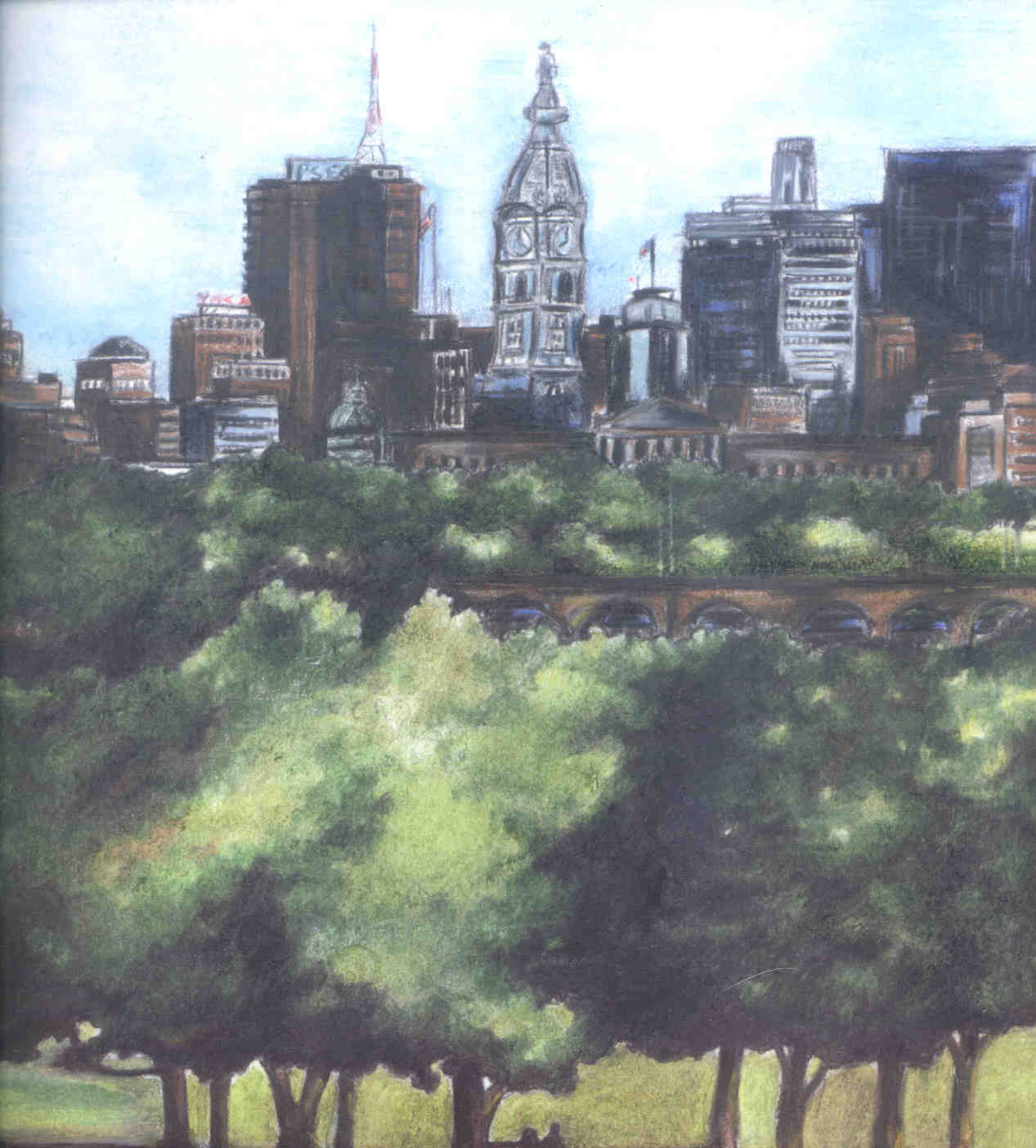


Document Accessibility

If you have a disability and the format of any material on our web pages interferes with your ability to access the information or you have a question regarding the School District's website accessibility, please contact us via any of the following means for assistance:

The School District of Philadelphia
Office of Family and Community Engagement
440 N. Broad Street, Suite 114
Philadelphia, PA 19130-4015
Email: ask@philasd.org
Tel: (215) 400-4000
Fax: (215) 400-4181

To help us respond in a manner most helpful to you, please indicate the nature of the accessibility problem, the web address of the requested material, your preferred format in which you want to receive the material (electronic format (ASCII, etc.), standard print, large print, etc.), and your contact information (name, email, telephone, and physical mailing address).



**The Comprehensive Annual Financial Report
of
The School District of Philadelphia
A Component Unit of
The City of Philadelphia, Pennsylvania
Year Ended June 30, 2004**

SCHOOL DISTRICT OF PHILADELPHIA, PENNSYLVANIA

2120 WINTER STREET, PHILADELPHIA, PENNSYLVANIA 19103

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
A COMPONENT UNIT OF THE CITY OF PHILADELPHIA, PENNSYLVANIA**

YEAR ENDED JUNE 30, 2004



Prepared by
General Accounting

Marcy F. Blender, CPA
Comptroller

Richard T. Henderson
Director

STUDENT ART

The art displayed in this report is the work of Philadelphia school students and was selected from entries submitted to the 2004 Cover Design Contest entitled “The Greening of Philadelphia”. In the late 17th century, William Penn had a dream to plan a city where people could live in peace and harmony and worship without risk of persecution. It would also be a “greene countrie towne”, with streets laid out in orderly fashion and space set aside in advance for public squares. At these public spaces citizenry could enjoy oases of outdoor greenery within easy walking distances from their homes. The theme “The Greening of Philadelphia”, provides a unique opportunity for students to explore the Philadelphia community and seek out those spaces that reflect William Penn’s ideas for a “greene countrie towne”, be it one of his original squares, a newer neighborhood park or garden, or different flora and fauna in the city. Our students have captured it all in the works of the art presented here.

The winners are as follows:

	<u>STUDENT</u>	<u>ART TEACHER</u>
1st Prize Front Cover	Christen Gerrick Northeast High School, Grade 12	Ms. Susan Cohen Smith
2nd Prize Back Cover	Angel Ortiz Edison High School, Grade 12	Ms. Susan Odessey
3rd Prize Divider: 1st	Michelle Perez Northeast High School, Grade 11	Ms. Laurie Martin
	Alexander Mostovyn Creative and Performing Arts High School, Grade 12	Ms. Thomia Jones
2nd	Victor Centeno Frankford High School, Grade 11	Ms. Nina Gordon
	Alla Melnik Northeast High School, Grade 10	Ms. Susan Cohen Smith
3rd	Joe Magdovitz Central High School, Grade 11	Ms. Debra Cooperstein
	Chantay Foreman Edward Bok Technical High School, Grade 11	Ms. Hattie Stroman

Ms. Tessie Varthas, Lead Academic Coach - Art Education





SCHOOL DISTRICT OF PHILADELPHIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
TABLE OF CONTENTS

I.	<u>INTRODUCTORY SECTION</u>	<u>Page</u>
	Letter of Transmittal	1-6
	Certificate of Achievement for Excellence in Financial Reporting, Government Finance Officers Association	7
	Certificate of Excellence in Financial Reporting, Association of School Business Officials	8
	Organizational Chart	9
	List of Principal Officials	10
II.	<u>FINANCIAL SECTION</u>	
	Independent Auditor's Report	11-12
A.	Management's Discussion and Analysis	13-28
B.	Basic Financial Statements	29
	District Wide Financial Statements	
	Statement of Net Assets	30
	Statement of Activities	31
	Governmental Fund Financial Statements	
	Balance Sheet	32-33
	Reconciliation of the Balance Sheet for Governmental Funds to the to the Statement of Net Assets	34
	Statement of Revenues, Expenditures, and Changes in Fund Balances	36-37
	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	38
	Proprietary Fund Financial Statements	
	Statement of Net Assets	39
	Statement of Revenues, Expenses, and Changes in Fund Net Assets	40
	Statement of Cash Flows	41

SCHOOL DISTRICT OF PHILADELPHIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004
 TABLE OF CONTENTS

II.	<u>FINANCIAL SECTION, CONT.</u>	<u>Page</u>
	Fiduciary Funds Financial Statements	
	Statement of Fiduciary Net Assets	42
	Statement of Changes in Fiduciary Net Assets	43
	Notes to the Financial Statements	45-80
C.	Required Supplementary Information other than Management Discussion & Analysis	
	Budgetary Comparison Schedules	
	General and Intermediate Unit Funds	82-83
	Notes to Required Supplementary Information	84-86
D.	Other Supplementary Information	
	Non-Major Governmental Funds	
	Combining Balance Sheet – Non-Major Governmental Funds	89
	Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Governmental Funds	90
	Governmental Funds	
	Schedule of Detailed Budgetary and Actual Revenues – General Fund	92
	Schedule of Budgetary and Actual Organizational Unit Obligations	
	By Object Class and Uses – General Fund	93- 98
	Schedule of Budgetary and Actual Revenues and Organizational Unit Obligations	
	By Object Class and Uses – Intermediate Unit Fund	99-100
	Schedule of Budgetary and Actual Revenues and Organizational Unit Obligations	
	By Object Class and Uses – Debt Service Fund	101
	Schedule of Budgetary and Actual Revenues and Organizational Unit Obligations	
	By Object Class and Uses – Capital Projects Fund	102
	Fiduciary Funds	
	Combining Schedule of Fiduciary Net Assets - Agency Funds	104
	Combining Statement of Changes in Assets and Liabilities - Agency Funds	105
	Schedule of Bonds Outstanding	106-108
	Capital Assets Used in the Operations of Governmental Funds	
	Comparative Schedule by Source	110
	Schedule by Function and Activity	111
	Schedule of Changes by Function and Activity	112

SCHOOL DISTRICT OF PHILADELPHIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
TABLE OF CONTENTS

III. <u>STATISTICAL SECTION</u>	<u>Page</u>
General Governmental Expenditures / Uses by Function – Fiscal Years 1995 through 2004	114
General Governmental Expenditures / Uses by Fund – Fiscal Years 1995 through 2004 Graphical Presentations	115
General Governmental Revenues / Sources – Fiscal Years 1995 through 2004	116
General Governmental Revenues by Source – Fiscal Years 1995 through 2004 Graphical Presentations	117
Real Estate Tax Levies and Collections – Fiscal Years 1995 through 2004	118
Assessed and Estimated Market Value of Taxable Realty in Philadelphia for the Calendar Years 1995 through 2004	119
Property Tax Rates – All Direct and Overlapping Governments – Calendar Years 1995 through 2004	120
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita for Fiscal Years 1995 through 2004	121
Borrowing Base and Debt Limits	122
Direct and Overlapping Long-Term Tax Supported Obligations	123
Ratio of Annual Debt Service for the General Bonded Debt and Authority Payments to Total General Expenditures Excluding Categorical Funds – Fiscal Years 1995 through 2004	124
Demographic Statistics for the Calendar Years 1994 through 2003	125
Bank Deposits, Real Property Values and Authorized Construction in the City of Philadelphia for the Calendar Years 1994 through 2003	126
Ten Largest Real Estate Assessments – Fully Taxable Properties as of January 1, 2004	127
Major Employers in the City of Philadelphia as of June 30, 2004	128
Miscellaneous Statistics for Fiscal Years 2000 through 2004	129

THIS PAGE INTENTIONALLY LEFT BLANK

THE SCHOOL DISTRICT OF PHILADELPHIA

2120 W INTER STREET

PHILADELPHIA, PENNSYLVANIA 19103-1099

PAUL G. VALLAS
CHIEF EXECUTIVE OFFICER

TELEPHONE (215) 299-7823
FAX (215) 299-4687

December 31, 2004

To the Members of the School Reform Commission:

We are pleased to present the Comprehensive Annual Financial Report of the School District of Philadelphia for the fiscal year ended June 30, 2004. These financial statements were prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America, pursuant to the Philadelphia Home Rule Charter. The management of the School District of Philadelphia assumes full responsibility for the completeness and reliability of all the information presented in this report.

The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section includes this letter of transmittal, an organization chart, and a list of principal officials of the School District. The Financial section includes Management's Discussion and Analysis, Basic Financial Statements, Required Supplementary Information, and the Combining and Individual Fund Statements. The Statistical section includes selected financial and demographic information, generally presented on a multiyear basis.

The Philadelphia Home Rule Charter requires an annual audit of the books of account, financial records, and transactions of the School District be performed by the Philadelphia City Controller. The City Controller, an independently elected official, is required to appoint a Certified Public Accountant as deputy in charge of auditing. Pursuant to these requirements, the Philadelphia City Controller's Office has conducted an independent audit of the School District's financial statements. The independent audit examined evidence supporting the amounts and disclosures in the financial statements on a test basis; assessed the accounting principles used and significant estimates made by management; and evaluated the overall financial statement presentation. The City Controller's Office concluded that there was a reasonable basis for rendering an unqualified opinion that the School District of Philadelphia's financial statements for the fiscal year ended June 30, 2004 are fairly presented in conformity with GAAP. The independent auditor's report is presented as a component of the financial section of this report.

The management has established an internal control framework that is designed to protect the District's assets from loss, theft, and misuse as well as to compile sufficient reliable information for the preparation of these financial statements in conformity with GAAP. An office internal to the School District of Philadelphia regularly reviews expenditures of

School District funds and performs selective reviews of operations and controls, further assuring that this report is complete and reliable in material respects. As part of the federally mandated “Single Audit,” the independent auditor reports annually on the School District’s internal controls and compliance with legal requirements involving the administration of federal awards. The Single Audit is designed to meet the needs of federal grantor agencies. These reports are available in the School District of Philadelphia’s separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements. This narrative is known as Management’s Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The School District’s MD&A can be found immediately following the report of the independent auditors.

Profile of the District

The School District of Philadelphia is the largest school district in the Commonwealth of Pennsylvania and the eighth largest in the United States. It serves the city of Philadelphia, Pennsylvania, the fifth largest city in the United States with a population of more than 1.6 million and a land area of 135 square miles. The School District serves over 200,000 students in pre-kindergarten through adult education programs.

The School District of Philadelphia is a separate and independent home rule school district of the first class, established by the Philadelphia Home Rule Charter (Charter) under the First Class City Public Education Home Rule Act – P.L.643 (Act). The Act expressly limits the powers of the City of Philadelphia (City) by prohibiting the City from, among other things, assuming the debt of the School District or enacting legislation regulating public education or administration, except in setting tax rates authorized for school purposes by the General Assembly of the Commonwealth of Pennsylvania.

On December 21, 2001, the Secretary of Education declared the School District of Philadelphia distressed, taking governing powers away from a nine-member, mayoral-appointed Board of Education and giving them to a five-member School Reform Commission (SRC). Three members, including the chair, were appointed by the Governor of Pennsylvania; the Mayor of Philadelphia appointed the remaining two members. The SRC exercises all powers and has all the duties of the Board of Education. It is responsible for the operation, management, and education programs of the District, including all financial matters relating to the District. The Board of Education continues in office, performing only the duties assigned by the School Reform Commission.

The School District of Philadelphia provides a full range of educational services contemplated by statute. These include general, special, and vocational education at the elementary and secondary levels, as well as related support services. The District also provides pre-school services in response to the needs of the community. To ensure that schools have the support they require, the District is organized into nine geographic regions and one central administrative office.

The School District maintains budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget by the School Reform Commission. Activities of the General Fund, the Intermediate Unit Fund, the Debt Service Fund, and the Capital Projects Fund are included in the annual appropriated budget. The level of budgetary control is maintained at the object classification level within principal organizational units by fund, except for the Capital Projects Fund, which is controlled at the major project and sub-project levels. Purchase commitments are subject to an automated test for verification of available allotments and are encumbered, if not in excess of the available allotments, prior to release to a vendor and do not lapse. At year-end, encumbrances are reported as reservations of fund balance in governmental funds, except in Categorical Funds, since they do not constitute expenditures or liabilities. Unencumbered appropriations lapse at year-end.

Major Initiatives:

On May 24, 2004, the School Reform Commission issued a new mandate and mission for the School District of Philadelphia. Known as the Declaration of Education, the vision and goals set forth will drive School District spending through 2008, when mandates are to be achieved. The Declaration of Education established outcome-based goals in the areas of academic achievement, early literacy, school climate and security, community collaboration, equity, and operations.

Accomplishing the goals established in the Declaration of Education will be an important determinant of School District spending over the next few years. Major programs that support the Declaration of Education include standardizing the curriculum, enhancing school choice, expanding pre-school programs, and establishing community partnerships. The Capital Improvement Program, a plan that will devote over \$2.4 billion through 2011 to improving the School District's infrastructure, is another major initiative that will make schools more equitable and enhance students' ability to learn.

Fiscal year 2004 also saw significant planning for administrative consolidation. While currently spread across multiple buildings, the School District's central administrative offices will begin to move into one new building beginning in fiscal year 2005. This move will generate cost savings from rents paid at one building as well as revenue from selling three buildings that currently hold the majority of the School District central offices. In 2004, the focus was on consultation, design, and construction costs for the new building.

Factors Affecting Financial Conditions

The information presented in the financial statements is best understood when the environment within which the School District operates is considered.

Local Economy: The School District of Philadelphia is contiguous to the City of Philadelphia; the fifth largest city in the country by population. The Philadelphia Metropolitan Area is the fourth largest in the U.S. by population and is a major player in a number of industries that have generated national economic growth. Situated in the

center of the Eastern business corridor, Philadelphia is a major urban business center with a rich historical legacy.

One challenge that the local economy faces is a declining population. The 2000 Census confirmed that Philadelphia lost 68,027 residents, or 4.3 percent of its population, since 1990. This loss was less severe than those of the 1970s and 1980s, and while nationally other cities such as Baltimore, Buffalo, Cleveland, Detroit, Pittsburgh, and Washington, D.C. experienced greater rates of population loss over the same period, other major center cities in the Northeast and Midwest such as Boston, Chicago, and New York City actually gained population.

While as a whole employment in Philadelphia in the 21st century has been either stable or declining, one sector of the economy that shows great promise is the “knowledge industry.” Businesses in the knowledge industry apply new and emerging technologies to deliver high quality knowledge-based services. Sectors involved in the knowledge industry include financial services, engineering, health care, insurance, law, life sciences, printing, publishing, and academia. The knowledge industry will be able to take advantage of the nearly 51,000 college graduates that Greater Philadelphia produces annually in its 80 colleges and universities.

The service sector will also be critical in stabilizing Philadelphia’s economy. The service sector, which includes health care, education, hospitality, and other services, has been growing since 1997. In the early 1990s, the City of Philadelphia focused on capitalizing on its existing yet underdeveloped hospitality and tourism assets as a means of replacing some of the manufacturing jobs lost in previous decades. New additions to Philadelphia’s list of attractions include the construction of two new first class sports facilities, the completion of the National Constitution Center, and revitalization of Center City restaurants and retail. In addition to creating jobs, this focus on local history and culture will help build Philadelphia’s reputation as a cultural center, for which it is already gaining national recognition.

Philadelphia remains an affordable city in which to live when compared to peer-cities. The National Association of Realtors Affordability Index ranks the Philadelphia region as the 22nd most affordable housing market out of 180 sampled in the country. Philadelphia’s relative affordability, combined with its size, location, cultural and recreational amenities, and growing strength in key knowledge industries are keys to its competitive advantage and future growth.

School District Long-Term Financial Planning: In August, 2002, the School District announced a five-year plan that reprioritized District spending and capitalized on untapped local, state, and federal resources to maximize current revenue streams. The current five-year plan projects a positive fund balance through 2008.

The goal of the School District’s financial planning is to increase academic opportunities and lay the foundation for an expanded schools construction and renovation program. The School District will continue to develop and maintain a fiscally responsible and

stable operating budget at the same time that it improves accountability, expands educational programming, and embarks on a comprehensive capital program.

Cash Management Policies and Practices: Cash temporarily idle during the year generally is invested in U.S. treasury and certain U.S. government agency obligations, certificates of deposit, repurchase agreements and permissible money market and interest bearing accounts, all in compliance with Commonwealth statutes. These instruments have maturities ranging from one day to multiple years depending on the type of funds. Under custody and trust agreements, the underlying collateral for repurchase agreements is delivered to the trust department of third party banks, which hold the collateral during the term of the repurchase agreements. The average yield on all maturing investments during fiscal year 2004 was 1.7265% and total interest income was \$13.7 million. This was a \$7.1 million increase during fiscal year 2004 primarily due to significantly higher capital cash balances available for investment; offset by lower other cash balances and slightly lower interest rates.

Risk Management: The School District is self-insured for casualty losses, public liability, worker's compensation, unemployment and weekly indemnity. The District purchases excess property insurance to cover losses related to damages such as fire, flood, or machinery with a deductible of \$500,000 and a limit of \$125 million. Certain insurance coverages, including employee performance bonds, student accident insurances, and employee dishonesty, have also been obtained. Unemployment and worker's compensation coverage are funded by pro-rata charges to each fund. The cost of weekly indemnity coverage is shared by the School District and covered employees.

Pension: The School District of Philadelphia participates in the Public School Employees Retirement System (PSERS). Currently, the School District pays 3.77% of payroll costs, a substantial increase from fiscal year 2003 when the School District contributed 1.15%. School District contribution is projected to increase over the next ten years, reaching a high of 27.73% in fiscal year 2013. Though Act 40 of 2003, passed in December 2003, reduces employer contribution rates, the School District will have to budget a larger expenditure for PSERS contributions in the future.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the School District of Philadelphia, and the Association of School Business Officials International (ASBO) awarded a Certificate of Excellence to the School District for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003. In order to be awarded a Certificate of Achievement and a Certificate of Excellence, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

The Certificate of Achievement and the Certificate of Excellence are valid for a period of one year only. We believe our current Comprehensive Annual Financial Report

continues to meet the Certificate of Achievement and Certificate of Excellence requirements, and we are submitting it to GFOA and ASBO to determine its eligibility for additional certificates.

The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the entire staff of Business and Financial Services, especially the General Accounting Section and the Office of the Comptroller. We express our sincere appreciation to all the members of the Department who assisted in and contributed to the preparation of this report. We also thank the Office of the City Controller for their cooperation and assistance.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "P. Vallas", written in a cursive style.

Mr. Paul G. Vallas
Chief Executive Officer

A handwritten signature in black ink, appearing to read "M. Harris", written in a cursive style.

Mr. Michael Harris
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to
School District of Philadelphia,
Pennsylvania

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehl

President

Jeffrey R. Enen

Executive Director

**ASSOCIATION OF SCHOOL BUSINESS OFFICIALS
INTERNATIONAL**



This Certificate of Excellence in Financial Reporting is presented to

SCHOOL DISTRICT OF PHILADELPHIA

For its Comprehensive Annual Financial Report (CAFR)

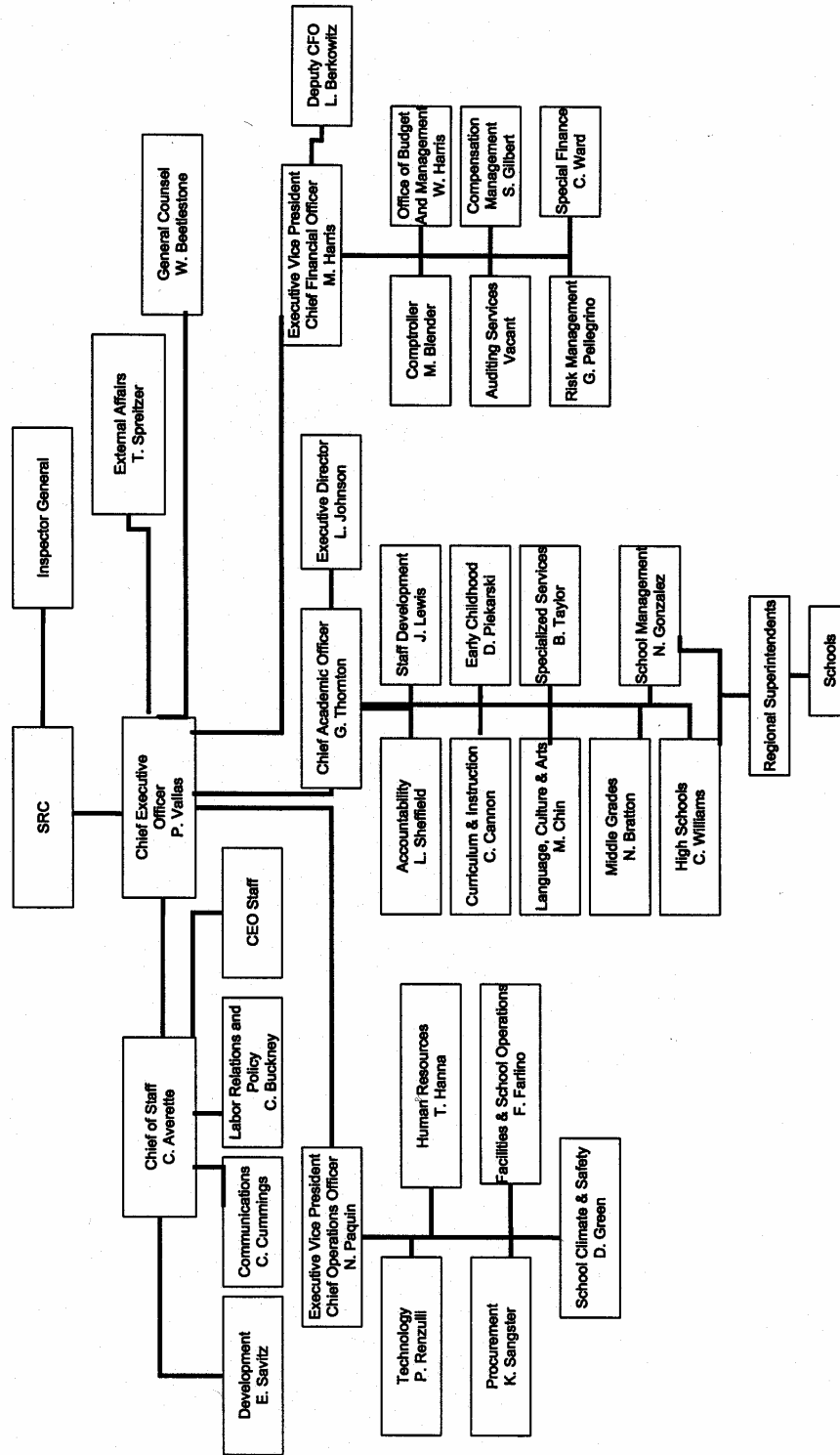
For the Fiscal Year Ended June 30, 2003

Upon recommendation of the Association's Panel of Review which has judged the Report substantially conforms to principles and standards of ASBO's Certificate of Excellence Program

William F. Hall
President

Barbara Heller
Executive Director

The School District of Philadelphia Organizational Chart



SCHOOL DISTRICT OF PHILADELPHIA, PENNSYLVANIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

School Reform Commission
List of Principal Officials

Mr. James E. Nevels, Chair
Mrs. Sandra Dungee Glenn
Mr. James P. Gallagher, Ph.D.
Mr. Daniel J. Whelan
Mr. Martin G. Bednarek

Mr. Paul G. Vallas
Chief Executive Officer

Mr. Michael E. Harris
Chief Financial Officer







CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER
12th Floor, Municipal Services Bldg.
1401 John F. Kennedy Boulevard
Philadelphia, Pennsylvania 19102-1679
(215) 686-6680 FAX (215) 686-3832

JONATHAN A. SAIDEL
City Controller
ALBERT F. SCAPEROTTO
Deputy City Controller

INDEPENDENT AUDITOR'S REPORT

To the Chair and Members of
the School Reform Commission of the
School District of Philadelphia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District of Philadelphia, Pennsylvania, a component unit of the City of Philadelphia, as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District of Philadelphia's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District of Philadelphia, Pennsylvania, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

CITY OF PHILADELPHIA
OFFICE OF THE CONTROLLER

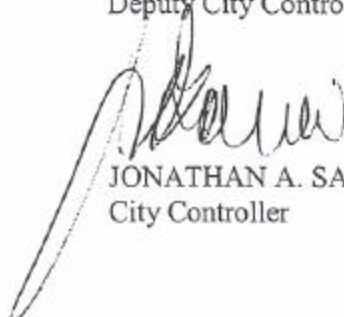
In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2004, on our consideration of the School District of Philadelphia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 13 through 28 and 82 through 86, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District of Philadelphia's basic financial statements. The introductory section, combining nonmajor fund financial statements, individual fund schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements and individual fund schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

December 23, 2004


ALBERT F. SCAPEROTTO, CPA
Deputy City Controller


JONATHAN A. SAIDEL, CPA
City Controller

**SCHOOL DISTRICT OF PHILADELPHIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004**

I. INTRODUCTION

This section of the Comprehensive Annual Financial Report (CAFR) presents our discussion and analysis of the School District of Philadelphia's (the "School District") financial performance during the Fiscal Year ended June 30, 2004. The intent of this discussion and analysis is to summarize the School District's Fiscal Year 2004 financial performance as a whole. Please read this section in conjunction with the School District's transmittal letter located at the front of this CAFR and the financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, issued in June 1999.

The School District is required to present comparative financial information between the current year and the prior year in its MD&A. The MD&A displays information to help the reader identify the reasons for changes in net assets, expenses, revenues, or fund balances from the previous year. It is also designed to assist the reader in focusing on significant financial issues, identify changes in the School District's financial position, identify any material deviations from the District's financial plan, and identify any individual fund issues or concerns.

II. FINANCIAL HIGHLIGHTS

The School District is the eighth largest school district in the nation with 210,092 students. The beliefs and vision as set forth by the School Reform Commission which the School District operates under are: (1) We believe all children can learn at high levels, (2) We believe all children can reach their learning potential and that the achievement gap can be eliminated, (3) We believe schools have an enormous impact on children's lives, (4) We believe the School District can become a high performing organization, and (5) We believe that all children should be educated in a safe and orderly environment.

The key financial highlights for Fiscal Year 2004 are as follows:

- Total revenues were \$2.1 billion. The majority of the revenues were funds supplied to the School District by federal, state, and local governments.
- Total expenses for all funds were \$2.5 billion. Over 80 percent of the expenses were for instructional and student related costs.
- At the end of the current Fiscal Year total net assets were (\$682.6) million resulting from an excess of liabilities over assets.
- Total net assets decreased by \$135.2 million from the previous year.
- The operating funds, consisting of the General Fund, Intermediate Unit Fund (IU) and Debt Service Fund ended the year with a positive fund balance of \$100.1 million of which \$96.3 million is reserved, and a net decrease in fund balance of (\$98.2) million.

The ending operating funds financial results for Fiscal Year 2004 are the culmination of several factors and events, the most significant include:

- The final budget for Fiscal Year 2004 included an anticipated operating fund deficit of (\$44.1) million.
- The final budget also included an anticipated \$25.0 million credit from the Commonwealth of Pennsylvania, which represented a deferral of the repayment of the Intermediate Unit transportation advance, as believed promised and agreed to between the School District and the Commonwealth. The repayment deferral was not realized, causing a one-time deficit.
- Borrowing activities of the School District resulted in a one-time deficit of \$8.1 million which will be recaptured in bond refinancing proceeds and swaps in Fiscal Year 2005.
- The amount of retiring employees at the end of Fiscal Year 2004 far exceeded initial projections, resulting in a \$28.8 million deficit from Fiscal Year 2004 adopted budget. The School Reform Commission has authorized a bond issuance to reimburse the operating funds for the termination payment liability in Fiscal Year 2005 when proceeds are realized, as allowed under the Pennsylvania Local Unit Government Debt Act.
- Finally, the School District received restricted net bond proceeds of \$19.6 million to settle outstanding long term workers compensation claims which will result in lower indemnity payments on an on-going basis.

III. USING THIS COMPREHENSIVE ANNUAL FINANCIAL REPORT

This CAFR consists of three parts: (1) Management's Discussion and Analysis, (2) a series of Financial Statements and Notes to those statements, and (3) Required Supplementary Information. The financial statements are organized to first provide an understanding of the fiscal performance of the School District as a whole. The statements then provide an increasingly detailed look at the School District's specific financial activities.

District-Wide Statements

The Statement of Net Assets and the Statement of Activities are financial statements that provide information about the activities of the School District as a whole, and present a longer term view of the School District's finances. These statements utilize the accrual basis of accounting and the economic resources measurement basis, which is similar to the accounting used in most private-sector companies. Full accrual accounting recognizes the financial effects of events when they occur, without regard to the timing of cash flows related to the events.

The School District's assets, liabilities, and net assets are detailed in the Statement of Net Assets. From this statement, the reader can identify what assets the School District owns, what debt is outstanding, and the nature of the remaining net assets. This information can be used to assess the School District's ability to cover costs and continue financing services in the future. It could also be used to determine how much of the School District's net assets can be used to provide new services, as compared to how much is either invested in capital assets or restricted for specific purposes.

The Statement of Activities contains information on the School District's costs of providing services (i.e., expenses) and resources obtained to finance those services (i.e., revenues). This statement also provides information that can be used to identify the costs of various services and functions, and to what extent those services are able to cover their own costs with user fees, charges and grants, as opposed to being financed with general revenues. In addition, the statement provides overall information, as to whether the financial status has improved or deteriorated during the Fiscal Year.

Fund Financial Statements

The fund financial statements provide an additional level of detail not found in the district-wide statements. These statements utilize modified accrual basis of accounting and the current financial resource measurement basis. Under modified accrual accounting, the fund recognizes revenues when they become available and measurable, and expenditures when the liability is incurred (if measurable), except for long-term debt and obligations which are recognized as they become due. Modified accrual accounting measures cash and all other financial assets that can be readily converted to cash, and as such, provides a more detailed short-term view of general operations.

Fund financial statements provide the School District's operations in more detail than the district-wide financial statements by providing information about the governmental funds: General, Intermediate Unit, Categorical, Debt Service and Capital Projects. From these statements, the reader can understand how services were financed in the short-term as well as what remains for future spending on those services.

Fiduciary Responsibilities

The Statement of Fiduciary Net Assets presents financial information about activities for which the School District acts solely as an agent for the benefit of employees, students and parents. These activities are excluded from the School District's previously noted financial statements because the School District cannot use these assets to finance its operational needs. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The School District is the trustee for the Fiduciary Funds.

IV. REPORTING THE SCHOOL DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities provides the financial status and operating results of the School District as a whole. The financial data presented in these statements provides insight as to how the School District fared fiscally in Fiscal Year 2004. These two statements report the School District's net assets and the changes in net assets. In addition, the information reveals whether the financial position of the School District has improved or deteriorated during the Fiscal Year.

Net Assets

Table 1 provides a summary of the School District's net assets as of June 30:

Net Assets as of June 30

(Dollars in millions)

Table 1

	Governmental Activities		Business-Type Activities		Total	
Assets	2004	2003	2004	2003	2004	2003
Current & Other Assets	\$ 1,308.1	\$ 490.0	\$ 20.4	\$ 16.9	\$ 1,328.5	\$ 506.9
Capital Assets	1,175.2	1,123.2	3.5	3.6	1,178.7	1,126.8
Total Assets	\$ 2,483.3	\$ 1,613.2	\$ 23.9	\$ 20.5	\$ 2,507.2	\$ 1,633.7
Liabilities						
Long-Term Liabilities	\$ 2,961.5	\$ 2,053.4	\$ 6.6	\$ 6.0	\$ 2,968.1	\$ 2,059.4
Other Liabilities	215.3	119.0	6.4	2.7	221.7	121.7
Total Liabilities	\$ 3,176.8	\$ 2,172.4	\$ 13.0	\$ 8.7	\$ 3,189.8	\$ 2,181.1
Net Assets						
Invested in Capital Assets	\$ (76.7)	\$ 68.3	\$ 3.5	\$ 3.6	\$ (73.2)	\$ 71.9
Restricted	80.0	136.7	-	-	80.0	136.7
Unrestricted	(696.8)	(764.2)	7.5	8.2	(689.3)	(756.0)
Total Net Assets	\$ (693.5)	\$ (559.2)	\$ 10.9	\$ 11.8	\$ (682.6)	\$ (547.4)

For the Fiscal Year ending June 30, 2004, the School District's total net assets were (\$682.6) million. This negative net asset amount is cumulative and represents the accumulated results of all prior Fiscal Years' operations of which (\$689.3) million is unrestricted. This balance also reflects a decrease of \$135.2 million from Fiscal Year ending June 30, 2003, due primarily to a deficiency of revenues and other financing sources which fell short of expenditures and other financing uses of \$144.1 million, prior

period adjustments increasing net assets \$15.3 million and disposal of personal property not fully depreciated decreasing net assets by \$6.3 million.

Restricted assets are reported separately to show legal constraints from covenants and enabling legislation that limit the School District's ability to use those funds in day to day operations.

Changes in Net Assets

The Statement of Activities presents the School District's revenues and expenses in a programmatic format. For each activity, the statement presents gross expenses, offsetting program revenues and the resulting net cost of each activity. A large portion of the School District's revenues are general (i.e., not associated with any specific activity). This results in each activity displaying a deficit (i.e., net cost of operating the activity) or a surplus (i.e., a net profit of operating the activity).

The results of this year's operations as a whole are reported in the Statement of Activities. Table 2 summarizes the data from that statement.

Statement of Changes in Net Assets

(Dollars in Millions)

Table 2

	Governmental Activities		Business-Type Activities	
Revenues	2004	2003	2004	2003
Program Revenues				
Charges for Services	\$ 7.7	\$ 6.9	\$ 8.2	\$ 8.2
Operating Grants & Contribution	657.8	541.1	71.7	65.1
Capital Grants & Contribution	2.6	5.2	-	-
General Revenues				
Property Taxes	516.4	503.1	-	-
Other Taxes	134.3	151.1	-	-
Grants & Contributions Not Restricted	83.6	68.1	-	-
State & Federal Subsidies	760.7	769.0	-	-
Total Revenues	\$ 2,163.1	\$ 2,044.5	\$ 79.9	\$ 73.3
Transfers	\$ 0.1	\$ 0.1	\$ -	\$ -
Expenses				
Instruction	\$ 1,382.1	\$ 1,283.2	\$ -	\$ -
Student Support Services	352.3	326.3	-	-
Administrative Support & Other	230.5	197.4	-	-
Pupil Transportation	76.4	44.7	-	-
Operation & Maintenance	243.5	238.2	-	-
Early Childhood Education	21.6	25.6	-	-
Food Service	-	-	80.6	72.5
Total Expenses	\$ 2,306.4	\$ 2,115.4	\$ 80.6	\$ 72.5
Transfers	\$ -	\$ -	\$ 0.1	\$ 0.1
Increase (Decrease) in Net Assets	\$ (143.3)	\$ (70.9)	\$ (0.8)	\$ 0.7
Prior Period Adjustment	15.3	(4.4)	-	-
Disposal of Fixed Assets	(6.3)	-	-	-
Net Assets - Beginning	\$ (559.2)	\$ (483.9)	\$ 11.8	\$ 11.1
Net Assets - Ending	\$ (693.5)	\$ (559.2)	\$ 10.9	\$ 11.8

Cost of Services by Major Functional Expense Category

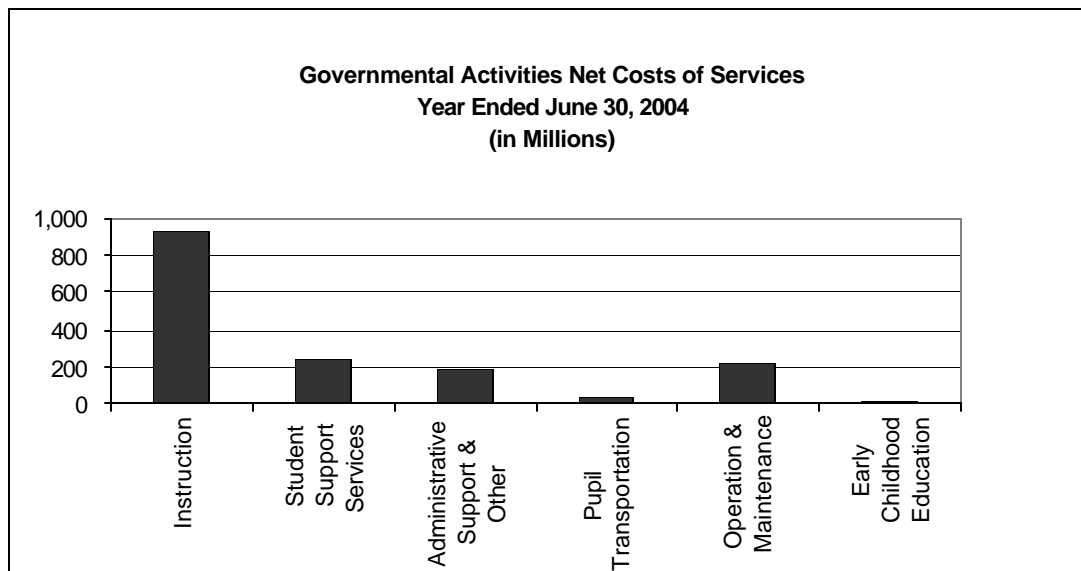
Table 3 and the following graph illustrate the net costs incurred by each of the major activities presented in the School District's Statement of Net Activities. The functional expense categories are entitled: Instruction, Student Support Services, Administrative Support and Other, Pupil Transportation, Operation and Maintenance, Early Childhood Education and Food Services.

Fiscal Year 2004 Cost of Services by Major Functional Expense Category

(Dollars in Millions)

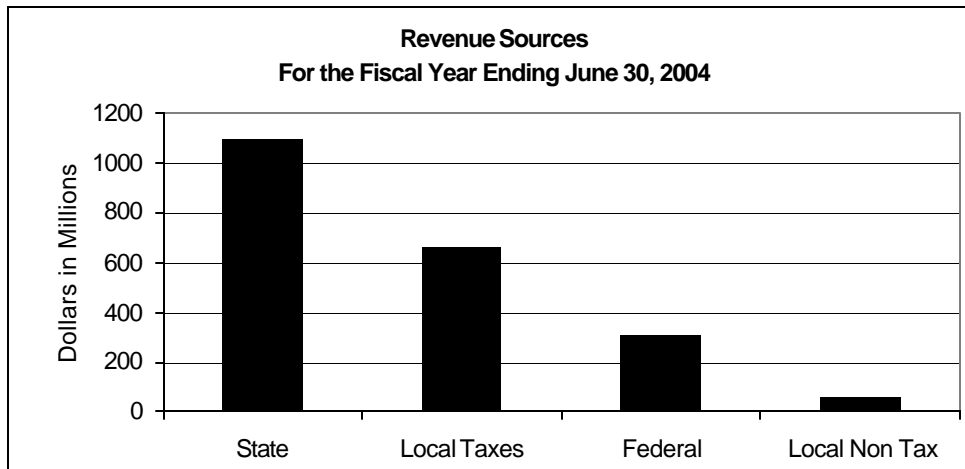
Table 3

Functional Expense	Gross Cost of Services	Net Cost Of Service
Instruction	\$ 1,382.1	\$ 927.1
Student Support Services	352.3	248.6
Administrative Support & Other	230.5	189.0
Pupil Transportation	76.4	38.5
Operation & Maintenance	243.5	220.8
Early Childhood Education	21.6	14.3
Food Service	80.6	0.8
Total Expenses	\$ 2,387.0	\$ 1,639.1



Major Sources of Revenues

The School District receives most of its funding from general revenues from state subsidies and grants, local taxes and federal grants and subsidies. The following bar graph illustrates the School District's major sources of revenues for Fiscal Year 2004.



As previously illustrated in Table 2, most of the School District's revenues are considered to be general, as opposed to program related. Table 4 provides further detail on how each revenue source is recognized.

Fiscal Year 2004 Revenue Recognition by Source and Type
(Dollars in Millions)

Table 4

Revenue Source	General Fund	Intermediate Unit Fund	Categorical Funds
Local Taxes	\$ 658.4	\$ -	\$ -
Locally Generated Non-Tax	53.9	0.2	6.3
State Grants and Subsidies	992.7	66.7	40.3
Federal Grants & Subsidies	0.3	-	303.9
Total Revenue	<u>\$ 1,705.3</u>	<u>\$ 66.9</u>	<u>\$ 350.5</u>

V. MAJOR FUND HIGHLIGHTS

The School District considers six funds to be major. These funds are the General Fund, Intermediate Unit Fund, Categorical Fund, Debt Service Fund, Capital Projects Fund and Enterprise Fund.

General Fund

The General Fund, which is the School District's operating fund, records all financial activity except for those transactions that must specifically be accounted for in another type of fund.

For Fiscal Year 2004, the General Fund had excess revenues of \$183.7 million and \$272.6 million in net transfers to other funds which together resulted in an \$88.9 million decrease in fund balance. The General Fund ending fund balance at June 30, 2004 was \$43.6 million. The instructional agency and all other support services agencies were the primary drivers of this decrease. The extraordinary level of retirements resulted in much higher benefits costs. There was also higher than budgeted payments to charter schools due to higher enrollments and the cancellation of fewer prior years encumbrances than anticipated.

Intermediate Unit Fund

The Intermediate Fund is used to account for State appropriations for special education and non-public school programs as well as certain administrative costs. During Fiscal Year 2004, the Intermediate Unit Fund had a \$1.2 million net decrease in fund balance which reduced the fund balance to \$1.5 million at June 30, 2004.

Categorical Funds

Categorical Funds are used to account for specific purpose Federal, State, City or Private Grants. Categorical Funds had a \$22.3 million net decrease in fund balance which reduced the fund balance to (\$30.6) million at June 30, 2004. At June 30, 2004, \$30.6 million was due from grantors and recorded as deferred revenues and not as yet recognized as current revenues under GASB 33 guidelines.

Debt Service Fund

The Debt Service Fund is used to account for the School District's accumulation of resources for the payment of debt service and bond issuance costs. During Fiscal Year 2004 the Debt Service Fund had a \$8.1 million net decrease in fund balance thereby reducing the June 30, 2004 Debt Service Fund balance to \$55.1 million. As mentioned previously, the decrease will be more than offset in 2005 from bond proceeds and revenue realized from swaps.

Capital Projects Fund

The Capital Projects Fund is used to account for financial resources used for acquisition of capital assets, construction, repair, and improvement of the School District's major capital facilities. During Fiscal Year 2004 the Capital Projects Fund had a positive net change of \$708.9 million in fund balance, primarily due to \$871.1 in new bond proceeds needed to fund the Capital Improvements Program. This increased the June 30, 2004 fund balance to \$751.6 million.

Enterprise Fund

The Enterprise Fund is used to account for the operation of the Food Services Division. During Fiscal Year 2004 the Enterprise Fund had a decrease of \$.8 million in net assets and total net assets ended at \$10.9 million.

The financial performance and position of each of the previously discussed major funds and also non-major funds is summarized in Table 5 and Table 6.

Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses for General, Intermediate Unit, Categorical, Debt Service, Capital Projects, Enterprise and Non-Major Governmental Funds

(Dollars in Millions)

Table 5

Fund	Fiscal Year 2004	Fiscal Year 2003
General	\$ (88.9)	\$ (46.7)
Intermediate Unit	(1.2)	0.1
Categorical	(22.3)	1.0
Debt Service	(8.1)	10.1
Capital Projects	708.9	(50.5)
Enterprise	(0.8)	0.7
Non-Major Governmental	(0.2)	-
Total Change in Fund Balance	<u>\$ 587.4</u>	<u>\$ (85.3)</u>

Total Fund Balances for General, Intermediate Unit, Categorical, Debt Service, Capital Projects, Enterprise, and Non-Major Governmental Funds

(Dollars in Millions)

Table 6

Fund	Fiscal Year 2004	Fiscal Year 2003
General	\$ 43.6	\$ 132.2
Intermediate Unit	1.5	2.6
Categorical	(30.6)	(6.1)
Debt Service	55.1	63.2
Capital Projects	751.6	42.7
Enterprise	10.9	11.7
Non-Major Governmental	5.2	5.4
Total Fund Balance	<u>\$ 837.3</u>	<u>\$ 251.7</u>

Internal Service Funds

The School District has one Internal Service Fund (i.e., Print Shop) that utilizes full accrual accounting. The Print Shop Fund is used to account for the centrally produced printing materials for individual schools and offices.

The financial performance and position of the School District's Print Shop Fund shows \$41.5 thousand net gain for Fiscal Year 2004 and the fund equity balance for the Print Shop Fund is (\$1.4) million at June 30, 2004.

VI. GENERAL FUND BUDGETING HIGHLIGHTS

The Philadelphia Home Rule Charter (the "Charter") requires the School District to adopt an operating budget and a capital budget for each Fiscal Year. The Governing Body is required to levy taxes, upon subjects and within limits prescribed by either the General Assembly or the City Council. The Philadelphia City Council holds public hearings to determine the level of funding for the School District.

The budget is based upon generally accepted accounting principle presentations, and utilizes the accrual basis of accounting for its governmental funds. The most significant budgeted fund is the General Fund.

During the course of the Fiscal Year, the budget is amended and approved by the School Reform Commission. The final amended budget incorporates all the School District's approved adjustments that have been incurred since the advertised budget was issued.

For Fiscal Year 2004, the final budgeted revenue was \$139.5 million higher than the original budget. The School District's higher than budgeted revenues reflect increases in tax revenues and additional subsidies from the State in Fiscal Year 2004.

The anticipated obligations in the final budget represented an increase of \$26.0 million over the original budget. This is the result of additional personal services costs due primarily to lower than anticipated savings from turnover and higher than projected increases in medical insurance premiums.

Actual revenues of \$1,705.3 million are \$14.1 million less than those estimated in the final budget of \$1,719.4 million. Actual obligations totaling \$1,521.1 million were \$51.4 million higher than estimated in the budget of \$1,469.7 million. Other financing uses of \$273.4 million were slightly below the final budget. The net change in the fund balance was a decrease of \$47.0 million over the final budget estimate of (\$42.2) million.

Variances considered to be significant are explained below:

Revenues were \$14.1 million less than the adopted budget which is the net result of the \$25.0 million Intermediate Unit transportation advance which was not realized as anticipated.

The Instruction and Administrative Support Agencies had significant obligations in excess of appropriations by approximately \$32.7 million and \$140,000, respectively. These variances resulted from higher than budgeted employee benefit costs, primarily due to an extraordinary level of retirements that increased termination pay and related benefit costs by approximately \$28.8 million.

The All Other Support Services Agency had obligations in excess of appropriations by approximately \$1.4 million. Reductions in obligations related to the Cancellation of Prior Year's Encumbrances were lower than budget by \$2.3 million.

Payments to Charter Schools exceeded the budgeted amount by approximately \$970,000 due to higher than projected enrollment of students in cyber charter schools.

Restricted net bond proceeds of \$19.6 million for workers compensation settlements were reported in the general fund which were not budgeted. As mentioned previously, these proceeds will result in a reduction of indemnity payments on an on-going basis.

All other variances were immaterial and nonrecurring.

Table 7 presents a summary comparison of the General Fund's original and final budgets with actual performance.

General Fund Budget Comparison (Dollars in Millions)

Table 7

	Budget			Variance vs
	Original	Final	Actual	Final Budget
Total Revenue	\$ 1,579.9	\$ 1,719.4	\$ 1,705.3	\$ (14.1)
Total Obligations	1,443.6	1,469.7	1,521.1	(51.4)
Total Other Financing (Sources)/Uses	190.3	291.9	273.4	18.6
Net Change in Fund Balance	(53.9)	(42.2)	(89.2)	(47.0)
Fund Balance Beginning of Year	119.6	112.6	132.2	19.5
Prior Period Adjustment	-	-	0.6	0.6
Fund Balance End of Year	\$ 65.7	\$ 70.4	\$ 43.6	\$ (26.8)

VII. CAPITAL ASSETS AND DEBT ADMINISTRATION

As of the end of Fiscal Year 2004, the School District had \$2,160.5 million invested in capital assets. Over the years these assets have depreciated \$981.9 million, leaving a carrying value of \$1,178.6 million. This represents an increase of \$51.8 million.

Net Capital Assets as of June 30
(Dollars in Millions)

Table 8

Capital Asset Category	2004	2003
Land	\$ 111.0	\$ 109.8
Buildings & Improvements	893.7	810.6
Equipment	97.0	83.5
Construction In Progress	76.9	122.9
Total Net Book Value	<u>\$ 1,178.6</u>	<u>\$ 1,126.8</u>

The School District is a component unit of the City of Philadelphia which issues capital debt. The School District issues debt in the form of bonds to be used for construction purposes and notes for short-term cash flow. The School District recognizes bond premiums as revenues in the Statement of Activities; \$890.1 million in new bonds were issued for the year ending June 30, 2004. Table 9 shows a summary of all long-term debt outstanding.

Long-Term Debt Outstanding
(Dollars in Millions)

Table 9

	Governmental Activities		Business-Type Activities	
	2004	2003	2004	2003
General Obligation Bonds	\$ 2,327.0	\$ 1,425.1	\$ -	\$ -
Employee Related Obligations	494.0	496.3	6.5	6.0
Due to Other Governments	45.3	45.3	-	-
Other	95.2	86.7	-	-
Total Long Term Debt	\$ 2,961.5	\$ 2,053.4	\$ 6.5	\$ 6.0

Total long-term debt outstanding for governmental activities increased by \$908.1 million, primarily due to a \$902.0 increase in general obligation bonds outstanding.

VIII. FUTURE CHALLENGES FOR THE SCHOOL DISTRICT

Current Financial Situation

Despite its recent record of successful reforms and savings initiatives, the School District faces substantial challenges in the future. In order to complete the goals set forth by the federal *No Child Left Behind* legislation and the District's initiatives defined in the *Declaration of Education*, the School District will be implementing a variety of new academic, safety, and equity programs, all while working to balance a tight budget.

In order to help develop and maintain a fiscally responsible and stable operating budget, the School District has developed a Five Year Plan that uses a goals-based budget to

ensure that money is being spent where it is most needed. Fiscal Year 2005 will mark the first year since 1998 that the School District projects a balanced budget. Still, the School District needs to ensure that any reform initiatives that it implements are sustainable in future years, and the Five Year Plan projects that the District will face a fund balance deficit at the end of Fiscal Year 2009 unless further corrective actions are taken.

No Child Left Behind

One major cost driver that affects District spending is implementing the requirements of *No Child Left Behind*. As part of *No Child Left Behind*, students in underperforming schools must be given the option to transfer to another public school that is not underperforming. During the 2004 Fiscal Year, students in 176 schools were given the option to transfer because their school failed to make Adequate Yearly Progress (AYP) in 2003. If more schools make AYP, the costs associated with offering transfers will fall; though in Fiscal Year 2005 students in an additional 19 schools will be given transfer options.

In addition to the school choice options required under *No Child Left Behind*, the School District supports over 50 charter schools that any student in the District may elect to attend. Funding charter schools, which the District must do as per Pennsylvania Charter School Law Act 22 of 1997, has a significant fiscal impact. Though charter schools would not be a net cost to the District if resources could be shifted from existing public schools to new charter schools on a dollar-for-dollar basis, this dollar-for-dollar shifting is not possible in practice. Since charter schools remain highly dispersed geographically, students enrolled in charter schools do not all come from the same grade level or even from the same school. Thus, the School District has not been able to make reductions in cost areas such as the number of principals, counselors, nurses, custodians and bus drivers, or in the number of schools that are in operation.

On top of offering school choice to students in underperforming schools, the School District also implements academic reforms in schools that do not make Adequate Yearly Progress. *No Child Left Behind* requires that schools that do not meet AYP for three consecutive years offer Supplemental Education Services, which include tutoring in reading and math. In Fiscal Year 2004, the School District spent over \$5 million on supplemental services. In the future, the School District will continue to spend five percent of its Title I grant on Supplemental Education Services.

In addition to academic requirements, *No Child Left Behind* mandates that by 2006 all teachers of core academic subjects be deemed "highly qualified." To meet this standard, all teachers must be fully certified and/or licensed by the state; hold at least a bachelor's degree from a four-year institution; and demonstrate competence in each core academic subject area that they teach. As of the end of Fiscal Year 2004, over 90% of teachers in the School District are considered highly qualified. To help reach the 100% level, the School District runs a Teachers Academy that supports teachers in their first and second years who have yet to pass certification tests and demonstrate subject competence. The District is committing \$12 million in the next Fiscal Year on teacher recruitment and retention efforts that will help meet the "highly qualified" requirement.

Lastly, *No Child Left Behind* requires that all states establish and implement standards for identifying "Persistently Dangerous Schools." In Pennsylvania, a school is labeled Persistently Dangerous based on the number of dangerous incidents, defined as weapon possession or violence that results in arrest that occur in the school. In order to create a safe school environment where all students can learn and all staff can teach, students who attend Persistently Dangerous Schools are given the option to transfer to a safe public school. Students who are victims of violent criminal offenses may also be offered the opportunity to transfer to a safe public school within the school district. In Fiscal Year 2004, 227 District students requested transfers as a victim of a crime/serious incident, 20 requested transfers as a witness to a crime/serious incident, and 284 requested other safety-related transfers. While the School District will continue to be held accountable for the safety of its schools and will implement its own efforts to enhance school climate and safety, as schools are removed from the Persistently Dangerous list, costs associated with offering transfers will decline. The School District is already making progress in improving school safety: in fiscal year 2004, 27 schools were labeled persistently dangerous based on serious incidents from the previous year; in fiscal year 2005, the number of Persistently Dangerous Schools will fall to 14.

While the School District has already shown marked improvement in meeting the benchmarks set forth by the *No Child Left Behind* legislation, it still has improvements to make before all students meet the rigorous federal requirements. Backing the programs required of Title I schools will draw substantial funds from the School District; administrators and teachers will need to focus on using proven methods to boost student achievement and ensure school safety.

The Declaration of Education

To meet its own goals for student achievement, the School Reform Commission set forth the Declaration of Education at the end of the 2004 Fiscal Year. Through the Declaration of Education, the School District has divided its priorities into six Measures that Matter: Early Literacy, Academic Achievement, Safe and Orderly Environment, Equity, Community Collaboration, and Efficient and Effective Support Operations. In each of these six areas, the District has established aggressive goals to be achieved by the end of 2008; reaching these goals requires implementing a wide array of reform programs and substantial investments over the next few years.

In the area of Academic Achievement, many programs required by federal *No Child Left Behind* legislation will also help the School District reach its own goals. However, the School District is committing itself to much more aggressive targets than meeting AYP: 80% of all students in grades 3-11 will perform at or above the proficient level in reading, mathematics and science; average SAT and ACT scores will meet or exceed the national average; 85% of all high school students will graduate; and 80% of graduating seniors will enroll in postsecondary education institutions; and disparity based on race, ethnicity, gender and socioeconomic status will be less than 10 percentage points on all academic measures. The District is relying on research based programs to narrow the achievement gap and help all students' achieve their academic potential, most notably by increasing time on task: classrooms will have daily instructional blocks of 120 minutes in reading and 90 minutes in math; students who need extra help will participate in the Extended

Day Program to provide math and reading support after school hours; and Extended Year summer programs will offer academic help and enrichment activities to eligible students. Also, the District is continuing to roll out a standardized curriculum that involves new materials, new testing, and new teacher training. These programs will drive costs for the School District through 2008. In Fiscal Year 2005, \$44.0 million in expenditures are being dedicated to these programs alone.

The District is also strongly committed to creating a safe and orderly environment in all its schools. The School District is undertaking efforts to not only remove schools from the Persistently Dangerous list, but also to enhance school climate beyond eliminating violence. Stricter enforcement of the Student Code of Conduct and a policy of Zero Tolerance for violence will create an environment that is more conducive to learning. Since students cannot learn if they are not in school, the District is undertaking forceful truancy reduction efforts, including recruiting parents to help ensure that students arrive at school on time everyday. The Saturday Morning Alternative Reach and Teach (SMART) program will also keep children in school; as an alternative to expulsion, it offers students with two or more suspensions mandatory sessions on character development, conflict resolution, decision-making, familial relationships, and peer pressure. To ease the transition back to school for students who are returning from juvenile detention or incarceration, the District offers the Re-Entry Transition Initiative – Welcome Return Assessment Process (RETI-WRAP), a two week program required by Act 88 legislation that assesses and evaluates students before they return to school.

Accomplishing the goals established in the Declaration of Education will be an important guide in School District spending over the next few years. Ensuring the School District dollars are dedicated to funding top priorities will ensure the School District offers the best education possible to its students and direct dollars to programs that will best support measurable gains in student achievement and school climate.

Capital Improvement Program

The School District launched its Capital Improvement Program in Fiscal Year 2004. Though initially planned as a \$1.5 billion program that would span over the course of five years, total new construction, renovations, and repairs will total \$2.4 billion through 2011. The Capital Improvement Program (CIP) supports the District's initiative to make schools more equitable; provides space for the reduced class size initiative; enhances the roll-out of the standardized curriculum by ensuring students have state-of-the art facilities; and presents all students with a safe learning environment. Additionally, the CIP is vital to the School District's plans for educational reorganization over the next seven years. The creation of eleven new neighborhood high schools and eight new neighborhood elementary schools is crucial to the School District's plans for education reorganization and will be integral to phasing out middle schools, alleviating overcrowding in elementary schools, and improving high school options. Other specific plans under the CIP include updates to school fields and stadiums, environmental projects, boiler and roof replacements, and substantial renovation and repairs to existing school buildings, which will stabilize the School District's real property portfolio.

To support the \$2.4 billion CIP program, the District has expanded its financial options by issuing variable rate debt, entering into swap agreements, and refinancing a portion of its existing debt. The combination of these financing efforts raised proceeds of over \$875.0 million for capital purposes while reducing debt service costs by \$94.0 million through 2031.

Corrective Actions

To meet the funding challenges that it faces, the School District has begun to implement a variety of initiatives that will save money in future years and ensure that the District has the funding it needs to continue its reform efforts. As opposed to one-time savings measures, these programs help ensure that the District will be able to meet its goals for student achievement far into the future.

One measure that the District is overseeing is ensuring that grant funding is put to its best possible use. Rather than adopting categorical funds as “bonus” money, the School District has redirected \$25.0 million in grant funding over the past year to better fund programs that are aligned with School District objectives.

A number of other efficiency-enhancing efforts will redirect dollars back into the classroom. The School District has restructured cleaning staffing, reduced overtime expenditures; closed unneeded facilities, generated utilities and maintenance savings; improved benefits management; implemented a position control system; and cut additional non-instructional personnel, program, and contracted services costs. These operation efficiencies will help keep the School District's budget balanced without affecting services to students.

IX. CONTACTING THE SCHOOL DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the financial conditions of the School District. If you have questions about the report or need additional financial information contact Michael E. Harris, Chief Financial Officer, or Marcy F. Blender, CPA, Comptroller, at 2120 Winter Street, Philadelphia, PA 19103.

BASIC FINANCIAL STATEMENTS

School District of Philadelphia
Statement of Net Assets
June 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash & Cash Equivalents	\$ 20,993,665	\$ 223,327	\$ 21,216,992
Cash and Investments with Fiscal Agent	55,070,843	-	55,070,843
Equity In Pooled Cash and Investments	137,199,578	14,722,296	151,921,874
Taxes Receivable (Net)	140,816,836	-	140,816,836
Due from Other Governments	78,694,155	3,894,495	82,588,650
Accounts Receivable (net of allowance)	3,669,317	-	3,669,317
Accrued Interest Receivable	234,671	-	234,671
Third Party Receivables	512,666	-	512,666
Inventory	2,212,328	1,588,629	3,800,957
Deferred Debt Issuance Cost	26,741,440	-	26,741,440
Deferred Charge Refunding	61,187,345	-	61,187,345
Prepays	351,479	-	351,479
Restricted Assets:			
Cash and Cash Equivalents	258,998,465	-	258,998,465
Cash and Investments Held by Trustee	521,393,393	-	521,393,393
Capital Assets:			
Land	110,997,584	-	110,997,584
Buildings and Improvements	1,742,171,491	-	1,742,171,491
Furniture, Fixtures, Equipment, & Machinery	217,776,342	12,715,223	230,491,565
Construction in Progress	76,880,548	-	76,880,548
Accumulated Depreciation	(972,603,445)	(9,256,320)	(981,859,765)
Total assets	2,483,298,701	23,887,650	2,507,186,351
LIABILITIES			
Accounts Payable	86,613,229	5,207,711	91,820,940
Overpayment of Taxes	11,512,280	-	11,512,280
Accrued Salaries and Benefits Payable	75,472,874	1,227,217	76,700,091
Deferred Revenue	22,464,450	-	22,464,450
Due to Other Governments	433,588	-	433,588
Bonds Interest Payable	18,798,487	-	18,798,487
Non-current Liabilities			
Due within one year	118,313,250	-	118,313,250
Due in more than one year	2,843,227,744	6,519,581	2,849,747,325
Total liabilities	3,176,835,902	12,954,509	3,189,790,411
NET ASSETS			
Invested in capital assets, net of related debt	(76,702,314)	3,458,903	(73,243,411)
Restricted for:			
Debt Service	55,070,517	-	55,070,517
Special Revenue & Permanent Funds	5,256,371	-	5,256,371
Workers' Compensation	19,623,954	-	19,623,954
Unrestricted (deficit)	(696,785,729)	7,474,238	(689,311,491)
Total Net Assets	\$ (693,537,201)	\$ 10,933,141	\$ (682,604,060)

The notes to the financial statements are an integral part of this statement.

School District of Philadelphia
Statement of Activities
For the Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities							
Instruction	\$ 1,382,085,594	\$ 1,280,277	\$ 453,687,951	\$ -	\$ (927,117,366)	\$ -	\$ (927,117,366)
Student Support Services	352,299,491	273,530	103,471,276	-	(248,554,685)	-	(248,554,685)
Administrative Support	114,931,370	340,335	33,969,421	-	(80,621,614)	-	(80,621,614)
Operation & Maintenance of Plant Services	243,485,474	2,884,692	17,161,079	2,565,134	(220,874,569)	-	(220,874,569)
Pupil Transportation	76,381,874	-	37,873,394	-	(38,508,480)	-	(38,508,480)
All Other Support Services	26,868,356	-	980,407	-	(25,887,949)	-	(25,887,949)
Early Childhood Education	21,628,235	2,942,157	4,411,403	-	(14,274,675)	-	(14,274,675)
Interest on Long-Term Debt	88,731,604	-	6,227,805	-	(82,503,799)	-	(82,503,799)
Total Governmental Activities	2,306,411,998	7,720,991	657,782,736	2,565,134	(1,638,343,137)	-	(1,638,343,137)
Business-type Activities:							
Food Service	80,638,083	8,219,086	71,659,953	-	-	(759,044)	(759,044)
Total Business-type Activities	80,638,083	8,219,086	71,659,953	-	-	(759,044)	(759,044)
Total	\$ 2,387,050,081	\$ 15,940,077	\$ 729,442,689	\$ 2,565,134	\$ (1,638,343,137)	\$ (759,044)	\$ (1,639,102,181)

General Revenues:			
Property Taxes	\$ 516,384,583	\$ -	\$ 516,384,583
Other Taxes	134,264,419	-	134,264,419
Grants and Contributions Not Restricted to Specific Programs	83,595,400	-	83,595,400
State & Federal Subsidies	760,742,640	-	760,742,640
Transfers	75,729	(75,729)	-
Total General Revenues and Transfers	\$ 1,495,062,771	\$ (75,729)	\$ 1,494,987,042
Change in Net Assets	(143,280,366)	(834,773)	(144,115,139)
Prior Period Adjustment	15,274,972		15,274,972
Disposal of Personal Property	(6,323,006)		(6,323,006)
Net assets - Beginning	(559,208,801)	11,767,914	(547,440,887)
Net assets - Ending	\$ (693,537,201)	\$ 10,933,141	\$ (682,604,060)

The notes to the financial statements are an integral part of this statement.

School District of Philadelphia
Balance Sheet
Governmental Funds
June 30, 2004

	General Fund	Intermediate Unit Fund	Categorical Funds
ASSETS			
Cash & Cash Equivalents	\$ 20,867,904	\$ -	\$ 125,745
Cash and Investments with Fiscal Agent	-	-	-
Equity in Pooled Cash and Investments	116,263,146	13,386,791	-
Cash and Investments Held by Trustee	-	-	-
Taxes Receivable (Net)	140,816,836	-	-
Due from Other Funds	17,134,505	-	-
Due from Other Governments	20,291,858	1,049,195	57,314,295
Accounts Receivable (Net)	2,816,396	-	852,309
Accrued Interest Receivable	46,756	-	-
Inventory	2,161,769	-	-
Prepaid Expenditures	-	-	-
Total Assets	<u>\$ 320,399,170</u>	<u>\$ 14,435,986</u>	<u>\$ 58,292,349</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 42,374,363	\$ 5,007,612	\$ 24,749,985
Overpayment of Taxes	11,512,280	-	-
Accrued Salaries and Benefits Payable	56,217,778	7,759,723	11,038,969
Termination Compensation Payable	36,264,090	-	-
Severance Payable	12,150,701	-	-
Deferred Revenue	118,273,592	-	51,608,592
Due to Other Funds	-	-	1,305,895
Due to Other Governments	-	196,472	237,116
Total Liabilities	<u>276,792,804</u>	<u>12,963,807</u>	<u>88,940,557</u>
Fund Balances:			
Reserved for:			
Inventories	1,657,352	-	-
Encumbrances	16,647,024	1,472,179	-
Retirement of Long Term Debt	-	-	-
Weekly Indemnity	1,858,110	-	-
Debt Service Interest	-	-	-
Trust Principal	-	-	-
Workers' Compensation	19,623,954	-	-
Unreserved:			
Designated:			
Special Revenue Funds	-	-	-
Permanent Funds	-	-	-
Undesignated:			
General Fund	3,819,926	-	-
Categorical Funds	-	-	(30,648,208)
Debt Service Fund	-	-	-
Capital Projects Fund	-	-	-
Total Fund Balances	<u>43,606,366</u>	<u>1,472,179</u>	<u>(30,648,208)</u>
Total Liabilities and Fund Balances	<u>\$ 320,399,170</u>	<u>\$ 14,435,986</u>	<u>\$ 58,292,349</u>

The notes to the financial statements are an integral part of this statement.

Debt Service Fund	Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 258,998,481	\$ -	\$ 279,992,130
55,070,843	-	-	55,070,843
2,261,396	-	5,288,245	137,199,578
-	521,393,393	-	521,393,393
-	-	-	140,816,836
-	-	-	17,134,505
-	34,852	-	78,690,200
-	-	-	3,668,705
187,915	-	-	234,671
-	-	-	2,161,769
292,812	58,667	-	351,479
<u>\$ 57,812,966</u>	<u>\$ 780,485,393</u>	<u>\$ 5,288,245</u>	<u>\$ 1,236,714,109</u>
\$ -	\$ 13,382,875	\$ 15,378	\$ 85,530,213
-	-	-	11,512,280
-	401,763	-	75,418,233
-	-	-	36,264,090
-	-	-	12,150,701
2,742,449	79,671	-	172,704,304
-	15,010,918	-	16,316,813
-	-	-	433,588
<u>2,742,449</u>	<u>28,875,227</u>	<u>15,378</u>	<u>410,330,222</u>
-	-	-	1,657,352
-	99,690,016	16,496	117,825,715
20,317,781	-	-	20,317,781
-	-	-	1,858,110
34,752,736	-	-	34,752,736
-	-	2,479,745	2,479,745
-	-	-	19,623,954
-	-	2,223,998	2,223,998
-	-	552,628	552,628
-	-	-	3,819,926
-	-	-	(30,648,208)
-	-	-	-
-	651,920,150	-	651,920,150
<u>55,070,517</u>	<u>751,610,166</u>	<u>5,272,867</u>	<u>826,383,887</u>
<u>\$ 57,812,966</u>	<u>\$ 780,485,393</u>	<u>\$ 5,288,245</u>	<u>\$ 1,236,714,109</u>

School District of Philadelphia
Reconciliation of the Balance Sheet for Governmental Funds
To the Statement of Net Assets
June 30, 2004

Fund Balance -Total Governmental Funds (page 33)	\$	826,383,887
--	----	-------------

Amounts reported for governmental activities in these statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		1,262,867,734
--	--	---------------

Other long-term assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		147,497,404
---	--	-------------

Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the governmental funds.		(2,928,921,373)
---	--	-----------------

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal service funds are included in the statement of net assets		(1,364,853)
---	--	-------------

Net assets of governmental activities (page 30)	\$	(693,537,201)
---	----	---------------

The notes to the financial statements are an integral part of this statement

THIS PAGE INTENTIONALLY LEFT BLANK

School District of Philadelphia
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For The Year Ended June 30, 2004

	General Fund	Intermediate Unit Fund	Categorical Funds
REVENUES			
Local Taxes	\$ 658,423,176	\$ -	\$ -
Locally Generated Non Tax	53,882,611	223,208	6,337,203
State Grants and Subsidies	992,717,683	66,640,998	40,272,498
Federal Grants and Subsidies	261,648	-	303,842,385
Total Revenues	<u>1,705,285,118</u>	<u>66,864,206</u>	<u>350,452,086</u>
EXPENDITURES			
Current:			
Instruction	909,492,267	173,378,288	239,038,448
Student Support Services	58,581,360	55,609,756	87,688,111
Administrative Support	67,662,216	9,421,274	31,234,994
Operation & Maintenance of Plant Services	229,610,085	-	9,403,473
Pupil Transportation	76,442,718	-	80,368
All Other Support Services	26,380,282	-	-
Early Childhood Education	-	-	21,628,235
Payments to Charter Schools	153,409,741	-	-
Debt Service:			
Principal	-	-	-
Loans	-	-	-
Interest	-	-	-
Principal & Interest - Authority	-	-	-
Issuance Costs	-	-	-
Capital Outlay:			
New Buildings and Additions	-	-	-
Environmental Management	-	-	-
Alterations and Equipment	-	-	-
Major Renovations	-	-	-
Equipment Acquisitions	-	-	-
Total Expenditures	<u>1,521,578,669</u>	<u>238,409,318</u>	<u>389,073,629</u>
Excess (Deficiency) of Revenues over Expenditures	<u>183,706,449</u>	<u>(171,545,112)</u>	<u>(38,621,543)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	7,009,509	170,356,898	19,495,658
Transfers Out	(299,605,977)	-	(3,153,376)
Swaption Net Proceeds	-	-	-
Bond Proceeds	20,000,000	-	-
Bond Defeasement	-	-	-
Total Other Financing Sources and (Uses)	<u>(272,596,468)</u>	<u>170,356,898</u>	<u>16,342,282</u>
Net Change in Fund Balances	(88,890,019)	(1,188,214)	(22,279,261)
Fund Balances, July 1, 2003	132,181,079	2,660,393	(6,095,538)
Prior Period Adjustment (Change in Inventory Reserve)	315,306	-	-
Prior Period Adjustment - Categorical	-	-	(2,273,409)
Fund Balances, June 30, 2004	<u>\$ 43,606,366</u>	<u>\$ 1,472,179</u>	<u>\$ (30,648,208)</u>

The notes to the financial statements are an integral part of this statement.

Debt Service Fund	Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 658,423,176</u>
1,530,162	9,901,629	242,953	72,117,766
-	127,061	-	1,099,758,240
-	2,565,135	-	306,669,168
<u>1,530,162</u>	<u>12,593,825</u>	<u>242,953</u>	<u>2,136,968,350</u>
-	-	414,548	1,322,323,551
-	-	-	201,879,227
-	-	-	108,318,484
-	2,565,135	-	241,578,693
-	-	-	76,523,086
-	-	-	26,380,282
-	-	-	21,628,235
-	-	-	153,409,741
45,000,000	-	-	45,000,000
368,641	-	-	368,641
74,043,953	-	-	74,043,953
22,907,640	-	-	22,907,640
26,592,956	-	-	26,592,956
-	44,752,557	-	44,752,557
-	3,354,920	-	3,354,920
-	79,590,186	-	79,590,186
-	1,316,942	-	1,316,942
-	5,619,164	-	5,619,164
<u>168,913,190</u>	<u>137,198,904</u>	<u>414,548</u>	<u>2,455,588,258</u>
<u>(167,383,028)</u>	<u>(124,605,079)</u>	<u>(171,595)</u>	<u>(318,619,908)</u>
143,559,815	-	-	340,421,880
-	(37,586,798)	-	(340,346,151)
16,641,000	-	-	16,641,000
691,075,000	871,057,447	-	1,582,132,447
(691,989,393)	-	-	(691,989,393)
<u>159,286,422</u>	<u>833,470,649</u>	<u>-</u>	<u>906,859,783</u>
(8,096,606)	708,865,570	(171,595)	588,239,875
63,167,123	42,744,596	5,444,462	240,102,115
-	-	-	315,306
-	-	-	(2,273,409)
<u>\$ 55,070,517</u>	<u>\$ 751,610,166</u>	<u>\$ 5,272,867</u>	<u>\$ 826,383,887</u>

School District of Philadelphia
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2004

Amounts reported for governmental activities in the statement
of activities (page 31) are different because:

Net change in fund balances - total governmental funds (page 37)	\$	588,239,875
---	----	-------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		56,639,632
--	--	------------

Non capitalized purchases that exceed capital outlays		6,813,638
---	--	-----------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(881,330,372)
--	--	---------------

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.		45,373,641
--	--	------------

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		41,042,499
---	--	------------

The net revenue (loss) of certain activities of internal service fund is reported with governmental activities.		(59,279)
---	--	----------

Change in net assets of governmental activities (page 31)	\$	(143,280,366)
---	----	---------------

The notes to the financial statements are an integral part of this statement.

School District of Philadelphia
Statement of Net Assets
Proprietary Funds
June 30, 2004

	Enterprise Fund Food Service	Internal Service Fund Print Shop
ASSETS		
Current assets:		
Cash and Cash Equivalents	\$ 223,327	\$ -
Equity in Pooled Cash and Investments	14,722,296	-
Due From Other Governments	3,894,495	3,955
Other Receivables	-	612
Inventories	1,588,629	50,559
Total current assets	<u>20,428,747</u>	<u>55,126</u>
Noncurrent assets:		
Machinery & Equipment	12,715,223	683,497
Accumulated Depreciation	<u>(9,256,320)</u>	<u>(399,926)</u>
Total noncurrent assets	<u>3,458,903</u>	<u>283,571</u>
 Total Assets	 <u><u>\$ 23,887,650</u></u>	 <u><u>\$ 338,697</u></u>
 LIABILITIES		
Current liabilities:		
Accounts Payable	\$ 5,207,711	\$ 1,083,016
Accrued Salaries and Benefits Payable	1,227,217	54,641
Termination Compensation Payable	2,044,225	260,867
Severance Payable	4,475,356	-
Due to Other Funds	<u>-</u>	<u>305,026</u>
Total current liabilities	<u>12,954,509</u>	<u>1,703,550</u>
Noncurrent liabilities:		
Total noncurrent liabilities	<u>-</u>	<u>-</u>
Total liabilities	<u>12,954,509</u>	<u>1,703,550</u>
 NET ASSETS		
Invested in Capital Assets, Net of Related Debt	3,458,903	283,571
Unrestricted	7,474,238	(1,648,424)
Total Net Assets	<u>10,933,141</u>	<u>(1,364,853)</u>
 Total Liabilities and Net Assets	 <u><u>\$ 23,887,650</u></u>	 <u><u>\$ 338,697</u></u>

The notes to the financial statements are an integral part of this statement.

School District of Philadelphia
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2004

	Enterprise Fund Food Service	Internal Service Fund Print Shop
Operating Revenues:		
Food Service Revenue	\$ 8,219,086	\$ -
Sale of Printing Services	-	1,975,778
Total Operating Revenues	<u>8,219,086</u>	<u>1,975,778</u>
Operating Expenses:		
Salaries	21,617,833	872,080
Employee Benefits	10,646,744	359,765
Other Purchased Service - Food	37,607,592	-
Other Purchased Service - Supplies	-	70,965
Depreciation	581,123	42,065
Other Operating Expenses	10,184,791	690,182
Total Operating Expenses	<u>80,638,083</u>	<u>2,035,057</u>
Operating (Loss)	(72,418,997)	(59,279)
Non-operating Revenues:		
Federal and State Grants	71,659,953	49,933
Gain on Sale of Fixed Assets	-	50,807
Income (Loss) Before Contributions	<u>(759,044)</u>	<u>41,461</u>
Transfers Out	(75,729)	-
Change in Net Assets	<u>(834,773)</u>	<u>41,461</u>
Total Net Assets July 1, 2003	11,767,914	(1,406,314)
Total Net Assets June 30, 2004	<u><u>\$ 10,933,141</u></u>	<u><u>\$ (1,364,853)</u></u>

The notes to the financial statements are an integral part of this statement.

School District of Philadelphia
Statement of Cash Flows
Proprietary Funds
For The Year Ended June 30, 2004

	Enterprise Fund Food Service	Internal Service Fund Print Shop
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Users	\$ 8,219,086	\$ 1,975,778
Cash Received from Other Operating Revenue	1,203,665	-
Cash Payments to Employees for Services	(30,693,389)	(1,158,104)
Cash Payments to Suppliers for Goods and Services	(31,235,899)	(70,964)
Cash (Payments)/Receipts for Other Operating Expenses	(10,184,791)	442,301
Net Cash Provided (Used) by Operating Activities	<u>(62,691,328)</u>	<u>1,189,011</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Advances from Other Funds	-	(1,196,830)
State Sources	8,103,070	16,540
Federal Sources	59,688,494	33,393
Transfers Out	(75,729)	-
Net Cash Provided (Used) for Non-Capital Financing Activities	<u>67,715,835</u>	<u>(1,146,897)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Facilities Acquisition, Construction, Improvements	(416,908)	(42,114)
Net Cash (Used for) Capital and Related Financing Activities	<u>(416,908)</u>	<u>(42,114)</u>
Net Increase in Cash and Cash Equivalents	4,607,599	-
Cash and Cash Equivalents July 1, 2003	10,338,024	-
Cash and Cash Equivalents June 30, 2004	<u>\$ 14,945,623</u>	<u>\$ -</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating (Loss)	\$ (72,418,998)	\$ (59,279)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Net Amortization	581,123	42,066
Donated Food Commodities	3,870,621	-
Increase in Accounts Receivable	-	(4,500)
(Increase) Decrease in Inventories	(149,731)	62,069
Decrease in Due From Other Governments	1,203,665	-
Increase in Accounts Payable	2,650,803	1,074,913
Increase in Accrued Salaries and Benefits Payable	1,080,935	49,211
Increase in Termination Compensation Payable	166,266	24,531
Increase in Severance Payable	323,988	-
Total Adjustments	<u>9,727,670</u>	<u>1,248,290</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (62,691,328)</u>	<u>\$ 1,189,011</u>

The notes to the financial statements are an integral part of this statement.

School District of Philadelphia
Statement of Fiduciary Net Assets
Fiduciary Funds Types
June 30, 2004

	Private - Purpose Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ -	\$ 5,269,079
Equity in Pooled Cash and Investments	912,133	33,127,137
Investments	200,013	-
Accounts Receivable	871	1,180,371
Inventories	-	455,442
Total Assets	<u>1,113,017</u>	<u>40,032,029</u>
LIABILITIES		
Accounts Payable	204,471	-
Payroll Deductions and Withholdings	-	34,016,687
Due to Student Activities	-	5,256,590
Due to Other Funds	-	512,666
Other Liabilities	-	246,086
Total Liabilities	<u>204,471</u>	<u>40,032,029</u>
NET ASSETS		
Held in Trust for Various Purposes	<u>\$ 908,546</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

School District of Philadelphia
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2004

	Private Purpose Trust Funds
ADDITIONS	
Gifts and Contributions	\$ 1,035,155
Interest Received	24,201
Total Additions	<u>1,059,356</u>
DEDUCTIONS	
Scholarships Awarded	937,671
Total Deductions	<u>937,671</u>
Change in Net Assets	121,685
Net Assets July 1, 2003	786,861
Net Assets June 30, 2004	<u><u>\$ 908,546</u></u>

The notes to the financial statements are an integral part of this statement.

THIS PAGE INTENTIONALLY LEFT BLANK

SCHOOL DISTRICT OF PHILADELPHIA NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2004

These notes are an integral part of the financial statements and include a summary of accounting policies and other information considered necessary for a clear understanding of the statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the School District, as reflected in the accompanying financial statements for Fiscal Year ended June 30, 2004, conform to generally accepted accounting principles (GAAP) for local government units as prescribed by the Governmental Accounting Standards Board (GASB).

The most significant accounting policies are summarized below:

A. Reporting Entity

The School District of Philadelphia (School District) is a separate and independent home rule school district of the first class established by the Philadelphia Home Rule Charter (Charter) in December 1965. The Philadelphia Home Rule Charter Act-PL643 (Act) expressly limits the powers of the City by prohibiting the City from, among other things, assuming the debt of the School District or enacting legislation regulating public education or its administration, except in respect to setting tax rates authorized for school purposes by the General Assembly of the Commonwealth. Although the School District is an independent legal entity it is considered to be a component unit of the City of Philadelphia for reporting purposes and is included in the City's Comprehensive Annual Financial Report (CAFR).

The School District of Philadelphia (School District) is the largest school district in the Commonwealth of Pennsylvania (Commonwealth), serving 210,092 students. The School District is the eighth largest in the United States in enrollment and employs 24,545 full-time professional and non-professional persons from all funds. The boundaries of the School District are coterminous with the boundaries of the City of Philadelphia (City).

The School District is a political subdivision of the Commonwealth created to assist in the administration of the General Assembly's duties under the Constitution of the Commonwealth to "provide for the maintenance and support of a thorough and efficient system of public education to serve the needs of the Commonwealth."

The School District also serves as the agent for the Intermediate Unit No. 26 (IU); an entity established by the Commonwealth to provide special education, special education transportation, non-public school services and related management services. The School Reform Commission (SRC) constitutes the Board of Directors of the IU; the boundaries of the IU are coterminous with those of the City and School District. The School District, pursuant to contracts between the School District and the IU, performs all the IU services.

The School District implemented a new management structure under which a Chief Executive Officer (CEO) was appointed as the Superintendent effective November 1, 2000. The CEO performs the duties imposed on the Superintendent of Schools by the Home Rule Charter and the Public School Code of 1949 (School Code) and serves as the Secretary and Treasurer of the Board. The organization includes a Chief Operating Officer, a Chief Academic Officer, a Chief Financial Officer and a General Counsel, all of whom report to the CEO.

The CEO is responsible for the general supervision of all business affairs of the School District, the furnishing of all reports to the Department of Education of the Commonwealth and other matters prescribed by the School Code, as amended. As Treasurer of the Board, the CEO receives all Commonwealth appropriations, School District taxes and other monies of the School District, makes payments on orders approved by the Governing Body and is responsible for the investment of School District funds. Under this structure, the CEO performs the duties of the Superintendent of Schools under the Charter, including the pre-audit duties and functions of the school controller.

Effective December 22, 2001, in a cooperative effort with the City of Philadelphia to address the District's financial needs, the Commonwealth of Pennsylvania assumed governing control of the School District by declaring it distressed in accordance with Sections 691 and 696 of the Public School Code.

Shortly thereafter, a five-member School Reform Commission was established. The School Reform Commission exercises all powers and has all the duties of the Board of Education. The Board of Education continues in office, performing only the duties assigned, if any, by the School Reform Commission. At the time of this report, the School Reform Commission has not delegated any duties to the Board of Education.

The Governor of Pennsylvania appointed the chairman and two other members. The Mayor of Philadelphia appointed the remaining two members of the School Reform Commission. The five-member Commission performs its oversight responsibility for the Philadelphia public school system through their "Declaration of Education."

Mr. Paul G. Vallas has been the CEO since the School Reform Commission appointed him on July 17, 2002. Together, the School Reform Commission and Mr. Vallas have redefined the School District of Philadelphia. The School District developed and plans to maintain a fiscally responsible and stable operating budget. The initial five-year financial plan was announced on August 2002 by Mr. Vallas. The School District continuously updates the five-year financial plan, which projects additional budget reductions, revenue enhancements and improved operations management to achieve this goal. The five-year financial plan was revised and projects that the District will end through Fiscal Year 2008 with a positive fund balance.

B. District-Wide and Fund Financial Statements

In June 1999, The Government Accounting Standards Board (GASB) issued Statement No. 34 "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*" (GASB Statement No. 34) effective for periods beginning after June 15, 2001. This statement, known as the "Reporting Model" statement, affects the way the School District prepares and presents financial information. State and local governments previously have used a financial reporting model substantially different from the one used to prepare private-sector financial reports.

GASB Statement No. 34 establishes requirements and a reporting model for the annual financial reports of state and local governments. This statement was developed to make annual reports easier to understand and more useful to other people who use governmental financial information to make decisions and includes:

Management's Discussion & Analysis – The reporting model includes a requirement that the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "Management's Discussion and Analysis" (MD&A). This analysis is similar to analysis private sector entities provide in their annual reports and is Required Supplementary Information (RSI).

District-Wide Financial Statements – The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable), but also capital assets and long-term liabilities. Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter. Fiduciary funds are not included in district-wide financial statements.

The basic financial statements include both district-wide (based on the School District as a whole) and fund financial statements. While the previous financial reporting model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the School District as a whole or major individual funds (within the fund financial statements). District-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the district-wide Statement of Net Assets, both the activities assets and liabilities: (a) are presented on a consolidated basis and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term obligations.

Statement of Net Assets – The Statement of Net Assets is designed to display the financial position of the primary government. The School District reports all capital assets in the district-wide Statement of Net Assets and reports depreciation expense – the cost of "using up" capital assets – in the Statement of Activities. The net assets of the School District are presented in three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities – The Statement of Activities reports expenses and revenues in a format that focuses on the cost of each function of the School District. The expense of individual functions is compared to the revenue generated by the function (for instance, through user charges or governmental grants). These directly matched revenues are called program revenues. This format enables the district-wide Statement of Activities to reflect both the gross and net cost per functional category (instruction, student support services, pupil transportation, etc.,) that are otherwise being supported by general government revenues.

Program revenues must be directly associated with a function and are restricted to meeting the operational or capital requirements of a particular function or segment. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. Multi-purposed grants and other items not properly included among program revenues are reported as general revenues.

Direct expenses are considered those that are clearly identifiable with a specific function or segment. The School District allocates indirect expenses to their applicable functions.

Fund Financial Statements - Separate financial statements are provided for government funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

In the fund financial statements, financial transactions and accounts of the School District are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities of balances, and changes therein. Each fund is segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions, or limitations. The fund statements are presented on a current financial resource measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. A reconciliation is presented which briefly explains adjustments necessary to reconcile the fund financial statements to the governmental activities column of the district-wide financial statements.

The School District's fiduciary funds are presented in the fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the district, these funds are not incorporated into the district-wide statements.

There are three major fund types presented in this report. A brief description of each is presented below:

- (1) **Governmental Fund Types** - These are the funds through which costs of district functions are typically financed. The funds included in this category are:
 - (a) **General Fund** - the principal operating fund of the School District; accounts for all financial resources except those required to be in another fund.
 - (b) **Special Revenue Funds** - These funds account for the proceeds of certain revenue sources that are legally restricted to expenditures for specified purposes. Special Revenue funds include:
 - (i) **Intermediate Unit Fund** - used to account for State appropriations for special education and non public programs as well as certain administrative costs.
 - (ii) **Categorical Funds** - used to account for specific purpose Federal, State, City or Private grants.
 - (iii) **Trust Funds** – these are funds for which both principal and earnings may be used to support District programs that benefit either the District or its students.
 - (c) **Debt Service Fund** - used to account for the accumulation of resources for the payment of debt service and bond issuance costs.
 - (d) **Capital Projects Fund** - used to account for financial resources used for capital asset acquisition, construction, and improvement.

- (e) Permanent Fund Types - used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support District programs that benefit the District or its students.
- (2) Proprietary Fund Types - These are the funds that account for the operations of the School District that are financed and operated in a manner similar to those often found in the private sector. The funds included in this category are:
 - (a) Enterprise Fund - used to account for the operation of the Food Services Division.
 - (b) Internal Service Fund - reports on print shop and photocopy operations by accounting for printing and copy services provided to various School District divisions on a cost reimbursement basis.
- (3) Fiduciary Fund Types - These funds account for assets held by the School District as a trustee or agent for individuals, private organizations, and/or other governmental units. The funds included in this category are:
 - (a) Private Purpose Trust Funds - used to account for all trust agreements for which both principal and earnings benefit individuals, private organizations or other governments.
 - (b) Agency Funds - used to account for assets held by the School District as trustee or agent for others. At June 30, 2004 the School District administered the Payroll Liabilities, Student Bus Token, Student Activities, and Unclaimed Monies funds.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and private purpose trust funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Agency Funds are accounted for using the accrual basis of accounting to recognize receivables and payables.

Non-exchange transactions where the School District either gives or receives value without directly receiving or giving equal value in exchange include grants and donations. Revenues from grants and donations are recognized in the Fiscal Year in which all eligibility requirements have been satisfied.

It is the School District's policy to first use restricted assets for expenses incurred for which restricted and unrestricted assets are available.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This focuses on the determination of, and changes in financial position, and generally only current assets and current liabilities are included on the balance sheet. Revenues are recorded as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current fiscal period or soon thereafter to pay liabilities of the current period. For this purpose the School District considers revenues to be available if they are collected within 60 days of the end of the current period for the general fund and within 90 days of the current fiscal period for categorical funds. Revenues

from grants and donations are recognized in the Fiscal Year in which all eligibility requirements have been satisfied and the resources are available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Taxes, such as liquor, school income, and use and occupancy associated with the current fiscal period are recognized when the underlying exchange transaction has occurred and the resources are available. Imposed non-exchange revenues such as real estate taxes are recognized when the enforceable legal claim arises and the resources are available. All other revenue items are considered to be measurable and available only when cash is received by the School District.

The School District receives the vast majority of its revenues from governmental entities. These revenues primarily come in the form of state subsidies, city taxes, federal and state grants, and non-tax revenues including a city grant.

The School District reports the General, Intermediate Unit, Categorical, Debt Service and Capital Project Funds as its major governmental funds.

GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the governmental column in the district-wide Statement of Net Assets.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the district-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent prior sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private sector guidance.

The effect of interfund activity has been eliminated from the district-wide financial statements. Exceptions to this general rule are other charges between the District's food service function and other functions of the District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenues. Likewise, general revenues include all taxes. Indirect costs such as depreciation have been allocated to specific program expenses.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund (Food Service) and Internal Service Fund (Print Shop) are charges for sales and services. Operating expenses for these funds include costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities, and Net Assets or Equity

(1) Cash and Investments

Cash and cash equivalents include currency on hand, deposits, short-term highly liquid investments, and investments with original maturities of three months or less from the date of acquisition.

State statutes require the School District to invest in obligations of the United States Treasury and Commonwealth of Pennsylvania and collateralized repurchase agreements.

Non-participating investment contracts, generally certificates of deposit, and repurchase agreements are reported at cost, which approximates fair value. All other investments are reported at fair value.

(2) Real Estate Taxes

Ad valorem real estate tax revenues are recognized in compliance with GASB Statement No. 33. This statement provides that tax revenues should be recognized in the period for which they are levied except that they shall not be recognized unless they are collected within the current year or expected to be collected within sixty days after the end of the current year.

The tax on real estate in Philadelphia for public school purposes for fiscal 2004 was 47.90 mills. Of this total, 16.75 mills are levied directly by the School District pursuant to legislative authorization by the General Assembly without further approval of the City Council, and the remaining 31.15 mills are levied pursuant to legislative authorization and approval by ordinance of the City Council.

Assessments are certified and taxes are levied on January 1st; taxes are due March 31st. Interest and penalty accrue at the rate of 1-1/2 percent per month beginning April 1st, and unpaid taxes are considered delinquent the following January 1st and are then subject to lien. The City has established real estate improvement programs that abate, for limited periods, tax increases that result from higher assessments for improved properties.

(3) Due from Other Governments

Grant revenues are recognized when all the applicable eligibility requirements have been met and the resources are available. Primarily, the line item "Due From Other Governments" represents the excess of grant expenditures over funds collected.

(4) Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the Fiscal Year are referred to as either "Due To/From Other Funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the district-wide financial statements as "internal balances."

(5) Inventories

Inventories in the General Fund are valued at an average cost of \$2,161,769. Included are expendable supplies of \$1,657,352 held for consumption by the Maintenance and Transportation Departments. The cost is recorded as an expenditure at the time inventory is purchased. The expendable supplies inventory is equally offset by a fund balance reserve, which indicates that, although they are a component of net current assets, they do not constitute resources available to be spent.

Enterprise (Food Services) Fund inventories include \$785,101 donated by the Federal Government, which is valued at cost or estimated value. All other food or supply inventories are valued at last unit cost in accordance with the recommendations of the Food and Nutrition Service of the Department of Agriculture and will be expensed when used.

Internal Service (Print Shop) Fund inventories are valued at last unit cost and will be expensed as consumed.

Agency (Student Bus Token) Fund inventories are valued at cost. This inventory represents tokens on hand at the close of the Fiscal Year.

(6) Artwork

The School District of Philadelphia is in the process of determining the value of 1,200 pieces of artwork which resided within the District. Records for historical cost on many of the items are not available. Therefore, values reported in capital assets for artwork inventory are based on replacement values provided by an outside consulting firm with expertise in this area. The District's intention is to update values to historical cost as information becomes available.

(7) Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated fixed assets are valued at their estimated fair market value on the date donated.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property, plant, and equipment of the School District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building improvements	10-30
Equipment	5-20
Vehicles	8-10
Office equipment	10
Computer equipment	5

Capital assets acquired or constructed for governmental fund purposes are recorded as expenditures in the fund incurring the obligation and are capitalized at cost in the district-wide Statement of Net Assets.

Proprietary Fund equipment acquisitions are capitalized in the appropriate fund and depreciated over 5 to 20 years in the Enterprise or Internal Service Funds using a straight-line method.

(8) Deferred Revenues

Deferred revenues represent funds received in advance of being earned or receivables that will be collected and included in revenues of future Fiscal Years. In the General Fund, deferred revenues relate principally to property tax receivables, which were levied in the current and prior years, but will not be available to pay liabilities of the current period. In Categorical Funds, deferred revenue represents grant funds received prior to expenditure or grant funds, which have been earned, but the resources are not considered to be available. In the Debt Service Fund, deferred revenues represent interest on investments received in advance of being earned. In the Capital Projects Fund, deferred revenue consists of capital grant funds received prior to expenditure of grant funds.

(9) Insurance

The School District is self-insured for casualty losses, public liability, worker's compensation, unemployment and weekly indemnity. The District purchases excess property insurance to cover losses related to damages such as fire, flood, or machinery with a deductible of \$500,000 and a limit of \$125.0 million. Certain insurance coverages, including employee performance bonds, student accident insurances, and employee dishonesty, have also been obtained. Unemployment and workers' compensation coverage are funded by pro-rata charges to each fund. The cost of weekly indemnity coverage is shared by the School District and covered employees.

Payments in Fiscal Year 2004 were comprised of \$16,108,946 for Weekly Indemnity, \$20,665,178 net for Workers' Compensation, and \$3,434,397 for Unemployment Compensation claims.

Liabilities expected to be liquidated with available resources are shown as accrued expenditures in the General Fund. Amounts expected to be paid from future years' resources are shown in the district-wide Statement of Net Assets.

Life insurance payable, for retired School District employees, was restated to eliminate a \$21.1 million liability. The School District has current life insurance coverage for retired employees in certain bargaining units. This amount is reflected as a prior period adjustment in the district-wide Statement of Net Assets.

(10) Compensated Absences

It is School District policy to permit employees to accumulate earned, but unused vacation and sick pay benefits. A liability for these benefits is accrued in the district-wide Statement of Net Assets. The current year's portion of this accrual is reflected as an expense on the district-wide Statement of Activities and are payable only upon termination. The School District's leave policy is as follows:

- (a) Vacation and Personal Leave - School District employees who are required to work on a twelve-month schedule are credited with vacation at rates which vary with length of service or job classification. Almost all School District employees are entitled to three days of personal leave annually. Vacation and personal leave may be taken or accumulated within certain limits until paid upon retirement or termination at the rate of pay at separation.
- (b) Sick Leave - Most School District employees are credited with 10 days of sick leave annually to an unlimited maximum. Upon retirement or termination, such employees are paid 25% of the value of their accumulated sick leave balance at the rate of pay at separation.

(11) Long-Term Obligations

In the district-wide financial statements, and propriety fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported separately from the applicable bond premium or discount. Bond issuance costs are amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as net adjustments against gross proceeds under the applicable fund. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(12) Reserve for Weekly Indemnity

This reserve, which has been established by resolution of the SRC, represents an accumulation of funds collected in excess of benefits provided for the School District's Weekly Indemnity (salary continuation) plan.

(13) Fund Equity

In the fund financial statements, governmental funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties

for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. A few of these designations are as follows:

- (a) Reserves for Retirement of Long-term Debt and Debt Service Interest: Funds are accumulated in the Debt Service Fund to pay principal and interest on bonds outstanding. Funds required to retire all long-term debt are recorded as long-term liabilities in the district-wide Statement of Net Assets.
- (b) Unreserved Designated Fund Balance: This represents, in the Non-Major Governmental funds, resources that are legally restricted for the specific purposes stated in each trust.

(14) Restricted Assets

Certain proceeds of the School District's Debt Service Fund bonds, resources set-aside for their repayment, and funds held in escrow for refunding and defeasement are classified as restricted assets and are not included on the balance sheet. They are maintained under separate accounts and their use is limited by applicable bond covenants.

(15) Comparative Data

Comparative data from Fiscal Year 2003 is provided as a key element of the Management Discussion and Analysis (MD&A) to enhance the analysis of financial data of the current period.

2. ***RECONCILIATION OF DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS***

A. **Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the District-Wide Statement of Net Assets**

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds and net assets – governmental activities* as reported in the district-wide Statement of Net Assets. When capital assets (land, buildings, and equipment) that are to be used in governmental activities are purchased or constructed, the cost of these assets is reported as expenditures in governmental funds. However, the Statement of Net Assets includes capital assets among the assets of the School District as a whole.

Cost of capital assets	\$ 2,147,142,468
Accumulated depreciation	<u>(972,203,519)</u>
Net Cost of Capital Assets	\$ 1,174,938,949

Also, “deferred charges,” including issuance costs and refunding charges for general obligation bonds, are expensed in the governmental funds, but amortized over the life of the related bonds. This is the balance of unamortized bond issuance costs and refunding charges:

	<u>\$ 87,928,785</u>
Total adjustment to fund balance – governmental funds	<u>\$ 1,262,867,734</u>

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay current-period expenditures. Those assets are offset by deferred revenue in the governmental funds, and thus are not included in fund balance.

Taxes Receivable	\$(116,849,196)
Grants & Subsidies	<u>(30,648,208)</u>
Adjustment of Deferred Revenue	<u><u>\$(147,497,404)</u></u>

Another element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this difference are as follows:

Bonds Payable	\$ (2,314,730,000)
Deduct: Discount on Bonds Payable	10,685,112
Add: Premium on Bonds Payable	(23,011,473)
Bond Interest Payable	(18,798,487)
Funds Due to Other Governments	(45,278,566)
Workers Compensation Payable	(78,827,474)
Unemployment Compensation Payable	(8,387,307)
Compensated Absences	(284,075,892)
Severance Payable	(153,389,591)
Claims and Judgments	(673,562)
Early Retirement Incentive	(7,950,000)
Capital Lease	(3,856,133)
Asbestos Loan Payable	<u>(628,000)</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> - to arrive at <i>net assets governmental activities</i> .	<u><u>\$ (2,928,921,373)</u></u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the District-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the district-wide Statement of Activities. One element of the reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of the assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of the \$56,639,632 difference are as follows:

Capital outlay	\$ 134,633,769
Depreciation expense	<u>(77,994,137)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u><u>\$ 56,639,632</u></u>

Another element of that reconciliation states that “Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.” The details of this (\$ 45,373,641) difference are as follows:

Principal repayments	\$ 45,373,641
<i>Net effect of differences in the treatment of long-term debt and related premiums and issuance costs.</i>	<u>\$ (45,373,641)</u>

Another element of the reconciliation states that, “some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.” The details of the \$41,042,499 difference are as follows:

Change in Bond Issuance Costs	\$ 26,592,957
Change in Compensated Absences Payable	4,716,569
Change in Severance Payable	15,157,108
Change in Workers’ Compensation Payable	(17,881,210)
Change in Unemployment Compensation Payable	(2,221,068)
Change in Claims and Judgments Payable	14,413,154
Early Retirement Incentive	(7,950,000)
Net accrued bond interest	<u>8,214,989</u>
<i>Net adjustment to decrease net changes in fund balance - total governmental funds to arrive at changes in net assets of governmental activities.</i>	<u>\$ 41,042,499</u>

3. **STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

A. **Budgetary Information**

- (1) **General Budget Policies** -The Home Rule Charter requires that the School District adopt an operating budget and a capital budget for each Fiscal Year. The operating budget consists of the General Fund, the Intermediate Unit Fund and the Debt Service Fund. In early October, the CEO provides a status report to the SRC on the budget for the current Fiscal Year and multi-year projections, and they give consideration to any changes in the current education program. The public is invited to make recommendations for changes in the educational program for the ensuing Fiscal Year at a special meeting held in late October.

In mid-November program managers receive budget preparation materials, and within the framework of policies and initiatives developed by the SRC and CEO, program administrators develop goals, objectives, and priorities which are incorporated into budget requests called program and activity statements. All such statements are further defined by items of expenditures, called “object classes.” Completed budget requests, including a revised estimate of current year’s expenditures, are submitted to the Office of Management and Budget for review by the end of December. All approved requests are incorporated into the “proposed operating budget.”

In consultation with the SRC, the CEO provides status reports on the budgets for the current Fiscal Year, the ensuing Fiscal Year, and multi-year projections before and after giving

consideration to any changes in the current education program. The SRC then must observe specific-timing requirements outlined in the Charter as follows:

- (a) At least thirty days prior to the end of the current Fiscal Year, the budget must be adopted (no later than May 31).
- (b) At least thirty days prior to adoption, public hearings must be held (no later than April 30).
- (c) At least thirty days prior to public hearings, notice must be given of hearing dates, and copies of the proposed operating budget must be made available to all interested parties (no later than March 30).

A statement of estimated receipts and expenditures is submitted to the Mayor and the President of City Council on or before March 30. Since the School District has limited taxing power, City Council must approve the continuance of, or changes in, the local taxes for school purposes required to fund the estimated expenditures of the School District after taking into account the estimated revenues from the Commonwealth and the 16.75 mills of real estate taxes authorized by the General Assembly.

If total estimated funds from all sources are insufficient to balance the budget, the SRC must reduce anticipated expenditures to a level consistent with total available funds, as mandated by the Charter. The ensuing balanced budget becomes the adopted financial plan for the School District for the forthcoming Fiscal Year.

Control of the operating budget is exercised at the expenditure object class level within principal administrative units. Management is authorized to transfer budget amounts between personal services and employee benefits and among materials, supplies, books and equipment, but only within an administrative unit. Transfers between other expenditure classes or between administrative units require the approval of the SRC with appropriate notice and public hearings. No supplementary budgetary appropriations were necessary during the Fiscal Year. Unencumbered appropriations lapse at year-end.

The development of the capital budget and program is the principal responsibility of the Office of Facilities Management and Services and represents that office's research and analyses as well as priorities of the SRC and the CEO, and recommendations of the City Planning Commission. Due consideration is given to balancing physical needs and financial resources which may become available to fund capital improvements. A capital program detailing a division's plan for the ensuing five years, as well as a capital budget detailing the expenditure requirements of the first year of the capital program, must be adopted by the SRC not later than the date of the adoption of the annual operating budget and follows the same adoption procedures related to public hearings mandated by the Charter. Implementation of the capital budget is contingent upon the receipt of proceeds of debt obligations of the School District or other resources made available for capital improvement purposes.

Control of the Capital Projects budget is exercised at the major project and sub-project levels. Transfers between major projects must be approved by the SRC. Unencumbered appropriations lapse at year-end although they may be included in the ensuing year's appropriations. Administrative control is maintained at the individual project level.

The SRC is not required to adopt a budget for Categorical Funds. The SRC does approve all contracts with funding agencies, and budgetary control is exercised at the level prescribed by funding agency regulations and guidelines. Amendments to Categorical Funds budgets must be approved by funding agencies.

Enterprise (Food Services) and Internal Service (Print Shop) Funds budgets are not adopted; however, formal budgets are prepared and approved by management and expenses are controlled on the basis of these budgets.

Fiduciary Funds are not formally budgeted; however, each individual expenditure request is reviewed for compliance with provisions and for availability of funding.

- (2) Encumbrance Accounting - Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriations, is employed as an extension of formal budgetary integration in governmental funds except for Categorical Funds. Encumbrances at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities but serve as authorization for expenditures in the subsequent year. Unreported Categorical Funds encumbrances totaled \$32,479,837 at June 30, 2004. Since Categorical Funds do not have a formal adopted budget, this amount is not shown as a reservation of fund balance at June 30, 2004.

B. Deficit Fund Equity

The Categorical Funds experienced an unreserved fund balance deficit of \$30,648,208 while the Internal Service Fund had a retained earnings deficit of \$1,648,424. The deficit in the Categorical Funds is due to GASB Statement No. 33 provisions which states grant revenue can only be recognized that is collected during the Fiscal Year or collected soon enough after the end of the fiscal period to be available to pay the liabilities of the current period.

4. *DETAILED NOTES ON ALL FUNDS AND ACCOUNTS*

A. Cash and Investments

(1) General Information

The School District's cash and investments at June 30, 2004 are summarized as follows:

Cash and Cash Equivalents	\$ 806,877,929
Cash and Investments with Fiscal Agent	55,070,843
Equity in Pooled Cash and Investments	185,961,144
Investments	<u>200,013</u>
Total Cash and Investments	<u>\$ 1,048,109,929</u>

The School District is authorized under section 440.1 of the Public School Code to invest in United States Treasury bills, short-term obligations of the United States government and its agencies or instrumentalities, obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States, obligations of the Commonwealth of Pennsylvania or any political subdivision of the

Commonwealth backed by full faith and credit of the Commonwealth or the political subdivision, money market funds of U.S. Treasury obligations, and collateralized repurchase agreements.

(2) Pooled Cash and Investments

The School District maintains an internal investment pool to facilitate cash management and accounting. This technique is used to limit demand balances to those sums necessary to reimburse banks for account related activities.

All funds that can be legally or practically combined are included in the pooled cash and investments account. Receipts from member funds increase their equity in the account and disbursements made on behalf of member funds reduce their equity. Interest earned on investments is distributed to certain member funds based on their equity in the pooled cash and investments account.

At June 30, 2004, pooled cash and investments were \$6.1 million less than members' equity. Of this amount, \$2.6 million represents checks drawn but not yet processed for payment.

(3) Deposits

At June 30, 2004, the carrying amount of the School District's deposits with financial institutions was \$343.3 million and the bank balance was \$349.5 million. The deposits are categorized as follows:

	(Dollars in thousands)	
	<u>Carrying Amount</u>	<u>Bank Balance</u>
Amount insured by the FDIC or collateralized with securities held by the School District in its name	\$ 400	\$ 400
Amount collateralized with securities held by the pledging financial institution's trust department in the School District's name	10,238	10,238
Uncollateralized. These items are covered by pledged assets which are pooled to secure deposits of public funds as authorized by State Statute P.L. 281, No 72.	<u>332,761</u>	<u>338,891</u>
Total Deposits	<u>\$ 343,339</u>	<u>\$ 349,529</u>

(4) Investments

The School District's investments are categorized below to give an indication of the level of credit risk assumed by the entity at year-end as follows:

Category 1 includes investments that are insured or registered, or for which the securities are held by the School District or its agent in the School District's name.

Category 2 includes uninsured unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name.

Category 3 includes uninsured and unregistered investments for which the securities are held by counterparty or held by the counterparty's trust department or agent but not in the School District's name.

	(Dollars in thousands)			Carrying Amount	Reported Amount/ Fair Value
	Category 1	Category 2	Category 3		
Repurchase Agreements	\$ 156,547	\$ -	\$521,393	\$ 677,940	\$ 677,940
Other Investments	26,770	-	-	26,770	26,770
Total Investments	<u>\$ 183,317</u>	<u>\$ -</u>	<u>\$521,393</u>	<u>\$ 704,710</u>	<u>\$ 704,710</u>
Other Investments (Fair Value):					
Forward Purchase Investment	<u>\$ 26,770</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,770</u>	<u>\$ 26,770</u>

(5) Cash and Investment Balances

From February 2004 to early June 2004 uncollateralized deposits significantly exceeded the amounts reported in this category at June 30, 2004. This was due to cyclical tax collections (billings for taxes are mailed in January and payable in March).

B. Receivables

- (1) Net Receivables: Receivables as of the year end for the School District's individual Major and Non-Major, Internal Service and Fiduciary Funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	(Dollars in thousands)			
	General	Categorical	Debt Service	Total
Receivables				
Interest	\$ 46.8	\$ -	\$ 187.9	\$ 234.7
Taxes	237,006.1	-	-	237,006.1
Accounts	<u>4,050.9</u>	<u>852.3</u>	<u>-</u>	<u>4,903.2</u>
Gross Receivables	241,103.8	852.3	187.9	242,144.0
Less: allowances for Uncollectible				
Taxes	96,189.2	-	-	96,189.2
Accounts	<u>1,234.5</u>	<u>-</u>	<u>-</u>	<u>1,234.5</u>
Total allowance	97,423.7	-	-	97,423.7
Net total receivables	<u>\$ 143,680.1</u>	<u>\$ 852.3</u>	<u>\$ 187.9</u>	<u>\$144,720.3</u>

The allowance for uncollectible accounts is for receivables established for the collection of employees that were overpaid.

- (2) Taxes Receivable: Estimated collectible taxes at June 30, 2004 amounted to \$140.8 million as follows:

	(Dollars in millions)		
	<u>Taxes Receivable</u>	<u>Estimated Uncollectible</u>	<u>Estimated Collectible</u>
Real Estate Taxes			
Current	\$ 68.7	\$ 9.0	\$ 59.7
Prior	<u>141.0</u>	<u>73.2</u>	<u>67.8</u>
Total Real Estate Taxes	<u>209.7</u>	<u>82.2</u>	<u>127.5</u>
Self Assessed Taxes			
Use and Occupancy	11.4	6.9	4.5
School Income Tax	4.2	0.3	3.9
Liquor Tax	<u>11.7</u>	<u>6.8</u>	<u>4.9</u>
Total Self Assessed Taxes	<u>27.3</u>	<u>14.0</u>	<u>13.3</u>
Total Taxes Receivable	<u>\$ 237.0</u>	<u>\$ 96.2</u>	<u>\$ 140.8</u>

During July and August 2004, \$17.2 million in real estate taxes receivable and \$6.7 million in self-assessed taxes receivable were collected. Those amounts were accrued and included in fiscal 2004 revenues.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current Fiscal Year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Taxes receivable earned but not available (General Fund)	\$ 116,849,196	
Accounts receivables earned but not available (General Fund)	1,424,396	
Grant funds earned but not available (Categorical Fund)	30,648,208	
Grant funds received prior to meeting all eligibility requirements (Categorical Funds)		\$ 20,960,384
Interest on investments received prior to being earned (Debt Service fund)		2,742,449
Grant funds received prior to meeting all eligibility requirements (Capital Projects Fund)		<u>79,671</u>
Total deferred revenue for governmental funds	<u>\$ 148,921,800</u>	<u>\$23,782,504</u>

C. Capital Assets

Capital Assets activity for the year ended June 30, 2004 was as follows:

	(Dollars in millions)				
	Balance July 1, 2003	Additions	Deletions	Transfers	Balance June 30, 2004
Governmental Activities:					
Capital Assets, not being depreciated:					
Land	\$ 108.5	\$ -	\$ -	\$ 2.5	\$ 111.0
Construction in Progress	125.6	76.9	-	(125.6)	76.9
Total Capital Assets, not being depreciated	234.1	76.9	-	(123.1)	187.9
Capital Assets, being depreciated:					
Buildings	775.0	18.1	-	61.9	855.0
Improvements	819.1	6.9	-	61.2	887.2
Personal Property	208.2	39.8	(31.0)	-	217.0
Print Shop	0.6	0.1	-	-	0.7
Total Capital Assets, being depreciated	1,802.9	64.9	(31.0)	123.1	1,959.9
Less accumulated depreciation for:					
Buildings	(434.9)	(12.6)	-	(2.0)	(449.5)
Improvements	(355.4)	(37.4)	-	(6.2)	(399.0)
Personal Property	(128.5)	(19.8)	24.6	-	(123.7)
Print Shop	(0.3)	(0.1)	-	-	(0.4)
Total Accumulated Depreciation	(919.1)	(69.9)	24.6	(8.2)	(972.6)
Total Capital Assets, being depreciated, net	\$ 883.8	(5.0)	(6.4)	114.9	987.3
Governmental activities Capital Assets, net	\$ 1,117.9	\$ 71.9	\$ (6.4)	\$ (8.2)	\$ 1,175.2
Business-Type Activities:					
Capital Assets, being depreciated:					
Machinery and equipment	\$ 12.5	\$ 0.4	\$ (0.2)	\$ -	\$ 12.7
Less accumulated depreciation for:					
Machinery and equipment	(8.9)	(0.6)	0.2	-	(9.3)
Business-type activities Capital Assets, net	\$ 3.6	\$ (0.2)	\$ -	\$ -	\$ 3.4

The beginning balances of certain fixed asset accounts were adjusted by a net total of \$5.3 million. This amount is reflected as a prior period adjustment in the district-wide Statement of Net Assets.

These adjustments involved an understatement of asset value of \$3.3 million and a net understatement of accumulated depreciation of \$8.6 million.

Capital lease personal property valued at \$3.8 million was added during Fiscal Year 2004 and are included above. (See Note 4D3(b) -Capital Leases for details)

Depreciation expense was charged to the following activities as follows:

(Dollars in millions)

Governmental activities:

Instruction	\$ 55.4
Student Support Services	2.4
Administrative Support	5.3
Operation Maintenance of Plant Services	10.7
Pupil Transportation	0.1
All Other Support	4.2
Total depreciation expense	<u>\$ 78.1</u>

For Business-type activities, all depreciation expense was charged to Food Service.

D. Obligations

(1) Short-Term Obligations:

- (a) During Fiscal Year 2004, the School District placed its Tax and Revenue Anticipation Notes through a consortium of five local financial institutions in order to provide sufficient cash for District operations. The privately placed notes functioned as a line of credit with the School District borrowing funds on an as needed basis through the bank consortium.
- (b) The School District issued two series of Tax and Revenue Anticipation Notes in Fiscal Year 2004. Series A totaled \$325.0 million in principal amount and was issued to address the School District's cyclical cash flow needs. Due to the lengthy state budget impasse, the Series B Notes, in the principal amount of \$250.0 million were authorized by the School Reform Commission. The School District issued \$150.0 million of Series B Notes. When education appropriations were released late in December 2003, the Series B Notes were retired. All of the Series A Notes were repaid prior to June 30, 2004. Changes in short-term obligations payable during Fiscal Year 2004 were as follows:

(Dollars in millions)

	Balance <u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2004</u>
<u>Governmental Activities:</u>				
Tax and Revenue Anticipation Note (Series A Note 2003-2004)	\$ -	\$ 325.0	\$ 325.0	\$ -
(Series B Note 2003-2004)	-	<u>150.0</u>	<u>150.0</u>	-
Total	<u>\$ -</u>	<u>\$ 475.0</u>	<u>\$ 475.0</u>	<u>\$ -</u>

- (2) Long-Term Obligations: Changes in long-term obligations payable during Fiscal Year 2004 were as follows:

(Dollars in millions)					
	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004	Due Within One Year
Governmental Activities:					
Termination Compensation Payable	\$ 303.9	\$ 73.6	\$ 56.9	\$ 320.6	\$ 36.5
Severance Payable	171.0	12.1	17.6	165.5	12.1
General Obligation Bonds	1,405.9	2,285.3	1,376.5	2,314.7	20.4
Add: Bond Premium	19.2	4.9	1.1	23.0	1.1
Less: Bond Discounts	0.0	(11.0)	(0.3)	(10.7)	(0.3)
Total Bonds Payable	<u>1,425.1</u>	<u>2,279.2</u>	<u>1,377.3</u>	<u>2,327.0</u>	<u>21.2</u>
Loans Payable					
Federal Asbestos	1.0	-	0.4	0.6	0.4
Due to Other Governments					
Deferred Reimbursement	45.3	-	-	45.3	45.3
Other Liabilities	82.2	23.6	17.9	87.9	-
Lease Purchase Agreement	-	3.9	-	3.9	0.7
Deferred Revenue	3.6	0.3	1.1	2.8	0.5
Early Retirement Incentive	-	7.9	-	7.9	1.6
Governmental activity					
Long-term liabilities	<u>\$ 2,032.1</u>	<u>\$ 2,400.6</u>	<u>\$ 1,471.2</u>	<u>\$ 2,961.5</u>	<u>\$ 118.3</u>
Business-Type Activities:					
Termination Compensation Payable	\$ 1.9	\$ 0.2	\$ 0.1	\$ 2.0	\$ -
Severance Payable	<u>4.2</u>	<u>1.1</u>	<u>0.8</u>	<u>4.5</u>	<u>\$ -</u>
Business-type activity					
Long-term liabilities	<u>\$ 6.1</u>	<u>\$ 1.3</u>	<u>\$ 0.9</u>	<u>\$ 6.5</u>	<u>\$ -</u>

(a) General Obligation Bonds:

(i) Authority to Issue:

- General obligation debt is issued pursuant to the Local Government Unit Debt Act of July 12, 1972, P.L. 781 as amended and re-enacted by Act 177, approved December 1996. The Debt Service Fund is used to account for the accumulation of resources and the payment of principal, interest and issuance costs on general obligation bonds. The District has issued various general obligation bonds to fund budgeted capital projects and to refund higher interest rate bonds with bonds bearing lower costs, and to provide level debt service payments for the District.

- The School District is authorized, under amendments to the Debt Act enacted in September 2003, to enter into “qualified interest rate management agreements.” These qualified interest rate management agreements are, defined in the Debt Act, as agreements determined in the judgment of the School District designed to manage interest rate risk or interest cost of the School District on any debt which the School District is authorized to incur under the Debt Act. Such qualified interest rate management agreements may include swaps, interest rate caps, collars, corridors, ceiling and float agreements, forward agreements, and other similar arrangements.

General obligation bonds and lease obligations at June 30, 2004 by bond issue are summarized as follows:

(Dollars in thousands)

Issue	Interest Rates	Maturity Year Ending June 30	Original Principal Issued	Principal	Interest	Total
1993 - A	5.000 - 5.375	2006	\$ 113,505	\$ 15,355	\$ 833	\$ 16,188
1993 - B	5.000 - 5.400	2007	97,620	11,665	964	12,629
1995 - A	4.600 - 6.250	2010	53,725	29,855	7,610	37,465
1997 - A	5.000	2010	52,220	31,800	6,515	38,315
1999 - A	3.625 - 4.750	2027	156,575	156,550	125,255	281,805
1999 - B	3.500 - 5.250	2013	98,405	89,380	22,112	111,492
1999 - D	4.250 - 5.625	2010	73,765	45,235	10,134	55,369
2000 - A	4.500 - 5.750	2011	130,000	22,030	8,860	30,890
2000 - B	QZABS ⁽¹⁾	2014	22,985	22,975	-	22,975
2002 - A	5.000 - 5.500	2031	156,000	10,480	3,814	14,294
2002 - B	4.000 - 5.625	2023	300,000	291,195	179,779	470,974
2003 - A	Variable Rate ⁽²⁾	2028	109,000	109,000	63,501	172,501
2003 - B	2.000 - 5.000 ⁽³⁾	2033	588,140	588,135	771,114	1,359,249
2004 - A	Variable Rate ⁽⁴⁾	2026	100,000	100,000	45,961	145,961
2004 - B	Variable Rate ⁽⁵⁾	2031	652,600	652,600	431,589 ⁽⁷⁾	1,084,189
2004 - C	Variable Rate ^(5&6)	2012	38,475	38,475	5,630 ⁽⁷⁾	44,105
2004 - D	1.700 - 5.250	2034	100,000	100,000	139,176	239,176
		Total	<u>\$ 2,843,015</u>	<u>\$2,314,730</u>	<u>\$1,822,847</u>	<u>\$ 4,137,577</u>

(1) Qualified Zone Academy Bonds are interest free to the issuer.

(2) Maximum interest rate not to exceed 12% in accordance with debt agreement.

(3) Lease rental debt issued through the State Public School Building Authority.

(4) Maximum interest rate not to exceed 15% in accordance with debt agreement.

(5) Maximum interest on the Series B Bonds shall be the lesser of 12% or the maximum permitted by law and in regard to the Series C Bonds, the lesser of 15% or the maximum permitted by law in accordance with bond provisions.

(6) Taxable.

(7) Interest scheduled is the fixed swap interest payments required of the School District by the “New” Qualified Interest Rate Management Agreements.

Debt service to maturity on general obligation bonds at June 30, 2004 is summarized as follows: (Excludes debt issued through the State Public School Building Authority)

<u>Governmental Activities</u> (Dollars in thousands)			
Year Ending June 30	Principal	Interest ⁽¹⁾	Total
2005	20,410	60,032	80,442
2006	34,835	73,757	108,592
2007	57,340	71,664	129,004
2008	60,340	68,610	128,950
2009	63,400	65,479	128,879
2010-2014	338,885	280,763	619,648
2015-2019	347,225	208,731	555,956
2020-2024	353,155	131,787	484,942
2025-2029	285,330	67,742	353,072
2030-2034	165,675	23,157	188,832
Total	<u>\$ 1,726,595</u>	<u>\$ 1,051,722</u>	<u>\$ 2,778,317</u>

⁽¹⁾ Included interest related to Bond Series B and C of 2004 is net of the related swap.

Debt service to maturity on debt issued through the State Public School Building Authority at June 30, 2004 is summarized as follows:

<u>Governmental Activities</u> (Dollars in thousands)				
Year Ending June 30	Interest Rates	Principal	Interest	Total
2005	3.000	\$ 5	\$ 29,948	\$ 29,953
2006	3.000	5	29,948	29,953
2007	4.000	5	29,948	29,953
2008	4.000	5	29,947	29,952
2009	4.000	5	29,947	29,952
2010 – 2014	4.000 – 4.125	25	149,733	149,758
2015 – 2019	4.250 – 4.625	25	149,727	149,752
2020 – 2024	4.750 – 5.250	38,110	149,106	187,216
2025 – 2029	5.000 – 5.250	191,415	121,732	313,147
2030 – 2033	5.000	358,535	51,078	409,613
Total		<u>\$ 588,135</u>	<u>\$ 771,114</u>	<u>\$ 1,359,249</u>

(ii) Sinking Fund Covenants:

- Fixed Rate General Obligation Bonds: The School District has covenanted that the City will, on each business day, irrevocably deposit with the paying agent for the bonds, from local tax revenues collected

that day, for payment into a sinking fund, approximately equal daily installments which, together with other available resources in the sinking fund amounts sufficient to accumulate the sum required to pay the next principal or redemption price and the amount required to pay the next interest payment. Such debt service resources are required to be accumulated in full by this method by the 15th day prior to each specified payment date. These covenants were established to enhance the credit underlying the School District's general obligation bonds and to assure timely payment of debt service.

- **Variable Rate General Obligation Bonds:** The School District has covenanted that it will irrevocably deposit monthly, with the paying agent for these bonds, fifteen days prior to the next payment date, from any revenues available that day into the sinking funds, an amount which, together with other available resources in the sinking fund that will be sufficient to pay the next monthly variable rate interest payment and in years when principal payments are due, an amount equal to 1/12 of the next principal payment. These covenants were established to enhance the credit underlying the School District's general obligation bonds rather than to achieve a prepayment of debt service.
- **Lease Rental Debt:** The School District has entered into an intercept agreement with the Treasurer of the Commonwealth of Pennsylvania who will irrevocably deposit semi-annually, with the paying agent for these bonds, from any Commonwealth revenues due the School District into a sinking fund, an amount equal to the Base Rental payments due under the sublease on or prior to each Base Rental payment which is the fifteenth day of the calendar month immediately preceding each debt service date for the State Public School Building Authority bonds. These covenants were established to enhance the credit underlying the School District's Lease Rental Debt rather than to achieve a prepayment of debt service.
- **Interest Rate Management Agreements:** Pursuant to the Debt Act, periodic scheduled payments due from the School District under a qualified interest rate management agreement are payable on a parity with debt service on the bonds related to the applicable qualified interest rate management agreement. The School District has covenanted to budget, appropriate and pay such periodic scheduled payments from its general revenues, and has pledged its full faith and credit and taxing power (within the limits prescribed by law) to secure such payments. Termination payments are subject and subordinate to period scheduled payments and are not secured by the foregoing pledge.

(b) Interest Rate Derivatives

- (i) Swaptions: The School District entered into three qualified interest rate management agreements executed on March 25, 2004, for \$55.7 million. The agreements consisted of a forward starting, fixed payer/floating

receiver swaption with an option to exercise by the three counterparties. Simultaneously with the issuance of its General Obligation Refunding Bonds, Series 2004 B, the School District settled and terminated these agreements for \$39.1 million. On June 28, 2004, the School District terminated its five (5) interest rate swaptions which resulted in a net gain of \$11.3 million.

- (ii) Interest Rate Swaps: The School District elected to execute floating-to-fixed interest rate swaps to synthetically advance refund its outstanding bonds. The Swaptions had allowed the School District to effect a synthetic forward refunding of the Bonds to lock in savings based on market conditions on March 9, 2004. However, terminating the Swaptions and synthetically advance refunding the bonds allowed the School District to generate additional expected savings over the synthetic forward refunding due to a favorable shift in the Treasury yield curve, which reduced the cost of the refunding escrow. The School District entered into ten (10) new floating-to-fixed swaps. Each swap is associated with either 7-day reset auction-rate securities or 35-day reset auction-rate securities. The combination of auction-rate securities and a floating-to-fixed swap creates synthetic fixed-rate debt at a rate lower than was available in the cash bond market. 58.5% of LIBOR + 27 basis points swaps were used to hedge the 7-day auction-rate securities and 60.4% of LIBOR + 32 basis points swaps were used to hedge the 35-day securities.

Terms, fair values and credit risk. The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2004 are as follows:

Associated Bond Issue	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination	Counterparty Credit Rating (Moody's/S&P/Fitch)
Series B-1	60,000,000	6/29/2004	3.7670%	58.5%*1-Month LIBOR+27 bps	(1,292,316)	9/1/2030	Aa2/A+/AA-
Series B-2	54,200,000	6/29/2004	3.7670%	58.5%*1-Month LIBOR+27 bps	(1,166,515)	9/1/2030	Aa2/A+/AA-
Series B-3	64,900,000	6/29/2004	3.7670%	58.5%*1-Month LIBOR+27 bps	(1,397,094)	9/1/2030	Aa2/A+/AA-
Series B-4	95,000,000	6/29/2004	3.7700%	58.5%*1-Month LIBOR+27 bps	(2,081,619)	9/1/2030	Aa3/A+/AA-
Series B-5	78,475,000	6/29/2004	3.7610%	58.5%*1-Month LIBOR+27 bps	(1,632,850)	9/1/2030	Aa3/A+/AA-
Series B-6	59,025,000	6/29/2004	3.6838%	60.4%*1-Month LIBOR+32 bps	(668,565)	9/1/2021	Aa3/A+/AA-
Series B-7	91,000,000	6/29/2004	3.6900%	60.4%*1-Month LIBOR+32 bps	(1,363,339)	9/1/2021	Aa3/A+/AA-
Series B-8	80,000,000	6/29/2004	3.6890%	60.4%*1-Month LIBOR+32 bps	(1,206,251)	9/1/2021	Aa3/A+/AA-
Series B-9	70,000,000	6/29/2004	3.6890%	60.4%*1-Month LIBOR+32 bps	(1,204,911)	9/1/2021	Aa3/A+/AA-
Series C	38,475,000	6/29/2004	3.2400%	1-Month LIBOR through 12/1/05, then 58.5%*1-Month LIBOR+27 bps	(189,912)	9/1/2011	Aa3/A+/AA-
Total	691,075,000				(12,203,372)		

Fair value. All of the swaps had a negative fair value of (\$12.2) million as of June 30, 2004. These fair values take into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield

curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

(iii) Discussion of Risks

- Credit risk. As of June 30, 2004, the School District was not exposed to credit risk on any of its outstanding swaps because the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the School District would be exposed to credit risk in the amount of the derivatives' fair value. The swap agreements contain varying collateral agreements with the counterparties. The swaps require collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds.
- Basis risk. Basis risk is the risk that the interest rate paid by the School District on underlying variable rate bonds to bondholders differs from the variable swap rate received from the applicable counterparty. The School District bears basis risk on each of its swaps. The Swaps have basis risk since the School District receives a percentage of LIBOR to offset the actual variable bond rate the School District pays on its bonds. The School District is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the School District pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost savings from the swap may not be realized.
- Termination Risk. The School District or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the School District would be liable to the counterparty for a payment equal to the swap's fair value.

(c) Refundings

The School District issued \$691.1 million in general obligation bonds on a variable rate basis to advance refund \$634.4 million of outstanding bonds. Bond proceeds of \$5.0 million were utilized for underwriting fees, insurance and other issuance costs. The net proceeds were used to purchase U.S. government securities of \$692.0 million. The securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments for the refunded bonds. As a result, at June 30, 2004, \$742.1 million of bonds outstanding are considered to be defeased and the liability has been removed from long term liabilities.

The cash flow required to service the new debt is \$94.1 million less than the flow required to service the old debt. In addition, there was an economic gain of \$14.0 million to the School District.

(d) Debt Limits

The Pennsylvania Local Government Unit Debt Act of 1996 (Act No. 177) establishes borrowing base and debt limits for municipalities and school districts. The Act provides no limitation on debt approved by the voters (electoral) and excludes Tax and Revenue Anticipation Notes from the computation of the non-electoral debt limit along with deficit financing.

As of June 30, 2004, outstanding electoral debt totaled \$3.6 million. The non-electoral and lease rental borrowing capacity (debt limit) for the District was \$1,357.0 million as of June 30, 2004.

(e) Arbitrage

Federal Arbitrage regulations are applicable to the School District of Philadelphia. At the School District the most common occurrence of arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable money market instrument that yields a higher rate, resulting in interest revenue in excess of interest costs. As of June 30, 2004, there was no arbitrage payable.

(3) Leases

(a) Operating Leases

The School District is committed under various leases for building, office space and equipment. These leases are considered operating leases for accounting purposes. Lease expenditures for the year ended June 30, 2004 amounted to \$7,976,366. Future minimum lease payments for these leases are as follows:

Fiscal Year Ending June 30	Lease Payments (Dollars in millions)
2005	\$ 6.5
2006	1.3
2007	0.2
2008	0.1
2009	0.1
2010	0.1
Total	<u>\$ 8.3</u>

Total expenditures in the Internal Service Fund for operating leases with terms less than one year amounted to \$200,945 in 2004.

(b) Capital Lease Purchase Agreement

The School District, as lessee, entered into a lease-purchase agreement on June 25, 2004 for computer software for the primary purpose of enhancing the reading, and related skills of students. The following are relevant to the agreement:

The term of the noncancelable lease is five years, with no renewal option. Payment of \$2,195,595, which in addition to the cost of software includes charges for service, support, and interest, is due each year beginning on July 15, 2004. Of this amount, \$834,326 represents solely the cost of the software. The fair value of the software on June 25, 2004 is \$3,856,133. The software has an economic life of five years with no salvage value. The District has the option to purchase a perpetual license in the lease and the software on any applicable payment date, provided certain conditions are met. The software is included as a personal property item under the capital assets section.

The following is the minimum future lease payments in total for each of the five years, presenting a deduction for the imputed interest to reduce the net minimum future lease payments to their present value:

<u>Payment Date</u>	<u>Lease Payment</u>	<u>Interest</u>	<u>Amortized Principal</u>
July 15, 2004	\$ 834,326	\$ 103,348	\$ 730,978
July 15, 2005	834,326	83,758	750,568
July 15, 2006	834,326	63,642	770,684
July 15, 2007	834,326	42,984	791,342
July 15, 2008	834,326	21,765	812,561
	<u>\$4,171,630</u>	<u>\$ 315,497</u>	<u>\$3,856,133</u>

- (4) Termination Compensation Payable: Termination pay consists of accumulated leave not expected to be paid with available resources.
- (5) Early Retirement Incentive: In 2004, the School District provided an early retirement incentive for eligible employees who retired before June 30, 2004. A total of 318 personnel took advantage of the program and will payout \$25,000 per retiree over 5 years for a total cost to the District of \$7.95 million.
- (6) Severance Payable: Pursuant to collective bargaining agreements with the Philadelphia Federation of Teachers and the Commonwealth Association of School Administrators, ten-month salary schedules were extended over twelve months beginning September 1, 1982. This effectively reduced the salary payments to affected employees by approximately 17% for the year ended June 30, 1983 and created a severance liability to each employee that will be paid upon termination. Estimated severance payable based on current salaries at June 30, 2004 was \$165.5 million. July and August 2004 salaries for ten-month employees who had not terminated were budgeted and paid from 2005 Fiscal Year appropriations.
- (7) Loans Payable: Federal Asbestos Loans consist of \$0.6 million for an interest-free loan expected to be repaid over the next five years.
- (8) Due to Other Governments: Deferred Reimbursement - The Commonwealth of Pennsylvania has agreed to continue to defer to at least Fiscal Year 2005, amounts due from prior years totaling \$45.3 million for reimbursement of advanced funds provided for Special Education transportation costs.

- (9) Other Liabilities: Other liabilities consist of \$78.8 million for Workers' Compensation, \$8.3 million for Unemployment Compensation Claims (See Note 1 D 9) and \$0.7 million for Claims & Judgements.

The School District's various funds are charged for their portion of salary related liabilities, claims and judgements. These liabilities are then liquidated by the General Fund. Repayment of the Federal Asbestos Loan is funded by the General Fund. However, payments are made from the Debt Service Fund.

E. Interfund Receivables, Payables and Transfers

- (1) The composition of Interfund balances as of June 30, 2004 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Categorical Fund	\$ 1,305,895
General Fund	Capital Projects Fund	15,010,918
General Fund	Internal Service Fund	305,026
General Fund	Student Bus Token Fund	512,666
	Total	<u>\$ 17,134,505</u>

The balance of \$16,316,813 under the Categorical Fund and Capital Projects Fund represent amounts that were reclassified as a due to other funds for reporting purposes and eliminated in the government-wide net asset statement. The \$305,026 under the Internal Service Fund was eliminated within the governmental activity column. The \$512,666 due the General Fund from the Student Bus Token Funds was reclassified as Third-Party Receivables.

- (2) Interfund transfers at June 30, 2004 were as follows:

<u>Interfund Transfers In</u>	<u>General Fund</u>	<u>Interfund Transfers Out</u>			<u>Total</u>
		<u>Categorical Grants Fund</u>	<u>Capital Projects Fund</u>	<u>Enterprise</u>	
General	\$ 3,856,133	\$ 3,153,376	\$ -	\$ -	\$ 7,009,509
Intermediate Unit	170,356,898	-	-	-	170,356,898
Categorical	19,495,658	-	-	-	19,495,658
Debt Service	105,897,288	-	37,586,798	75,729	143,559,815
Total	<u>\$ 299,605,977</u>	<u>\$ 3,153,376</u>	<u>\$ 37,586,798</u>	<u>\$ 75,729</u>	<u>\$ 340,421,880</u>

Transfers are used to (a) move revenues from the fund that statute or budget requires for collection to the fund that statute or budget requires for expenditure, and (b) move receipts to Debt Service from Enterprise Fund as a transfer to cover Fiscal Year 2004 allocations of cafeteria renovations.

F. Construction and Equipment Purchase Commitments

The School District's outstanding contractual commitments at June 30, 2004 are summarized as follows:

New Construction and Land	\$ 22,915,882
Environmental Management	359,083
Alterations and Improvements	67,360,184
Major Renovations	8,652,251
Equipment Acquisition	402,616
Total	<u>\$ 99,690,016</u>

G. Affiliated Organizations

The Philadelphia Education Fund, Philadelphia Academies, Inc. (formerly The Philadelphia High School Academies), Foundations, Community Education Partners, Aspira Inc., Catapult Learning, LLC, Cora Services, Elwyn, Inc., and the Philadelphia Youth Network are nonprofit corporations, funded by grants, contributions and approximately \$60.1 million in contract revenue from the School District during Fiscal Year 2004. These organizations, in cooperation with the School District, administer programs to enhance the education of Philadelphia School District students. These corporations are governed by independent boards which include representatives of the School District. Management of these organizations is not designated by the School District nor does the School District have the ability to significantly influence their operations. The School District does not subsidize the operations of these corporations nor guarantee their debt service. These organizations are not considered component units of the School District's reporting entity because there is no accountability for fiscal matters to the School District.

H. Intermediate Unit

The School District is also an IU established by the Commonwealth to provide programs for special education and certain non-public school services. Conceptually, the cost of operating an IU for a Fiscal Year is partially financed by Commonwealth appropriation. In certain instances (transportation) the School District reimburses the Commonwealth for the funds advanced in the previous year. The amount advanced for transportation of special education students is reimbursed in full less the Commonwealth's share of such cost as determined by a formula based on the number of students transported, route distances, and efficiency of vehicle utilization.

I. Litigation and Contingencies

- (1) The School District receives significant financial assistance from numerous federal, state and local governmental agencies and other entities in the form of grants or sub-grants to conduct a variety of educational programs. Generally, the expenditure of funds received under such grants must be in compliance with certain regulations or grant terms and conditions and is subject to audit by grantor agencies. Such audits could lead to requests for reimbursements to grantor agencies for expenditures disallowed under the terms of the grant. It is management's belief that disallowances, if any, will not be material.
- (2) Bower Lewis Thrower Architects, Ltd. v. The School District of Philadelphia, Civil Action No. 04-4369, United States District Court for the Eastern District of Pennsylvania. The complaint arises out of an Agreement for Architectural and Engineering Services dated December 23, 2003. The complaint alleges that the School District has committed copyright infringement by the unauthorized copying and use of Bower Lewis Thrower's copyrighted works, which are allegedly the drawings it submitted to the School District. The complaint also alleges that the School District owes Bower Lewis Thrower \$214,165 for basic services under the agreement, and \$590,000 for additional services. The complaint seeks unspecified damages for alleged copyright infringement, breach of contract and conversion, together with an injunction. The School District has filed an answer and counterclaim. The answer denies any liability to Bower Lewis Thrower, and denies any unauthorized use of any drawings. The counterclaim alleges that BLT breached the agreement and is liable for damages of over \$3.0 million. Bower Lewis Thrower has filed a

motion for preliminary injunction seeking to prevent the alleged unauthorized copying or use of Bower Lewis Thrower's documents. The School District has filed an opposition to the motion. The court has not ruled on the motion and has not yet set a date for a hearing. The case is in its early stages, and the parties have not yet begun discovery. The School District has defenses to the complaint and will defend the case and prosecute its counterclaim vigorously. At this stage of the matter, the likelihood of an unfavorable outcome or the range of any possible adverse judgment cannot be predicted.

- (3) The School District is a party to various other claims, legal actions, arbitrations and complaints in the ordinary course of business, which aggregate to a total potential liability of \$4.5 million. In the opinion of the General Counsel of the School District, it is unlikely that final judgements or compromised settlements will approach the total potential liability. The School District annually budgets an amount that management believes is adequate, based on past experience, to provide for these claims when they become fixed and determinable in amount. In addition, the School District has recorded total cumulative potential liability of \$78.8 million for Workers' Compensation, \$8.3 million for Unemployment Compensation Claims and \$0.7 million for Claims & Judgements in the district-wide Statement of Net Assets.
- (4) The School District receives basic education subsidies from the Commonwealth based principally on student enrollment. In July 1995, the Pennsylvania Department of Education ("PDE") notified the School District that the results of an audit conducted by the Auditor General for the years ending June 30, 1991, 1992, and 1993 indicated School District over-reporting of student enrollment in Fiscal Year 1991, the year established by the Commonwealth as the base for all subsidies through Fiscal Year 1999. The potential reimbursement was previously reported as approximately \$40.0 million through Fiscal Year 1999. By letter dated November 3, 1998, PDE notified the School District that as a result of additional reviews of the School District's documentation, PDE reduced its claim for subsidy reimbursement for these years by half, to approximately \$20.0 million. This demand amount remained firm through subsequent requests for reconsideration and negotiations; however, PDE agreed to a repayment schedule that would result in periodic deductions of fractional shares of the total from the Basic Education Funding ("BEF") paid by the State to the School District, beginning in Fiscal Year 1999. The Fiscal Year 1999 loss of revenue would have been \$2.8 million. On May 13, 1999 the School District of Philadelphia appealed the entire finding to the Secretary of Education. The matter remains pending. During the pendency of the District's appeal from that decision, no deductions from BEF have been made.

As a result of a subsequent audit of school years 1994-95 through 1996-97, PDE claimed that an additional \$20.0 million during the audit period was due from the District for alleged over-reporting of enrollment. The District denied the claim and produced documentation. The Commonwealth in order to assist the District through a funding shortfall postponed collections in this category through at least Fiscal Year 2001. Both matters remain pending. Though discussions with the state regarding relief from this potential liability have been ongoing, because no final determination of forgiveness has been made to date, there remains a reasonably possible loss in this category in the total amount of \$40.0 million.

J. Post Employment Benefits

As required by union contracts, the School District pays the monthly premiums to provide up to \$2,000 of life insurance coverage for 9,002 retired/disabled employees at June 30, 2004. A retired employee is eligible for this benefit if covered for 10 years as an active employee and retired at age 60 with 30 years of service or aged 62 with 10 years of service or 35 years of service regardless of age. Disabled employees' eligibility is determined by the insurance company providing the coverage. For Fiscal Year 2004, the cost of life insurance premiums for retirees/disabled employees was \$82,098 and was fully paid by the School District.

K. Pension Plan

(1) Plan Description

The School District of Philadelphia contributes to The Public School Employees' Retirement System (PSERS), a governmental cost-sharing multiple-employer defined benefit pension plan administered by PSERS. PSERS provides retirement and disability benefits, legislative mandated *ad hoc* cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants. Act No. 96, amended on October 2, 1975 (24 Pa. C. S. 8101-8535), assigns the authority to establish and amend benefit provisions to the Public School Employees' Retirement Code. PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Public School Employees' Retirement System, P.O. Box 125, Harrisburg PA 17108-0125, Attention: Barbara D. Flurie, Office of Financial Management.

(2) Funding Policy

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth.

(3) Contribution Rates

Most active members contribute at 5.25 percent (Membership Class TC) or 6.50 percent (Membership Class TD) of the member's qualifying compensation. Members joining the System on or after July 22, 1983 and who were active employees as of July 1, 2001 contribute at 6.25 percent (Membership Class TC) or 7.50 percent (Membership Class TD) of the member's qualifying compensation. Members who joined after June 30, 2001 contribute at 7.50 percent (automatic Membership Class TD). For all new hires and for members who elected Class TD membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Contributions required of employers are based upon an actuarial valuation. For Fiscal Year ended June 30, 2004 the rate of employer contribution was 3.77 percent of qualifying compensation. The 3.77 percent rate consists of a pension contribution rate of 2.98 percent for pension benefits and .79 percent for health insurance premium assistance. The School District's contributions to PSERS for the years ending June 30, 2002, 2003, and 2004 were \$11,694,823, \$13,059,249, and \$48,007,908 respectively.

L. Desegregation

In 1973 the Pennsylvania Human Relations Commission (Commission) brought suit against the School District in Pennsylvania Commonwealth Court to end historical de facto racial segregation. Over the next 20 years the District implemented various reform plans, which the Court determined, from time to time, were inadequate to cure the problem of racial isolation in the schools.

In late 1995, the Commonwealth Court joined the Commonwealth as a defendant, and in summer 1996, following a month-long trial, found that the Commonwealth was liable for substantial and ongoing financial contributions to the School District to the extent that the School District was unable to support the desegregation mandates. However, the Commonwealth Court's Order was vacated by the Pennsylvania Supreme Court when it assumed plenary jurisdiction of the case in fall 1996. After nearly three years, the Supreme Court determined that the Commonwealth Court lacked authority to add defendants or claims to the case after its commencement by the Commission in 1973. The Commonwealth was dismissed from the case and jurisdiction returned to the Commonwealth Court.

The School District has continued to operate in accordance with the remedial plan and to report periodically on its progress toward satisfying the Court's mandates. In May and September 2001, respectively, at the request of the Court, the School District submitted a Comprehensive School Safety and Security Plan and a Curriculum Renewal Plan intended to guide the District's work in the areas of curriculum and instruction. Following a hearing on September 17, 2001 to review the Plans and the District's compliance with other components of the Remedial Order, the Court, on September 28, 2001, issued an Opinion and Order concluding that the School District has made significant and continued effort to comply with the Remedial Order, accepting the Plans, and directing the Human Relations Commission to monitor their implementation. The Court further directed the Commission to request the Court to close the case when it is satisfied that the District has demonstrated that it can and will provide an equal educational opportunity to all students.

On December 18, 2001, the Court held a conference in the case to reiterate its position that the Plans approved by the Court in September 2001 are to be implemented by the School District notwithstanding any change in management structure unless there is a modification through court order.

Between July 2002 and July 2003, the School District responded to Court questions, submitted materials to the court, attended conferences, accompanied court officials of tours of elementary schools, and testified concerning the series of initiatives being undertaken by the District. At this time, it does not appear that the School District will be compelled to undertake new programs or to incur significant costs in this matter going forward than it would not have done absent the litigation. For these reasons, the ultimate financial impact of this litigation remains uncertain.

By letter dated August 1, 2003, Judge Smith-Ribner indicated the court's intent to "defer issuing an opinion and order until Counsel confer among themselves to determine whether they can agree upon a Consent Decree for submission and approval by the Court." Since that time, counsel for the District, the PHRC and Intervenors have met on a regular basis.

The District, PHRC and Intervenor ASPIRA, entered into a Memorandum of Understanding (MOU) dated as of February 11, 2004, which was submitted to the Court for review and approval on February 19, 2004. To this end, the MOU envisions a stay of judicial proceedings for an initial period of three years, during which time the District will report annually to the PHRC and ASPIRA. As envisioned by the MOU, the PHRC will provide written feedback to the District based on its review

of the District's reports; and the parties will have the opportunity to meet and confer during the term of the MOU. The MOU also includes a dispute resolution process by which the parties may seek to resolve disagreements, if any, remaining at the end of the initial period of the MOU before returning to Court. The MOU further preserves positions of the parties in the event the MOU does not result in a final resolution of this case and the stay is lifted.

By order date February 25, 2004, Judge Smith-Ribner scheduled a hearing for March 18, 2004, "for formal Court review and approval of the Memorandum of Understanding entered into by the parties in an effort to avoid continued litigation and to move toward a final resolution of this long-standing Philadelphia School desegregation case." The Court issued an Order approving the MOU and staying the matter for the "Term" of the Memorandum of Understanding as defined in Paragraph 1 thereof" and retaining jurisdiction for the purposes specified in the MOU. The order further provided that "[a]t the end of the Term of the Memorandum of Understanding, unless the Pennsylvania Human Relations Commission or the School District files a proper, timely application with the Court indicating that areas of disagreement still remain between the Commission and the School District and requesting that the stay be lifted, the case shall be terminated with prejudice upon praecipe by the Commission." The District submitted an interim report to the PHRC and ASPIRA on April 29, 2004 and is scheduled to provide its first annual report under the MOU in mid-December 2004.

We believe that the substantive and procedural aspects of the MOU have the potential to lead to the final resolution of this matter, but are unable, at this stage, to express an opinion concerning whether at the end of the term of the MOU the parties will have any remaining disagreements and ultimately resolve this matter without return to the Court. Should the parties not resolve this matter within the framework of the MOU and should the stay be lifted, we believe that the District may be able to raise meritorious defenses and arguments relating to its compliance with the Pennsylvania Human Relations Act as well as the proper scope of the Court's jurisdiction and remedial authority in the context of future proceedings. However, we are unable, at this time, to express an opinion as to the ultimate outcome of any such proceedings.

M. Risk Management

The School District is exposed to various risks related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The School District is self-insured for casualty losses, public liability, Workers' Compensation, Unemployment Compensation, and Weekly Indemnity (salary continuation during employee illness). Employee medical benefits are covered by various insurance plans dependent upon the union affiliation of the individual employee.

The School District maintains additional property (real and personal, valuable papers and records, fine arts, vehicles on premises and property under construction) insurance to cover losses between \$5.0 million and \$100.0 million. Also, certain insurance coverages including employee performance bonds and fire insurance have been obtained.

The School District reported the current portion of its risk management obligation totaling \$4.5 million in the General Fund and the long-term portion of those obligations totaling \$87.9 million in the district-wide Statement of Net Assets. Workers' Compensation and Unemployment Compensation coverages are funded by a pro-rata charge to the various funds. The School District and covered employees share the cost of Weekly Indemnity coverage.

Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. 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.

At June 30, 2004, the amount of these liabilities totaled \$92.4 million. Changes in the reported liability since June 30, 2003 resulted from the following:

(Dollars in millions)

	Beginning-of Fiscal-Year <u>Liability</u>	Current Year Claims and Changes in Prior Year <u>Estimates</u>	<u>Claim</u> <u>Payments</u>	Balance at Fiscal <u>Year-End</u>
Fiscal 2003	\$ 78.9	\$ 37.9	\$ 31.4	\$ 85.4
Fiscal 2004	\$ 85.4	\$ 34.6	\$ 27.6	\$ 92.4

Settled claims covered by commercial insurance have not exceeded the amount of insurance coverage in any of the past three years. There has not been a significant reduction in insurance coverage from coverage in the prior year for any risk category. The School District has not entered into any annuity contracts as part of claims settlements.

N. Prior Period Adjustments

District-wide net assets beginning balances were increased by \$15.3 million. Life insurance payable decreased \$21.1 million (Note 1D9) and capital assets reflected a net decrease of \$5.3 million (Note 4C). Other minor adjustments to net assets totaled \$.5 million.

O. Subsequent Events

- (1) Tax and Revenue Anticipation Notes
In July, 2004, the School District issued \$400.0 million in Tax and Revenue Anticipation Notes. The proceeds of the notes are used for cash flow purposes and will be invested until needed and repaid by June 30, 2005.
- (2) Qualified Zone Academy Bonds
Qualified Zone Academy Bonds ("QZABs") are general obligation bonds which bear no interest. The Commonwealth receives an allocation each year for the amount of QZABs permitted to be issued within the Commonwealth which the Commonwealth grants school districts pursuant to an application process. QZABs may be purchased only by qualified financial institutions and provide the qualified purchaser with a federal tax credit under the Internal Revenue Code of 1986, as amended. The School District issued \$19.3 million in general obligation bonds as QZABs in September 2004.

(3) Sale of Administration Buildings

The District has entered into an agreement for the sale of three Administration buildings. The sale agreement is for \$25.5 million with an anticipated closing date of mid-April 2005. The anticipated cost of the new School District headquarters is \$50.0 million for base building, approximately \$30.0 to \$35.0 million for tenant fit-out and another \$16.0 million in one-time fees for IT and relocation costs.

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MANAGEMENT DISCUSSION
AND ANALYSIS**

School District of Philadelphia
Budgetary Comparison Schedules
For The Year Ended June 30, 2004

	General Fund			
	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual Amounts	Positive (Negative)
REVENUES				
Local Taxes	\$ 530,740,000	\$ 651,341,000	\$ 658,423,176	\$ 7,082,176
Locally Generated Non Tax	52,050,000	54,005,000	53,882,611	(122,389)
State Grants and Subsidies	996,935,000	1,013,784,000	992,717,683	(21,066,317)
Federal Grants and Subsidies	216,000	262,000	261,648	(352)
Total Revenues	1,579,941,000	1,719,392,000	1,705,285,118	(14,106,882)
OBLIGATIONS				
Current Operating				
Instruction	921,918,900	879,701,287	912,448,118	(32,746,831)
Student Support Services	58,196,800	58,300,097	57,239,877	1,060,220
Administrative Support	95,912,300	97,333,837	97,476,713	(142,876)
Operation & Maintenance of Plant Services	229,145,700	227,689,095	227,252,379	436,716
Pupil Transportation	49,021,000	52,058,150	51,267,853	790,297
All Other Support Services	(38,120,000)	20,605,634	21,998,759	(1,393,125)
Payments to Charter Schools	145,979,800	152,438,500	153,410,934	(972,434)
Allocated Costs	(18,471,300)	(18,471,300)	-	(18,471,300)
Total Obligations	1,443,583,200	1,469,655,300	1,521,094,633	(51,439,333)
Excess of Revenues Over (Under) Obligations	136,357,800	249,736,700	184,190,485	(65,546,215)
OTHER FINANCING SOURCES (USES)				
Transfers In	2,576,000	2,720,000	3,153,376	433,376
Transfers Out	(192,826,100)	(294,664,000)	(296,537,501)	(1,873,501)
Bond Proceeds	-	-	20,000,000	20,000,000
Total Other Financing Sources (Uses)	(190,250,100)	(291,944,000)	(273,384,125)	18,559,875
Net Change in Fund Balances	(53,892,300)	(42,207,300)	(89,193,640)	(46,986,340)
Fund Balances, July 1, 2003	119,639,300	112,637,500	132,181,079	19,543,579
Prior Period Adjustment				
(Change in Inventory Reserve)	-	-	315,306	315,306
Prior Period Adjustment				
(Change in Encumbrance Reserve)	-	-	303,621	303,621
Fund Balances, June 30, 2004	\$ 65,747,000	\$ 70,430,200	\$ 43,606,366	\$ (26,823,834)

Intermediate Unit Fund

Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
Original	Final		
\$ -	\$ -	\$ -	\$ -
298,000	318,000	223,208	(94,792)
65,919,000	67,366,000	66,640,998	(725,002)
-	-	-	-
66,217,000	67,684,000	66,864,206	(819,794)
174,005,000	175,376,242	171,757,271	3,618,971
54,874,700	56,291,700	55,579,489	712,211
973,300	969,800	983,130	(13,330)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
9,821,300	9,821,300	9,688,871	132,429
239,674,300	242,459,042	238,008,761	4,450,281
(173,457,300)	(174,775,042)	(171,144,555)	3,630,487
173,457,300	174,777,800	171,144,555	(3,633,245)
-	-	-	-
-	-	-	-
173,457,300	174,777,800	171,144,555	(3,633,245)
-	2,758	-	(2,758)
-	-	2,660,393	2,660,393
-	-	-	-
-	-	(1,188,214)	(1,188,214)
\$ -	\$ 2,758	\$ 1,472,179	\$ 1,469,421

Refer to notes to required supplementary information

SCHOOL DISTRICT OF PHILADELPHIA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2004

1. BASIS OF BUDGETING

The comparative schedules prepared on the basis of budgeting differ from the GAAP (modified accrual) basis statements in that both expenditures and encumbrances are applied against the current budget and adjustments affecting activity budgeted in prior years are accounted for as a reduction of expenditures.

2. RECONCILIATION BETWEEN THE BASIS OF BUDGETING AND GAAP

Statements prepared on a GAAP basis can be reconciled to those prepared on the basis of budgeting as follows:

	(Dollars in thousands)	
	General Fund	Intermediate Unit Fund
Revenue – Basis of Budgeting	<u>\$ 1,705,285</u>	<u>\$ 66,864</u>
Revenue - GAAP Basis	<u>\$ 1,705,285</u>	<u>\$ 66,864</u>
Obligations – Basis of Budgeting	\$ 1,521,095	\$ 238,009
Current Year Encumbrances	(15,884)	(1,456)
Prior Year Encumbrance Payments	11,596	1,856
Prior Year Encumbrance Cancellations and Other Adjustments	<u>4,772</u>	<u>-</u>
Expenditures - GAAP Basis	<u>\$ 1,521,579</u>	<u>\$ 238,409</u>
Other Financing Sources (Uses)- Basis of Budgeting	\$ (273,384)	\$ 171,145
Current Year Encumbrances	-	
Prior Year Encumbrance Payments	-	-
Prior Year Encumbrance Cancellations and other Adjustments	<u>788</u>	<u>(788)</u>
Other Financing Sources (Uses) - GAAP Basis	<u>\$ (272,596)</u>	<u>\$ 170,357</u>

3. ***OBLIGATIONS IN EXCESS OF APPROPRIATIONS***

The following budgetary units had significant obligations in excess of appropriations for fiscal 2004:

A. General Fund

(1.) Instruction	\$ 32,746,831
(2.) Administrative Support	142,876
(3.) All Other Support Services	1,393,125
(4.) Payments to Charter Schools	972,434

Variances considered by management to be significant are explained below:

General Fund

Under the Instruction agency and Administrative Support, Employee Benefit costs exceeded budget estimates due to an extraordinary level of retirements that increased termination pay, severance pay and other related benefit costs.

Under the All Other Support Services agency, Cancellation of Prior Years' Encumbrances were lower than budgeted due to an ongoing effort to reduce the District's outstanding encumbrances.

Payments to Charter Schools exceeded the budget due to higher than projected enrollment in cyber charter schools.

Restricted net bond proceeds of \$19.6 million for workers compensation settlements were reported in the general fund which were not budgeted. As mentioned previously, these proceeds will result in a reduction of indemnity payments on an on-going basis.

All other variances were immaterial and nonrecurring.

4. ***ALLOCATED COSTS***

Allocated costs represent the School District's distribution of certain expenditures incurred by the General Fund on behalf of Intermediate Unit and Categorical Funds. The costs are initially recorded in the General Fund and are subsequently transferred to the appropriate fund. The costs include, but are not limited to, managerial and staff support functions in the following areas: Accountability and Assessment, Health Services, Facilities Management Services, Utilities, Human Resources, Information Technology, Security Operations, Curriculum Support, Transportation, Accounting Services, Payroll, Budget, Treasury Operations, etc.

In the General Fund allocated costs under All Other Support Services cost center are budgeted with a credit balance due to IU Operations, and Allocated Costs Attributable to Other Funds and Other Adjustments. The original and final budget for the credit balance was at \$ 18,471,300.

Determination of allocated costs for Special Education Transportation is based on the number of special education routes and students, drivers employed, miles driven, and other factors. Since the total cost of all transportation is accumulated in the General Fund, subsequent analysis determines the amount to be charged to Special Education IU Transportation.

OTHER SUPPLEMENTARY INFORMATION

Non-Major Governmental Funds

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of certain revenue sources that are legally restricted to expenditures for specified purposes. Special Revenue funds include Trust Funds for which both principal and earnings may be used to support District programs that benefit either the District or its students.

For external reporting purposes we report one Non-Major Special Revenue Trust Fund. However, at June 30, 2004 there were sixty-three individual Special Revenue Trust Funds administered by the School District.

Permanent Fund Types

Permanent Fund Types are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support District programs that benefit the District or its students.

For external reporting purposes we report one Permanent Fund Type. However, at June 30, 2004 there were eighty-one Permanent Funds administered by the School District.

School District of Philadelphia
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2004

	Special Revenue Funds	Permanent Funds	Total Non-Major Governmental Funds
ASSETS			
Equity in Pooled Cash and Investments	\$ 3,547,830	\$ 1,740,415	\$ 5,288,245
Total Assets	<u>\$ 3,547,830</u>	<u>\$ 1,740,415</u>	<u>\$ 5,288,245</u>
LIABILITIES AND FUND BALANCES			
Accounts Payable	<u>\$ 11,452</u>	<u>\$ 3,926</u>	<u>\$ 15,378</u>
Fund Balance:			
Reserved for:			
Encumbrances	11,155	5,341	16,496
Trust Fund Principal	1,301,225	1,178,520	2,479,745
Unreserved			
Designated For Trust Purposes	2,223,998	552,628	2,776,626
Total Fund Balances	<u>3,536,378</u>	<u>1,736,489</u>	<u>5,272,867</u>
Total Liabilities and Fund Balances	<u>\$ 3,547,830</u>	<u>\$ 1,740,415</u>	<u>\$ 5,288,245</u>

School District of Philadelphia
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended June 30, 2004

	Special Revenue Funds	Permanent Funds	Total Non-Major Governmental Funds
REVENUES			
Locally Generated Non Tax	\$ 121,534	\$ 121,419	\$ 242,953
EXPENDITURES			
Instruction	372,496	42,052	414,548
Excess (Deficiency) of Revenues Over Expenditures	(250,962)	79,367	(171,595)
OTHER FINANCING SOURCES (USES)			
Transfers Out	-	-	-
Bond Proceeds	-	-	-
Fund Balances, July 1, 2003	3,787,340	1,657,122	5,444,462
Fund Balances, June 30, 2004	\$ 3,536,378	\$ 1,736,489	\$ 5,272,867

Governmental Funds

Governmental funds are the funds through which costs of district functions are typically financed.

The funds included in this category are:

- General Fund - The principal operating fund of the School District; accounts for all financial resources except those required to be in another fund.
- Intermediate Unit Fund - used to account for State appropriations for special education and non-public programs as well as certain administrative costs.
- Debt Service Fund - used to account for the accumulation of resources for the payment of debt service and bond issuance costs.
- Capital Projects Fund - used to account for financial resources used for capital asset acquisition, construction, and improvement.

School District of Philadelphia
Schedule of Detailed Budgetary and Actual Revenues
General Fund
For The Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Local Taxes				
Real Estate				
Current	\$ 457,763,000	\$ 469,886,000	\$ 458,085,281	\$ (11,800,719)
Prior Years	39,300,000	38,700,000	55,437,680	16,737,680
Payment in Lieu of Taxes	-	-	4,619	4,619
Use and Occupancy	97,400,000	95,700,000	96,153,860	453,860
School (Non-Business) Income	16,800,000	15,000,000	14,604,624	(395,376)
Liquor	30,000,000	31,000,000	33,081,679	2,081,679
Public Utility	1,060,000	1,055,000	1,055,433	433
Taxes for Debt Service	(111,583,000)	-	-	-
Total Taxes	530,740,000	651,341,000	658,423,176	7,082,176
Locally Generated Non Tax				
Interest on Investments	2,772,000	1,942,000	2,097,939	155,939
City Contributions	35,000,000	35,000,000	35,000,000	-
Legal Settlements	-	2,960,000	2,649,778	(310,222)
Stadium Agreements	1,159,000	1,159,000	1,159,200	200
Voluntary Contributions	339,000	330,000	353,008	23,008
Reimbursement from Other Funds	7,917,000	7,714,000	7,667,624	(46,376)
Miscellaneous	4,863,000	4,900,000	4,955,062	55,062
Total Locally Generated Non Tax	52,050,000	54,005,000	53,882,611	(122,389)
Other Governments				
State Grants and Subsidies				
Gross Instruction	726,014,000	744,287,000	745,278,333	991,333
Less: Reimbursement of Prior Years IU Advances	3,738,000	4,449,000	29,407,397	24,958,397
Net Instruction	722,276,000	739,838,000	715,870,936	(23,967,064)
Debt Service	8,660,000	5,445,000	5,444,946	(54)
School Health Program				
Nurse Services	1,829,000	1,715,000	1,715,280	280
Medical and Dental	3,004,000	2,826,000	2,825,801	(199)
Tuition	928,000	831,000	918,279	87,279
Area Vocational Technical Education	6,240,000	6,173,000	6,497,943	324,943
Transportation	24,904,000	25,603,000	25,700,907	97,907
District Special Education	105,816,000	111,233,000	111,420,299	187,299
School District Additional Funding	25,000,000	25,000,000	25,000,000	-
Alternative Education	10,387,000	9,714,000	9,713,857	(143)
Charter Schools	28,458,000	28,447,000	28,446,656	(344)
Supplemental Reimb.of Basic Ed. Interest Expense	-	783,000	782,859	(141)
Miscellaneous State Subsidies	27,000	27,000	27,335	335
Retirement	19,549,000	18,250,000	19,678,471	1,428,471
Social Security	39,857,000	37,899,000	38,674,114	775,114
Total State Grants and Subsidies	996,935,000	1,013,784,000	992,717,683	(21,066,317)
Federal Grants and Subsidies				
Impacted Area Aid	216,000	262,000	261,648	(352)
Total Federal Grants and Subsidies	216,000	262,000	261,648	(352)
Total Other Governments	997,151,000	1,014,046,000	992,979,331	(21,066,669)
Total Revenues	\$ 1,579,941,000	\$ 1,719,392,000	\$ 1,705,285,118	\$ (14,106,882)

School District of Philadelphia
Schedule of Budgetary and Actual Organizational Unit Obligations
By Object Class and Uses - General Fund
For The Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
OBLIGATIONS				
Instruction				
Early Childhood Education				
Personal Services	\$ 1,076,100	\$ 976,900	\$ 768,755	\$ 208,145
Employee Benefits	416,900	242,365	312,539	(70,174)
Prof.,Tech. Services	800	800	-	800
Property,Transportation,Comm.	5,700	5,700	5,907	(207)
Materials, Supplies, Books and Equipment	25,700	25,700	9,870	15,830
Other	600	600	-	600
	<u>1,525,800</u>	<u>1,252,065</u>	<u>1,097,071</u>	<u>154,994</u>
Elementary Education				
Personal Services	278,334,300	278,526,300	283,266,192	(4,739,892)
Employee Benefits	99,602,700	89,394,635	106,417,172	(17,022,537)
Prof.,Tech. Services	654,600	492,100	490,477	1,623
Property,Transportation,Comm.	2,130,400	2,122,500	1,465,466	657,034
Materials, Supplies, Books and Equipment	5,607,900	4,392,800	4,110,936	281,864
Other	112,600	107,700	4,585	103,115
	<u>386,442,500</u>	<u>375,036,035</u>	<u>395,754,828</u>	<u>(20,718,793)</u>
Middle School Education				
Personal Services	89,179,500	92,939,700	91,658,563	1,281,137
Employee Benefits	32,273,500	29,305,178	33,630,666	(4,325,488)
Prof.,Tech. Services	187,200	274,300	244,004	30,296
Property,Transportation,Comm.	431,800	425,300	541,233	(115,933)
Materials, Supplies, Books and Equipment	3,036,600	1,821,200	1,396,026	425,174
Other	258,300	-	-	-
	<u>125,366,900</u>	<u>124,765,678</u>	<u>127,470,492</u>	<u>(2,704,814)</u>
Senior High School Education				
Personal Services	136,072,000	136,746,700	137,616,514	(869,814)
Employee Benefits	46,502,000	40,897,420	48,480,934	(7,583,514)
Prof.,Tech. Services	3,563,700	3,952,200	3,927,293	24,907
Property,Transportation,Comm.	1,158,100	1,137,900	1,449,562	(311,662)
Materials, Supplies, Books and Equipment	6,455,800	5,568,100	4,430,898	1,137,202
Other	10,775,200	140,000	59,920	80,080
	<u>204,526,800</u>	<u>188,442,320</u>	<u>195,965,121</u>	<u>(7,522,801)</u>
Special Education				
Personal Services	11,711,100	12,392,902	13,092,505	(699,603)
Employee Benefits	4,184,000	3,984,644	4,962,935	(978,291)
Prof.,Tech. Services	364,300	19,300	17,094	2,206
Property,Transportation,Comm.	65,400	65,400	96,045	(30,645)
Materials, Supplies, Books and Equipment	1,313,500	1,013,500	955,258	58,242
Other	(9,487,600)	(6,076,600)	-	(6,076,600)
	<u>8,150,700</u>	<u>11,399,146</u>	<u>19,123,837</u>	<u>(7,724,691)</u>
Area Vocational Technical Education				
Personal Services	30,619,000	32,419,100	32,114,435	304,665
Employee Benefits	10,382,500	9,882,438	11,509,558	(1,627,120)
Prof.,Tech. Services	884,100	890,200	89,994	800,206
Property,Transportation,Comm.	370,100	378,600	287,366	91,234
Materials, Supplies, Books and Equipment	1,889,900	2,004,900	1,357,200	647,700
Other	184,000	1,000	-	1,000
	<u>44,329,600</u>	<u>45,576,238</u>	<u>45,358,553</u>	<u>217,685</u>

(Continued on pages 94 through 98)

School District of Philadelphia
Schedule of Budgetary and Actual Organizational Unit Obligations
By Object Class and Uses - General Fund
For The Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Desegregation				
Personal Services	\$ 7,273,900	\$ 7,146,600	\$ 7,393,958	\$ (247,358)
Employee Benefits	2,659,700	2,285,272	2,674,004	(388,732)
Prof.,Tech. Services	59,200	82,200	90,410	(8,210)
Property,Transportation,Comm.	56,900	55,400	58,944	(3,544)
Materials, Supplies, Books and Equipment	1,010,900	1,093,000	855,395	237,605
	11,060,600	10,662,472	11,072,711	(410,239)
School Support Services				
Personal Services	17,705,700	9,507,800	5,641,941	3,865,859
Employee Benefits	2,917,500	1,430,564	1,321,310	109,254
Prof.,Tech. Services	1,940,900	1,240,900	1,213,457	27,443
Property,Transportation,Comm.	33,200	33,200	(100)	33,300
Materials, Supplies, Books and Equipment	15,282,700	13,951,500	13,908,154	43,346
Payments to Other Educational Entities	68,976,700	67,126,700	66,181,418	945,282
	106,856,700	93,290,664	88,266,180	5,024,484
Adult Education				
Personal Services	95,200	95,200	88,987	6,213
Employee Benefits	15,500	12,976	12,288	688
Property,Transportation,Comm.	600	600	800	(200)
Materials, Supplies, Books and Equipment	1,000	1,000	292	708
	112,300	109,776	102,367	7,409
Partnership Schools				
Personal Services	5,792,500	5,344,800	4,445,939	898,861
Employee Benefits	1,916,300	1,454,293	1,375,844	78,449
Prof.,Tech. Services	598,300	19,081,300	19,080,809	491
Property,Transportation,Comm.	25,000	135,800	62,265	73,535
Materials, Supplies, Books and Equipment	6,563,900	3,150,700	3,272,101	(121,401)
Other	18,651,000	-	-	-
	33,547,000	29,166,893	28,236,958	929,935
Total Instruction	921,918,900	879,701,287	912,448,118	(32,746,831)
Student Support Services				
Counseling				
Personal Services	25,871,200	25,875,900	25,090,791	785,109
Employee Benefits	8,655,900	8,297,215	8,890,540	(593,325)
Prof.,Tech. Services	105,200	105,200	-	105,200
Property,Transportation,Comm.	2,400	2,400	66	2,334
Materials, Supplies, Books and Equipment	26,600	19,000	16,351	2,649
Other	-	-	1,177	(1,177)
	34,661,300	34,299,715	33,998,925	300,790
Family & Student Support Services				
Personal Services	16,945,300	17,162,700	16,417,104	745,596
Employee Benefits	5,714,500	5,623,638	6,047,016	(423,378)
Prof.,Tech. Services	-	300,000	40,027	259,973
Property,Transportation,Comm.	102,700	102,700	33,797	68,903
Materials, Supplies, Books and Equipment	207,700	157,900	113,008	44,892
	22,970,200	23,346,938	22,650,952	695,986

School District of Philadelphia
Schedule of Budgetary and Actual Organizational Unit Obligations
By Object Class and Uses - General Fund
For The Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Office of Specilaized Services				
Personal Services	\$ 303,700	\$ 295,900	\$ 349,944	\$ (54,044)
Employee Benefits	87,100	83,044	97,097	(14,053)
Prof.,Tech. Services	20,000	120,000	82,495	37,505
Property,Transportation,Comm.	106,500	106,500	49,207	57,293
Materials, Supplies, Books and Equipment	48,000	48,000	11,257	36,743
	565,300	653,444	590,000	63,444
Total Student Support Services	58,196,800	58,300,097	57,239,877	1,060,220
Administrative Support				
Regional Offices				
Personal Services	5,693,200	4,802,500	4,767,354	35,146
Employee Benefits	1,514,600	1,332,256	1,483,698	(151,442)
Prof.,Tech. Services	99,700	241,000	203,901	37,099
Property,Transportation,Comm.	189,700	178,700	289,935	(111,235)
Materials, Supplies, Books and Equipment	320,000	401,300	278,878	122,422
	7,817,200	6,955,756	7,023,766	(68,010)
Business& Financial Services				
Personal Services	15,781,900	15,642,900	15,382,373	260,527
Employee Benefits	5,189,900	4,788,679	5,166,179	(377,500)
Prof.,Tech. Services	1,615,200	1,744,500	1,554,491	190,009
Property,Transportation,Comm.	829,700	789,500	871,171	(81,671)
Materials, Supplies, Books and Equipment	434,700	449,100	189,605	259,495
Other	(345,100)	(345,100)	500	(345,600)
	23,506,300	23,069,579	23,164,319	(94,740)
Human Resources				
Personal Services	6,928,400	5,149,900	5,124,355	25,545
Employee Benefits	2,018,300	1,427,842	1,735,904	(308,062)
Prof.,Tech. Services	1,144,700	659,400	642,755	16,645
Property,Transportation,Comm.	730,100	455,800	295,715	160,085
Materials, Supplies, Books and Equipment	202,600	114,300	74,557	39,743
Other	250,000	-	-	-
	11,274,100	7,807,242	7,873,286	(66,044)
Information Technology				
Personal Services	7,898,700	7,324,400	7,287,997	36,403
Employee Benefits	2,405,800	2,154,711	2,364,052	(209,341)
Prof.,Tech. Services	2,526,200	5,644,500	5,264,371	380,129
Property,Transportation,Comm.	1,136,000	1,167,900	1,207,092	(39,192)
Materials, Supplies, Books and Equipment	544,600	799,400	472,241	327,159
Other	590,400	(3,589,800)	(2,965,926)	(623,874)
	15,101,700	13,501,111	13,629,827	(128,716)
Municipal Services				
Personal Services	1,784,200	2,750,700	2,730,720	19,980
Employee Benefits	777,100	1,216,267	1,269,131	(52,864)
Prof.,Tech. Services	566,800	496,800	491,719	5,081
Property,Transportation,Comm.	5,700	5,700	3,758	1,942
Other	(59,000)	(59,000)	(63,293)	4,293
	3,074,800	4,410,467	4,432,035	(21,568)

(Continued on pages 96 through 98)

School District of Philadelphia
Schedule of Budgetary and Actual Organizational Unit Obligations
By Object Class and Uses - General Fund
For The Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Accountability, Assessment & Intervention				
Personal Services	\$ 2,108,500	\$ 1,830,800	\$ 1,816,309	\$ 14,491
Employee Benefits	557,400	455,584	508,648	(53,064)
Prof.,Tech. Services	668,400	344,900	327,338	17,562
Property,Transportation,Comm.	240,200	235,300	195,376	39,924
Materials, Supplies, Books and Equipment	138,500	111,900	102,218	9,682
	3,713,000	2,978,484	2,949,889	28,595
Office of School Management				
Personal Services	2,984,500	5,357,800	5,351,143	6,657
Employee Benefits	907,200	1,523,552	1,636,195	(112,643)
Prof.,Tech. Services	760,800	277,000	273,305	3,695
Property,Transportation,Comm.	245,500	255,500	181,185	74,315
Materials, Supplies, Books and Equipment	217,600	76,100	49,452	26,648
Other	200	200	-	200
	5,115,800	7,490,152	7,491,280	(1,128)
Office of Secondary Education				
Personal Services	3,985,400	3,686,100	3,510,947	175,153
Employee Benefits	1,030,700	902,540	919,918	(17,378)
Prof.,Tech. Services	1,031,400	7,377,100	7,375,252	1,848
Property,Transportation,Comm.	159,200	456,400	260,433	195,967
Materials, Supplies, Books and Equipment	141,500	147,600	123,475	24,125
Other	861,900	20,100	400	19,700
	7,210,100	12,589,840	12,190,425	399,415
Curriculum, Instruction & Professional Development				
Personal Services	3,425,000	2,199,000	2,191,141	7,859
Employee Benefits	789,100	551,078	662,428	(111,350)
Prof.,Tech. Services	737,900	1,540,200	1,366,812	173,388
Property,Transportation,Comm.	290,600	183,300	282,189	(98,889)
Materials, Supplies, Books and Equipment	307,500	269,200	625,862	(356,662)
Other	301,800	806,600	571,500	235,100
	5,851,900	5,549,378	5,699,932	(150,554)
Executive / Board Management				
Personal Services	4,704,200	5,257,200	5,234,219	22,981
Employee Benefits	1,360,400	1,484,531	1,627,142	(142,611)
Prof.,Tech. Services	4,670,100	3,978,000	3,950,204	27,796
Property,Transportation,Comm.	400,000	506,500	570,624	(64,124)
Materials, Supplies, Books and Equipment	148,600	179,000	135,077	43,923
Other	(522,000)	5,500	-	5,500
	10,761,300	11,410,731	11,517,266	(106,535)
Office of the Chief Academic Officer				
Personal Services	1,762,400	958,300	931,360	26,940
Employee Benefits	456,300	262,897	262,527	370
Prof.,Tech. Services	28,800	161,300	180,360	(19,060)
Property,Transportation,Comm.	142,700	133,200	105,405	27,795
Materials, Supplies, Books and Equipment	95,900	55,400	25,036	30,364
	2,486,100	1,571,097	1,504,688	66,409
Total Administrative Support	95,912,300	97,333,837	97,476,713	(142,876)

School District of Philadelphia
Schedule of Budgetary and Actual Organizational Unit Obligations
By Object Class and Uses - General Fund
For The Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Operation & Maintenance of Plant Services				
Facilities Management & Services				
Personal Services	\$ 71,998,600	\$ 71,038,000	\$ 70,482,960	\$ 555,040
Employee Benefits	31,257,200	31,189,897	32,089,291	(899,394)
Prof.,Tech. Services	3,293,100	1,968,100	1,895,500	72,600
Property,Transportation,Comm.	9,348,300	8,099,800	7,529,652	570,148
Materials, Supplies, Books and Equipment	8,368,700	8,492,500	9,088,459	(595,959)
	124,265,900	120,788,297	121,085,862	(297,565)
Utilities				
Prof.,Tech. Services	24,600	260,000	251,120	8,880
Property,Transportation,Comm.	9,899,700	11,199,700	10,908,506	291,194
Materials, Supplies, Books and Equipment	39,194,300	39,458,900	38,861,588	597,312
	49,118,600	50,918,600	50,021,214	897,386
Security Operations				
Personal Services	39,887,500	40,168,400	38,730,655	1,437,745
Employee Benefits	16,077,400	15,752,598	15,750,579	2,019
Prof.,Tech. Services	613,200	305,600	211,987	93,613
Property,Transportation,Comm.	374,900	683,900	828,274	(144,374)
Materials, Supplies, Books and Equipment	581,400	908,000	623,808	284,192
Other	(1,773,200)	(1,836,300)	-	(1,836,300)
	55,761,200	55,982,198	56,145,303	(163,105)
Total Oper. & Maint. of Plant Services	229,145,700	227,689,095	227,252,379	436,716
Pupil Transportation				
Personal Services	20,953,900	20,834,000	20,521,435	312,565
Employee Benefits	9,183,400	8,958,450	9,206,611	(248,161)
Prof.,Tech. Services	82,400	66,600	75,000	(8,400)
Property,Transportation,Comm.	43,424,500	47,688,500	47,514,061	174,439
Materials, Supplies, Books and Equipment	2,043,400	2,127,600	2,114,816	12,784
Other	(26,666,600)	(27,617,000)	(28,164,070)	547,070
Total Pupil Transportation	49,021,000	52,058,150	51,267,853	790,297
All Other Support Services				
Risk Management				
Personal Services	215,600	205,800	208,778	(2,978)
Employee Benefits	63,400	60,156	65,772	(5,616)
Prof.,Tech. Services	400	25,400	25,000	400
Property,Transportation,Comm.	1,346,000	1,321,000	1,980,950	(659,950)
Materials, Supplies, Books and Equipment	5,400	5,400	3,490	1,910
Losses and Judgements	2,385,700	2,525,700	1,470,979	1,054,721
	4,016,500	4,143,456	3,754,969	388,487

(Continued on page 98)

School District of Philadelphia
Schedule of Budgetary and Actual Organizational Unit Obligations
By Object Class and Uses - General Fund
For The Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Temporary Borrowing				
Prof.,Tech. Services	334,300	500,000	498,371	1,629
Property,Transportation,Comm.	20,000	-	-	-
Interest	3,295,700	3,500,000	2,942,392	557,608
	<u>3,650,000</u>	<u>4,000,000</u>	<u>3,440,763</u>	<u>559,237</u>
Undistributed				
Other	(45,786,500)	19,212,178	19,212,178	-
Cancellation of Prior Years' Encumbrances	-	(6,750,000)	(4,409,151)	(2,340,849)
	<u>(45,786,500)</u>	<u>12,462,178</u>	<u>14,803,027</u>	<u>(2,340,849)</u>
Total All Other Support Services	<u>(38,120,000)</u>	<u>20,605,634</u>	<u>21,998,759</u>	<u>(1,393,125)</u>
Payments to Charter Schools	<u>145,979,800</u>	<u>152,438,500</u>	<u>153,410,934</u>	<u>(972,434)</u>
Allocated Costs	<u>(18,471,300)</u>	<u>(18,471,300)</u>	<u>-</u>	<u>(18,471,300)</u>
Total Obligations	<u>1,443,583,200</u>	<u>1,469,655,300</u>	<u>1,521,094,633</u>	<u>(51,439,333)</u>
OTHER FINANCING SOURCES/(USES)				
Local Share of Categorical Programs	18,428,700	19,718,700	19,495,658	223,042
Lease Purchase/Asbestos Loan	-	-	1,564,040	(1,564,040)
Debt Service Fund	368,600	100,167,500	104,333,248	(4,165,748)
Special Education	173,457,300	174,777,800	171,144,555	3,633,245
Professional Growth Trust Funds	571,500	-	-	-
Total Other Financing (Sources)/Uses	<u>192,826,100</u>	<u>294,664,000</u>	<u>296,537,501</u>	<u>(1,873,501)</u>
Total General Fund	<u>\$ 1,636,409,300</u>	<u>\$ 1,764,319,300</u>	<u>\$ 1,817,632,134</u>	<u>\$ (53,312,834)</u>
Fund Totals - Object Classes				
Personal Services	\$ 811,091,500	\$ 806,636,302	\$ 802,217,374	\$ 4,418,928
Employee Benefits	288,916,300	264,954,720	300,479,978	(35,525,258)
Prof.,Tech. Services	26,576,300	52,148,900	49,863,546	2,285,354
Property,Transportation,Comm.	73,271,600	77,932,700	77,074,884	857,816
Materials, Supplies, Books, and Equipment	94,214,900	86,843,000	83,205,308	3,637,692
Other	(52,654,000)	(19,229,922)	(11,343,029)	(7,886,893)
Interest on Temporary Borrowing	3,295,700	3,500,000	2,942,392	557,608
Payments to Other Educational Entities	68,976,700	67,126,700	66,181,418	945,282
Losses and Judgements	2,385,700	2,525,700	1,470,979	1,054,721
Payments to Charter Schools	145,979,800	152,438,500	153,410,934	(972,434)
Allocated Costs	(18,471,300)	(18,471,300)	-	(18,471,300)
Other Financing Uses	192,826,100	294,664,000	296,537,501	(1,873,501)
Cancellation of Prior Years' Encumbrances	-	(6,750,000)	(4,409,151)	(2,340,849)
Total General Fund	<u>\$ 1,636,409,300</u>	<u>\$ 1,764,319,300</u>	<u>\$ 1,817,632,134</u>	<u>\$ (53,312,834)</u>

School District of Philadelphia
Schedule of Budgetary and Actual Revenues and Organizational Unit Obligations
By Object Class and Uses - Intermediate Unit Fund
For The Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Locally Generated Non Tax				
Interest				
Special Education Transportation	\$ 65,000	\$ 68,000	\$ 56,059	\$ (11,941)
Non-Public School Programs	82,000	90,000	74,858	(15,142)
Tuition	151,000	160,000	92,291	(67,709)
Total Locally Generated Non Tax	298,000	318,000	223,208	(94,792)
State Grants and Subsidies				
Special Education Program	3,862,000	3,980,000	3,991,573	11,573
Special Education Transportation	37,742,000	38,915,000	38,718,603	(196,397)
Non-Public School Programs	14,514,000	14,934,000	14,933,528	(472)
Management Services Program	560,000	560,000	560,105	105
Social Security	6,232,000	6,247,000	6,086,525	(160,475)
Retirement	3,009,000	2,730,000	2,350,664	(379,336)
Total State Grants and Subsidies	65,919,000	67,366,000	66,640,998	(725,002)
Total Revenues	<u>\$ 66,217,000</u>	<u>\$ 67,684,000</u>	<u>\$ 66,864,206</u>	<u>\$ (819,794)</u>
OBLIGATIONS				
Instruction				
Special Education *				
Personal Services	\$ 113,407,400	\$ 114,395,700	\$ 108,446,549	\$ 5,949,151
Employee Benefits	39,289,000	39,234,442	39,718,658	(484,216)
Prof.,Tech. Services	4,447,900	4,447,900	4,999,809	(551,909)
Property,Transportation,Comm.	338,800	338,800	362,070	(23,270)
Materials, Supplies, Books and Equipment	4,019,900	4,019,900	3,532,094	487,806
Other	(896,400)	(896,400)	732,440	(1,628,840)
Total Special Education	160,606,600	161,540,342	157,791,620	3,748,722
Services to Non-Public School Students				
Personal Services	67,200	64,600	161,019	(96,419)
Employee Benefits	21,100	20,700	57,960	(37,260)
Prof.,Tech. Services	13,308,400	13,748,900	13,745,897	3,003
Property,Transportation,Comm.	400	400	60	340
Materials, Supplies, Books and Equipment	1,300	1,300	715	585
Total Services to Non-Public School Students	13,398,400	13,835,900	13,965,651	(129,751)
Total Instruction	174,005,000	175,376,242	171,757,271	3,618,971
Student Support Services				
Special Education *				
Personal Services	15,367,400	15,655,300	14,641,849	1,013,451
Employee Benefits	7,873,600	7,919,700	6,951,455	968,245
Property,Transportation,Comm.	5,055,300	5,055,300	5,780,548	(725,248)
Materials, Supplies, Books and Equipment	42,400	42,400	41,567	833
Allocated Costs	(11,271,000)	(11,364,000)	(10,610,592)	(753,408)
Total Special Education	17,067,700	17,308,700	16,804,827	503,873

* The consolidated budget for Special Education includes Instruction, Student Support Services and Administrative Support

School District of Philadelphia
Schedule of Budgetary and Actual Revenues and Organizational Unit Obligations
By Object Class and Uses - Intermediate Unit Fund
For The Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Transportation				
Allocated Costs	\$ 37,807,000	\$ 38,983,000	\$ 38,774,662	\$ 208,338
Total Student Support Services	54,874,700	56,291,700	55,579,489	712,211
Administrative Support				
Special Education				
Personal Services	-	-	8,857	(8,857)
Employee Benefits	-	-	241	(241)
Materials, Supplies, Books and Equipment	-	-	15,092	(15,092)
Total Special Education	-	-	24,190	(24,190)
Services to Non-Public School Students				
Personal Services	690,100	687,100	690,901	(3,801)
Employee Benefits	235,500	235,000	230,015	4,985
Prof.,Tech. Services	2,000	2,000	2,112	(112)
Property,Transportation,Comm.	28,200	30,000	22,076	7,924
Materials, Supplies, Books and Equipment	17,500	15,700	13,836	1,864
	973,300	969,800	958,940	10,860
Total Administrative Support	973,300	969,800	983,130	(13,330)
Allocated Costs				
Special Education	9,000,000	9,000,000	9,000,000	-
Services to Non-Public School Students	261,300	261,300	128,766	132,534
Management Services	560,000	560,000	560,105	(105)
Total Allocated Costs	9,821,300	9,821,300	9,688,871	132,429
Total Obligations	239,674,300	242,459,042	238,008,761	4,450,281
OTHER FINANCING SOURCES				
Operating Transfers from Other Funds	(173,457,300)	(174,777,800)	(171,144,555)	(3,633,245)
Total Intermediate Unit	\$ 66,217,000	\$ 67,681,242	\$ 66,864,206	\$ 817,036
Fund Totals - Object Classes				
Personal Services	\$ 129,532,100	\$ 130,802,700	\$ 123,949,175	\$ 6,853,525
Employee Benefits	47,419,200	47,409,842	46,958,329	451,513
Prof.,Tech. Services	17,758,300	18,198,800	18,747,818	(549,018)
Property,Transportation,Comm.	5,422,700	5,424,500	6,164,754	(740,254)
Materials, Supplies, Books and Equipment	4,081,100	4,079,300	3,603,304	475,996
Other	(896,400)	(896,400)	732,440	(1,628,840)
Allocated Costs	36,357,300	37,440,300	37,852,941	(412,641)
Total Obligations	239,674,300	242,459,042	238,008,761	4,450,281
Other Financing Sources				
Operating Transfers from Other Funds	(173,457,300)	(174,777,800)	(171,144,555)	(3,633,245)
Total Intermediate Unit	\$ 66,217,000	\$ 67,681,242	\$ 66,864,206	\$ 817,036

School District of Philadelphia
Schedule of Budgetary and Actual Revenues and Organizational Unit Obligations
By Object Class and Uses - Debt Service Fund
For The Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Local Taxes	\$ 111,583,000	\$ -	\$ -	\$ -
Locally Generated Non Tax				
Interest on Investments	1,517,000	1,403,000	1,391,909	(11,091)
Time Value Earnings from Swaption	-	581,000	-	(581,000)
Sale of Capital Assets	4,000,000	139,000	138,253	(747)
Total Revenues	\$ 117,100,000	\$ 2,123,000	\$ 1,530,162	\$ (592,838)
OBLIGATIONS				
Principal				
Bonds	\$ 45,000,000	\$ 45,000,000	\$ 45,000,000	\$ -
Loans	378,600	368,600	368,641	(41)
Interest	58,670,300	74,044,000	74,043,953	47
Principal & Interest - Authority	18,000,100	23,844,300	22,907,640	936,660
Issuance Costs	5,400,000	19,986,200	26,592,956	(6,606,756)
Total Obligations	\$ 127,449,000	\$ 163,243,100	\$ 168,913,190	\$ (5,670,090)
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	\$ 5,844,600	\$ 136,590,500	\$ 143,559,815	\$ 6,969,315
Swaption Net Proceeds	-	22,662,000	16,641,000	(6,021,000)
Bond Proceeds	-	-	691,075,000	691,075,000
Bond Defeasement	-	-	(691,989,393)	(691,989,393)
Total Other Financing Sources (Uses)	\$ 5,844,600	\$ 159,252,500	\$ 159,286,422	\$ 33,922
Net Change in Fund Balance	\$ (4,504,400)	\$ (1,867,600)	\$ (8,096,606)	\$ (6,229,006)

School District of Philadelphia
Schedule of Budgetary and Actual Revenues and Organizational Unit Obligations
By Object Class and Uses - Capital Projects Fund
For The Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Locally Generated Non Tax				
Interest on Investments	\$ 7,400,000	\$ 7,400,000	\$ 9,777,956	\$ 2,377,956
Miscellaneous	12,600,000	12,600,000	123,673	(12,476,327)
Total Locally Generated Non Tax	20,000,000	20,000,000	9,901,629	(10,098,371)
State Grants and Subsidies	-	-	127,061	127,061
Federal Grant	-	-	2,565,135	2,565,135
Total Revenues	<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>	<u>\$ 12,593,825</u>	<u>\$ (7,406,175)</u>
OBLIGATIONS				
Undistributed				
Cancellation of Prior Years' Encumbrances	\$ -	\$ -	\$ (13,146,635)	\$ 13,146,635
New Buildings and Additions	149,600,000	37,435,684	56,642,628	(19,206,944)
Environmental Management				
Asbestos Abatement				-
Environmental Services	17,633,385	16,796,473	2,881,172	13,915,301
Total Environmental Management	17,633,385	16,796,473	2,881,172	13,915,301
Alterations and Equipment				
Various Projects	37,061,615	29,657,021	17,109,354	12,547,667
Administrative Support	57,700,000	48,767,425	31,260,217	17,507,208
Major Renovations	67,405,000	7,410,087	2,082,099	5,327,988
Building Renovations	10,000,000	95,295,810	94,059,798	1,236,012
Total Alterations and Equipment	172,166,615	181,130,343	144,511,468	36,618,875
Total Obligations	<u>\$ 339,400,000</u>	<u>\$ 235,362,500</u>	<u>\$ 190,888,633</u>	<u>\$ 44,473,867</u>
OTHER FINANCING SOURCES (USES)				
Bond/Loan Proceeds	\$ 325,000,000	\$ 744,602,300	\$ 871,057,447	\$ 126,455,147
Bond Issuance Costs	(5,600,000)	(5,300,000)	(37,586,798)	(32,286,798)
Total Other Financing Sources (Uses)	<u>\$ 319,400,000</u>	<u>\$ 739,302,300</u>	<u>\$ 833,470,649</u>	<u>\$ 94,168,349</u>

Fiduciary Funds

Fiduciary funds are used to account for assets held by the School District as a trustee or agent for individuals, private organizations, and/or other governmental units. The funds included in this category are:

- Private Purpose Trust Funds- used to account for all trust agreements for which both principal and earnings benefit individuals, private organizations or other governments.

For external reporting purposes, we report one Private Purpose Trust Fund. However, at June 30, 2004 there were fourteen Private Purpose Trust Funds administered by the School District.

- Agency Funds- used to account for assets held by the School District as trustee or agent for others. Agency funds report only assets and liabilities and do not have a measurement focus. They use the accrual basis of accounting to recognize receivables and payables.

At June 30, 2004 there were four Agency Funds administered by the School District: Payroll Liabilities, Student Bus Token, Student Activities, and Unclaimed Monies Funds.

School District of Philadelphia
Combining Schedule of Fiduciary Net Assets
Agency Funds
June 30, 2004

	Payroll Liabilities	Student Bus Token Fund	Student Activities Fund (1)	Unclaimed Monies Fund	Total
ASSETS					
Cash and Cash Equivalents	\$ -	\$ 12,489	\$ 5,256,590	\$ -	\$ 5,269,079
Equity in Pooled Cash and Investments	32,881,051	-	-	246,086	33,127,137
Accounts Receivable	1,135,636	44,735	-	-	1,180,371
Inventories	-	455,442	-	-	455,442
 Total Assets	 <u>34,016,687</u>	 <u>512,666</u>	 <u>5,256,590</u>	 <u>246,086</u>	 <u>40,032,029</u>
LIABILITIES					
Payroll Deductions and Withholdings	34,016,687	-	-	-	34,016,687
Due to Other Funds	-	512,666	-	-	512,666
Due to Student Activities	-	-	5,256,590	-	5,256,590
Other Liabilities	-	-	-	246,086	246,086
 Total Liabilities	 <u>34,016,687</u>	 <u>512,666</u>	 <u>5,256,590</u>	 <u>246,086</u>	 <u>40,032,029</u>
NET ASSETS					
Held in Trust for Various Purposes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Note: (1) Amounts reflect balances as of 12/31/03; This fund is maintained on a calendar year basis.

School District of Philadelphia
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the Year Ended June 30, 2004

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
Payroll Liabilities Fund				
Assets				
Equity in Pooled Cash and Investments	\$ 19,411,507	\$ 1,121,944,686	\$ 1,108,475,142	\$ 32,881,051
Accounts Receivable	10,097	1,135,636	10,097	1,135,636
Total Assets	<u>\$ 19,421,604</u>	<u>\$ 1,123,080,322</u>	<u>\$ 1,108,485,239</u>	<u>\$ 34,016,687</u>
Liabilities				
Payroll Deductions and Withholdings	\$ 19,421,604	\$ 1,123,080,322	\$ 1,108,485,239	\$ 34,016,687
Total Liabilities	<u>\$ 19,421,604</u>	<u>\$ 1,123,080,322</u>	<u>\$ 1,108,485,239</u>	<u>\$ 34,016,687</u>
Student Bus Token Fund				
Assets				
Cash and Cash Equivalents	\$ 2,089	\$ 4,210,508	\$ 4,200,108	\$ 12,489
Accounts Receivable	45,259	26,717	27,241	44,735
Inventories	407,856	13,397,112	13,349,526	455,442
Total Assets	<u>\$ 455,204</u>	<u>\$ 17,634,337</u>	<u>\$ 17,576,875</u>	<u>\$ 512,666</u>
Liabilities				
Accounts Payable	\$ 450	\$ 12,362,350	\$ 12,362,800	\$ -
Due to Other Funds	454,754	5,271,987	5,214,075	512,666
Total Liabilities	<u>\$ 455,204</u>	<u>\$ 17,634,337</u>	<u>\$ 17,576,875</u>	<u>\$ 512,666</u>
Student Activities Fund				
Assets				
Cash	<u>\$ 5,240,016</u>	<u>\$ 10,647,568</u>	<u>\$ 10,630,994</u>	<u>\$ 5,256,590</u>
Liabilities				
Due to Student Activities	<u>\$ 5,240,016</u>	<u>\$ 10,647,568</u>	<u>\$ 10,630,994</u>	<u>\$ 5,256,590</u>
Unclaimed Monies Fund				
Assets				
Equity in Pooled Cash and Investments	<u>\$ 1,707,507</u>	<u>\$ 942,346</u>	<u>\$ 2,403,767</u>	<u>\$ 246,086</u>
Liabilities				
Other Liabilities	<u>\$ 1,707,507</u>	<u>\$ 942,346</u>	<u>\$ 2,403,767</u>	<u>\$ 246,086</u>
All Agency Funds				
Assets				
Cash and Cash Equivalents	\$ 5,242,105	\$ 14,858,076	\$ 14,831,102	\$ 5,269,079
Equity in Pooled Cash and Investments	21,119,014	1,122,887,032	1,110,878,909	33,127,137
Accounts Receivable	55,356	1,162,353	37,338	1,180,371
Inventories	407,856	13,397,112	13,349,526	455,442
Total Assets	<u>\$ 26,824,331</u>	<u>\$ 1,152,304,573</u>	<u>\$ 1,139,096,875</u>	<u>\$ 40,032,029</u>
Liabilities				
Accounts Payable	\$ 450	\$ 12,362,350	\$ 12,362,800	\$ -
Payroll Deductions and Withholdings	19,421,604	1,123,080,322	1,108,485,239	34,016,687
Due to Other Funds	454,754	5,271,987	5,214,075	512,666
Due to Student Activities	5,240,016	10,647,568	10,630,994	5,256,590
Other Liabilities	1,707,507	942,346	2,403,767	246,086
Total Liabilities	<u>\$ 26,824,331</u>	<u>\$ 1,152,304,573</u>	<u>\$ 1,139,096,875</u>	<u>\$ 40,032,029</u>

SCHOOL DISTRICT OF PHILADELPHIA
SCHEDULE OF BONDS OUTSTANDING
June 30, 2004

Date of Issue	Original Principal Issued	Principal Outstanding	Maturity Dates	Interest Rates %	Fiscal 2005 Debt Service Requirements		
					Interest	Fixed Swap Interest	Principal
APRIL 1, 1993 (SERIES A)	\$ 113,505,000	\$ 7,475,000	JULY 1, 2004	5.3000	\$ 198,088	\$ -	\$ 7,475,000
		7,880,000	JULY 1, 2005	5.3750	423,550	-	-
		<u>15,355,000</u>			<u>621,638</u>	<u>-</u>	<u>7,475,000</u>
APRIL 1, 1993 (SERIES B)	97,620,000	2,535,000	JULY 1, 2004	5.3000	67,178	-	2,535,000
		2,675,000	JULY 1, 2005	5.3750	143,781	-	-
		2,825,000	JULY 1, 2006	5.4000	152,550	-	-
		<u>8,035,000</u>			<u>363,509</u>	<u>-</u>	<u>2,535,000</u>
		1,145,000	JULY 1, 2004	5.3000	30,343	-	1,145,000
		1,210,000	JULY 1, 2005	5.3750	65,038	-	-
		1,275,000	JULY 1, 2006	5.4000	68,850	-	-
		<u>3,630,000</u> (A)			<u>164,231</u>	<u>-</u>	<u>1,145,000</u>
		<u>11,665,000</u>			<u>527,740</u>	<u>-</u>	<u>3,680,000</u>
OCTOBER 1, 1995 (SERIES A)	53,725,000	6,780,000	SEPT 1, 2006	6.2500	423,750	-	-
		7,215,000	SEPT 1, 2007	6.2500	450,938	-	-
		7,680,000	SEPT 1, 2008	6.2500	480,000	-	-
		8,180,000	SEPT 1, 2009	6.2500	511,250	-	-
		<u>29,855,000</u>			<u>1,865,938</u>	<u>-</u>	<u>-</u>
JUNE 1, 1997 (SERIES A)	52,220,000	5,755,000	APRIL 1, 2006	5.0000	287,750	-	-
		6,045,000	APRIL 1, 2007	5.0000	302,250	-	-
		6,345,000	APRIL 1, 2008	5.0000	317,250	-	-
		6,660,000	APRIL 1, 2009	5.0000	333,000	-	-
		6,995,000	APRIL 1, 2010	5.0000	349,750	-	-
		<u>31,800,000</u>			<u>1,590,000</u>	<u>-</u>	<u>-</u>
DECEMBER 15, 1998 (SERIES A)	156,575,000	5,000	APRIL 1, 2005	4.0000	200	-	5,000
		5,000	APRIL 1, 2006	4.0000	200	-	-
		5,000	APRIL 1, 2007	4.1000	205	-	-
		5,000	APRIL 1, 2008	4.1250	206	-	-
		5,000	APRIL 1, 2009	4.2500	213	-	-
		23,305,000	APRIL 1, 2010-14	5.0600	1,223,465	-	-
		37,055,000	APRIL 1, 2015-19	4.9500	1,825,950	-	-
		46,695,000	APRIL 1, 2020-24	4.5500	2,126,800	-	-
		49,470,000	APRIL 1, 2025-27	4.7500	2,349,825	-	-
		<u>156,550,000</u>			<u>7,527,064</u>	<u>-</u>	<u>5,000</u>
DECEMBER 15, 1998 (SERIES B)	98,405,000	5,000	OCT 1, 2004	3.9000	98	-	5,000
		2,465,000	OCT 1, 2005	5.0000	123,250	-	-
		12,690,000	OCT 1, 2006	5.0000	634,500	-	-
		18,465,000	OCT 1, 2007	5.0000	923,250	-	-
		19,415,000	OCT 1, 2008	5.0000	970,750	-	-
		36,340,000	OCT 1, 2009-12	5.2500	1,907,850	-	-
		<u>89,380,000</u>			<u>4,559,698</u>	<u>-</u>	<u>5,000</u>
DECEMBER 1, 1999 (SERIES D)	73,765,000	5,030,000	MAR 1, 2006	5.2500	264,075	-	-
		12,765,000	MAR 1, 2007	5.5000	702,075	-	-
		9,960,000	MAR 1, 2008	5.5000	547,800	-	-
		10,510,000	MAR 1, 2009	5.6250	591,188	-	-
		6,970,000	MAR 1, 2010	5.6250	392,063	-	-
		<u>45,235,000</u>			<u>2,497,201</u>	<u>-</u>	<u>-</u>

SCHOOL DISTRICT OF PHILADELPHIA
SCHEDULE OF BONDS OUTSTANDING
June 30, 2004

Date of Issue	Original Principal Issued	Principal Outstanding	Maturity Dates	Interest Rates %	Fiscal 2005 Debt Service Requirements		
					Interest	Fixed Swap Interest	Principal
NOVEMBER 30, 20 (SERIES A)	\$ 130,000,000	\$ 5,000	FEB 1, 2005	4.6000	\$ 230	\$ -	\$ 5,000
		5,000	FEB 1, 2006	4.6500	233	-	-
		5,000	FEB 1, 2007	4.7000	235	-	-
		5,000	FEB 1, 2008	4.7500	238	-	-
		5,000	FEB 1, 2009	4.8000	240	-	-
		22,005,000	FEB 1, 2010-11	5.3000	1,265,243	-	-
		<u>22,030,000</u>			<u>1,266,419</u>	<u>-</u>	<u>5,000</u>
NOVEMBER 30, 2000 (SERIES B) QZAB	22,985,000	5,000	NOV 30, 2004		-	-	5,000
		5,000	NOV 30, 2005		-	-	-
		5,000	NOV 30, 2006		-	-	-
		5,000	NOV 30, 2007		-	-	-
		5,000	NOV 30, 2008		-	-	-
		22,950,000	NOV 30, 2009-13		-	-	-
		<u>22,975,000</u>			<u>-</u>	<u>-</u>	<u>5,000</u>
JANUARY 1, 2002 (SERIES A)	156,000,000	5,000	FEB 1, 2005	3.2000	160	-	5,000
		5,000	FEB 1, 2006	3.5000	175	-	-
		5,000	FEB 1, 2007	3.9000	195	-	-
		5,000	FEB 1, 2008	4.1000	205	-	-
		5,000	FEB 1, 2009	4.3000	215	-	-
		10,455,000	FEB 1, 2010-12	5.1667	540,601	-	-
		<u>10,480,000</u>			<u>541,551</u>	<u>-</u>	<u>5,000</u>
MAY 15, 2002 (SERIES B)	300,000,000	9,165,000	AUG 1, 2004	4.0000	183,300	-	9,165,000
		9,590,000	AUG 1, 2005	5.0000	479,500	-	-
		10,080,000	AUG 1, 2006	5.0000	504,000	-	-
		10,625,000	AUG 1, 2007	5.5000	584,375	-	-
		11,225,000	AUG 1, 2008	5.5000	617,375	-	-
		66,410,000	AUG 1, 2009-13	5.5250	3,671,038	-	-
		87,820,000	AUG 1, 2014-18	5.6250	4,939,876	-	-
		86,280,000	AUG 1, 2019-22	5.6250	4,853,250	-	-
		<u>291,195,000</u>			<u>15,832,714</u>	<u>-</u>	<u>9,165,000</u>
AUGUST 12, 2003 (SERIES A) VARIABLE INTEREST RATE Dauphin County General Authority	109,000,000	5,000	AUG 1, 2004	3.5000	29	-	5,000
		5,000	AUG 1, 2005	3.5000	175	-	-
		5,000	AUG 1, 2006	3.5000	175	-	-
		5,000	AUG 1, 2007	3.5000	175	-	-
		5,000	AUG 1, 2008	3.5000	175	-	-
		25,000	AUG 1, 2009-13	3.5000	875	-	-
		42,605,000	AUG 1, 2014-18	3.5000	1,491,175	-	-
		42,000,000	AUG 1, 2019-23	3.5000	1,470,000	-	-
		24,345,000	AUG 1, 2024-27	3.5000	852,075	-	-
		<u>109,000,000</u>			<u>3,814,854</u>	<u>-</u>	<u>5,000</u>
SEPTEMBER 10, 200 (SERIES B) State Public School Building Authority Capital Obligation Bonds	588,140,000	5,000	JUNE 1, 2005	3.0000	150	-	5,000
		5,000	JUNE 1, 2006	3.0000	150	-	-
		5,000	JUNE 1, 2007	4.0000	200	-	-
		5,000	JUNE 1, 2008	4.0000	200	-	-
		5,000	JUNE 1, 2009	4.0000	200	-	-
		25,000	JUNE 1, 2010-14	4.0250	1,006	-	-
		25,000	JUNE 1, 2015-19	4.4500	1,113	-	-
		38,110,000	JUNE 1, 2020-24	4.9500	1,975,864	-	-
		191,415,000	JUNE 1, 2025-29	5.2500	10,042,188	-	-
		358,535,000	JUNE 1, 2030-33	5.0000	17,926,750	-	-
		<u>588,135,000</u>			<u>29,947,821</u>	<u>-</u>	<u>5,000</u>
JUNE 29, 2004 (SERIES A) VARIABLE INTEREST RATE Dauphin County General Authority	100,000,000	5,000	JUNE 1, 2005	3.5000	161	-	5,000
		5,000	JUNE 1, 2006	3.5000	161	-	-
		5,000	JUNE 1, 2007	3.5000	161	-	-
		5,000	JUNE 1, 2008	3.5000	161	-	-
		5,000	JUNE 1, 2009	3.5000	161	-	-
		25,725,000	JUNE 1, 2010-14	3.5000	830,345	-	-
		45,800,000	JUNE 1, 2015-19	3.5000	1,478,321	-	-
		23,000,000	JUNE 1, 2020-24	3.5000	742,390	-	-
		5,450,000	JUNE 1, 2025-26	3.5000	175,914	-	-
		<u>100,000,000</u>			<u>3,227,775</u>	<u>-</u>	<u>5,000</u>

SCHOOL DISTRICT OF PHILADELPHIA
SCHEDULE OF BONDS OUTSTANDING
June 30, 2004

Date of Issue	Original Principal Issued	Principal Outstanding	Maturity Dates	Interest Rates %	Fiscal 2005 Debt Service Requirements		
					Fixed Swap		
					Interest	Interest	Principal
JUNE 29, 2004	\$ 652,600,000	\$ 25,000	Sept 1, 2004	3.5000	\$ 151	\$ 313	\$ 25,000
(SERIES B)		25,000	Sept 1, 2005	3.5000	807	627	-
GOB-Refunding		25,000	Sept 1, 2006	3.5000	807	627	-
Auction Reset Securities		25,000	Sept 1, 2007	3.5000	807	627	-
		25,000	Sept 1, 2008	3.5000	807	627	-
		91,275,000	Sept 1, 2009 -13	3.5000	2,946,154	2,288,877	-
		125,225,000	Sept 1, 2014 - 18	3.5000	4,041,985	3,140,231	-
		152,400,000	Sept 1, 2019 -23	3.5000	4,919,134	3,821,691	-
		195,775,000	Sept 1, 2024 -28	3.5000	6,319,182	4,909,393	-
		87,800,000	Sept 1, 2029 -30	3.5000	2,833,989	2,202,049	-
		<u>652,600,000</u>			<u>21,063,823</u>	<u>16,365,062</u>	<u>25,000</u>
JUNE 29, 2004	38,475,000	25,000	Sept 1, 2004	3.5000	151	272	25,000
(SERIES C)		25,000	Sept 1, 2005	3.5000	807	544	-
GOB-Refunding		4,725,000	Sept 1, 2006	3.5000	152,513	102,861	-
Auction Reset Securities		7,625,000	Sept 1, 2007	3.5000	246,118	165,992	-
		7,850,000	Sept 1, 2008	3.5000	253,381	170,890	-
		18,225,000	Sept 1, 2009 -11	3.5000	588,262	397,020	-
		<u>38,475,000</u>			<u>1,241,232</u>	<u>837,580</u>	<u>25,000</u>
JUNE 29, 2004	100,000,000	5,000	JUNE 1, 2005	1.7000	78	-	5,000
(SERIES D)		150,000	JUNE 1, 2006	2.2500	3,113	-	-
GOB Fixed Rate		100,000	JUNE 1, 2007	2.7000	2,490	-	-
		50,000	JUNE 1, 2008	3.0000	1,383	-	-
		5,000	JUNE 1, 2009	3.3000	152	-	-
		25,000	JUNE 1, 2010-14	3.8400	885	-	-
		8,720,000	JUNE 1, 2015-19	5.0000	402,091	-	-
		2,780,000	JUNE 1, 2020-24	5.0000	128,190	-	-
		10,290,000	JUNE 1, 2025-29	5.0500	477,026	-	-
		77,875,000	JUNE 1, 2030-34	5.1500	3,715,258	-	-
		<u>100,000,000</u>			<u>4,730,666</u>	<u>-</u>	<u>5,000</u>
TOTAL SERIAL BONDS		<u>\$2,314,730,000</u>			<u>\$100,856,134</u>	<u>\$17,202,642</u>	<u>\$20,415,000</u>

NON-ELECTORAL DEBT-SERIAL BONDS	\$ 1,722,965,000
CAPITAL OBLIGATION BONDS	588,135,000
ELECTORAL DEBT (A)-SERIAL BONDS	<u>3,630,000</u>
TOTAL SERIAL BONDS OUTSTANDING	<u>\$ 2,314,730,000</u>

(A)= ELECTORAL DEBT OUTSTANDING

Capital Assets Used In The Operation of Governmental Funds

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated fixed assets are valued at their estimated fair market value on the date donated.

Capital assets acquired or constructed for governmental fund purposes are recorded as expenditures in the fund incurring the obligation and are capitalized at cost in the District-wide Statement of Net Assets.

School District of Philadelphia
Capital Assets Used in the Operation of Governmental Funds
Comparative Schedule by Source
June 30, 2004
(Dollars in thousands)

	<u>2004</u>	<u>2003</u>
Governmental funds capital assets:		
Land	\$ 110,997	\$ 109,835
Buildings	855,017	774,442
Improvements	887,155	817,837
Construction in Progress	76,880	122,808
Personal Property	217,093	207,614
Total governmental funds capital assets	<u>\$ 2,147,142</u>	<u>\$ 2,032,536</u>
Investments in governmental funds capital assets by source:		
General fund	\$ 134,799	\$ 139,134
Capital projects funds	1,295,644	1,176,863
Categorical Funds	771	611
Undetermined sources (Prior to July 1, 1984)	715,928	715,928
Total governmental funds capital assets	<u>\$ 2,147,142</u>	<u>\$ 2,032,536</u>

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the Internal Service Fund are excluded from the above amounts. Generally, the capital assets of the Internal Service Fund are included as governmental activities in the statement of net assets.

School District of Philadelphia
Capital Assets Used in the Operation of Governmental Funds
Schedule by Function and Activity
June 30, 2004
(Dollars in thousands)

Function/Activity	Land	Buildings	Improvements	Construction in Progress	Personal Property	Total Governmental Funds Capital Assets
Instruction	\$ 106,350	\$ 830,935	\$ 725,011	\$ 50,449	\$ 117,286	\$ 1,830,031
Student Support Services	2,190	2,848	3,278	1,850	48,084	58,250
Administrative Support	2,457	20,643	158,681	24,581	45,066	251,428
Operation & Maintenance of Plant Services	-	587	185	-	4,663	5,435
Pupil Transportation	-	4	-	-	(8)	(4)
All Other Support Services	-	-	-	-	2,002	2,002
Early Childhood Education	-	-	-	-	-	-
Total governmental funds capital assets	<u>\$ 110,997</u>	<u>\$ 855,017</u>	<u>\$ 887,155</u>	<u>\$ 76,880</u>	<u>\$ 217,093</u>	<u>\$ 2,147,142</u>

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the Internal Service Fund are excluded from the above amounts. Generally, the capital assets of the Internal Service Fund are included as governmental activities in the statement of net assets.

School District of Philadelphia
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes By Function and Activity
June 30, 2004
(Dollars in thousands)

Function/Activity	Governmental Funds Capital Assets July 1, 2003	Prior Period Adjustments	Additions	Deletions	Governmental Funds Capital Assets June 30, 2004
Instruction	\$ 1,734,667	\$ 3,043	\$ 97,862	\$ 5,541	\$ 1,830,031
Student Support Services	57,078	56	3,229	2,113	58,250
Administrative Support	240,445	347	10,798	162	251,428
Operation & Maintenance of Plant Services	352	299	21,395	16,611	5,435
Pupil Transportation	(6)	1	4	3	(4)
All Other Support Services	-	117	8,427	6,542	2,002
Early Childhood Education	-	-	-	-	-
Total	<u>\$ 2,032,536</u>	<u>\$ 3,863</u>	<u>\$ 141,715</u>	<u>\$ 30,972</u>	<u>\$ 2,147,142</u>

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the Internal Service Fund are excluded from the above amounts. Generally, the capital assets of the Internal Service Fund are included as governmental activities in the statement of net assets.





Statistical Section

General Governmental Expenditures / Uses by Function – Fiscal Years 1995 through 2004

General Governmental Expenditures / Uses by Fund – Fiscal Years 1995 through 2004 Graphical Presentations

General Governmental Revenues / Sources – Fiscal Years 1995 through 2004

General Governmental Revenues by Source – Fiscal Years 1995 through 2004 Graphical Presentations

Property Tax Levies and Collections – Fiscal Years 1995 through 2004

Assessed and Estimated Market Value of Taxable Realty in Philadelphia for the Calendar Years 1995 through 2004

Property Tax Rates – All Direct and Overlapping Governments – Calendar Years 1995 through 2004

Ratio of Net General Bonded Debt to Assessed Value and Net Bonded

Debt Per Capita for Fiscal Years 1995 through 2004

Borrowing Base and Debt Limits

Direct and Overlapping Long-Term Tax Supported Obligations

Ratio of Annual Debt Service for the General Bonded Debt and Authority Payments to Total General Expenditures Excluding Categorical Funds – Fiscal Years 1995 through 2004

Demographic Statistics for the Calendar Years 1994 through 2003

Bank Deposits, Real Property Values and Authorized Construction in the City of Philadelphia for the Calendar Years 1994 through 2003

Ten Largest Real Estate Assessments – Fully Taxable Properties as of January 1, 2004

Major Employers in the City of Philadelphia – As of December 31, 2004

Miscellaneous Statistics for Fiscal Years 2000 through 2004

SCHOOL DISTRICT OF PHILADELPHIA

GENERAL GOVERNMENTAL EXPENDITURES/USES BY FUNCTION
FISCAL YEARS 1995 THROUGH 2004
(amounts in millions)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Instruction	\$ 943.1	\$ 1,085.9	\$ 1,145.2	\$ 1,107.2	\$ 1,108.2	\$ 1,006.0	1,079.3	\$ 1,154.8	\$ 1,217.0	\$ 1,322.3
Early Childhood Education	-	-	-	-	-	-	-	24.5	25.6	21.6
Payments to Charter Schools	-	-	-	3.9	16.9	44.4	71.4	95.3	126.1	153.4
Support and Administration	255.0	231.8	236.0	257.5	269.4	380.2	395.6	-	-	-
Student Support Services	-	-	-	-	-	-	-	183.3	188.9	201.9
Administrative Support	-	-	-	-	-	-	-	107.3	113.7	108.3
Pupil Transportation	-	-	-	-	-	-	-	41.7	44.2	76.5
All Other Support Services	-	-	-	-	-	-	-	4.9	0.3	26.4
Operation & Maintenance of Plant Services	202.8	234.7	284.2	289.5	311.4	366.0	382.3	226.6	233.2	241.6
Allocated Costs	-	-	-	-	-	-	-	-	-	-
Debt Service and Temporary Borrowing	67.6	72.4	83.6	43.9	84.5	89.6	77.9	93.8	105.1	168.9
Net Transfers/Uses (1) (2)	1.9	56.7	51.0	-	103.7	74.9	-	-	-	692.0
Capital Outlay	-	-	-	-	-	-	-	125.4	57.0	134.7
Total General Expenditures/Uses	\$ <u>1,470.4</u>	\$ <u>1,681.5</u>	\$ <u>1,800.0</u>	\$ <u>1,702.0</u>	\$ <u>1,894.1</u>	\$ <u>1,961.1</u>	\$ <u>2,006.5</u>	\$ <u>2,057.6</u>	\$ <u>2,111.1</u>	\$ <u>3,147.6</u>

Summary of Expenditures/Uses
by Fund:

General	993.9	1,111.9	1,166.3	1,143.2	1,182.6	1,228.2	1,291.5	1,326.6	1,402.9	1,521.6
Intermediate Unit	180.8	196.4	197.6	196.3	199.2	200.5	208.2	215.5	225.9	238.4
Categorical	173.0	182.7	192.7	200.6	195.4	233.8	279.7	295.6	319.5	389.1
Debt Service	59.0	119.9	124.9	43.9	178.4	154.8	77.9	93.8	105.1	860.9
Capital Projects	63.7	70.6	118.5	118.0	138.5	143.8	149.2	125.4	57.0	137.2
Non-Major	-	-	-	-	-	-	-	0.7	0.7	0.4
Total General Governmental Expenditures/Uses	\$ <u>1,470.4</u>	\$ <u>1,681.5</u>	\$ <u>1,800.0</u>	\$ <u>1,702.0</u>	\$ <u>1,894.1</u>	\$ <u>1,961.1</u>	\$ <u>2,006.5</u>	\$ <u>2,057.6</u>	\$ <u>2,111.1</u>	\$ <u>3,147.6</u>

Total General Governmental
Expenditures Restated
on a Constant Dollar
Basis: (3)

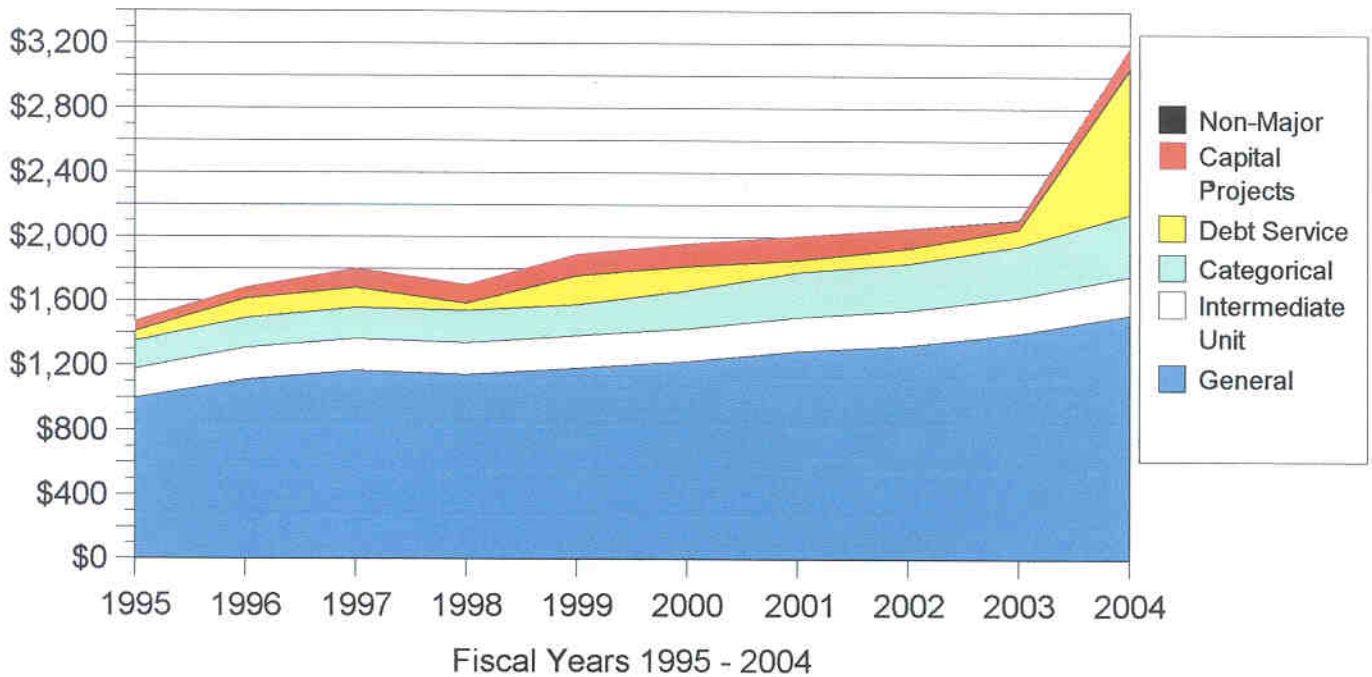
1995 as Base Year	\$ <u>1,470.4</u>	\$ <u>1,641.0</u>	\$ <u>1,716.4</u>	\$ <u>1,604.4</u>	\$ <u>1,742.8</u>	\$ <u>1,758.8</u>	\$ <u>1,740.8</u>	\$ <u>1,749.1</u>	\$ <u>1,762.8</u>	\$ <u>2,517.5</u>
2004 as Base Year	\$ <u>1,838.5</u>	\$ <u>2,051.6</u>	\$ <u>2,145.9</u>	\$ <u>2,006.1</u>	\$ <u>2,179.1</u>	\$ <u>2,199.0</u>	\$ <u>2,176.5</u>	\$ <u>2,186.8</u>	\$ <u>2,203.9</u>	\$ <u>3,147.6</u>

(1) Includes bond defeasement costs of \$56.7 million in 1996, \$51.0 million in 1997, \$103.7 million in 1999 and \$74.9 million in 2000.

(2) Includes bond defeasement costs of \$692.0 million in 2004.

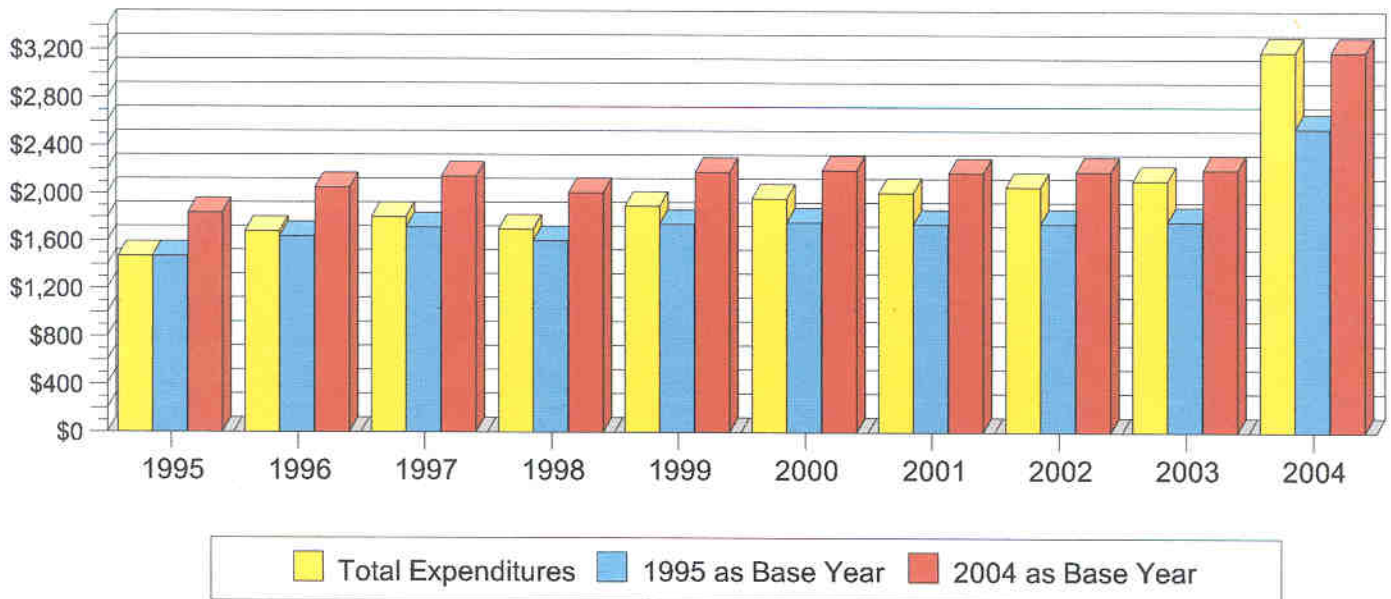
School District of Philadelphia General Governmental Expenditures/Uses by Fund

(amounts in millions)



Total General Governmental Expenditures Restated Fiscal Years 1995 through 2004

(amounts in millions)



SCHOOL DISTRICT OF PHILADELPHIA

GENERAL GOVERNMENTAL REVENUES/SOURCES
FISCAL YEARS 1995 THROUGH 2004
(amounts in millions)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Local										
Taxes										
Real Estate	\$ 398.8	\$ 401.9	\$ 420.7	\$ 403.2	\$ 413.4	\$ 414.8	\$ 427.6	\$ 439.2	\$ 488.7	\$ 513.5
Use and Occupancy	83.4	84.5	81.4	80.8	82.9	90.6	94.7	94.9	98.8	96.2
Other	30.3	42.1	85.3	45.4	48.0	51.9	50.6	46.8	46.1	48.7
Total Taxes	512.5	528.5	587.4	529.4	544.3	557.3	572.9	580.9	633.6	658.4
City Contributions	-	15.0	15.0	15.0	30.0	-	15.0	60.0	35.0	35.0
Other	34.7	47.3	56.1	67.9	58.3	70.1	54.1	34.8	33.1	37.1
Total Local	547.2	590.8	658.5	612.3	632.6	627.4	642.0	675.7	701.7	730.5
State Subsidies	764.1	834.7	851.0	848.7	854.1	896.4	942.6	974.6	1,063.0	1,099.8
Federal Grants	129.4	132.8	144.9	151.5	161.7	189.0	211.4	219.3	260.3	306.7
Total General Revenues	1,440.7	1,558.3	1,654.4	1,612.5	1,648.4	1,712.8	1,796.0	1,869.6	2,025.0	2,137.0
Other Financing Sources	-	213.1	154.5	-	257.4	177.5	157.5	477.1	-	1,637.9
Total General Revenues and Other Sources (3)	<u>\$ 1,440.7</u>	<u>\$ 1,771.4</u>	<u>\$ 1,808.9</u>	<u>\$ 1,612.5</u>	<u>\$ 1,905.8</u>	<u>\$ 1,890.3</u>	<u>\$ 1,953.5</u>	<u>\$ 2,346.7</u>	<u>\$ 2,025.0</u>	<u>\$ 3,774.9</u>
Summary of Revenues/Sources by Fund:										
General (1)	\$ 1,131.7	\$ 1,257.1	\$ 1,324.0	\$ 1,302.9	\$ 1,335.1	\$ 1,354.8	\$ 1,387.5	\$ 1,757.2	\$ 1,537.3	\$ 1,725.3
Intermediate	75.3	72.9	65.8	67.5	52.4	54.8	57.0	60.3	63.1	66.9
Categorical	152.3	163.0	178.5	187.0	181.4	216.1	262.4	277.0	303.3	350.5
Debt Service (2) (3)	74.5	114.3	124.2	37.8	179.0	144.6	79.4	88.9	114.8	748.4
Capital Projects	6.9	164.1	116.4	17.3	157.9	120.0	167.2	163.0	6.4	883.6
Non-Major	-	-	-	-	-	-	-	0.3	0.1	0.2
Total General Revenues and Other Sources	<u>\$ 1,440.7</u>	<u>\$ 1,771.4</u>	<u>\$ 1,808.9</u>	<u>\$ 1,612.5</u>	<u>\$ 1,905.8</u>	<u>\$ 1,890.3</u>	<u>\$ 1,953.5</u>	<u>\$ 2,346.7</u>	<u>\$ 2,025.0</u>	<u>\$ 3,774.9</u>
Totals Restated on a Constant Dollar Basis: (4)										
1995 as base year	<u>\$ 1,440.7</u>	<u>\$ 1,728.7</u>	<u>\$ 1,724.9</u>	<u>\$ 1,520.1</u>	<u>\$ 1,753.6</u>	<u>\$ 1,695.3</u>	<u>\$ 1,694.9</u>	<u>\$ 1,994.8</u>	<u>\$ 1,690.9</u>	<u>\$ 3,019.2</u>
2004 as base year	<u>\$ 1,801.3</u>	<u>\$ 2,161.3</u>	<u>\$ 2,156.5</u>	<u>\$ 1,900.6</u>	<u>\$ 2,192.6</u>	<u>\$ 2,119.6</u>	<u>\$ 2,119.0</u>	<u>\$ 2,494.1</u>	<u>\$ 2,360.4</u>	<u>\$ 3,774.9</u>

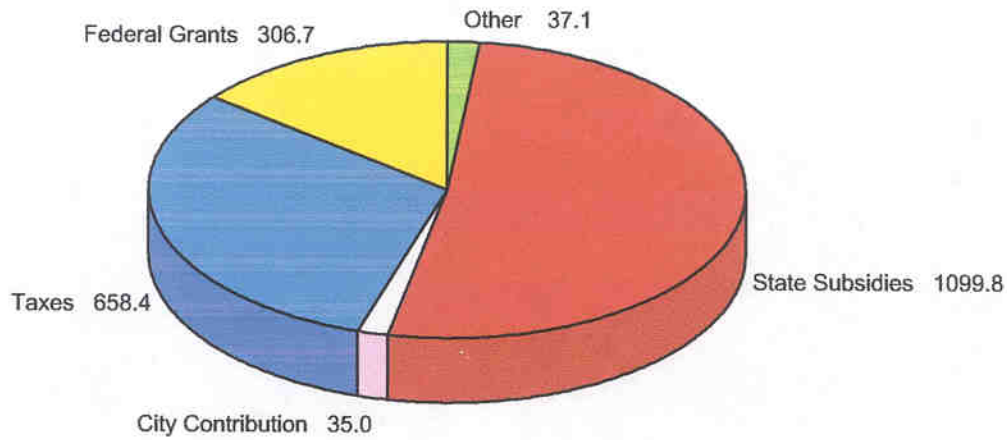
(1) Includes \$ 2.2 in FY 1995 for the Annenberg Grant Fund.

(2) Revenues include cash with fiscal agent and its related activities.

(3) Includes bond defeasement proceeds of \$ 691.1 million and Swaption proceeds of \$ 55.8 million in 2004

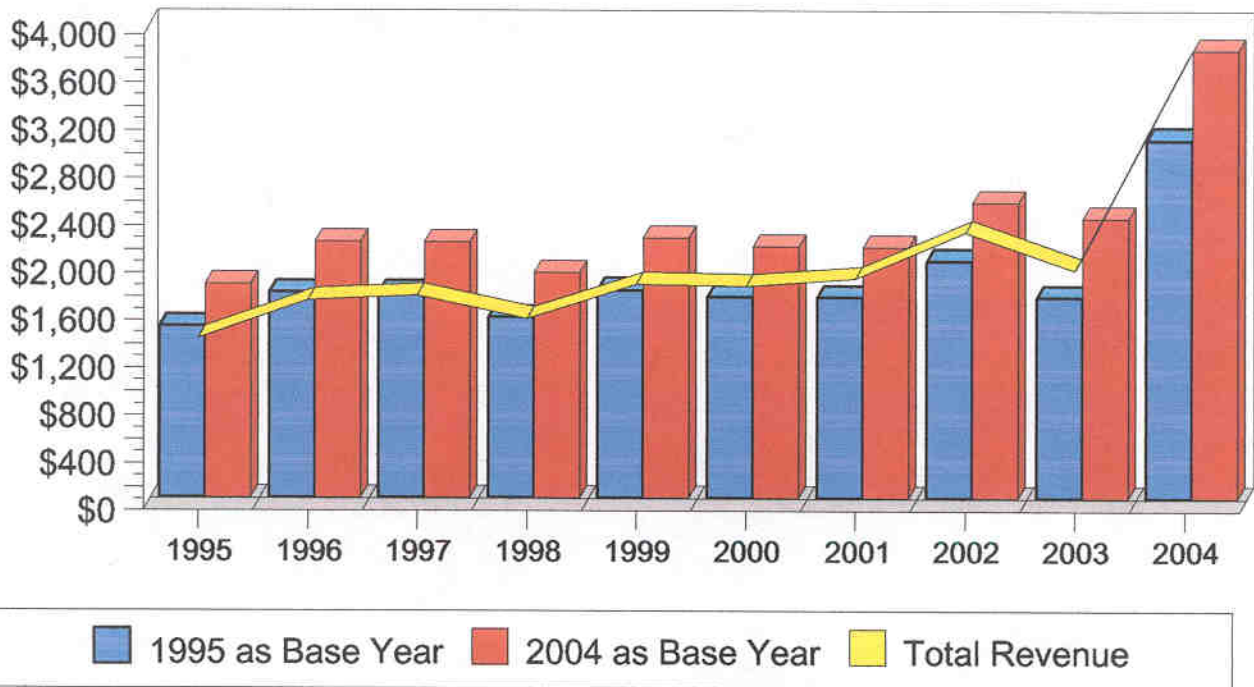
(4) Source: Bureau of Labor Statistics, United States Department of Labor.

School District of Philadelphia
General Governmental Revenues by Source
Fiscal Year 2004 (amounts in millions)



Total Governmental Revenues Restated
Fiscal Years 1995 through 2004

(amounts in millions)



**School District of Philadelphia
Real Estate Tax Levies and Collections
Calendar Years 1995 through 2004**

Calendar Year	Adjusted Total Tax Levy	Current Tax Collections	Percent of Current Taxes Collected	Delinquent Tax Collections	Total Tax Collections	Ratio of Total Tax Collections to Total Tax Levy	Outstanding Delinquent Taxes	Ratio of Delinquent Taxes to Total Tax Levy
1995	\$414,145,699	\$ 371,162,970	89.6%	\$ 31,490,371	\$ 402,653,341	97.2%	\$ 11,492,358	2.8%
1996	407,351,166	365,406,636	89.7%	40,225,544	405,632,180	99.6%	1,718,986	0.4%
1997	405,557,831	369,734,710	91.2%	48,828,395 (a)	418,563,105	103.2%	(13,005,274)	-3.2%
1998	408,489,256	366,011,354	89.6%	35,944,095	401,955,449	98.4%	6,533,807	1.6%
1999	414,421,340	378,390,320	91.3%	34,362,564	412,752,884	99.6%	1,668,456	0.4%
2000	421,290,908	375,140,384	89.0%	47,804,562	422,944,946	100.4%	(1,654,038)	-0.4%
2001	430,266,215	390,669,337	90.8%	34,729,352	425,398,689	98.9%	4,867,526	1.1%
2002	449,436,982	391,820,496	87.2%	29,344,302	421,164,798	93.7%	28,272,184	6.3%
2003	488,070,898 (b)	473,253,166 (d)	97.0%	64,984,233 (d)	538,237,399	110.3%	(50,166,501)	-10.3%
2004	524,286,055 (c)	442,228,338 (e)	84.3%	63,219,203 (e)	505,447,541	96.4%	18,838,514	3.6%

- (a) Increased prior years' tax collections are attributable primarily to the tax lien sale of June 30, 1997.
(b) Source: City Department of Revenue Real Estate Tax Reconciliation Report- Billable as of October 2003
(c) Certified by Board of Revision of Taxes including revisions through January 31, 2004
(d) Source: Philadelphia School District- Accounting System as of December 3, 2004.
(e) Source: Philadelphia School District- Accounting System as of December 3, 2004.

FISCAL YEARS 1995 THROUGH 2004

Fiscal Year	Current Tax Collections	Prior Year Tax Collections	Total Tax Collections
1995	371,569,290	27,184,665	398,753,955
1996	361,007,775	40,910,646	401,918,421
1997	369,630,680	51,091,731	420,722,411
1998	365,680,605	37,474,158	403,154,763
1999	375,953,332	37,462,348	413,415,680
2000	379,062,773	35,761,682	414,824,455
2001	390,032,292	37,534,925	427,567,217
2002	401,977,746	39,188,455	441,166,201
2003	451,066,708	37,615,252	488,681,960
2004	458,085,281	55,437,680	513,522,961

SCHOOL DISTRICT OF PHILADELPHIA
 ASSESSED AND ESTIMATED MARKET VALUE OF TAXABLE REALTY IN PHILADELPHIA
 FOR THE CALENDAR YEARS 1995 THROUGH 2004
 (Dollars in millions)

Calendar Year	Assessed Value (1) Adjusted to 6/30/04		Market Value on Basis of STEB Ratio			Estimated Market Value Based on Sales		
	Amount	Percentage Increase (Decrease) Over Prior Year	Assessment Ratio of State Tax Equalization Board (2)	Amount	Percentage Increase (Decrease) Over Prior Year	Assessment Ratio (3) as Determined by Sales	Amount (2)	Percentage Increase (Decrease) Over Prior Year
1995	\$ 8,896	(1.24) %	0.299	\$ 29,753	-0.98 %	0.270	\$ 32,912	-0.44 %
1996	8,896	-	0.300	29,673	-0.27	0.271	32,863	-0.15
1997	8,966	0.79	0.303	29,610	-0.21	0.264	33,911	3.19
1998	9,037	0.79	0.302	29,934	1.09	0.244	37,052	9.26
1999	9,192	1.72	0.304	30,287	1.18	0.230	39,965	7.86
2000	9,343	1.64	0.304	30,784	1.64	0.237	39,405	-1.40
2001	9,593	2.68	0.303	31,639	2.78	0.255	37,679	-4.38
2002	9,858	2.76	0.303	32,502	2.73	0.252	39,150	3.91
2003	10,377	5.26	0.301	34,452	6.00	0.225	46,079	17.70
2004 (4)	N/A	N/A	0.300	-	N/A	N/A	N/A	N/A
Total Increase (Decrease) 1995-2003	\$ 1,481	16.65 %						
Compounded Annual Average Rate of Increase	1.73 %							

NOTES:

- (1) The adjustment reflects reductions in assessments pursuant to established procedures for review of assessments.
- (2) The State Tax Equalization Board (STEB) determines annually for each municipality in the Commonwealth a ratio of assessed valuation to true value. The ratio is used for the purpose of equalizing certain state aid distribution.
- (3) The Assessment Ratio as presented has not been adjusted to allow for the effects of large or unusual sales.
- (4) At June 30,2004

SCHOOL DISTRICT OF PHILADELPHIA

PROPERTY TAX RATES - ALL DIRECT AND OVERLAPPING GOVERNMENTS
 CALENDAR YEARS 1995 THROUGH 2004
 (PER \$100 ASSESSED VALUE)

<u>Calendar Year</u>	<u>City of Philadelphia</u>	<u>School District of Philadelphia</u>	<u>Total</u>
1995	3.745	4.519	8.264
1996	3.745	4.519	8.264
1997	3.745	4.519	8.264
1998	3.745	4.519	8.264
1999	3.745	4.519	8.264
2000	3.745	4.519	8.264
2001	3.745	4.519	8.264
2002	3.745	4.519	8.264
2003	3.474	4.790	8.264
2004	3.474	4.790	8.264

SCHOOL DISTRICT OF PHILADELPHIA
RATIO OF NET GENERAL BONDED DEBT
TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA
FOR FISCAL YEARS 1995 THROUGH 2004

Fiscal Year	City of Philadelphia Estimated Population* (thousands)	Assessed Valuation (1) (millions)	Gross Bonded Debt (2) (thousands)	Amount Available in Debt Service Fund (thousands)	Net Bonded Debt (thousands)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita	
							Actual	In Constant Dollars - 1995 as Base Year
1995	1,496	\$ 8,896	\$ 498,687	\$ 30,491	\$ 468,196	5.26 %	\$ 313	\$ 313
1996	1,472	8,896	628,190	35,322	592,868	6.66	403	393
1997	1,451	8,966	704,038	26,348	677,690	7.56	467	445
1998	1,434	9,037	697,170	36,186	660,984	7.31	461	435
1999	1,418	9,192	822,067	37,773	784,294	8.53	553	499
2000 (3)	1,518	9,343	891,389	20,964	870,425	9.32	573	514
2001 (4)	1,500	9,593	1,017,780	22,675	995,105	10.37	663	576
2002 (4)	1,489	9,858	1,440,475	29,588	1,410,887	14.31	948	805
2003 (4)	1,479	10,377	1,405,895	34,138	1,371,757	13.22	927	774
2004 (5)	1,492	10,377	2,314,730	20,415	2,294,315	22.11	1,538	1,284

*Source: U.S. Department of Commerce, Bureau of Census.

(1) Adjusted as of June 30, 2003. Adjustments reflect changes in assessments pursuant to established assessment review procedures.

(2) Includes all long-term general obligation bonded debt payable.

(3) Based on 2000 population figures of Census 2000 as of April 1, 2000.

(4) Based on Population Estimates at July 1st -first day of fiscal year.

(5) Population Estimates and Assessed Value of Taxable Real Property were not available.

SCHOOL DISTRICT OF PHILADELPHIA
BORROWING BASE AND DEBT LIMITS
JUNE 30, 2004

BORROWING BASE

Gross revenues General and Special Revenue, and Debt Service funds for years ended June 30, 2002, 2003 and 2004	\$ 6,020,328,608
---	------------------

Less: Statutory exclusions	954,934,209
----------------------------	-------------

Net revenues for years ended June 30, 2002, 2003 and 2004	<div style="border-top: 1px solid black; border-bottom: 3px double black; padding: 2px 0;">\$ 5,065,394,399</div>
---	---

Borrowing base (average of net revenue for three fiscal years)	<div style="border-top: 1px solid black; border-bottom: 3px double black; padding: 2px 0;">\$ 1,688,464,800</div>
--	---

DEBT LIMIT

Electoral debt limit	No Limit
Electoral debt outstanding	<div style="border-top: 1px solid black; padding: 2px 0;">\$ 3,630,000</div>

Electoral borrowing capacity	<div style="border-top: 1px solid black; border-bottom: 3px double black; padding: 2px 0;">\$ No Limit</div>
------------------------------	--

Non-electoral debt limit - 100% borrowing base	\$ 1,688,464,800
Non-electoral debt outstanding	1,722,965,000
Outstanding Deficit Bonds excluded	<div style="border-top: 1px solid black; padding: 2px 0;">(291,195,000)</div>
Non-electoral borrowing capacity	<div style="border-top: 1px solid black; border-bottom: 3px double black; padding: 2px 0;">\$ 256,694,800</div>

Non-electoral and lease rental debt limit - 200% of borrowing base	<div style="border-top: 1px solid black; padding: 2px 0;">\$ 3,376,929,600</div>
--	--

Less: Non-electoral debt outstanding	1,722,965,000
Lease rental debt outstanding	588,135,000
Deficit Bonds Outstanding	<div style="border-top: 1px solid black; padding: 2px 0;">(291,195,000)</div>

Total	<div style="border-top: 1px solid black; padding: 2px 0;">2,019,905,000</div>
-------	---

Non-electoral and lease rental borrowing capacity	<div style="border-top: 1px solid black; border-bottom: 3px double black; padding: 2px 0;">\$ 1,357,024,600</div>
---	---

Note: Borrowing base and debt limits have been computed in accordance with the Pennsylvania Local Government Unit Debt Act of December 19, 1996 (Act No. 177). The Act provides no limitation on debt approved by the voters.

Deficit bonds are exempt from borrowing capacity per Public School Code Sec. 636.1

SCHOOL DISTRICT OF PHILADELPHIA

DIRECT AND OVERLAPPING LONG TERM TAX SUPPORTED OBLIGATIONS
JUNE 30, 2004
(amounts in millions)

	City of Philadelphia	School District of Philadelphia	Total Overlapping Obligations
Gross bonded debt	\$ 4,841.1	\$ 2,314.7	\$ 7,155.8
Self-supporting debt	(3,823)	-	(3,823.3)
Amounts available for Debt Retirement	-	(20.3)	(20.3)
Net bonded debt-tax supported	1,017.8	2,294.4	3,312.2
Other long term obligations (1)	3,554.8	585.8	4,140.6
Net total long-term obligations	\$ 4,572.6	\$ 2,880.2	\$ 7,452.8

(1) Includes payments on contingent liabilities, accrued compensated absences, and other long-term obligations.

SCHOOL DISTRICT OF PHILADELPHIA

RATIO OF ANNUAL DEBT SERVICE
FOR GENERAL BONDED DEBT AND AUTHORITY PAYMENTS
TO TOTAL GENERAL EXPENDITURES EXCLUDING CATEGORICAL FUNDS
FISCAL YEARS 1995 THROUGH 2004
(amounts in thousands of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
General Bonded Debt Principal	\$ 34,705	\$ 34,135	\$ 33,675	\$ 8,595	\$ 34,600	\$ 36,405	\$ 20,197	\$ 33,305	\$ 34,585	\$ 45,000
General Bonded Debt Interest	23,924	22,282	36,233	34,890	36,290	40,490	55,004	53,476	70,193	74,044
Loans	369	369	369	369	369	369	369	369	369	369
State Public School Building Authority (1)	-	-	-	-	-	-	-	-	-	21,717
Total Debt Service Expenditures (2)	<u>\$ 58,998</u>	<u>\$ 56,786</u>	<u>\$ 70,277</u>	<u>\$ 43,854</u>	<u>\$ 71,259</u>	<u>\$ 77,264</u>	<u>\$ 75,570</u>	<u>\$ 87,150</u>	<u>\$ 105,147</u>	<u>\$ 141,130</u>
Total General Expenditures Excluding Categorical Funds	<u>\$ 1,295,500</u>	<u>\$ 1,498,826</u>	<u>\$ 1,607,334</u>	<u>\$ 1,501,306</u>	<u>\$ 1,698,708</u>	<u>\$ 1,727,193</u>	<u>\$ 1,726,866</u>	<u>\$ 1,761,354</u>	<u>\$ 1,790,968</u>	<u>\$ 2,105,253</u>
Ratio of Debt Service to Total General Expenditures Excluding Categorical Funds	<u>4.55</u>	<u>3.79</u>	<u>4.37</u>	<u>2.92</u>	<u>4.19</u>	<u>4.47</u>	<u>4.38</u>	<u>4.95</u>	<u>5.87</u>	<u>6.70</u>
Total General Expenditures (2) (3)	<u>\$ 1,468,490</u>	<u>\$ 1,681,482</u>	<u>\$ 1,800,081</u>	<u>\$ 1,701,879</u>	<u>\$ 1,894,163</u>	<u>\$ 1,961,011</u>	<u>\$ 2,006,534</u>	<u>\$ 2,057,609</u>	<u>\$ 2,111,134</u>	<u>\$ 2,494,740</u>
Ratio of Debt Service to Total General Expenditures	<u>4.02</u>	<u>3.38</u>	<u>3.90</u>	<u>2.58</u>	<u>3.76</u>	<u>3.94</u>	<u>3.77</u>	<u>4.24</u>	<u>4.98</u>	<u>5.66</u>

(1) Includes both principal and interest payments.

(2) Does not include bond issuance or defeasement costs.

(3) Includes General, Intermediate Unit, Categorical, Debt Service and Capital Projects Fund expenditures.

SCHOOL DISTRICT OF PHILADELPHIA
DEMOGRAPHIC STATISTICS
FOR THE FISCAL YEARS 1994 THROUGH 2003

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<u>City of Philadelphia</u>										
Population (1) (2) (thousands)	1,520	1,496	1,472	1,452	1,435	1,418	1,518	1,500	1,489	1,479
Per Capita Personal Income (2)	\$19,414	\$19,938	\$20,792	\$21,342	\$22,444	\$23,137	\$24,572	\$25,266	\$26,369	N/A
Public School Enrollment (3)	208,973	211,053	213,465	209,611	211,285	213,428	213,842	212,594	211,240	210,092
Unemployment Rate (4)	7.9%	7.8%	6.9%	7.0%	6.4%	6.3%	6.0%	6.3%	7.9%	7.8%
Civilian Labor Force (4) (thousands)	669.0	656.1	656.7	658.7	646.5	651.7	667.1	674.4	685.7	673.5
<u>Philadelphia, Pa. - N.J. PMSA (5)</u>										
Population (2) (thousands)	4,952	4,968	4,977	4,984	5,002	5,020	5,041	5,055	5,078	N/A
Per Capita Personal Income (2)	\$25,345	\$26,352	\$27,628	\$29,008	\$30,868	\$31,896	\$34,186	\$35,192	N/A	N/A
Unemployment Rate (4)	6.1%	6.0%	5.2%	4.9%	4.4%	4.3%	4.1%	4.4%	5.8%	5.6%
Civilian Labor Force (4) (thousands)	2,469.8	2,474.5	2,520.7	2,561.3	2,545.4	2,600.9	2,574.5	2,615.9	2,679.7	2,648.4
<u>U.S.A. National</u>										
Unemployment Rate (4) (6)	6.2%	5.8%	5.5%	5.2%	4.7%	4.5%	4.1%	4.7%	6.0%	6.5%
Civilian Labor Force (4) (6) (thousands)	132,115	133,447	135,083	137,557	138,798	140,666	143,874	144,553	145,940	148,117

Sources:

- (1) U.S. Department of Commerce, Bureau of Census.
- (2) U.S. Department of Commerce, Bureau of Economic Analysis
- (3) School District of Philadelphia - Budget Document.
- (4) Pennsylvania Department of Labor and Industry, Office of Employment Security.
- (5) Includes Bucks, Chester, Delaware, Montgomery and Philadelphia counties in Pennsylvania and Burlington, Camden and Gloucester counties in New Jersey.
- (6) U.S. Department of Labor, Bureau of Labor Statistics.

SCHOOL DISTRICT OF PHILADELPHIA

BANK DEPOSITS, REAL PROPERTY VALUES AND AUTHORIZED CONSTRUCTION IN THE CITY OF PHILADELPHIA
FOR THE CALENDAR YEARS 1994 THROUGH 2003
(amounts in millions of dollars)

Calendar Year	Commercial Bank Deposits(1)	Mutual Savings Bank Deposits(1)	Property Values(2)		Authorized Construction (3)				
			Original Assessed	Market	Resi- dential	Commercial & Industrial	Other(4)	Total	Housing Units
1994	19,455	4,249	9,516	33,057	89.7	304.9	54.3	448.9	262
1995	19,077	3,627	9,410	32,912	82.5	298.6	53.7	434.8	253
1996	20,587	3,703	9,266	32,863	124.5	457.6	163.2	745.3	636
1997	26,351	3,848	9,275	33,918	101.9	382.2	176.7	660.8	509
1998	25,906	3,326	9,220	37,052	316.2	753.9	196.3	1,266.4	594
1999	22,922	4,405	9,273	39,965	N/A	N/A	N/A	N/A	N/A
2000	18,531	4,576	9,527	39,405	N/A	N/A	N/A	N/A	N/A
2001	21,101	4,690	9,867	37,679	N/A	N/A	N/A	N/A	N/A
2002	16,872	9,384	10,300	39,150	N/A	N/A	N/A	N/A	N/A
2003	19,719	8,730	10,819	46,079	N/A	N/A	N/A	N/A	N/A

(1) Source: Federal Deposit Insurance Corporation. For years ending June 30th.

(2) Source: City of Philadelphia, Board of Revision of Taxes

(3) Source: City of Philadelphia, Department of Licenses and Inspections

(4) Includes Governmental, Medical and Educational Units

SCHOOL DISTRICT OF PHILADELPHIA
TEN LARGEST REAL ESTATE ASSESSMENTS
FULLY TAXABLE PROPERTIES
JANUARY 1, 2004
(AMOUNTS IN THOUSANDS)

<u>Location</u>	<u>Owner</u>	<u>Assessment Value</u>	<u>Percentage of Total Assessments</u>
1650 Market Street	One Liberty Place	\$ 64,320	0.59%
1735 Market Street	Nine Penn Center Associates	57,360	0.52%
50 S. 16th Street	Two Liberty Place	56,000	0.51%
1500-42 Market Street	Center Square Partners	52,320	0.48%
4301 Byberry Road	PMI Associates	48,432	0.44%
1717 Arch Street	Bell Atlantic	45,120	0.41%
1901-17 Market Street	PRU 1901 Market LLC	32,896	0.30%
2005 Market Street	Commerce Square Partners	32,320	0.30%
2001 Market Street	Maguire/Thomas	32,000	0.29%
1201 Market Street	Philadelphia Market Street	30,400	0.28%
Total of the Ten Largest Real Estate Assessments		<u>\$ 451,168</u>	<u>4.12%</u>
Total Taxable Assessments		<u>\$ 10,945,853</u>	<u>100.00%</u>

Source: Board of Revision of Taxes, City of Philadelphia

SCHOOL DISTRICT OF PHILADELPHIA
MAJOR EMPLOYERS IN THE CITY OF PHILADELPHIA (1)
AS OF JUNE 30, 2004
(LISTED ALPHABETICALLY)

Employer

Albert Einstein Medical
Aramark Food & Support Services Group
Cardone Industries, Inc.
Children's Hospital of Philadelphia
Comcast Corporation
Drexel University
First Union Services
Frankford Hospital
Independence Blue Cross
Pa Hospital of Univ. of Penn Health Systems
Philadelphia Newspapers, Inc.
PNC Bank
Rohm & Hass Company
Smith Kline Beecham Corporation
Sunoco Inc.
Temple University
Temple University Hospital, Inc.
Tenet Health System Philadelphia Inc.
Tenet Phila. Health & Ed(MCP Hahnemann)
Thomas Jefferson University
Thomas Jefferson University Hospitals
Towers, Perrin, Forster & Crosby, Inc.
University of Pennsylvania
University of Pennsylvania Hospital
Verizon Services Corporation

(1) Does not include federal, state and city agencies.

Source: Philadelphia Department of Revenue

SCHOOL DISTRICT OF PHILADELPHIA

MISCELLANEOUS STATISTICS
FOR FISCAL YEARS 2000 THROUGH 2004

The School District is a separate and independent home rule school district of the first class established in 1965 by the Philadelphia Home Rule Charter.

The School District is a political subdivision of the Commonwealth created to assist in the administration of the General Assembly's duties under the Constitution of the Commonwealth to "provide for the maintenance and support of a thorough and efficient system of public education to serve the needs of the Commonwealth."

The School District also serves as the agent for Intermediate Unit No. 26 (the "I.U."), an entity established by the Commonwealth to provide programs in special education, special education transportation, non-public school services and related management services. The School Reform Commission constitutes the Board of Directors of the I.U.; the boundaries of the I.U. are coterminous with those of the City and School District. All I.U. services are performed by the School District pursuant to contracts between the School District and the I.U.

The School District of Philadelphia operates at present under a five member School Reform Commission. The School Reform Commission exercises all powers and has all the duties of the Board of Education. The Board of Education continues in office performing only the duties assigned by the School Reform Commission. The Governor of Pennsylvania appointed the chairman who has full power and authority of the School Reform Commission and two other members, while the Mayor of Philadelphia appointed the two remaining members.

	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004
Number of Schools (1)					
Elementary	175	175	175	175	175
Junior/Middle	41	42	42	41	42
Special	10	11	8	10	11
Senior	31	32	32	33	35
Vocational/Technical	4	5	5	5	5
Total Public Schools	261	265	262	264	268
Number of Charter Schools (2)	25	35	41	46	48
Total Schools	286	300	303	310	316
School Enrollment (2)					
Elementary	105,044	102,118	99,992	96,786	94,247
Junior/Middle	33,632	33,618	31,519	30,042	29,380
Senior/Special/Vocational Technical	66,445	65,592	65,833	66,248	64,770
Total Public Schools	205,121	201,328	197,344	193,076	188,397
Charter Schools	8,037	11,396	15,250	18,164	21,695
Total	213,158	212,724	212,594	211,240	210,092
Number of Public High School Graduates (1)	9,949	9,388	8,559	9,407	10,331
Number of High School Charter Graduates (3)	-	-	-	-	-
Total of High School Graduates	9,949	9,388	8,559	9,407	10,331

(1) School District of Philadelphia, Office of Accountability and Assessment.

(2) School District of Philadelphia, Budget Document

(3) School District of Philadelphia, Office of Policy and Planning



The School District of Philadelphia, an equal opportunity employer, will not discriminate in employment or education programs or activities based on race, color, religion, age, national origin, ancestry, handicap, sex, sexual orientation, union membership, or limited English proficiency. This policy of non-discrimination extends to all other legally protected classifications. Publication of this policy in this document is in accordance with state and federal laws including Title IX of the Education Amendments of 1972 and Sections 503 and 504 of the Rehabilitation Act of 1973. Inquiries should be directed to Reba Smallwood, Esq., Equal Opportunity Compliance Officer, 734 Schuylkill Avenue, 1st Floor, Philadelphia, PA 19146, (215) 875-3816

