 5.5%.

Fiscal Year 2007

Bonds payable decreased 4.4% to \$43,900,000. The current portion was increased 10.0% to \$2,200,000. The non-current portion was reduced to \$41,700,000 or 5.0%.

**PHILADELPHIA REGIONAL PORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008 AND 2007**

Philadelphia Regional Port Authority Bonds Payable

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2008</u> %	<u>2007</u> %
				<u>Change</u>	<u>Change</u>
Balance, beginning	\$ 43,900,000	\$ 45,900,000	\$ 48,300,000	(4.4)	(5.0)
Repayments	<u>(2,200,000)</u>	<u>(2,000,000)</u>	<u>(2,400,000)</u>	-	-
Balance, ending	<u>\$ 41,700,000</u>	<u>\$ 43,900,000</u>	<u>\$ 45,900,000</u>	(5.0)	(4.4)
Current portion	\$ 2,300,000	\$ 2,200,000	\$ 2,000,000	4.5	10.0
Non-current portion	<u>39,400,000</u>	<u>41,700,000</u>	<u>43,900,000</u>	(5.5)	(5.0)
Total Bonds Payable	<u>\$ 41,700,000</u>	<u>\$ 43,900,000</u>	<u>\$ 45,900,000</u>	(5.0)	(4.4)

ECONOMIC /ADDITIONAL FACTORS

In fiscal year 2007/2008 total metric tonnage handled at the Authority's facilities were 3,875,008. This is compared to 4,727,983 handled in fiscal year 2006/2007.

Additional factors that will impact the Authority's fiscal activities in fiscal year 2009 include: the September 5, 2008 defeasement of the 2003 Series bond, the Channel Deepening project, and the Food Distribution Center Capital funding project. These items are further discussed as subsequent events in Note 15.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Commonwealth and all interested parties with a general overview of the Authority's finances and to illustrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Authority's Finance Department at 3460 N. Delaware Avenue, Philadelphia, PA 19134.

PHILADELPHIA REGIONAL PORT AUTHORITY
STATEMENTS OF NET ASSETS
JUNE 30, 2008 AND 2007

	<u>ASSETS</u>	
	<u>2008</u>	<u>2007</u>
Current Assets		
Cash and Cash Equivalents	\$ 3,670,702	\$ 1,011,018
Receivables		
Lease Rentals (Net of Allowance of \$0 for 2008 and \$151,146 for 2007)	613,200	606,785
Other	15,908	64,869
Due from Primary Government	1,759,930	862,272
Due from Federal Government	271,606	32,039
Due from Other Governments	39,345	(11,615)
Other Current Assets		
Prepaid and Deferred Expense	1,464,730	1,121,572
Total Current Assets	<u>7,835,421</u>	<u>3,686,940</u>
Non-current Assets		
Restricted Cash		
Non-Capital Grant Received in Advance	2,082,445	2,599,532
Capital Grant Received in Advance	344,381	2,115,120
Capital Improvements - Pier 84	495,675	565,836
Bond Fund	5,927,201	6,051,105
Tenant Security	279,364	263,524
Total Restricted Cash and Cash Equivalents	<u>9,129,066</u>	<u>11,595,117</u>
Capital Assets		
Non-Depreciable Capital Assets		
Construction in Progress	23,757,943	8,548,479
Land	13,967,875	5,555,902
Total Non-Depreciable Capital Assets	<u>37,725,818</u>	<u>14,104,381</u>
Depreciable Capital Assets		
Buildings and Improvements	149,899,103	140,556,630
Cranes and Equipment	39,047,074	33,609,071
Land Improvements - Dredging	8,215,423	3,796,840
Total Depreciable Capital Assets	<u>197,161,600</u>	<u>177,962,541</u>
Less Accumulated Depreciation and Amortization	<u>(109,211,284)</u>	<u>(98,433,367)</u>
Net Depreciable Capital Assets	<u>87,950,316</u>	<u>79,529,174</u>
Capital Assets, Net	125,676,134	93,633,555
Deferred Bond Issuance Costs, net of amortization of \$257,218 and \$204,903 in 2008 and 2007, respectively	636,507	688,823
Deferred Interest Rate Swap Costs, net of amortization of \$200,744 and \$159,915 in 2008 and 2007, respectively	496,756	537,585
Total Non-current Assets	<u>135,938,463</u>	<u>106,455,080</u>
Total Assets	<u>143,773,884</u>	<u>110,142,020</u>

(Continued)

PHILADELPHIA REGIONAL PORT AUTHORITY
STATEMENTS OF NET ASSETS (CONTINUED)
JUNE 30, 2008 AND 2007

LIABILITIES AND NET ASSETS

	<u>2008</u>	<u>2007</u>
Current Liabilities		
Accounts Payable and Accrued Liabilities	2,139,571	1,393,478
Interest Payable	721,410	759,470
Unearned Revenue (Capital Grants in Advance)	337,101	2,105,927
Unearned Revenue (Other Grants)	2,029,950	2,583,900
Loans Payable	387,684	382,617
Bonds Payable	2,302,197	2,202,197
Deferred Interest Rate Swap Premium, Net of Amortization of \$1,675,024 and \$1,334,341 in 2008 and 2007, respectively	4,144,976	4,485,659
Compensated Absences	107,397	93,870
Other Current Liabilities	302,393	266,446
Total Current Liabilities	12,472,679	14,273,564
Non-current Liabilities		
Loans Payable	2,020,001	2,407,685
Bonds Payable, Net of Amount on Defeasance of \$1,306,559 and \$1,413,947 in 2008 and 2007, respectively	38,093,441	40,286,052
Annuitants Medical - OPEB	539,975	-
Compensated Absences	563,837	576,631
Other Long Term Liabilities	-	581,414
Total Non-Current Liabilities	41,217,254	43,851,782
Total Liabilities	53,689,933	58,125,346
Net Assets		
Invested in Capital Assets, Net of Related Debt	80,077,098	44,766,340
Restricted for Debt Service	5,927,201	6,051,106
Restricted for Capital Grants	502,955	575,028
Restricted for Other Purposes	49,136	-
Unrestricted	3,527,561	624,200
Total Net Assets	\$ 90,083,951	\$ 52,016,674

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

PHILADELPHIA REGIONAL PORT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Operating Revenues		
Leases	\$ 6,073,988	\$ 6,203,906
Other Income	4,640	9,213
Total Operating Revenues	<u>6,078,628</u>	<u>6,213,119</u>
Operating Expenses		
Personnel Services	7,934,784	7,400,079
General and Administrative	1,867,126	1,398,357
Marketing and Business Development	875,823	644,086
Port Operations	3,677,742	3,082,266
Depreciation and Amortization	10,777,917	9,478,105
Total Operating Expenses	<u>25,133,392</u>	<u>22,002,893</u>
Operating Loss	<u>(19,054,764)</u>	<u>(15,789,774)</u>
Non-operating Revenues (Expenses)		
Investment Income - Treasury	14,655	44,782
Interest Income	402,416	535,392
Other Governmental Appropriation (Non-Capital)	2,252,523	2,187,538
Primary Governmental Appropriation	6,501,000	6,585,500
Insurance Proceeds	-	21,401
Tioga Judgement - Fabric Building	5,862,340	-
Interest Expense	(2,373,360)	(2,185,304)
Debt Service Expense	(221,131)	(211,011)
Other Expenses	(1,234,777)	(2,012,267)
Net Non-operating Revenues	<u>11,203,665</u>	<u>4,966,031</u>
Change in Net Assets Before Capital Appropriations, Contributions and Transfers	<u>(7,851,099)</u>	<u>(10,823,743)</u>
Capital Appropriations, Contributions and Transfers		
Capital Appropriations and Contributions	41,413,363	10,654,303
Transfers In - DCED Debt Service Payment	4,505,013	4,426,915
Total Capital Appropriations, Contributions and Transfers	<u>45,918,376</u>	<u>15,081,218</u>
Change in Net Assets	38,067,277	4,257,475
Net Assets, Beginning of Year	<u>52,016,674</u>	<u>47,759,199</u>
Net Assets, Ending of Year	<u>\$ 90,083,951</u>	<u>\$ 52,016,674</u>

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

PHILADELPHIA REGIONAL PORT AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Cash Flows From Operating Activities		
Cash Received from leasing activities	\$ 4,878,244	\$ 5,205,165
Cash Paid for Salaries and Wages	(7,113,317)	(7,262,907)
Cash Paid for General and Administrative	(1,755,245)	(1,394,544)
Cash paid for Marketing and Business Development	(821,954)	(642,330)
Cash Paid for Port Operations	<u>(3,429,119)</u>	<u>(3,073,861)</u>
Net Cash Used in Operating Activities	<u>(8,241,391)</u>	<u>(7,168,477)</u>
Cash Flows From Non-capital Financing Activities		
Operating Appropriation from the Commonwealth of Pennsylvania	6,501,000	6,585,500
Non-capital Grant/Appropriations Restricted for Mandated Projects	1,459,007	3,854,299
Pass through Expense from Grant/Intermodal Incentive	(1,234,777)	(2,012,267)
Tioga Legal Judgement - Fabric Building	<u>5,280,927</u>	<u>-</u>
Net Cash Provided by Non-capital Financing Activities	<u>12,006,157</u>	<u>8,427,532</u>
Cash Flows From Capital and Related Financing Activities		
Capital Expenditures	(43,401,908)	(10,059,545)
Capital Grants/Appropriations Received	39,644,537	11,181,842
Payments on Bonds Payable	(2,200,000)	(2,000,000)
Interest Payments	(2,606,655)	(2,418,599)
Debt Service Expense	(127,986)	(117,866)
Lease Payment from the Commonwealth of Pennsylvania	4,505,013	4,426,915
Principal Payments on Loans Payable	(382,617)	(377,698)
Other Income (Insurance Proceeds)	<u>581,413</u>	<u>21,401</u>
Net Cash (Used in) Provided by Capital and Related Financing Activities	<u>(3,988,203)</u>	<u>656,450</u>
Cash Flows From Investing Activities		
Investment Income	<u>417,070</u>	<u>580,174</u>
Net Increase in Cash and Cash Equivalents	193,633	2,495,679
Cash and Cash Equivalents		
Beginning of Year	<u>12,606,135</u>	<u>10,110,456</u>
End of Year	<u>\$ 12,799,768</u>	<u>\$ 12,606,135</u>
Cash and Cash Equivalents are comprised of the following:		
Current Assets	\$ 3,670,702	\$ 1,011,018
Restricted Assets	<u>9,129,066</u>	<u>11,595,117</u>
Total Cash and Cash Equivalents	<u>\$ 12,799,768</u>	<u>\$ 12,606,135</u>

(Continued)

**PHILADELPHIA REGIONAL PORT AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating Loss	\$ (19,054,764)	\$ (15,789,774)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Depreciation and Amortization	10,777,917	9,478,105
Decrease (Increase) in Trade Receivables	42,545	(33,713)
Increase in Other Current Assets	(343,158)	(691,123)
Increase in DGS Receivables	(935,717)	(102,802)
(Increase) Decrease in Deferred Rent and Security Deposits	35,947	(180,316)
(Increase) Decrease in Due from Other Governments	(50,961)	45,934
Increase in Compensated Absences & OPEB	540,707	12,773
Increase (Decrease) in Accounts Payable	544,107	(152,192)
Increase in Accrued Expenses	201,986	221,465
Increase in Other Current Liabilities	-	23,166
Total Adjustments	<u>10,813,373</u>	<u>8,621,297</u>
Net Cash Used in Operating Activities	<u>\$ (8,241,391)</u>	<u>\$ (7,168,477)</u>

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

PHILADELPHIA REGIONAL PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Structure

The Philadelphia Regional Port Authority (the Authority) was established on July 10, 1989 by Act 1989-50, the Philadelphia Regional Port Authority Act, of the General Assembly of the Commonwealth of Pennsylvania (the Commonwealth) as an independent agency. The Authority exists as a public instrumentality of the Commonwealth for the conduct of regional port and port-related activities and business along the Delaware River. The Authority was created for the purpose of owning and developing port facilities and assuming, under the terms and conditions of an agreement between the Authority and the Philadelphia Port Corporation (the PPC), the functions, powers, rights, duties and obligations exercised by the PPC.

On July 26, 1990, the Authority acquired the port-related assets and assumed the corresponding liabilities from the City of Philadelphia and the PPC. The acquisition has been accounted for as a purchase and, accordingly, the acquired assets and liabilities have been recorded at their fair values at the date of acquisition. The excess of the fair value of the net assets over the purchase price has been allocated to the capital assets.

The Authority operates a port facility and manages port-related activities to promote commerce and economic development in southeastern Pennsylvania. The Authority charges rental and other fees to port users and obtains other funding from the Commonwealth. The Authority also issues revenue bonds to finance its activities. The Commonwealth appoints all eleven voting board members and can remove board members at will. The Commonwealth provides operating and capital subsidies and pays rent in amounts equal to the Authority's debt service requirements. The Authority is fiscally dependent on the Commonwealth, as the Governor must approve the issuance of its debt.

Reporting Entity

These financial statements present only financial information about the Authority, an enterprise fund of the Commonwealth. The Enterprise Fund qualifies for inclusion in the Commonwealth's reporting entity pursuant to Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*. These financial statements do not purport to, and do not, present fairly the financial position of the Commonwealth and the changes in its financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

Basis of Accounting and Measurement Focus

The Authority's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the GASB. The Authority is an enterprise fund. Enterprise funds are used to account for operations that are financed in a manner similar to private business enterprises where periodic determination of revenues earned, expenses incurred and/or change in net assets is deemed appropriate for capital maintenance, public policy, management control, accountability or other purposes.

PHILADELPHIA REGIONAL PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The financial statements of the Authority are presented using the flow of economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, all assets and liabilities associated with the operations of the Authority are included in the Statements of Net Assets. Under the accrual basis of accounting, revenues are recognized in the period earned, and expenses are recognized in the period incurred.

Under GASB Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,"* the Authority has elected not to adopt the Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989 unless the GASB specifically adopts the FASB statement or interpretation.

As an enterprise fund, the Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from the proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are leasing revenues from its tenants. All expenses related to operating the Authority are reported as operating expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Net Assets

Net assets represent the residual interest in the Authority's assets after liabilities are deducted and consist of three components: 1) Invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Net assets invested in capital assets, net of related debt include capital assets, net of accumulated depreciation, reduced by outstanding debt attributable to acquisition and net deferred bond issuance costs, net deferred interest rate swap transaction costs and the net deferred amount on defeased bonds. Net assets are reported as restricted when constraints are imposed by third parties or enabling legislation. The Authority's restricted assets are expendable. All other net assets are unrestricted.

Appropriations

Beginning with the 1987 session, the General Assembly of the Commonwealth, with the approval of the Governor, authorized the construction of \$69,799,000 in port-related capital projects by the Commonwealth through the Department of General Services. The authorized projects relate to repairing and constructing port facilities.

The Authority receives subsidies from the Commonwealth. The Authority recognizes these subsidies as operating appropriations or capital grants, as appropriate, in the fiscal year due.

The Authority's policy is to accrue capital appropriations and grants to the extent the approved project costs are incurred. Project costs incurred prior to receipt of funds are included in Capital Assets. Lease revenue due from the Commonwealth under the terms of the lease/lease-back agreement between the Authority and the Commonwealth is included in Due from Primary Government.

PHILADELPHIA REGIONAL PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Authority considers cash on hand or in banks and investments with an original maturity of three months or less to be cash and cash equivalents. The accompanying statement of cash flows also includes the Authority's restricted cash.

Capital Assets

Capital assets purchased or acquired are reported at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of these assets are depreciated or amortized on the straight-line method over the estimated useful lives of the assets. Other costs incurred for repairs and maintenance are expensed as incurred. The principal estimated useful lives used in computing depreciation and amortizations are as follows:

Property	20 years
Equipment	3 to 20 years
Container Cranes	20 years
Dredging	3 years

Deferred Bond Issuance Costs

The costs incurred in connection with the issuance of lease revenue bonds have been deferred and are being amortized over the life of the related bond issues as an adjustment of debt service expense.

Deferred Interest Rate Swap Transaction Costs

The transaction costs incurred in connection with entering into the swaption/interest rate swap have been deferred and are being amortized over the life of the interest rate swap as an adjustment of debt service expense.

Interest Rate Swap Premium

The interest rate swap premium received has been deferred and is being amortized over the life of the interest rate swap as an adjustment of interest expense.

Deferred Amount on Defeased Bonds

The difference between the reacquisition price and the net carrying amount of the defeased debt has been deferred and is being amortized over the remaining life of the defeased debt as an adjustment of interest expense.

The reacquisition price of the defeased debt is comprised of the principal amount defeased plus the call premium paid to currently refund the debt. The net carrying amount of the defeased debt is comprised of the amount due at maturity plus the remaining unamortized debt issuance costs related to the debt.

PHILADELPHIA REGIONAL PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

The Authority earns income from the leasing of its property and facilities. The income from these leases is recognized in accordance with the terms of the leases.

Lease income received in advance is deferred and recognized in the period earned.

Compensated Absences

Employees accumulate annual leave based on 4% to 10% of regular hours paid to a maximum of 80 days. Employees are paid for accumulated annual leave upon termination or retirement. Employees accumulate 15.6 days or 20.8 days of sick leave in any twelve-month period based on 6% or 8%, respectively, of regular hours paid to a maximum of 200 days. Certain retiring employees are paid for 30% of their accumulated unused sick leave. Amounts accumulated are recognized in the Statements of Net Assets. This amount is pro-rated as current and long-term liabilities based on Commonwealth guidelines of 16% and 84%, respectively, of the total amount accrued as compared to the prior year's pro-rating of 14% and 86%, respectively.

Federal Income Taxes

The Authority qualifies under the provisions of Section 115 of the Internal Revenue Code and, therefore, is exempt from federal income taxes.

Capital Contributions – Federal and Commonwealth Capital Grants and Appropriations

The Authority receives grants and appropriations from the Commonwealth in support of its capital projects. A Federal grant was awarded and received by the Authority during the year ended June 30, 2008 for underwater sonar units as security enhancements. No Federal capital grants were received during the fiscal year ended June 30, 2007.

Appropriations and grants for capital asset acquisition, facility development and rehabilitation of facilities are reported in the Statements of Revenues, Expenses and Changes in Net Assets, after non-operating revenues and expenses as capital contributions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Authority to make estimates and assumptions that affect certain amounts and disclosures reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

PHILADELPHIA REGIONAL PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

NOTE 2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and in banks as well as demand deposits and investments with original maturities of three months or less. Investments are carried at fair market value, which also approximates cost.

At June 30, 2008 and 2007, the carrying amount of the Authority's unrestricted cash and cash equivalents with financial institutions and banks is shown below:

	<u>2008</u>	<u>2007</u>
Amount insured by the FDIC	\$ 127,692	\$ 127,071
Registered, collateralized and held by the Authority's custodian in the Authority's name	2,386,851	394,900
Uncollateralized	500	500
Amount held by the Commonwealth of Pennsylvania in the Authority's name	1,155,659	478,547
Total	<u>\$ 3,670,702</u>	<u>\$ 1,001,018</u>

The Authority's deposits and investment policy addresses custodian credit risk, interest rate risk and concentration of credit risk, as follows:

Custodian credit risk is the risk that, in the event of a failure of a financial institution, the Authority would not be able to recover deposits, the value of its investments, or collateral securities that are in the possession of an outside party. In accordance with the Pennsylvania Fiscal Code, collateral must be pledged by the banks and other financial institutions to guarantee the Commonwealth's cash on deposit. At June 30, 2008 and 2007, \$1,155,659 and \$478,547, respectively, of the Authority's unrestricted cash was held by the Commonwealth of Pennsylvania as temporary investments to fund payroll and payroll related expenses of the Authority.

At June 30, 2008 and 2007, the carrying amount of the Authority's restricted cash and cash equivalents was 9,129,066 and \$11,595,117, respectively. Of these funds \$5,927,201 and \$6,051,106, respectively, were collateralized and held by the Authority's custodian in the Authority's name. \$2,801,408 and \$5,394,011, respectively, were held in United States Treasury and Government Agency Securities through mutual fund money market accounts. Additionally, \$400,457 and \$150,195, respectively, were held in the Authority's checking account, which is registered, collateralized and held by the Authority's custodian in the Authority's name.

PHILADELPHIA REGIONAL PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of investments. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. As of June 30, 2008 and 2007, all of the Authority's investments and deposits had remaining maturities of 1 year or less.

Concentration of credit risk is the risk of loss due to the magnitude of the Authority's investments in the securities of any single issuer. The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer. Most of the Authority's deposits are placed with the Wachovia Bank, and amounts over the FDIC limit are collateralized in accordance with Act 72 of the General Assembly of the Commonwealth of Pennsylvania.

NOTE 3 RESTRICTED ASSETS

The Commonwealth Lease Revenue Bonds, Series 2003, and the currently defeased Series 1993 (Bonds) trust indentures required that a certain amount of Bonds proceeds be set aside in restricted asset accounts. Such restricted assets are to be used to meet the debt service requirements (i.e., principal and interest) of the Bonds, if for any reason there are insufficient funds available from other sources, and to provide for payment of arbitrage to the U.S. Treasury as required by certain provisions of the Internal Revenue Code.

A \$500,000 Department of Community and Economic Development (DCED) grant was received during fiscal year 2006. This grant provided funding for container security devise design and development through a sub-recipient. All but \$3,440 of interest was expended during fiscal year 2006. As of June 30, 2007, the grant was closed out and the remaining balance was returned to DCED. An audit, as called for by the grant agreement, was conducted. The findings showed that the Authority fulfilled all of their compliance requirements with respect to the monitoring of this grant. However, the audit disclosed that the sub-recipient did not comply with its contractual obligation to submit audited financial statements of the grant.

As part of the DCED appropriations for fiscal years 2004 through 2008, funds totaling \$5,900,000 were received that were restricted to the maintenance of the Forest Product facilities and Pier 82. A balance of \$337,101 remains as of June 30, 2008. The Authority also received, as part of its 2006 and 2007 appropriations, \$500,000 and \$1,000,000, respectively, that was designated strictly for an Intermodal marketing incentive. As of June 30, 2008, a balance of \$229,950 remains for this purpose. \$400,000 was received in the 2006, 2007 and 2008 fiscal year's appropriation for a PORTS navigation project. The 2006 and 2007 funds were expended during fiscal year 2007. As of June 30, 2008, the 2008 appropriation was awaiting the implementation of a contract between the parties before these funds are allowed to be expended.

During fiscal year 2007, the Authority received additional DCED funds of \$1,400,000 for a community revitalization appropriation and \$250,000 for port security. \$100,000 of the security fund was used to reimburse the Authority for security expenditures during fiscal year 2007. The remaining \$150,000 was expended during fiscal year 2008. The \$1,400,000 is in a restricted account pending the conclusion of various negotiations between the appropriate parties. It is expected that these funds will be used in the next fiscal year.

PHILADELPHIA REGIONAL PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 3 RESTRICTED ASSETS (CONTINUED)

\$706,000 of additional insurance proceeds, from the Pier 84 collapse that occurred in 2005, was received during fiscal year 2006. These funds have been restricted for addition rehabilitation design work to be done at that pier. As of June 30, 2008, a balance of \$495,675 remains.

The Authority holds a total of \$279,364 of tenant funds as security deposits. These funds are to be returned to the tenants once the lease is terminated or applied to any lease shortfalls.

The First Amendment to the Agreement of Sublease with the Commonwealth required that a portion of the proceeds of the interest rate swap premium be set-aside in restricted assets (Swap Reserve Fund). Such restricted assets are to be used, if required, to meet the debt service of the Series 2003 Lease Revenue Bonds. During fiscal year 2008 an "alternate rate event" occurred necessitating the use of these funds during the final four months of the fiscal year. The Swap Reserve Fund decreased from a balance of \$546,469 at the end of 2007 to \$278,223 at the end of fiscal year 2008 (See Note 8).

All of the above funds are kept in segregated bank accounts with the exception of the DCED PORTS Project, and newly received security deposits, which are included in the Authority's general checking account. Restricted account balances (including interest) as of June 30, 2008 and 2007 consisted of the following

	<u>2008</u>	<u>2007</u>
Debt Service Reserve Accounts	\$ 5,648,978	\$ 5,504,636
DCED Revitalization Grant	1,449,136	1,405,574
DCED Forest Product Facilities Appropriation	344,381	2,115,120
DCED Intermodal Incentive	233,309	1,043,958
DCED PORTS Project	400,000	-
DCED Security	-	150,000
Insurance Proceeds – Pier 84	495,675	565,836
Security Deposit	279,364	263,524
First Amendment to the Agreement of Sublease	278,223	546,469
Total	\$ 9,129,066	\$ 11,595,117

PHILADELPHIA REGIONAL PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was:

	<u>Beginning Balance</u>	<u>Additions and Transfers</u>	<u>Retirements and Transfers</u>	<u>Ending Balance</u>
Land and Property	\$ 146,112,532	\$ 17,754,446	\$ -	\$ 163,866,978
Equipment	33,609,071	5,438,003	-	39,047,074
Dredging	3,796,840	4,418,583	-	8,215,423
Construction in progress	8,548,479	16,022,801	(813,337)	23,757,943
	<u>192,066,922</u>	<u>43,633,833</u>	<u>(813,337)</u>	<u>234,887,418</u>
Accumulated Depreciation and Amortization	<u>(98,433,367)</u>	<u>(10,777,917)</u>	<u>-</u>	<u>(109,211,284)</u>
	<u>\$ 93,633,555</u>	<u>\$ 32,855,916</u>	<u>\$ (813,337)</u>	<u>\$ 125,676,134</u>

Capital asset activity for the year ended June 30, 2007 was:

	<u>Beginning Balance</u>	<u>Additions and Transfers</u>	<u>Retirements and Transfers</u>	<u>Ending Balance</u>
Land and Property	\$ 139,992,074	\$ 6,120,458	\$ -	\$ 146,112,532
Equipment	33,320,916	288,155	-	33,609,071
Dredging	2,628,532	1,168,308	-	3,796,840
Construction in progress	6,065,855	2,482,624	-	8,548,479
	<u>182,007,377</u>	<u>10,059,545</u>	<u>-</u>	<u>192,066,922</u>
Accumulated Depreciation and Amortization	<u>(88,955,261)</u>	<u>(9,478,106)</u>	<u>-</u>	<u>(98,433,367)</u>
	<u>\$ 93,052,116</u>	<u>\$ 581,439</u>	<u>\$ -</u>	<u>\$ 93,633,555</u>

All capital assets, except land are subject to depreciation or amortization when placed in service.

NOTE 5 BANK LOANS AND NOTES PAYABLE

During the year ended June 30, 2004, the Authority drew down the remaining \$450,635 of a \$3,600,000 unsecured facility loan that was obtained from the Sovereign Bank (the Bank) during the previous fiscal year. These funds were used to finish construction of a new temporary storage warehouse to replace the one that collapsed (See Note 9). The original financing was necessitated because of budget issues at the Commonwealth.

The original financing was structured to provide for permanent financing after the Construction Period. Effective May 24, 2004, the Construction Period ended and the Permanent Period began. This Construction Period financing was refinanced with a \$1,800,000 secured facility term loan and a \$360,000 unsecured term loan with the Bank and a \$1,440,000 secured loan from the Pennsylvania Industrial Development Authority (PIDA). The temporary storage warehouse and the certain land it occupies secure the \$1,800,000 Bank facility term loan and the \$1,440,000 PIDA loan.

During the Permanent Period, the \$1,800,000 secured facility term loan and the \$360,000 Bank term loan are repayable over a ten (10) year period, commencing July 1, 2004, during which equal monthly installments of principal plus monthly installments of variable interest as accrued on the unpaid principal balance outstanding are due. During

PHILADELPHIA REGIONAL PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 5 BANK LOANS AND NOTES PAYABLE (CONTINUED)

the Construction Period, payments of monthly variable interest only as accrued on the unpaid principal balance outstanding were due for the loans. The variable interest rate during the Construction Period and the first three (3) years of the Permanent Period is a floating rate equal to 65% of the sum of the USD thirty (30) day London Interbank Offered Rate (LIBOR) plus 2.10%. This rate was approximately 4.82% at June 1, 2007. For the first three (3) years of these loans, the Authority has entered into an interest rate swap agreement (the swap) with the Bank. Under the swap, commencing on July 1, 2004 and ended on June 1, 2007, the Authority paid a fixed rate of interest of 3.84% on the notional principal balance of the loans then outstanding to the counterparty (the Bank), in exchange for the counterparty's payment of a floating rate of interest, equal to 65% of the sum of the USD thirty (30) day LIBOR rate plus 2.10% on the same notional amount of the loans outstanding. In essence, under the swap, the variable payment received by the Authority is equal to the variable interest payment due for the notes, resulting in the Authority paying a synthetic fixed rate of 3.84%. The notional amount as to which the floating and fixed rate of interest are computed is initially \$2,160,000 and will be amortized at the same time and in the same amounts as the principal amortization of the Bank Loans. As of June 30, 2008, this amount was \$1,296,000. For the remaining six (6) years of the loans, July 1, 2008 to June 1, 2014, the interest rate will be a variable interest rate equal to 65% of the Bank's prime rate. As of June 30, 2008, this rate was 3.25%.

Interest expense was \$66,243 and \$63,344 for these Bank loans for the years ended June 30, 2008, and 2007, respectively.

The \$1,440,000 PIDA loan is repayable over a ten (10) year period at an annual interest rate of 3%. For approximately the first two years of the loan, May 18, 2004 to June 30, 2006, payments of monthly interest only on the unpaid principal balance outstanding were due. For the remaining eight (8) years of the loan, equal monthly payments of principal and interest sufficient to fully amortize the loan principal by June 1, 2014 are due. Interest paid for the years ended June 30, 2008 and 2007 was \$38,097 and \$42,847, respectively.

Bank loans and loan activity for the years ended June 30, 2008 and 2007 were:

	<u>Bank Loans</u>	<u>PIDA Loan</u>	<u>Total</u>
Balance at June 30, 2006	\$ 1,728,000	\$ 1,440,000	\$ 3,168,000
Repayments	(216,000)	(161,698)	(377,698)
Balance at June 30, 2007	\$ 1,512,000	\$ 1,278,302	\$ 2,790,302
Repayments	(216,000)	(166,617)	(382,617)
Balance at June 30, 2008	<u>\$ 1,296,000</u>	<u>\$ 1,111,685</u>	<u>\$ 2,407,685</u>

PHILADELPHIA REGIONAL PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 5 BANK LOANS AND NOTES PAYABLE (CONTINUED)

At June 30, 2008 and 2007, the balances are comprised of:

	<u>2008</u>	<u>2007</u>
Current amount:		
Bank loans	\$ 216,000	\$ 216,000
PIDA loan	171,684	166,617
Total current amount	387,684	382,617
Non-current amount	2,020,001	2,407,685
Total	\$ 2,407,685	\$ 2,790,302

The annual debt service requirements to amortize the principal and interest of the Bank loans and the PIDA loan at June 30, 2008, assuming that the Bank's prime interest rate in effect at June 30, 2008 is the same for interest payments due during the remaining six (6) years of the term of these loans, are as follows:

Year Ending June 30	Bank Loans			PIDA Loan			Total
	Principal	Interest	Total	Principal	Interest	Total	
2009	\$ 216,000	\$ 39,562	\$ 255,562	\$ 171,684	\$ 31,003	\$ 202,687	\$ 483,964
2010	216,000	32,425	248,425	176,906	25,781	202,687	472,188
2011	216,000	25,288	241,288	182,287	20,400	202,687	443,975
2012	216,000	18,151	234,151	187,831	14,856	202,687	436,838
2013	216,000	11,014	227,014	193,545	9,142	202,687	429,701
2014	216,000	3,877	219,877	199,432	3,255	202,687	422,564
Total	\$1,296,000	\$ 130,317	\$ 1,426,317	\$ 1,111,685	\$ 104,437	\$ 1,216,122	\$ 2,689,230

PHILADELPHIA REGIONAL PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 6 INTEREST RATE SWAP PREMIUM

In December 2002, the Authority entered into an interest rate Swaption transaction (Swaption) with Citigroup Inc. (Citigroup) (counterparty). Under the terms of the Swaption, the counterparty paid an up-front premium of \$5,820,000 to the Authority, and in return, the Authority granted the counterparty the right, but not the obligation, to execute an interest rate swap (Swap) with the Authority. The premium received has been deferred and is being amortized over the life of the interest rate swap on the straight line method of amortization as an adjustment to interest expense. The unamortized balance amounted to \$4,144,976 and \$4,485,659 at June 30, 2008 and 2007, respectively. Effective July 10, 2003, the counterparty exercised its right under the Swaption. Under the Swap, commencing on September 1, 2003 and ending on September 1, 2020, the Authority began paying a fixed rate of interest of 5.19% on the notional amount of the Series 2003 refunding Lease Revenue Bonds then outstanding to the counterparty, in exchange for the counterparty's payment of a floating rate of interest, equal to the floating rate of interest on the Series 2003 Lease Revenue Bonds unless certain events occur which would permit the counterparty to pay an alternate floating rate of interest, as defined. This type of event occurred and an alternate rate was charged during the last four months of fiscal year 2008 (See Note 8). The notional amount as to which the floating and fixed rates of interest are computed is initially \$53,900,000 and will be amortized at the same time and in the same amounts as the principal amortization of the Series 2003 Bonds. The current notional amount as of June 30, 2008 was \$41,700,000. In connection with the Swaption transaction, the Authority and the Commonwealth entered into the Second Amendment to Agreement of Lease and the First Amendment to Agreement of Sublease.

NOTE 7 COMMONWEALTH LEASE REVENUE BONDS PAYABLE

On July 10, 2003, the Authority issued \$53,900,000 of Series 2003 Commonwealth Lease Revenue Bonds (Series 2003 Bonds) with a variable interest rate. The Authority issued the Series 2003 Bonds to currently refund and defease a prior bond issue. Principal payments are due each year in September and interest is payable semi-annually on March 1 and September 1 of each year until final maturity on September 1, 2020. The Bonds are payable from and secured by a lien and a pledge of gross revenues derived from a lease of port facilities to the Commonwealth. The rental payable by the Commonwealth under the lease shall be subject to the annual appropriation of funds for such purpose by the Pennsylvania General Assembly. The Authority has entered into an interest rate swap agreement (Swap) with Citigroup in connection with the 2003 Series Bonds and pays a fixed rate of interest of 5.19% on the notional amount of the Series 2003 Bonds then outstanding (See Note 8).

PHILADELPHIA REGIONAL PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 7 COMMONWEALTH LEASE REVENUE BONDS PAYABLE (CONTINUED)

Commonwealth Lease Revenue Bonds payable activity for the years ended June 30, 2008 and 2007 was:

	<u>Series 2003</u>
Balance at June 30, 2006	\$ 45,900,000
Payments for 2006/2007	<u>(2,000,000)</u>
Balance at June 30, 2007	43,900,000
Payments for 2007/2008	<u>(2,200,000)</u>
Balance at June 30, 2008	<u><u>\$ 41,700,000</u></u>

At June 30, 2008 and 2007, the balances are comprised of:

	<u>2008</u>	<u>2007</u>
Current amount	\$ 2,300,000	\$ 2,200,000
Non-current amount	<u>39,400,000</u>	<u>41,700,000</u>
Total	<u><u>\$ 41,700,000</u></u>	<u><u>\$ 43,900,000</u></u>

The annual debt service requirements to amortize the principal and interest, with interest at the fixed rate of 5.19% under the swap, of the 2003 Series Bonds outstanding at June 30, 2008 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 2,300,000	\$ 2,105,871	\$ 4,405,871
2010	2,400,000	1,990,884	4,390,884
2011-2015	14,300,000	7,861,437	22,161,437
2016-2020	18,400,000	3,640,007	22,040,007
2021	<u>4,300,000</u>	<u>111,585</u>	<u>4,411,585</u>
Total	<u><u>\$ 41,700,000</u></u>	<u><u>\$ 15,709,784</u></u>	<u><u>\$ 57,409,784</u></u>

PHILADELPHIA REGIONAL PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 8 INTEREST RATE SWAP – SERIES 2003 LEASE REVENUE BONDS

Objective of the interest rate swap - As a means to lower its borrowing costs, when compared against fixed-rate bonds, the Authority entered into an interest rate swap agreement (swap) in connection with the planned refunding of the 1993 Series Bonds by issuing \$53,900,000 Series 2003 Bonds (Bonds). The intention of the swap was to effectively change the Authority's variable interest rate on the Bonds to a synthetic fixed rate of 5.19%.

Terms - The Bonds and the related swap mature on September 1, 2020, and the swap's initial notional amount of \$53,900,000 matches the \$53,900,000 initial amount of the Bonds. The swap was entered into in December 2002 in anticipation of the planned issuance of the Bonds and became effective on the same date that the Bonds were issued, July 10, 2003. The notional amounts in the swap will amortize at the same time and in the same amounts as the principal amortization of the Bonds. The Authority received an up-front premium of \$5,820,000 on the date of execution of the swap in December 2002. Under the swap, the Authority pays the counterparty a fixed payment of 5.19% and receives a variable payment equal to the floating rate of interest in effect for the Bonds. In essence the variable payment received by the Authority is equal to the variable interest payment due on the Bonds.

Upon the occurrence of certain events defined in the swap, the counterparty would be permitted to make its variable payment to the Authority based on an alternative-floating rate equal to 71% of USD thirty - 30 day LIBOR instead of the floating rate of interest in effect for the Bonds. One of the events that would permit the counterparty's payment to be equal to the alternative floating rate is that the average variable rate on the Bonds exceeds 71% of the USD thirty- (30) day LIBOR for a period of more than the next preceding 180 days.

Fair value - The swap had a negative fair value of \$5,489,799 as of June 30, 2008. After consideration of the net unamortized deferred interest rate swap premium at June 30, 2008 of \$4,144,976, this amount is a negative \$1,344,823. The swap's negative fair value may be countered up to a point by an increase in the total interest payments required under the variable rate Bonds. Because the Authority's Bonds adjust to changing interest rates, the Bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit risk - As of June 30, 2008, the Authority was exposed to credit risk because the swap had a negative fair value. The Authority could be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated AA+ by Fitch Ratings, Aa1/AA by Standard & Poor's as of June 30, 2008 and 2007. The swap counterparty's credit ratings are those of its parent, Citibank N.A. To mitigate the potential for credit risk, if the counterparty's credit quality falls below A-/A3, the fair value of the swap will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

PHILADELPHIA REGIONAL PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 8 **INTEREST RATE SWAP – SERIES 2003 LEASE REVENUE BONDS**
(CONTINUED)

In addition, the payments by the counterparty are guaranteed by the parent of the counterparty, Citibank N.A. (Credit Support Provider).

Interest rate risk - The swap increases the Authority's exposure to variable interest rates. If one of the defined events referred to above occur, including the average variable rate on the bonds exceeding 71% of the USD thirty (30) day LIBOR for more than 180 days, the Authority would be responsible to pay the difference between the actual variable interest rate payment due on the Bonds and the alternative floating rate payment received from the counterparty. The Authority's total interest payments would thereby increase and effectively increase the effective variable interest rate on the Bonds.

Under the terms of the swap, the differential resulting from the actual floating rate due on the Bonds and the payment by the counterparty of the alternative floating rate shall be considered rent due from the Commonwealth under the Authority's lease with the Commonwealth.

In addition, the Authority's Swap payments, are guaranteed by the MBIA Insurance Corporation (MBIA) pursuant to a Swap Insurance Policy.

During the current fiscal year an alternate rate event occurred. The average variable rate determined by the auctions of the bonds exceed 71% of the USD thirty (30) day LIBOR for more than 180 days, and the Authority was responsible to pay the difference between the actual variable interest rate payment due on the Bonds and the alternative floating rate payment received from Citigroup. The monthly payments of these differences, totaling \$281,099, occurred from March through June of 2008. The payments were drawn from the SWAP Reserve Fund that had been established in case an alternate event occurred. This event also initiated the decision to terminate the SWAP and refinance the bond (See Note 15).

Termination risk - The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable rate Bonds would no longer carry a synthetic interest rate.

Additionally, the Authority has the right at its option, but subject to the satisfaction of certain conditions (including, under certain circumstances, the consent of MBIA), to terminate the swap, with the amount due on account of such termination to be determined by Citigroup in its sole discretion, but if the Authority disputes such termination amount, the amount due is to be determined as if such termination were an "Early Termination Date" under the swap that will result in a termination payment, calculated under the "Market Quotation, Second Method" basis under the swap either owing by the Authority to Citigroup or owing by Citigroup to the Authority.

Citigroup's right to terminate the swap is under certain circumstances, subject to the consent of MBIA, as long as an "MBIA Event" has not occurred. Other "Additional Termination Events" under the swap that may entitle the Authority or Citigroup, as the case may be, to terminate the swap and receive (or pay) a termination payment (calculated under the "Market Quotation, Second Method" basis) include the following:

**PHILADELPHIA REGIONAL PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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**NOTE 8 INTEREST RATE SWAP – SERIES 2003 LEASE REVENUE BONDS
(CONTINUED)**

- a) Citigroup or its Credit Support Provider (Citibank N.A.) has one or more outstanding issues of rated unsecured, unenhanced senior debt and none of such issues has a rating of at least (i) Baa3 or higher as determined by Moody's Investors Service, or (ii) BBB- or higher as determined by Standard & Poor's or (iii) an equivalent investment grade rating determined by a nationally-recognized rating service acceptable to both the Authority and Citigroup.
- b) MBIA fails to meet its payment obligations under the Swap Insurance Policy and such failure is continuing with respect to the Insurer under the Swap Insurance Policy.
- c) An MBIA Event as defined in the swap has occurred and is continuing, provided, however, that additionally:
 - I. an event of default under the swap has occurred or is continuing with respect to the Authority as the defaulting party; or
 - II. a Termination Event under the swap has occurred or is continuing with respect to the Authority as the affected party; or
 - III. the Commonwealth has one or more outstanding issues of rated, unsecured, unenhanced senior debt obligations or lease obligations and none of such issues has a rating of greater than (1) "Baa3" as determined by Moody's, (2) "BBB" as determined by Standard & Poor's or (3) an equivalent investment grade rating determined by a nationally recognized ratings service acceptable to both parties.

NOTE 9 LOSS OF CAPITAL ASSET

In February 2003, a temporary storage warehouse under construction collapsed in a storm. The loss of \$3,233,757 is the net of salvage value of \$628,290 and includes retainage due of \$349,929. Associated costs such as legal, personnel and administrative costs were directly expensed as they were incurred. The loss was written off during the year ended June 30, 2003.

The Authority was involved in legal proceedings to recover this loss amount and associated costs and expenses under its insurance coverage and directly against the parties involved. The litigation along with a favorable decision and settlement was reached and completed during fiscal year 2008. Total recovery in the matter was \$5,890,601 less insurance payments of \$928,172 to various entities recovering for cargo losses, etc, for a net settlement for the Authority of \$4,962,429.

NOTE 10 RETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Authority contributes to the City of Philadelphia defined benefit municipal retirement system and the Commonwealth's defined benefit retirement system (Retired Employee Health Program (REHP)). This became effective on July 31, 1991, when employees of the

PHILADELPHIA REGIONAL PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

**NOTE 10 RETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS
(CONTINUED)**

Authority who were former employees of The Philadelphia Port Corporation, were required to make an election to either participate in the City of Philadelphia's defined benefit multi-employer municipal retirement system or switch to the Commonwealth's defined benefit multi-employer retirement system (REHP). Substantially all full-time Authority employees, with the exception of one employee, are participants in REHP. In addition, new employees of the Authority are required to participate in the Commonwealth's defined benefit multi-employer retirement system (REHP). The REHP is administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF), which acts as a third-party administrator under an administrative agreement with the Commonwealth. The REHP has been established under pertinent statutory authority.

Employees who retire from the state at any age with 25 years of service and receive an immediate pension are eligible for coverage under the REHP. In addition, the employees who retire at or over age 60 with a minimum of 20 years of service, and receive an immediate pension are eligible for coverage under the REHP.

Each plan provides postemployment healthcare benefits to eligible retired employees and beneficiaries. The Authority, through the Commonwealth of Pennsylvania, provides healthcare as a post-employment benefit to its employees that qualify for this benefit when they retire. None of the plans issues a stand-alone financial report or is included in the financial statements of a public employee retirement system.

Funding Policy

REHP contributions are established by the Office of Administration and the Governor's Budget Office. The Commonwealth funds the pay-as-you go costs by charging agencies a fixed amount per active employee per pay. The Authority has no responsibility to the retirement systems other than to make the periodic payments required under the retirement systems. Total contributions for both retirement systems were 374,030 and 323,163 for the years ended June 30, 2008 and 2007, respectively. The Authority's policy is to fund amounts billed by the retirement systems. The Authority's portion of the systems' assets and accumulated benefits is not separately determinable.

GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires state and local government employers, to move from accounting for OPEB costs from a pay-as-you-go basis to an accrual basis for the actuarially determined annual OPEB cost, which is referred to as the annual required contribution (ARC). Accordingly, the Authority recognized the additional OPEB yearly cost of \$617,085 as of June 30, 2008. The net annual payment for this health benefit as allocated by the Pennsylvania Employee Benefit Trust Fund (PEBTF), the division responsible for administering the benefit, was \$615,445. This includes the reductions for the pay as you go amount of \$75,470 and an additional charge to the ARC of \$77,110. The additional charge is offset by a contribution from the Commonwealth fund and is reflected in the Authority's books as revenue. The total Unfunded Actuarial Accrued Liability (UAAL) of the REHP for the Commonwealth of Pennsylvania amounts to \$7,259 million. The Authority's portion of this liability has not been determined. The Authority's portion of the ARC for the next fiscal year is estimated to be \$775,000.

PHILADELPHIA REGIONAL PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 11 CAPITAL AND NON-CAPITAL GRANTS AND APPROPRIATION

During the years ended June 30, 2008 and 2007, the Authority received capital appropriations from the Commonwealth's Department of General Services (DGS) in the amount of \$31,606,761 and \$9,638,448, respectively. In addition, a total of \$2,306,602 of other grants and appropriations (DCED, TSA), was applied to capital improvements during the current year as compared to the \$1,015,855 applied during fiscal year 2007.

During fiscal year 2008, the Authority acquired several parcels of land, Piers 122-124 and the Whiskey and Savage Yards, valued at \$7,500,000, by way of a land exchange labeled "Global Settlement" between CSX and the Authority.

The Authority was awarded a Maritime Administration grant for a study to develop a high-speed vessel terminal on the Delaware River. These funds are distributed to the Authority on a reimbursement basis.

NOTE 12 CONTINGENCIES

The Authority was not involved in any litigation as of June 30, 2008 or 2007.

NOTE 13 COMMITMEMNTS

Contract commitments and purchase orders for contracts in process and for pier and marine terminal rehabilitation and improvements for which materials or services were not received at June 30, 2008 and 2007 amounted to approximately \$11,186,291 and \$11,149,595, respectively. Of this amount \$10,166,359 and \$10,384,672 for fiscal years 2008 and 2007, respectively, relates to capital and pass-through grants/appropriations from the Commonwealth and other sources.

NOTE 14 MINIMUM FUTURE RENTALS

The Authority is the lessor for a number of operating leases. The following is a schedule of the future minimum lease payments receivable on non-cancelable leases at June 30, 2008:

2009	\$ 5,530,336
2010	5,101,442
2011	5,076,507
2012	5,123,713
2013	5,194,834
	<u>\$ 26,026,834</u>

PHILADELPHIA REGIONAL PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 15 SUBSEQUENT EVENTS

As discussed previously, the alternate rate event compelled the Authority to terminate the 2003 Series bonds. In order to fund the defeasement of the 2003 Series bonds, on August 14, 2008, the Authority entered into a bond purchase agreement with Janney Montgomery Scott LLC. Additionally, the Authority agreed to a \$5,489,799 swap termination fee with Citibank. The new principal amount will be \$41,965,000; with a net interest cost of 4.114%. Average annual debt service cost will increase approximately 3% (or \$154,145) from \$4,528,000 to \$4,684,000. In consideration of our position relative to the alternate rate event, this is a positive outcome for the Authority. The closing occurred September 5, 2008.

In August 2008, the Authority and United States Army Corps of Engineers executed a Project Partnership Agreement that details the responsibilities for the Authority to serve as the local sponsor for the Delaware River Channel deepening project. The Authority will work in conjunction with the U.S. Army Corps of Engineers to provide funding and technical coordination to deepen the Channel to a depth of 45 feet.

In August 2008, the Authority entered into agreements with Essington Avenue Partners (EAP) and the Philadelphia Authority for Industrial Development (PAID) to acquire 62 acres of land required for the development of a Food Distribution Center. Additionally, the Authority entered into a design build agreement with EAP for the construction of a 675,000 square foot Food Distribution Center. The total cost of the project is \$216 million; with the Commonwealth's contribution of \$150 million being delegated to the Authority. The Authority will be the owner of the property with lease payments beginning at the completion of the facility construction.

Over the past several years, the Authority acquired several properties adjacent to the Packer Avenue Marine Terminal. The properties include Parcel 9A and Piers 122 and 124. The proposed concept is to utilize those properties as well as other parcels to enter into a Private-Public Partnership for the development of a 150-acre container facility with 2,300 lineal feet of berth. In August 2008, the Commonwealth of Pennsylvania hosted a stakeholders meeting to provide information relating to the Request for Qualifications and concession process.