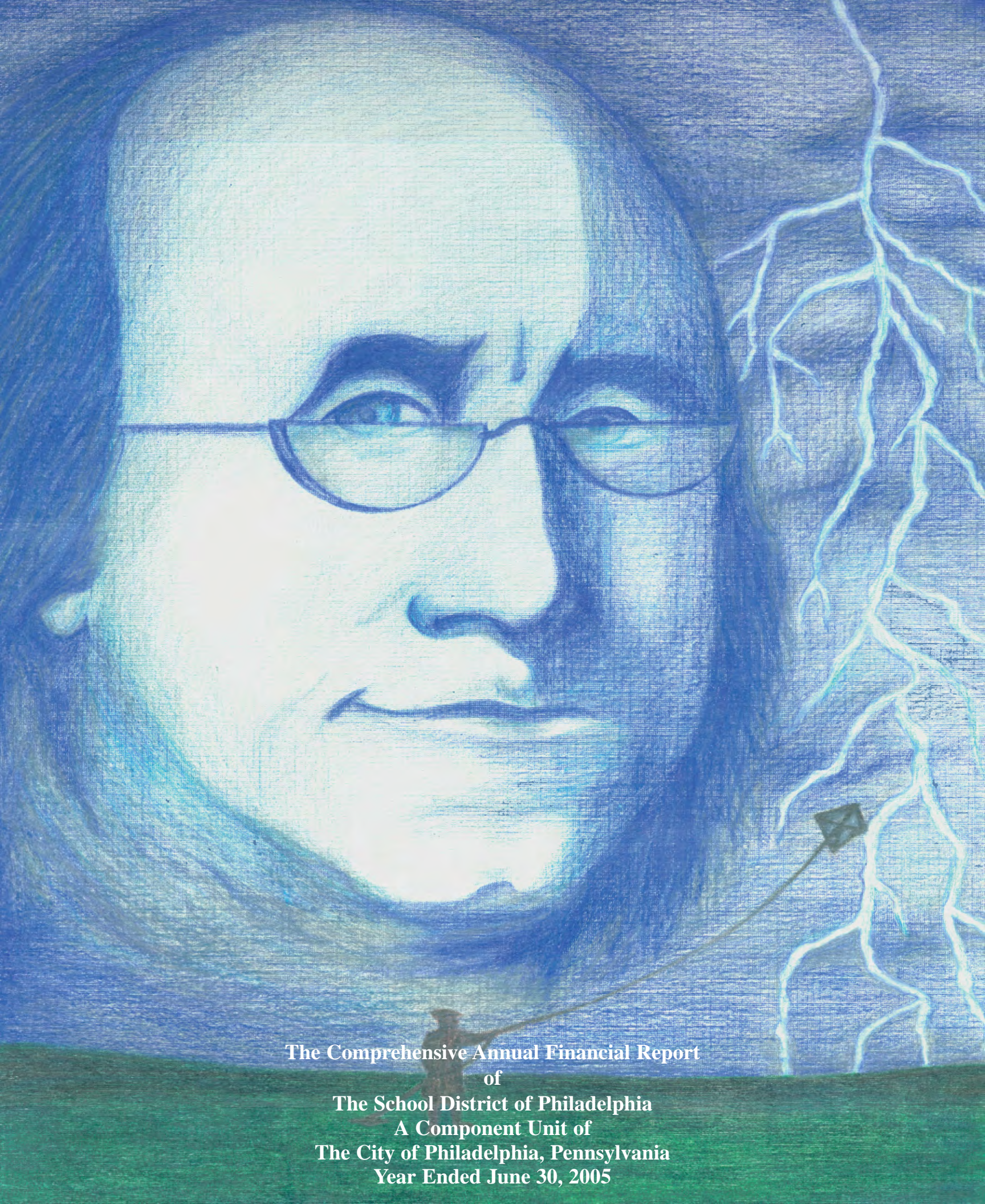


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Office of Family and Community Engagement
440 N. Broad Street, Suite 114
Philadelphia, PA 19130-4015
Email: ask@philasd.org
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Fax: (215) 400-4181

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The Comprehensive Annual Financial Report
of
The School District of Philadelphia
A Component Unit of
The City of Philadelphia, Pennsylvania
Year Ended June 30, 2005

SCHOOL DISTRICT OF PHILADELPHIA, PENNSYLVANIA

440 N. BROAD STREET, PHILADELPHIA, PENNSYLVANIA 19130

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

YEAR ENDED JUNE 30, 2005



Marcy F. Blender, CPA
Comptroller

Prepared by
Office of General Accounting

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 2005 Cover Design Contest entitled, "THE LIFE AND TIMES OF BENJAMIN FRANKLIN". As one of Philadelphia's most famous citizens, Franklin (1706-1790), whose 300th birthday we celebrate in the coming year, was truly a "Renaissance Man", whose accomplished life not only made a profound impact on Philadelphia but our entire country. He was a scientist, an inventor, a printer, a philosopher, a musician, a politician, an ambassador, a shopkeeper, a cartoonist, an economist and much more. As one of our "Founding Fathers", Franklin was an anti-slavery proponent, a signer of the Declaration of Independence and a delegate to the Constitutional Convention. From the societies and public institutions he founded, to the institutions and neighborhoods that bear his name, to the businesses that today use his likeness, Philadelphia is very much Franklin's city.

The winners are as follows:

	<u>STUDENT</u>	<u>ART TEACHER</u>
1st Prize Front Cover	Crystal Sanchez Central High School, Grade 11	Ms. Debra Cooperstein
2nd Prize Back Cover	Wilmer Sanchez Frankford High School, Grade 11	Ms. Nina Gordon
3rd Prize Divider: 1st	Terrelle Jordan Northeast High School, Grade 11	Ms. Susan Odessey
	Krysha Patriz Mallari Furness High School, Grade 12	Mr. Paul Lettieri
2nd	Laura Lyons Creative and Performing Arts High School, Grade 11	Mr. John Sebastian
	Alexandra Malikova Northeast High School, Grade 12	Mrs. Susan Cohen Smith
3rd	Tim Kauffman Central High School, Grade 11	Ms. Debra Cooperstein
	Alex Marakowski Creative and Performing Arts High School, Grade 10	Ms. Hattie Stroman
	Ms. Tessie Varthas, Lead Academic Coach - Art Education	





SCHOOL DISTRICT OF PHILADELPHIA

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FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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SCHOOL DISTRICT OF PHILADELPHIA

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THE SCHOOL DISTRICT OF PHILADELPHIA

440 NORTH BROAD STREET
PHILADELPHIA, PENNSYLVANIA 19130

PAUL G. VALLAS
CHIEF EXECUTIVE OFFICER

TELEPHONE (215) 400-4100
FAX (215) 400-4104

December 31, 2005

To the Members of the School Reform Commission, Honorable Mayor and Citizens of the City of Philadelphia:

We are pleased to present this Comprehensive Annual Financial Report of the School District of Philadelphia for the Fiscal Year ended June 30, 2005. Pursuant to provisions of the Philadelphia Home Rule Charter, these financial statements were prepared in accordance with Generally Accepted Accounting Principles ("GAAP") of the United States of America. As such, management of the School District of Philadelphia ("School District") assumes full responsibility for the completeness and reliability of all information presented in this report and provides reasonable assurance that its financial statements are free of any material misstatements.

This Comprehensive Annual Financial Report ("CAFR") is generally presented in three sections: Introductory, Financial and Statistical. The Introductory Section includes this Letter of Transmittal, an Organizational 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 while the Statistical Section includes selected financial and demographic information generally presented on a multi-year basis.

As mandated, GAAP requires that management provide a narrative introduction, overview and analysis to accompany its basic financial statements. This narrative is known as Management's Discussion and Analysis ("MD&A") which is contained in the Financial Section as mentioned above. More specifically, the School District's MD&A can be found immediately following the Independent Auditors Report. This Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with it.

In addition, the Philadelphia Home Rule Charter requires that the Office of the City Controller of the City of Philadelphia ("Office of the City Controller") perform an annual audit of the books of account as well as financial records and transactions of the School District. The City Controller, an independently elected local official, is required to appoint a Certified Public Accountant as deputy in charge of auditing. Pursuant to these requirements, the Office of the City Controller conducted an independent audit of the School District's financial statements. The independent audit examined evidence supporting the amounts and disclosures contained in these financial statements on a test basis; assessed the accounting principles used and significant estimates made by senior management; and evaluated the overall presentation of these financial statements. The Office of the City Controller concluded that there was a reasonable basis for rendering an unqualified opinion that the School District's financial statements for the Fiscal Year ended June 30, 2005 are fairly presented in conformity with GAAP. The Independent Auditor's report is presented as a component of the Financial Section of this CAFR for your formal review and consideration.

As further required, senior management of the School District established an internal control framework that is designed to protect the School District's assets from loss, theft and misuse. Internal offices of the School District, namely General Accounting, Accounts Payable and Audit Services, regularly review expenditures of School District funds and perform selective reviews of operations and controls further assuring that this report is complete and reliable in all material respects and in conformity with GAAP standards. Furthermore and as part of the federally mandated "Single Audit" requirement, the Independent Auditor performs an annual audit of 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's separately issued Single Audit Report.

Profile of the School District

The School District is an agency of the Commonwealth of Pennsylvania created to assist in the administration of the state's responsibility under the Pennsylvania Constitution to "provide for the maintenance and support of a thorough and efficient system of public education." It is the largest school district in the Commonwealth of Pennsylvania employing approximately 27,000 and the eighth largest in the United States based on enrollment data. Although considered a quasi-state agency, the School District directly serves the City of Philadelphia, Pennsylvania, the fifth largest city in the United States with a population of close to 1.5 million and a land area of approximately 130 square miles. Generally, the School District serves over 209,000 students in pre-kindergarten through adult education programs in approximately 322 schools.

As contemplated and/or required by statute, the School District provides a comprehensive range of educational services. These services include general, special and vocational education at the elementary and secondary levels as well as related support and transportation services. The School District also provides summer in addition to pre- and after-school program services depending on the needs of a community and available funding. To ensure schools have the administrative support that they require, the School District is organized into nine geographic regions and one central administrative academic office.

As an agency of the Commonwealth of Pennsylvania, the School District of Philadelphia is governed by both the Public School Code and the Philadelphia Home Rule Charter ("Charter"). As such, the School District is a separate and independent home rule school district of the first class established by the Charter under the First Class City Public Education Home Rule Act, approved August 9, 1963, 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 its administration, except only in setting tax rates authorized for school purposes pursuant to the directive of the General Assembly of the Commonwealth of Pennsylvania.

Historically, the School District was governed by the Board of Education ("Board") consisting of nine members appointed generally by the Mayor of the City of Philadelphia. In December of 2001, however, the Secretary of Education of the Commonwealth of Pennsylvania declared the School District of Philadelphia distressed suspending the governing powers of the Board and placing control of the School District in the hands of a five-member School Reform Commission ("SRC"). Three members, including the Chairman, were appointed by the Governor of Pennsylvania while the Mayor of Philadelphia appointed the remaining two members. The SRC exercises all powers and has all the responsibilities and duties of the Board. As prescribed, the SRC is now responsible for the overall operation, management and educational programs of the School District, including all budgetary and financial matters. The duties of the SRC generally

include, but are not limited to, the formulation of education policy, the adoption of an annual budget, the development of a comprehensive capital improvement budget and program and the incurrence of indebtedness.

By way of summary, the School District's fiscal year is July 1st to June 30th, and is identical with those of both the City of Philadelphia and the Commonwealth of Pennsylvania. The Charter requires that the School District adopt an operating budget, a capital budget and a capital improvement program each fiscal year. To ensure financial control, the SRC must first approve, by resolution, all personnel appointments, purchases of materials, supplies, books and equipment in excess of \$10,000 and individual contracts for professional services and associated costs in support of the instructional program in excess of \$25,000. The School District maintains further budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget by the SRC. Activities in the General Fund, the Intermediate Unit Fund, the Debt Service Fund and the Capital Projects Fund are included in the annual appropriated budget. Purchase commitments are subject to an automated accounting system which tests for verification of available allotments and are encumbered, if not in excess of the available allotment, prior to the release of funds 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. However, unencumbered appropriations lapse at year-end.

Major Initiatives

For the second consecutive year, the School District presented the SRC with a balanced \$1.8 billion operating budget while also maintaining a positive ending fund balance in its Five-Year Financial Plan through Fiscal Year 2010. Aligning budget line items and expenditures with the priorities of the SRC's Declaration of Education is a major milestone for the School District. The Declaration of Education, unveiled on May 24, 2004, established outcome-based goals in the areas of academic achievement, early literacy, school climate and security, community collaboration, equity and operations. Major programs that support the Declaration of Education include completing the standardization of core curriculum and reaching academic achievement goals, enhancing school choice, expanding pre- and after-school programs and establishing community partnerships.

The Capital Improvement Program, a plan that will devote over \$2.8 billion through Fiscal Year 2011 to improving major systems and structures, is yet another major undertaking. In Fiscal Year 2006 alone, the School District expects to spend approximately \$625 million in new construction, renovation projects and classroom modernization initiatives that will collectively make schools more equitable despite the socio-economic issues of any given community. This program also places a major emphasis on the restructuring of high schools and the phase-out of middle schools with a number of elementary school expansions as the School District moves to a K-8 and 9-12 grade configuration.

With the continual reduction of administrative costs, the School District completed a major consolidation of all central offices that was initiated in Fiscal Year 2004. Although a loss was sustained regarding the actual sale of all buildings as reported in the accompanying financial statements, the School District believes that this major undertaking will help the School District improve administrative efficiencies far into the future. Likewise, the School District realized millions of dollars in accumulative savings by optimizing revenues and grants from federal, state and local sources, strategic outsourcing and personnel savings. In fact, the School District spends less than six percent (6%) of its operating budget on administrative costs; one of the lowest rates

when compared to and with other large urban public school systems; and close to eighty percent (80%) of its total funds on academic and education support services.

Factors Affecting Financial Conditions

The information presented in these accompanying financial statements and report is best understood when placed in context with local social and economic factors, such as:

The Local Economy: The School District is coterminous to the City of Philadelphia; the fifth largest city in the country by population. The Philadelphia Metropolitan Area is considered the fourth largest in the United States 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 and aging population and work force. The 2000 Census formally confirmed that Philadelphia lost 68,027 residents or 4.3 percent (4.3%) of its population since 1990. This loss, however, was less severe than those of the 1970s and 1980s. While other cities such as Baltimore, Buffalo, Cleveland, Detroit, Pittsburgh and Washington, D.C. experienced greater rates of population loss over the same period of time, other major cities in the Northeast and Midwest such as Boston, Chicago and New York City actually gained population. Estimates since the 2000 Census indicate, however, that Philadelphia is continuing to lose population. For example, Philadelphia lost approximately 50,000 more residents or 3.12 percent (3.12%) of its population between 2000 and 2004 or otherwise since the Census.

While 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. Private sectors involved in the knowledge industry include, financial services, engineering, insurance, law, life sciences, printing, publishing and academia. Moreover, the knowledge industry is able to take advantage of the nearly 50,000 college graduates produced annually by the greater Philadelphia region in its 83 public and private colleges and universities.

The service industry will also be critical in stabilizing Philadelphia’s economy. The service industry, which includes health care, education, hospitality and other services, has also been steadily 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. Philadelphia is already gaining national recognition for its efforts: in October of 2005, the National Geographic named Philadelphia the “Next Great City.” 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 the revitalization of its downtown business and retail districts and corridors. In addition to creating jobs, a concentration on local history and culture will help build Philadelphia’s reputation as a multicultural center. For instance, construction of the famous Kimmel Center was completed creating a permanent home for the renowned Philadelphia Orchestra and a more modernized venue for local and touring performing art companies and artists. This state-of-the-art facility anchors the revitalized Avenue of the Arts, one of two cultural hubs in the downtown area. The Benjamin Franklin Parkway (“Parkway”), which stretches from City Hall to the Philadelphia Museum of Art, will undergo major revitalization efforts in the near future as well. Already home to a variety of museums, parks, squares and outdoor fountains and sculptures, the Parkway will soon see the addition of the famed Barnes Foundation artwork and the expansion of the Central Library.

Completion of the Cira Centre, a new office tower directly across from Amtrak's 30th Street Station, will contribute to making Philadelphia an attractive place to either locate or relocate businesses. Centrally positioned, the 29-story office tower will connect the traditional business district to the Schuylkill River Front. This project is already being credited with the creation of 725 jobs while also retaining 1,150 jobs for the City.

Furthermore, Philadelphia remains an affordable city in which to live when compared to similar 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. The real estate market has boomed since the implementation of the City's approved ten-year tax abatement program for housing conversions and new housing construction. Between 1997 and 2005, more than 8,235 new housing units were added to the market. In fact and during 2004 alone, more than 900 luxury and affordable condominiums were developed, 85% of which were conversions of obsolete commercial and industrial space or brownfields. Migration to the downtown area can be attributed to an increased demand among young professionals and empty nesters to work and live near City amenities. Although this trend is apparent nationally, it has important effects for Philadelphia including increased opportunities for retailers and construction companies. Philadelphia's relative affordability, combined with its size, location, cultural hubs, recreational amenities and growing strength in vital knowledge industries are keys to its competitive advantage and future growth.

Long-Term Financial Planning of the School District: Pursuant to statutory requirements, the School District must establish serial maturities or sinking fund installments for each bond issue that achieve, as nearly as practicable, level debt service within an issue or overall debt service within a particular classification of debt. The School District's outstanding general obligation and lease rental indebtedness equaled approximately \$2.4 billion for the Fiscal Year ending June 30, 2005. All outstanding general obligation bonds (except for its Qualified Zone Academy Bonds) are insured and carry among the highest credit ratings in the industry from Standard & Poor's Rating Services, Moody's Investors Service and Fitch IBCA. The School District has never defaulted in the payment of debt service on any of its bonds, notes or lease rental obligations. As previously noted above, the School District's current Five-Year Financial Plan projects a positive fund balance through Fiscal Year 2010. The School District will continue to develop and maintain a fiscally responsible and stable operating budget at the same time that it improves accountability and efficiencies, expands educational programming and embarks on a comprehensive capital improvement program.

Cash Management Policies and Practices: All monies of the School District are held separate and apart from the funds of any other entity, including the City of Philadelphia. The Director of Treasury Operations accounts for all monies received and disbursed by the School District and develops twelve-month cash flow forecasts (updated monthly) based on historical and projected receipts and expenditure data. These forecasts form the basis for cash management activities during the fiscal year, including forms and sources of temporary cash deficiencies and negotiating the best forms of investment of idle funds consistent with legal limitations. Cash temporarily idle during the fiscal year generally is invested in United States treasury and certain government agency obligations, certificates of deposit, repurchase agreements and permissible money market and interest bearing accounts, all in compliance with state statutes. These instruments have maturities ranging from one day to multiple years depending on the type of fund. 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 agreement. The average yield on all maturing investments during Fiscal Year 2005 was approximately 2.4% and total interest income was \$27.4 million. This was a \$13.7 million

increase during Fiscal Year 2005 primarily due to significantly higher capital and operating cash balances available for investment and higher interest rates.

Risk Management: The School District is self-insured for most of its risks including casualty losses, public liability, worker's compensation, unemployment and weekly indemnity. The School District does purchase certain insurance, however. For instance, the School District maintains excess property insurance to cover losses related to damage sustained from fire, flood or machinery with a deductible of \$500,000 and a limit of \$210 million. Certain insurance coverage, including employee performance bonds, student and travel accident insurances and employee dishonesty, are also typically procured along with property and liability insurance or surety bonds when required by law, leases or other contract. Unemployment and worker's compensation coverages are funded through the General Fund initially which, in turn, charges a proportionate share of the costs to each fund. The School District annually budgets an amount management believes is adequate, based on historical data, to provide for all claims when they become fixed and determinable in amount.

Pension Plan: Pursuant to federal law, school districts are required to pay the full employer's share of social security taxes directly to the Federal government and await monthly reimbursement by the state for a portion of such retirement contributions. More specifically, the School District participates in the Public School Employees Retirement System ("PSERS"), a state administered pension program, and receives quarterly reimbursements from the state. In Fiscal Year 2005, the employer rate was 4.23% of payroll costs. Furthermore, the School District's total contribution is projected to increase over the next ten years, reaching a high of 22.46% in Fiscal Year 2013. Consequently, the School District will have to budget a larger expenditure for PSERS contributions in the future.

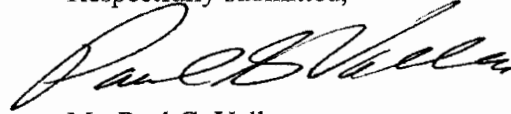
Awards and Acknowledgements

The Government Finance Officers Association ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to the School District for its Comprehensive Annual Financial Report for each fiscal year beginning in 1984 through and including 2004. Similarly, the Association of School Business Officials International ("ASBO") awarded a Certificate of Excellence to the School District for its Comprehensive Annual Financial Report for each fiscal year beginning in 1985 through and including 2004. In order to be awarded a Certificate of Achievement or a Certificate of Excellence (collectively "Certificates"), a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, the contents of which must satisfy both generally accepted accounting principles and applicable legal requirements.

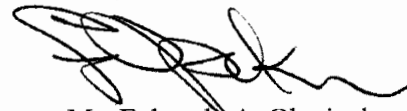
The Certificates are valid for a period of one year only. We believe our current Comprehensive Annual Financial Report continues to meet legal requirements and all applicable mandates and guidelines. Consequently, the School District is submitting it to both GFOA and ASBO respectively to determine its eligibility for additional certificates for Fiscal Year 2005.

The timely preparation of this Comprehensive Annual Financial Report was made possible by the dedicated service of the entire staff of certain Business and Financial Offices, especially the Office of General Accounting. We express our sincere appreciation to all the members of this department who assisted in and contributed to the preparation of this report. We also thank the Office of the City Controller of the City of Philadelphia for their cooperation, support and continued assistance.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Paul G. Vallas".

Mr. Paul G. Vallas
Chief Executive Officer

A handwritten signature in black ink, appearing to read "Folasade A. Olanipekun-Lewis".

Ms. Folasade A. Olanipekun-Lewis
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, 2004

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.



President

Executive Director

**ASSOCIATION OF SCHOOL BUSINESS OFFICIALS
INTERNATIONAL**



This Certificate of Excellence in Financial Reporting is presented to

School District of Philadelphia

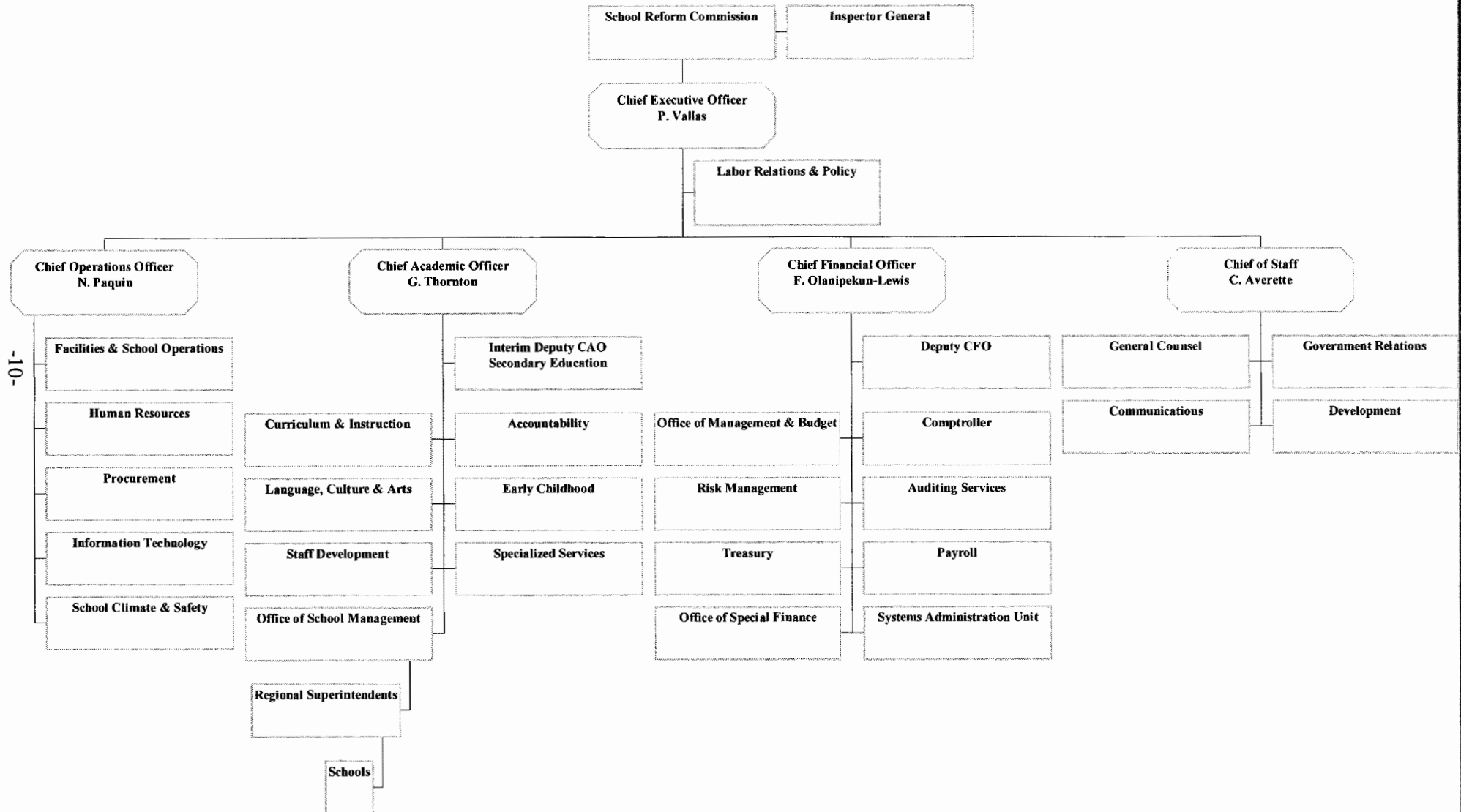
For its Comprehensive Annual Financial Report (CAFR)
For the Fiscal Year Ended June 30, 2004

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

President

Executive Director

School District of Philadelphia Organizational Chart



SCHOOL DISTRICT OF PHILADELPHIA, PENNSYLVANIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

List of Principal Officials of the School District

School Reform Commission

James E. Nevels, Chairman
Martin G. Bednarek, Member
Dr. James P. Gallagher, Member
Sandra Dungee Glenn, Member
Daniel J. Whelan, Member

School District of Philadelphia

Paul G. Vallas
Chief Executive Officer

Dr. Gregory E. Thornton
Chief Academic Officer

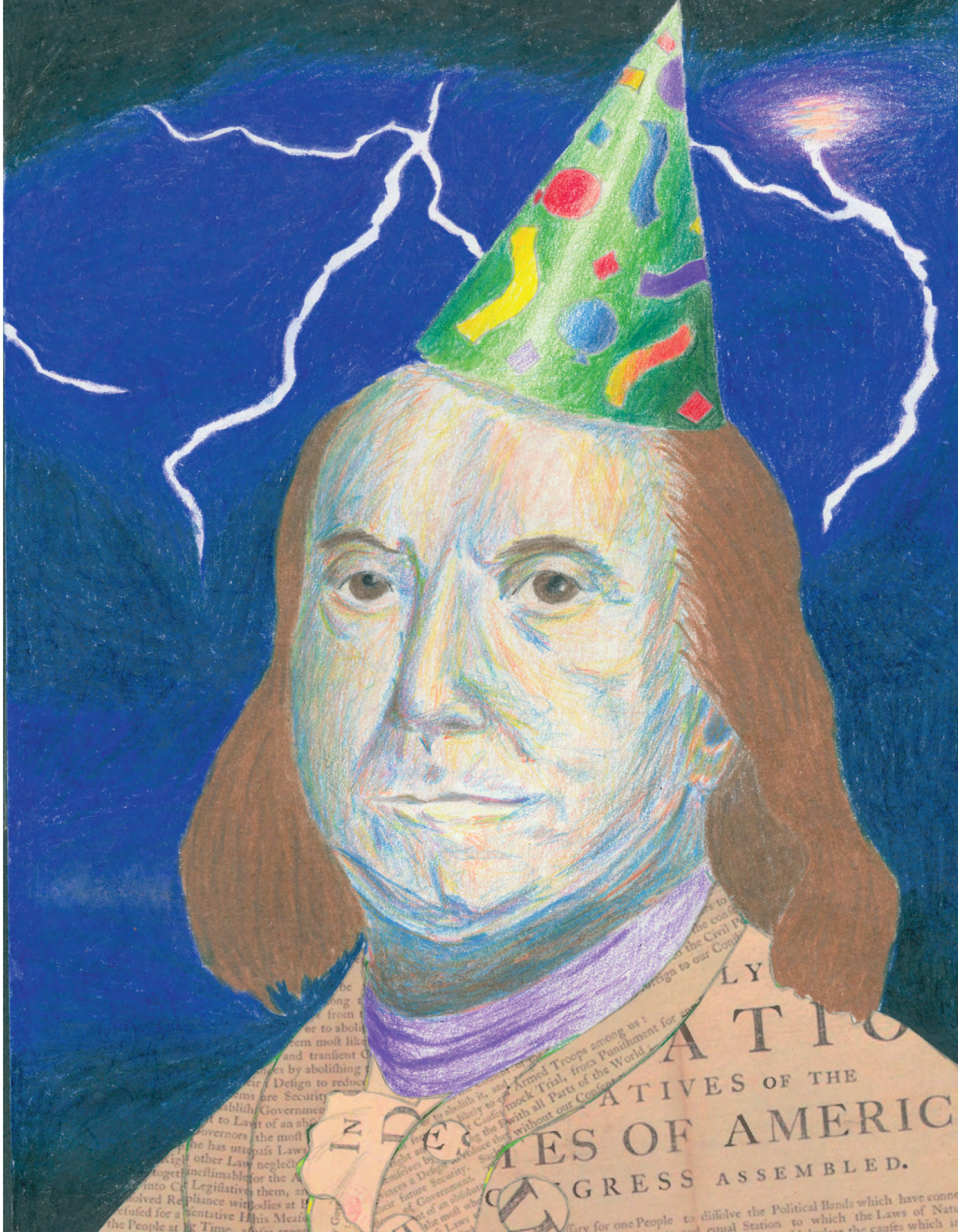
Folasade A. Olanipekun-Lewis
Chief Financial Officer

Natalye Paquin
Chief Operations Officer

Miles H. Shore
Interim General Counsel

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...the causes which is



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, 2005, 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, 2005, 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.

C I T Y O F P H I L A D E L P H I A
O F F I C E O F T H E C O N T R O L L E R

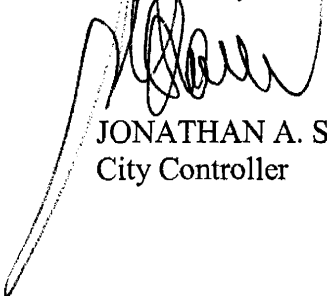
In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2005, on our consideration of the School District of Philadelphia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 on pages 15 through 32 , and the major funds budgetary comparison schedules, and the related notes to required supplementary information, on pages 86 through 90, 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 29, 2005


ALBERT F. SCAPEROTTO, CPA
Deputy City Controller


JONATHAN A. SAIDEL, CPA
City Controller

SCHOOL DISTRICT OF PHILADELPHIA MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005

I. INTRODUCTION

As part of the Financial Section of the Comprehensive Annual Financial Report ("CAFR"), the Management's Discussion and Analysis narrative ("MD&A") is an important 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.

This section of the CAFR represents management's discussion and analysis of the School District of Philadelphia's ("School District") overall financial performance during the Fiscal Year that ended June 30, 2005. The intent of this narrative discussion and analysis is to provide readers with brief explanations of the type of presentations that form the School District's basic financial statements, results of operations, long-term debt activity and any significant variations from the original adopted and final amended budgets pertaining to certain major funds.

More specifically, the School District presents comparative financial information between the current and prior fiscal years in its MD&A in an effort to illustrate its overall financial performance and condition. The MD&A is a narrative to help the reader identify the reasons for changes in net assets, expenses, revenues or fund balances from the prior fiscal year. The MD&A is also designed to assist the reader with identifying significant financial issues, identifying changes in the School District's financial position, identifying any material deviations from the School District's Five-Year Financial Plan and identifying any individual fund issues or concerns. As such, this section should be read in conjunction with and as a compliment to the School District's Letter of Transmittal located at the front of this CAFR and the financial statements which immediately follow.

II. FINANCIAL HIGHLIGHTS

For three years, the School District has been operating under the governance of the School Reform Commission following the declaration of financial distress by the Secretary of Education of the Commonwealth of Pennsylvania in December of 2001. Since that time, the School Reform Commission helped to realign and reallocate resources, amend school procedures, develop achievement plans and implement district-wide reforms in an effort to improve both the quality of education and administrative efficiencies.

As more fully described below, the School Reform Commission's *Declaration of Education* and accompanying *Measures that Matter* now dictate how resources are allocated along with quantifiable goals and measures to ensure the School District's long-term educational and financial success. For instance, the School District successfully negotiated a new four-year contract with the Philadelphia Federation of Teachers (its largest bargaining unit), implemented a new strategy that removed constraints of consent decrees related to special education, established the Office of the Inspector General to investigate allegations of misuse of tax dollars and fraud, secured supplemental funding from private sources for the School District's reform agenda, created a permanent source of philanthropic capital by establishing the Children's First Fund and engaged a telephone interpretation service for certain administrative offices.

In addition, a number of key financial highlights for Fiscal Year 2005 include, but are not limited to, the following:

- *Total revenues* were \$2.3 billion. Although a majority of the revenues represent subsidies and grants to the School District by federal and state governmental entities and agencies thereof, the other portion is derived mainly from local taxes.
- *Total expenses* for all funds were \$2.6 billion which includes expenditures from capital funding received in prior years. Over eighty percent (80%) of all expenses were incurred for instructional and direct student related costs.
- At the end of the current Fiscal Year, total net assets were (\$925.3) million resulting from an excess of liabilities over assets.
- The General Fund, Intermediate Unit Fund (the "IU") and Debt Service Fund ended the Fiscal Year with a positive fund balance of \$108.4 million of which \$106.0 million is reserved or designated resulting in a net increase in fund balance of \$8.6 million as compared to the prior fiscal year.

Financial results for Fiscal Year 2005 pertaining to operating funds are the culmination of several factors and events, the most significant include, but are not limited to:

- Total revenues increased by \$95.2 million compared with Fiscal Year 2004. In fact, local revenues increased by \$43.5 million while state grants and subsidies increased by \$51.7 million. Collectively, increased revenues were the result of both higher tax collections and additional state grants and subsidies.
- Due to debt restructuring, debt service expenditures decreased by \$36.5 million compared to Fiscal Year 2004. In addition, \$27.8 million in proceeds from the sale of School District property were earmarked to cover debt service. Because of lower debt service payments and proceeds from the sale of buildings, transfers from the General Fund to the Debt Service Fund were equally reduced as compared to the prior fiscal year.

- Consequently, the School Reform Commission designated \$20.0 million in General Fund surplus for new educational programs and other strategic initiatives and priorities to cover expenditures over the next four fiscal years.

III. USING THIS COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Financial Section of the CAFR generally 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 financial statements are then later organized to provide a 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 concerning the overall activities of the School District while also presenting 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 methods 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 those 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 is used to assess the School District's ability to cover operating costs and finance those services in the future in addition to its impending borrowing capacity. It can also be used to determine how much of the School District's net assets can be used as collateral to fund new services, programs or special initiatives as compared to how much is either currently invested in capital assets or restricted for specific purposes.

While the Statement of Net Assets provides the reader with a long-term view of the School District's financial condition, the Statement of Activities contains detailed information pertaining to the School District's direct costs of providing services (i.e., expenses) and the resources used to fund those services (i.e., revenues). This presentation is also used to identify the costs of various services and functions and the extent that those services are able to cover their own costs with, for example, user fees, charges and grants, as opposed to being financed with general revenues. Moreover, the statement provides comparative data regarding whether or not the financial status of the School District has improved or deteriorated during the reported Fiscal Year.

Fund Financial Statements

The fund financial statements provide an additional level of detail not generally found in the district-wide financial statements. In contrast to district-wide financial statements,

the fund financial statements utilize the 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 (and 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 the School District's general operations.

Principally, fund financial statements provide the reader with more detail concerning current operations than the district-wide financial statements by providing the reader detailed information and data regarding the School District's major governmental funds: General, Intermediate Unit, Categorical, Debt Service and Capital Projects. From these statements, the reader can understand how services were financed on a short-term basis as well as what funding remains available for future spending to cover those services.

Fiduciary Responsibilities

The Statement of Fiduciary Net Assets presents financial information which captures activities where the School District acts solely as an agent for the benefit of employees, students and parents. These types of activities are excluded from the district-wide financial statements since the School District cannot use these assets to finance its operational needs. As such, the School District is legally responsible for ensuring that the assets reported in these funds and statements are used for their intended purposes. The School District is and acts as the trustee for the Fiduciary Funds.

IV. REPORTING BY 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 data presented in these statements provide the reader with insight as to how the School District performed financially in Fiscal Year 2005. These two statements report the School District's net assets and any 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 and as compared to the prior fiscal year.

Net Assets

Table 1 provides a summary of the School District's net assets as of June 30, 2005:

Net Assets As of June 30, 2005 (Dollars in Millions) Table 1						
	Governmental		Business-Type		Total	
	Activities		Activities			
Assets	2005	2004	2005	2004	2005	2004
Current & Other Assets	\$ 1,134.8	\$ 1,308.1	\$ 15.9	\$ 20.4	\$ 1,150.7	\$ 1,328.5
Capital Assets	1,184.4	1,175.2	3.4	3.5	1,187.8	1,178.7
Total Assets	\$ 2,319.2	\$ 2,483.3	\$ 19.3	\$ 23.9	\$ 2,338.5	\$ 2,507.2
Liabilities						
Long-Term Liabilities	\$ 3,019.8	\$ 2,961.5	\$ 3.2	\$ 6.6	\$ 3,023.0	\$ 2,968.1
Other Liabilities	236.0	215.3	4.8	6.4	240.8	221.7
Total Liabilities	\$ 3,255.8	\$ 3,176.8	\$ 8.0	\$ 13.0	\$ 3,263.8	\$ 3,189.8
Net Assets						
Invested in Capital Assets - Net of Related Debt	\$ 15.1	\$ (76.7)	\$ 3.4	\$ 3.5	\$ 18.5	\$ (73.2)
Restricted	79.6	80.0	-	-	79.6	80.0
Unrestricted	(1,031.3)	(696.8)	7.9	7.4	(1,023.4)	(689.4)
Total Net Assets	\$ (936.6)	\$ (693.5)	\$ 11.3	\$ 10.9	\$ (925.3)	\$ (682.6)

For the Fiscal Year ending June 30, 2005, the School District's total net assets were (\$925.3) million. This negative net asset amount is cumulative and represents the accumulated results of all prior fiscal year operations of which (\$1,023.4) million is unrestricted. This balance also reflects a decrease of \$242.7 million from Fiscal Year ending June 30, 2004. This decrease was caused primarily by a deficiency in expected or anticipated revenues and other financing sources which fell short of actual expenditures, additional financing uses of \$240.3 million and prior period adjustments decreasing net assets by \$2.4 million.

Moreover, 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 to cover daily 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 general activity. Since a large portion of the School District's revenues are general or otherwise not associated with or dedicated to providing any specific program, each activity in the statement displays either a deficit (i.e., net cost of operating the activity) or a surplus (i.e., 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, below, summarizes the data from that presentation:

Changes in Net Assets
Fiscal Year Ended June 30, 2005
(Dollars in Millions)

Table 2

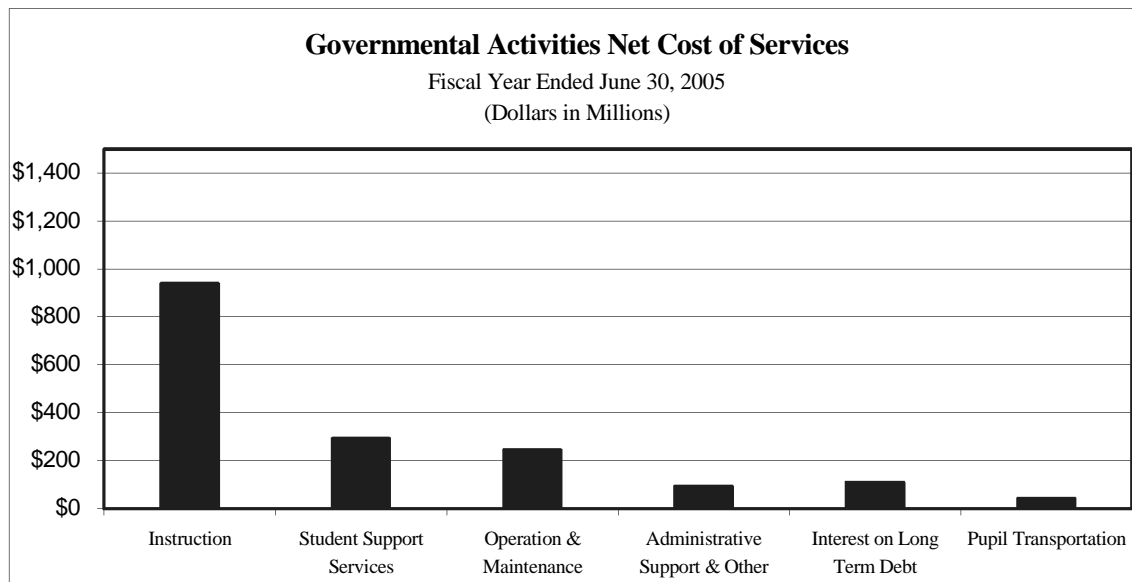
	Governmental Activities		Business-Type Activities	
	2005	2004	2005	2004
Revenues				
Program Revenues				
Charges for Services	\$ 5.0	\$ 7.7	\$ 6.7	\$ 8.2
Operating Grants & Contributions	743.7	657.8	71.5	71.7
Capital Grants & Contributions	0.2	2.6	-	-
General Revenues				
Property Taxes	540.3	516.4	-	-
Other Taxes	148.4	134.3	-	-
Grants & Contributions Not Restricted	81.9	83.6	-	-
State & Federal Subsidies	784.0	760.7	-	-
Total Revenues	\$ 2,303.5	\$ 2,163.1	\$ 78.2	\$ 79.9
Transfers	\$ 0.2	\$ 0.1	\$ -	\$ -
Expenses				
Instruction	\$ 1,458.0	\$ 1,382.1	\$ -	\$ -
Student Support Services	413.0	352.3	-	-
Administrative Support & Other	248.1	230.5	-	-
Pupil Transportation	84.2	76.4	-	-
Operation & Maintenance	259.0	243.5	-	-
Early Childhood Education	21.0	21.7	-	-
Food Service	-	-	77.6	80.6
Loss on Disposal of Capital Assets	3.8	-	-	-
Loss on Sale of District Property	57.5	-	-	-
Total Expenses	\$ 2,544.6	\$ 2,306.5	\$ 77.6	\$ 80.6
Transfers	\$ -	\$ -	\$ -	\$ 0.1
Increase/(Decrease) in Net Assets	\$ (240.9)	\$ (143.3)	\$ (0.2)	\$ (0.8)
Disposal of Capital Assets	0.2	(6.3)	-	-
Net Assets - Beginning	\$ (693.5)	\$ (559.2)	\$ 10.9	\$ 11.8
Prior Period Adjustment	(2.4)	15.3	-	-
Net Assets - Ending	\$ (936.6)	\$ (693.5)	\$ -	\$ 10.9

Cost of Services by Major Functional Expense Category

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

**Cost of Services by
Major Functional Expense Category**
Fiscal Year Ended June 30, 2005
(Dollars in Millions)
Table 3

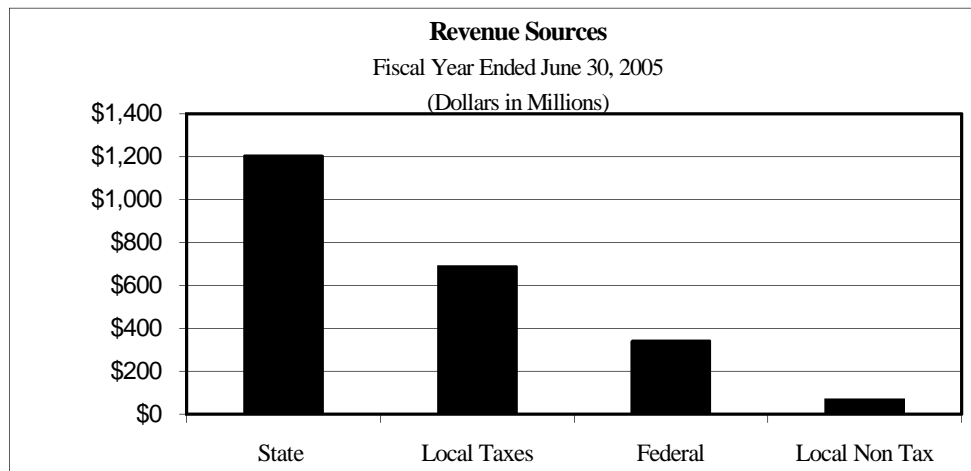
Functional Expense	Gross Cost of Services	Net Cost of Services
Instruction	\$ 1,458.0	\$ 939.6
Student Support Services	413.0	292.3
Operation & Maintenance	259.0	244.6
Administrative Support & Other	133.7	92.1
Interest on Long Term Debt	114.5	110.1
Pupil Transportation	84.2	42.0
Food Service	77.6	(0.6)
Early Childhood Education	21.0	13.7
Loss on Sale of District Property	57.5	57.5
Loss on Disposal of Capital Assets	3.8	3.8
Total Expenses	\$ 2,622.3	\$ 1,795.1



Major Sources of Revenues

The School District's revenue is derived primarily from three sources: (i) state subsidies and grants totaling 52%; (ii) local taxes and grants totaling 33%; and (iii) federal subsidies and grants totaling 15%. The largest component of state subsidies is the basic education funding allocation which the School District can use to cover any costs associated with the operation of the public school system while the largest component of local revenue is the levy of taxes such as real estate, business use and occupancy, non-business income, public utility realty and liquor sales. A secondary source of revenue is both federal and state grants dedicated to providing specific programs and services.

The following bar graph illustrates the School District's major sources of revenues for Fiscal Year 2005:



As previously illustrated in Table 2 on page 20, most of the School District's revenues are considered to be general as opposed to program related. Table 4, below, provides further detail on the School District's primary sources of revenue:

Revenue by Source and Type

Fiscal Year Ended June 30, 2005
(Dollars in Millions)

Table 4

Revenue Source	General Fund	Intermediate Unit Fund	Categorical Funds
Local Taxes	\$ 687.7	\$ -	\$ -
Local Non-Tax	56.9	0.4	9.7
State Grants and Subsidies	1,039.5	71.6	90.2
Federal Grants and Subsidies	0.3	-	339.0
Total Revenue	\$ 1,784.4	\$ 72.0	\$ 438.9

V. MAJOR FUND HIGHLIGHTS

While the School District maintains and accounts for a number of funds, six of these funds are considered major funds. These funds are the General Fund, Intermediate Unit Fund, Categorical Funds, Debt Service Fund, Capital Projects Fund and Enterprise Fund.

General Fund

The General Fund, which functions and serves as the School District's main operating fund, records all financial activity except for those transactions that must be specifically accounted for in another type of fund. For Fiscal Year 2005, the General Fund had excess revenues of \$223.8 million and \$210.4 million in net transfers to other funds which together resulted in a \$13.4 million addition to fund balance. The General Fund's

ending fund balance at June 30, 2005 was \$56.5 million. By and large, additional state and local revenues were the primary drivers for this increase in fund balance.

Intermediate Unit Fund

The Intermediate Unit Fund is used to account for state appropriations for special education and non-public school programs as well as certain administrative costs. Programs include Autistic Support, Blind or Visually Impaired Support, Deaf or Hearing Impaired Support, Emotional Support, Learning Support and Multiple Disabilities Support while related services include physical and occupational therapy, special education transportation, health counseling and sign language interpretation. During Fiscal Year 2005, the Intermediate Unit Fund had a \$30,057 net decrease in fund balance which reduced the ending fund balance to \$1.5 million at June 30, 2005.

Categorical Funds

Categorical Funds are used to account for specific purpose Federal, State, City or Private Grants to cover the costs of specific programs and special initiatives. Categorical Funds had a \$7.9 million net increase in fund balance which reduced the ending fund balance to (\$22.8) million at June 30, 2005. At June 30, 2005, \$22.8 million was still due from grantors and recorded as deferred revenues and not yet recognized as current revenues under GASB Statement No. 33 guidelines. Nonetheless, this still represents an improved remittance of revenue in Fiscal Year 2005 as compared to the prior fiscal year.

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 2005, the Debt Service Fund had a \$4.7 million net decrease in fund balance thereby reducing the balance to \$50.4 million as of June 30, 2005.

Capital Projects Fund

The Capital Projects Fund is used to account for financial resources to cover the costs associated with the acquisition of capital assets and for the construction, modernization, alteration, repair, and improvements of the School District's major capital facilities, buildings and systems. During Fiscal Year 2005, the Capital Projects Fund had a negative net change of \$161.2 million in fund balance primarily due to capital outlays needed to fund various aspects of the Capital Improvement Program budgeted for the current Fiscal Year. This decreased the June 30, 2005 fund balance to \$602.3 million. New building construction, totaling \$101.0 million and alterations and improvements totaling \$87.3 million account for much of the change. The issuance of Qualified Zone Academy Bonds ("QZAB") provided an additional \$19.3 million in revenue to this fund as well.

Enterprise Fund

The Enterprise Fund is used to account for the operation of the Food Service Division. During Fiscal Year 2005, the Enterprise Fund had an increase of \$.4 million in net assets and total net assets ended at \$11.3 million as of June 30, 2005.

The financial performance and position of each of the previously discussed major funds and also non-major governmental funds are summarized in Table 5 and Table 6 that immediately follow below:

**Excess (Deficiency) of Revenues, Other Financing Sources/Uses, and Over (Under)
Expenditures for Major and Non-Major Governmental Funds**
Fiscal Year Ended June 30, 2005
(Dollars in Millions)
Table 5

Fund	Fiscal Year 2005	Fiscal Year 2004
General	\$ 13.4	\$ (88.9)
Intermediate Unit	-	(1.2)
Categorical	7.9	(22.3)
Debt Service	(4.7)	(8.1)
Capital Projects	(161.2)	708.9
Enterprise	0.4	(0.8)
Non-Major Governmental	0.1	(0.2)
Total Change in Fund Balance	<u>\$ (144.1)</u>	<u>\$ 587.4</u>

Total Fund Balances for Major and Non-Major Governmental Funds
As of June 30, 2005
(Dollars in Millions)
Table 6

Fund	Fiscal Year 2005	Fiscal Year 2004
General	\$ 56.5	\$ 43.6
Intermediate Unit	1.5	1.5
Categorical	(22.8)	(30.6)
Debt Service	50.4	55.1
Capital Projects	602.3	751.6
Enterprise	11.3	10.9
Non-Major Governmental	5.3	5.2
Total Fund Balance	<u>\$ 704.5</u>	<u>\$ 837.3</u>

VI. GENERAL FUND BUDGETING HIGHLIGHTS

Included in its enabling legislation pursuant to the Philadelphia Home Rule Charter ("Charter"), the School District is required to adopt an operating budget, a capital budget and a capital improvement program for each fiscal year. The capital budget is prepared

as part of a five-year capital improvement program, of which, the first year of the program is the current budget or fiscal year. All proposed expenditures included in the School District's Capital Improvement Program require the authorization and approval of the School Reform Commission on a project by project basis. While all budgets must be approved by the School Reform Commission, the Charter also requires the governing body to levy taxes annually, within the limits authorized by the Pennsylvania General Assembly and the Philadelphia City Council, respectively, in amounts sufficient to provide funds to cover operating expenses and debt service charges. The Philadelphia City Council holds hearings to determine the level of local tax funding for the School District.

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

In addition and during the course of each fiscal year, the operating budget is amended and approved by the School Reform Commission. The final amended budget incorporates all of the School District's approved adjustments that were incurred since the initial advertised or adopted operating budget was issued.

Since the School District is a service-oriented organization, it is labor intensive. Consequently, a substantial portion of its operating expenditures involve personnel costs and related employee benefits. Personnel costs principally encompass the costs of instructional staff (teachers), school support staff, administrative staff, custodial and maintenance staff and transportation staff. Staffing patterns and salary costs are largely determined by school enrollment levels, collective bargaining agreements, state mandates and policies set by the School Reform Commission. Costs related to contracted services, such as materials, books, instructional aids and equipment, are also primarily related to enrollment levels and certain new program initiatives. All costs are sensitive to general inflation levels.

For Fiscal Year 2005, the final budgeted revenue was \$41.9 million higher than the original adopted budget. The higher than budgeted revenues reflect increases in the collection of local taxes and additional subsidies from the state. In addition, other financing uses decreased by \$89.3 million primarily due to bond proceeds used to retire costs incurred from the School District's early retirement program.

The anticipated obligations in the final operating budget represented an increase of \$102.1 million over the original adopted budget, however. This is the result of additional personnel and labor service costs due primarily to lower than anticipated savings from turnover and higher than projected increases in medical insurance premiums.

Actual revenues of \$1,784.4 million are \$8.4 million greater than those estimated in the final operating budget of \$1,776.0 million. Actual obligations totaling \$1,550.8 million were \$32.2 million higher than estimated in the budget of \$1,518.6 million. Other financing uses of \$210.8 million were \$3.1 million below budget. The net change in the fund balance was a decrease of \$20.7 million over the budget estimate of (\$43.5) million.

During Fiscal Year 2005, the School District incurred a number of significant and unanticipated variances compared to what was originally budgeted for including, but not limited to:

- The School District did not receive a \$5 million grant that was anticipated from the Philadelphia Parking Authority and which was included in its proposed or adopted Fiscal Year 2005 budget;
- Revenues were \$8.4 million greater than the final budget which is the net result of an increase in unanticipated tax revenues (both current and delinquent);
- Under Instruction and Student Support Services, employee benefits exceeded budget estimates by over \$10 million due to retirement-related costs including termination pay and other related benefit costs. Employee benefit costs were also higher than budgeted because of the disbursement of nearly \$5.8 million to settle long-term Workers' Compensation claims. Both of these obligations in excess of budget were fully covered by bonds issued by the School District to resolve long-term liabilities; and
- Under Other Educational Entities, payments to approved Private Schools and Private Residential Rehabilitative Institutions were respectively \$2.3 million and \$2.4 million higher than originally budgeted to cover these costs. These increased charges were withheld from the Commonwealth's final June 2005 subsidy payments to the School District and were the result of a legal change in the calculation and funding ratio imposed by the Commonwealth late in the Fiscal Year. Thus, this increase in costs is anticipated to be recurring and was built into the School District's Fiscal Year 2006 adopted budget.

All Other Support Services incurred negative variances in personal services and contracted services in Risk Management. Payments to Charter Schools were higher than budgeted because of a slightly higher than projected percentage of filled maximum enrollment slots. All other variances were immaterial and nonrecurring.

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

General Fund Budget Comparison

Fiscal Year Ended June 30, 2005

(Dollars in Millions)

Table 7

	Budget		Actual	Variance vs Final Budget
	Original	Final		
Total Revenues	\$ 1,734.1	\$ 1,776.0	\$ 1,784.4	\$ 8.4
Total Obligations	1,416.5	1,518.6	1,550.8	(32.2)
Total Other Financing (Sources)/Uses	303.2	213.9	210.8	3.1
Net Change in Fund Balance	14.4	43.5	22.8	(20.7)
Fund Balance Beginning of Year	65.7	70.4	43.6	(26.8)
Prior Period Adjustment	-	-	(9.9)	(9.9)
Fund Balance End of Year	\$ 80.1	\$ 113.9	\$ 56.5	\$ (57.4)

VII. CAPITAL ASSETS AND DEBT ADMINISTRATION

As of the end of Fiscal Year 2005, the School District had \$2,155.9 million invested in capital assets. Over the years, these assets have depreciated by \$968.2 million leaving a carrying value of \$1,187.7 million. This represents an increase of \$23.3 million over the Fiscal Year 2004 balance. Table 8 represents Net Capital Assets net of prior period adjustments. Refer to Note 4C, page 67 for additional information.

Net Capital Assets

As of June 30, 2005

(Dollars in Millions)

Table 8

Capital Asset Category	2005	2004
Land	\$ 109.6	\$ 117.6
Buildings & Improvements	767.1	893.7
Personal Property	96.9	97.2
Construction In Progress	214.1	55.9
Total Net Book Value	\$ 1,187.7	\$ 1,164.4

The School District is a component unit of the City of Philadelphia for reporting purposes. The School District issues debt in the form of bonds to be used for construction purposes and notes to cover its short-term cash flow needs. The School District recognizes bond premiums as deferred revenue in the Statement of Net Assets and the bond premium is amortized over the life of the bond; \$91.1 million in new bonds were issued for the Fiscal Year ending June 30, 2005.

Table 9, below, shows a summary of all long-term debt outstanding:

Long-Term Debt Outstanding

As of June 30, 2005

(Dollars in Millions)

Table 9

	Governmental Activities		Business-Type Activities	
	2005	2004	2005	2004
General Obligation Bonds	\$ 2,414.7	\$ 2,327.0	\$ -	\$ -
Employee Related Obligations	442.0	494.0	3.2	6.5
Due to Other Governments	45.3	45.3	-	-
Other	117.8	95.2	-	-
Total Long-Term Debt	\$ 3,019.8	\$ 2,961.5	\$ 3.2	\$ 6.5

Long-term debt for governmental activities increased by \$58.3 million and general obligation bonds increased by \$87.7 million with a corresponding decrease in employee obligations of \$52.0 million. Refer to Note 4D(2), pages 68-74 for additional information.

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 financial challenges in the future. In order to achieve the goals set forth by the federal legislative mandate embodied in the *No Child Left Behind* and the School Reform Commission's initiatives defined in the *Declaration of Education* and the *Measures That Matter*, 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 long-term fiscal responsibility and stabilize its operating budget, the School District developed a Five-Year Financial Plan that uses a goals-based budget to ensure that money is being spent where it is most needed. The Five-Year Financial Plan, originally developed and presented by management in August of 2002, is monitored and amended each year in conjunction with the School District's operating and capital budgets. Fiscal Year 2005 will mark the second year since 1998 that the School District projected a balanced budget. Still, the School District needs to ensure that any reform initiatives that it currently implements are sustainable in future years. In fact, the Five-Year Financial Plan projects that the School District will face a fund balance deficit at the end of Fiscal Year 2011 unless further corrective actions are taken.

No Child Left Behind

One major cost driver that affects School 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. In addition to the school choice options required under *No Child Left Behind*, the School District supports over 50 charter schools that any student may elect to attend. Funding charter schools, as required by the Pennsylvania Charter School Law, Act 22 of 1997, has sparked a significant fiscal impact on the School District since its passage. Though charter schools, in and of themselves, would not be a net cost to the School District if resources could be shifted from existing public schools to new charter schools on a dollar-for-dollar basis, this cost 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 or neighborhood. 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 it employs overall, or even in the number of schools that are in operation district-wide.

In addition to offering school choice to students in underperforming schools and to students interested in attending charter schools, the School District also implemented academic reforms in schools that did not meet Adequate Yearly Progress (“AYP”). *No Child Left Behind* requires that schools which do not meet AYP for three consecutive years must offer Supplemental Education Services which includes tutoring in reading and math. In Fiscal Year 2005, 132 schools out of 268 met the AYP standard. In the future, the School District anticipates that it will continue to spend five percent (5%) of its Title I grant on Supplemental Education Services.

Furthermore and similar to new academic requirements, *No Child Left Behind* mandates that all teachers of core academic subjects must be considered “highly qualified” by 2006. 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 they teach. By the end of Fiscal Year 2005, over 90% of teachers in the School District were considered highly qualified as a result of effective professional development initiatives and additional outreach efforts. To help reach the 100% benchmark, the School District operates a Teachers Academy that supports teachers in their first and second years who have yet to pass certification tests and demonstrate subject competence. To support the Teachers Academy and meet the federal legislative mandate, the School District implemented the “Campaign for Human Capital” to guide investments, now \$7 million annually, for recruitment, retention, professional development and deployment of qualified educators. The School District is committing even more funds in the next fiscal year on teacher recruitment and retention efforts that will help it meet the “highly qualified” standard.

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 and as determined by the number of dangerous incidents

(defined as weapon possession or violence) that result in arrest in the school or on school premises. In order to create a safer school environment where all students can learn and all staff can educate, students who attend Persistently Dangerous Schools are given the option to transfer to a safer public school. Students who are victims of violent criminal offenses may also be offered the opportunity to transfer to a safer public school within the district.

In Fiscal Year 2005, 183 School District students requested transfers as a victim of a crime/serious incident, 44 requested transfers as a witness to a crime/serious incident and 317 requested other safety-related transfers. Despite ongoing efforts, these numbers increased from the prior fiscal year. Since 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, costs associated with offering transfers will decline as schools are removed from this list. In fact, 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 while compared to only 14 in Fiscal Year 2005 or otherwise a fifty percent (50%) reduction. In Fiscal Year 2006, the School District expects this number to be reduced by another 25%.

While the School District has already shown marked improvement in meeting the benchmarks set forth by the *No Child Left Behind* legislative mandate, it still has improvements to make before all students meet the rigorous federal requirements. Because funding 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 Fiscal Year 2004 and later 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 School District established aggressive goals and benchmarks to attain by the end of 2008; reaching these goals requires implementing a wide array of reform efforts and substantial investments over the next few years.

In the area of Academic Achievement, many programs required by the federal *No Child Left Behind* legislative mandate will also help the School District reach its own goals. However, the School District committed itself to achieve much more aggressive targets than simply meeting AYP. Among others, the School District anticipates that: 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; 80% of graduating seniors will enroll in postsecondary education institutions; and disparity ratios based on race, ethnicity, gender and socioeconomic status will be less than 10 percentage points on all academic measures. The School District is relying on best practice models and research

to narrow the achievement gap and help all students' reach their academic potential. Most notably, the School District increased instructional time on tasks: K-8 grade levels now have daily instructional blocks of 120 minutes in reading and 90 minutes in math; students who require extra help participate in the Extended Day Program to provide math and reading support during after-school hours; and Extended Year summer programs offer academic help and enrichment activities to eligible students. Also, the School District is continuing to roll out a standardized curriculum that involves new materials, testing and teacher training. These programs will drive costs for the School District through 2008. In Fiscal Year 2005, \$61.0 million in expenditures were collectively dedicated to these programs alone.

As previously mentioned, the School 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 simply reducing and eliminating violence. Stricter enforcement of the Student Code of Conduct and a Zero Tolerance policy for violence and drugs, for instance, will create an environment that is more conducive to learning. Since students cannot learn if they are not in school, the School District is undertaking forceful truancy reduction efforts including the recruitment of parents to help ensure that students arrive at school on time everyday. The Saturday Morning Alternative Reach and Teach ("SMART") program keeps 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 School District offers the Re-Entry Transition Initiative – Welcome Return Assessment Process ("RETI-WRAP"), a two week program required by legislation that assesses, evaluates and prepares 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 that dollars are dedicated to funding top priorities will make certain that the School District offers the best education possible to its students and directs dollars to programs that will best support measurable gains in student achievement and school climate.

Capital Improvement Program

The School District launched its comprehensive Capital Improvement Program in Fiscal Year 2004. Total new construction, renovations and repairs will total \$2.8 billion through Fiscal Year 2011. The Capital Improvement Program ("CIP") supports the School District's initiative to make schools more equitable; provides space for the reduced class size initiative; enhances academic reform efforts by ensuring students have state-of-the-art facilities; and presents all students with a safe modern learning environment. Additionally, the CIP is vital to the School District's plans for educational reorganization over the next six years. To phase out middle schools, alleviate overcrowding in elementary schools and improve high school options, the CIP funds the construction of ten new neighborhood high schools, four new smaller high schools and four new neighborhood elementary schools; three middle school to high school

conversions; eleven school additions; and primary education centers. Other specific plans under the CIP include upgrades to school athletic fields and stadiums, environmental projects, boiler and roof replacements and substantial renovation and repairs to existing school buildings, which will collectively stabilize the School District's real property portfolio.

Corrective Actions

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

One measure that the School District is monitoring is ensuring that grant funding is put to its best possible use. Rather than adopting Categorical Funds or grants as "bonus" money, the School District redirected millions of dollars in grant funding over the past year to better fund programs that are aligned with School Reform Commission and School District objectives.

A number of other efficiency-enhancing efforts will redirect dollars back into the classroom as well. For instance, the School District restructured maintenance and custodial staffing, reduced overtime expenditures, closed unneeded or underutilized 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 direct services to students.

IX. 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, please contact Folasade A. Olanipekun-Lewis, Chief Financial Officer, or Marcy F. Blender, Comptroller, at 440 North Broad Street, Philadelphia, PA 19130.

BASIC FINANCIAL STATEMENTS

School District of Philadelphia
Statement of Net Assets
June 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash & Cash Equivalents	\$ 45,865,113	\$ 75,483	\$ 45,940,596
Cash and Investments with Fiscal Agent	50,380,232	-	50,380,232
Equity In Pooled Cash and Investments	91,044,939	3,644,165	94,689,104
Taxes Receivable (Net)	131,997,399	-	131,997,399
Due from Other Governments	88,931,474	9,954,296	98,885,770
Accounts Receivable (Net of Allowance)	2,681,026	-	2,681,026
Accrued Interest Receivable	205,090	-	205,090
Third Party Receivables	548,114	-	548,114
Inventory	1,706,560	2,220,256	3,926,816
Deferred Debt Issuance Cost	28,128,709	-	28,128,709
Deferred Charge Refunding	69,338,935	-	69,338,935
Restricted Assets:			
Cash and Cash Equivalents	170,356,902	-	170,356,902
Cash and Investments Held by Trustee	453,651,688	-	453,651,688
Capital Assets:			
Land	109,613,478	-	109,613,478
Buildings and Improvements	1,612,953,616	-	1,612,953,616
Personal Property	206,359,971	13,043,780	219,403,751
Construction in Progress	214,034,254	-	214,034,254
Accumulated Depreciation	(958,577,374)	(9,594,299)	(968,171,673)
Total assets	2,319,220,126	19,343,681	2,338,563,807
LIABILITIES			
Accounts Payable	83,782,542	4,033,279	87,815,821
Overpayment of Taxes	12,379,572	-	12,379,572
Accrued Salaries and Benefits Payable	77,260,102	782,922	78,043,024
Termination Compensation Payable	19,555,300	-	19,555,300
Severance Payable	2,194,183	-	2,194,183
Unearned Revenue	20,450,153	-	20,450,153
Due to Other Governments	273,011	-	273,011
Bonds Interest Payable	20,170,184	-	20,170,184
Non-Current Liabilities			
Due within one year	86,387,984	-	86,387,984
Due in more than one year	2,933,395,685	3,223,288	2,936,618,973
Total liabilities	3,255,848,716	8,039,489	3,263,888,205
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	15,075,338	3,449,481	18,524,819
Restricted for:			
Debt Service	50,379,845	-	50,379,845
Special Revenue & Permanent Funds	5,330,866	-	5,330,866
Workers' Compensation/Termination/Other	23,889,018	-	23,889,018
Unrestricted (Deficit)	(1,031,303,657)	7,854,711	(1,023,448,946)
Total Net Assets	\$ (936,628,590)	\$ 11,304,192	\$ (925,324,398)

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, 2005

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities							
Instruction	\$ 1,458,023,323	\$ 447,098	\$ 518,021,484	\$ -	\$ (939,554,741)	\$ -	\$ (939,554,741)
Student Support Services	412,990,541	259,890	120,409,576	-	(292,321,075)	-	(292,321,075)
Administrative Support	117,810,902	357,684	40,671,278	-	(76,781,940)	-	(76,781,940)
Operation & Maintenance of Plant Services	258,985,275	1,341,505	12,871,742	200,000	(244,572,028)	-	(244,572,028)
Pupil Transportation	84,169,637	-	42,127,410	-	(42,042,227)	-	(42,042,227)
All Other Support Services	15,814,603	-	538,394	-	(15,276,209)	-	(15,276,209)
Early Childhood Education	20,952,319	2,629,362	4,634,484	-	(13,688,473)	-	(13,688,473)
Interest on Long-Term Debt	114,534,754	-	4,471,924	-	(110,062,830)	-	(110,062,830)
Loss on Disposal of Capital Assets	3,837,840	-	-	-	(3,837,840)	-	(3,837,840)
Loss on Sale of Real Property	57,549,790	-	-	-	(57,549,790)	-	(57,549,790)
Total Governmental Activities	2,544,668,984	5,035,539	743,746,292	200,000	(1,795,687,153)	-	(1,795,687,153)
Business-Type Activities:							
Food Service	77,594,325	6,695,370	71,456,242	-	-	557,287	557,287
Loss on Disposal of Capital Assets	8,236	-	-	-	-	(8,236)	(8,236)
Total Business-Type Activities	77,602,561	6,695,370	71,456,242	-	-	549,051	549,051
Total	<u>\$ 2,622,271,545</u>	<u>\$ 11,730,909</u>	<u>\$ 815,202,534</u>	<u>\$ 200,000</u>	<u>\$ (1,795,687,153)</u>	<u>\$ 549,051</u>	<u>\$ (1,795,138,102)</u>
General Revenues/Transfers:							
Property Taxes					\$ 540,322,050	\$ -	\$ 540,322,050
Other Taxes					148,411,245	-	148,411,245
Grants and Contributions Not Restricted to Specific Programs					81,871,639	-	81,871,639
State & Federal Subsidies					783,947,163	-	783,947,163
Gain on Sale of Capital Assets					221,507	-	221,507
Transfers					178,000	(178,000)	-
Total General Revenues and Transfers					\$ 1,554,951,604	\$ (178,000)	\$ 1,554,773,604
Change in Net Assets					(240,735,549)	371,051	(240,364,498)
Net Assets - As of July 1, 2004					(693,537,201)	10,933,141	(682,604,060)
Prior Period Adjustments					(2,355,840)	-	(2,355,840)
Net Assets - As of June 30, 2005					\$ (936,628,590)	\$ 11,304,192	\$ (925,324,398)

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

School District of Philadelphia
Balance Sheet
Governmental Funds
June 30, 2005

	General Fund	Intermediate Unit Fund	Categorical Funds
ASSETS			
Cash & Cash Equivalents	\$ 45,777,976	\$ -	\$ 87,122
Cash and Investments with Fiscal Agent	-	-	-
Equity in Pooled Cash and Investments	69,570,348	11,556,362	-
Cash and Investments Held by Trustee	-	-	-
Taxes Receivable (Net)	131,997,399	-	-
Due from Other Funds	11,382,082	-	-
Due from Other Governments	24,956,706	1,232,583	62,453,797
Accounts Receivable (Net)	1,875,509	-	805,507
Accrued Interest Receivable	24,535	-	-
Inventory	1,672,325	-	-
Total Assets	\$ 287,256,880	\$ 12,788,945	\$ 63,346,426
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 34,297,578	\$ 2,818,272	\$ 23,412,801
Overpayment of Taxes	12,379,572	-	-
Accrued Salaries and Benefits Payable	56,585,454	8,528,166	11,018,065
Termination Compensation Payable	19,555,300	-	-
Severance Payable	2,194,183	-	-
Deferred Revenue	105,706,149	-	41,740,558
Due to Other Funds	-	-	9,676,987
Due to Other Governments	-	385	272,626
Total Liabilities	230,718,236	11,346,823	86,121,037
Fund Balances:			
Reserved for:			
Inventories	1,226,609	-	-
Encumbrances	7,288,173	1,442,122	-
Retirement of Long Term Debt	-	-	-
Weekly Indemnity	1,858,110	-	-
Debt Service Interest	-	-	-
Trust Principal	-	-	-
Workers' Compensation	14,297,779	-	-
Termination/Incentive Compensation	9,591,239	-	-
Unreserved:			
Designated:			
Future Educational Programs	20,000,000	-	-
Special Revenue Funds	-	-	-
Permanent Funds	-	-	-
Undesignated:			
General Fund	2,276,734	-	-
Categorical Funds	-	-	(22,774,611)
Capital Projects Fund	-	-	-
Total Fund Balances	56,538,644	1,442,122	(22,774,611)
Total Liabilities and Fund Balances	\$ 287,256,880	\$ 12,788,945	\$ 63,346,426

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
\$ -	\$ 170,356,917	\$ -	\$ 216,222,015
50,380,232	-	-	50,380,232
2,305,751	2,262,184	5,350,294	91,044,939
-	453,651,688	-	453,651,688
-	-	-	131,997,399
-	-	-	11,382,082
-	283,040	-	88,926,126
-	-	10	2,681,026
16,808	163,747	-	205,090
-	-	-	1,672,325
<u>\$ 52,702,791</u>	<u>\$ 626,717,576</u>	<u>\$ 5,350,304</u>	<u>\$ 1,048,162,922</u>
\$ 84,835	\$ 23,074,110	\$ 7,909	\$ 83,695,505
-	-	-	12,379,572
-	1,069,000	-	77,200,685
-	-	-	19,555,300
-	-	-	2,194,183
2,238,111	79,671	-	149,764,489
-	200,000	-	9,876,987
-	-	-	273,011
<u>2,322,946</u>	<u>24,422,781</u>	<u>7,909</u>	<u>354,939,732</u>
-	-	-	1,226,609
-	147,607,305	11,529	156,349,129
28,047,726	-	-	28,047,726
-	-	-	1,858,110
22,332,119	-	-	22,332,119
-	-	2,520,650	2,520,650
-	-	-	14,297,779
-	-	-	9,591,239
-	-	-	20,000,000
-	-	2,253,724	2,253,724
-	-	556,492	556,492
-	-	-	2,276,734
-	-	-	(22,774,611)
-	454,687,490	-	454,687,490
<u>50,379,845</u>	<u>602,294,795</u>	<u>5,342,395</u>	<u>693,223,190</u>
<u>\$ 52,702,791</u>	<u>\$ 626,717,576</u>	<u>\$ 5,350,304</u>	<u>\$ 1,048,162,922</u>

School District of Philadelphia
Reconciliation of the Balance Sheet for Governmental Funds
To the Statement of Net Assets
June 30, 2005

Fund Balance - Total Governmental Funds (page 37)	\$	693,223,190
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		1,281,567,062
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Other long-term assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		127,076,225
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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.		(3,037,469,654)
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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.		(1,025,413)
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Net assets of governmental activities (page 34)	\$	<u>(936,628,590)</u>
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The notes to the financial statements are an integral part of this statement.

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School District of Philadelphia
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For The Year Ended June 30, 2005

	General Fund	Intermediate Unit Fund	Categorical Funds
REVENUES			
Local Taxes	\$ 687,732,788	\$ -	\$ -
Locally Generated Non Tax	56,859,091	389,789	9,747,990
State Grants and Subsidies	1,039,473,963	71,611,259	90,212,652
Federal Grants and Subsidies	292,053	-	338,988,118
Total Revenues	<u>1,784,357,895</u>	<u>72,001,048</u>	<u>438,948,760</u>
EXPENDITURES			
Current:			
Instruction	906,766,385	184,959,941	278,103,256
Student Support Services	58,361,563	59,074,646	104,416,643
Administrative Support	63,819,911	10,579,039	36,622,505
Operation & Maintenance of Plant Services	250,749,851	-	5,279,110
Pupil Transportation	81,439,238	-	788,596
All Other Support Services	15,302,461	-	-
Early Childhood Education	-	-	20,951,909
Payments to Charter Schools	184,083,643	-	-
Debt Service:			
Principal	-	-	730,978
Loans	-	-	-
Interest	-	-	103,348
Principal & Interest - Authority	-	-	-
Issuance Costs	-	-	-
Administrative Expenses	-	-	-
Capital Outlay:			
New Buildings and Additions	-	-	-
Environmental Management	-	-	-
Alterations and Improvements	-	-	-
Major Renovations	-	-	-
Equipment Acquisitions	-	-	-
Total Expenditures	<u>1,560,523,052</u>	<u>254,613,626</u>	<u>446,996,345</u>
Excess (Deficiency) of Revenues over Expenditures	<u>223,834,843</u>	<u>(182,612,578)</u>	<u>(8,047,585)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	2,787,566	182,582,521	18,708,748
Transfers Out	(284,999,388)	-	(2,787,566)
Land Sale Proceeds	-	-	-
Debt Issuance	71,740,000	-	-
Bond Premium	-	-	-
Bond Defeasement	-	-	-
Gain on Sale of Capital Assets	-	-	-
Total Other Financing Sources and (Uses)	<u>(210,471,822)</u>	<u>182,582,521</u>	<u>15,921,182</u>
Net Change in Fund Balances	13,363,021	(30,057)	7,873,597
Fund Balances, July 1, 2004	43,606,366	1,472,179	(30,648,208)
Change in Inventory Reserve	(430,743)	-	-
Prior Period Adjustment - Capital	-	-	-
Fund Balances, June 30, 2005	<u>\$ 56,538,644</u>	<u>\$ 1,442,122</u>	<u>\$ (22,774,611)</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
\$ -	\$ -	\$ -	\$ 687,732,788
12,572,166	17,433,944	201,082	97,204,062
-	229,946	-	1,201,527,820
-	-	-	339,280,171
<u>12,572,166</u>	<u>17,663,890</u>	<u>201,082</u>	<u>2,325,744,841</u>
-	-	131,554	1,369,961,136
-	-	-	221,852,852
-	-	-	111,021,455
-	-	-	256,028,961
-	-	-	82,227,834
-	-	-	15,302,461
-	-	-	20,951,909
-	-	-	184,083,643
20,400,000	-	-	21,130,978
368,641	-	-	368,641
70,920,019	-	-	71,023,367
33,614,554	-	-	33,614,554
4,748,736	-	-	4,748,736
2,346,021	-	-	2,346,021
-	100,986,328	-	100,986,328
-	2,993,631	-	2,993,631
-	87,304,126	-	87,304,126
-	1,215,929	-	1,215,929
-	5,766,306	-	5,766,306
<u>132,397,971</u>	<u>198,266,320</u>	<u>131,554</u>	<u>2,592,928,868</u>
<u>(119,825,805)</u>	<u>(180,602,430)</u>	<u>69,528</u>	<u>(267,184,027)</u>
84,059,966	-	-	288,138,801
-	(173,847)	-	(287,960,801)
27,754,440	-	-	27,754,440
241,555,000	19,335,000	-	332,630,000
18,512,125	-	-	18,512,125
(256,746,398)	-	-	(256,746,398)
-	221,507	-	221,507
<u>115,135,133</u>	<u>19,382,660</u>	<u>-</u>	<u>122,549,674</u>
(4,690,672)	(161,219,770)	69,528	(144,634,353)
55,070,517	751,610,166	5,272,867	826,383,887
-	-	-	(430,743)
-	11,904,399	-	11,904,399
<u>\$ 50,379,845</u>	<u>\$ 602,294,795</u>	<u>\$ 5,342,395</u>	<u>\$ 693,223,190</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, 2005

Amounts reported for governmental activities in the Statement
of Activities (page 35) are different because:

Net change in fund balances - total governmental funds (page 41)	\$	(144,634,353)
---	----	---------------

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.		128,049,011
--	--	-------------

Non capitalized purchases that exceed capital outlays.		(15,650,481)
--	--	--------------

The net effect of miscellaneous transactions involving losses arising from disposal and sale of capital assets are not reported as expenditures in the governmental funds.		(61,387,630)
--	--	--------------

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.		(145,444,114)
---	--	---------------

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.		21,514,619
--	--	------------

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.		(23,468,363)
---	--	--------------

The net revenue (loss) of certain activities of the Internal Service Fund is reported with governmental activities.		285,762
---	--	---------

Change in net assets of governmental activities (page 35)	<u>\$</u>	<u>(240,735,549)</u>
---	-----------	----------------------

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, 2005

	Enterprise Fund Food Service	Internal Service Fund Print Shop
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 75,483	\$ -
Equity in Pooled Cash and Investments	3,644,165	-
Due From Other Governments	9,954,296	5,348
Inventories	2,220,256	34,235
Total Current Assets	<u>15,894,200</u>	<u>39,583</u>
Noncurrent Assets:		
Machinery & Equipment	13,043,780	730,178
Accumulated Depreciation	<u>(9,594,299)</u>	<u>(445,651)</u>
Total Noncurrent Assets	<u>3,449,481</u>	<u>284,527</u>
 Total Assets	 <u>\$ 19,343,681</u>	 <u>\$ 324,110</u>
 LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 4,033,279	\$ 87,037
Accrued Salaries and Benefits Payable	782,922	59,417
Due to Other Funds	-	956,981
Total Current Liabilities	<u>4,816,201</u>	<u>1,103,435</u>
Noncurrent Liabilities:		
Termination Compensation Payable	2,097,309	246,088
Severance Payable	1,125,979	-
Total Noncurrent Liabilities	<u>3,223,288</u>	<u>246,088</u>
 Total Liabilities	 <u>8,039,489</u>	 <u>1,349,523</u>
 NET ASSETS		
Invested in Capital Assets	3,449,481	284,527
Unrestricted	7,854,711	(1,309,940)
Total Net Assets	<u>11,304,192</u>	<u>(1,025,413)</u>
Total Liabilities and Net Assets	<u>\$ 19,343,681</u>	<u>\$ 324,110</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, 2005

	Enterprise Fund Food Service	Internal Service Fund Print Shop
Operating Revenues:		
Food Service Revenue	\$ 6,695,370	\$ -
Sale of Printing Services	-	2,016,476
Total Operating Revenues	<u>6,695,370</u>	<u>2,016,476</u>
Operating Expenses:		
Salaries	23,661,336	935,065
Employee Benefits	8,244,538	364,424
Other Purchased Service - Food	36,602,348	-
Other Purchased Service - Supplies	-	67,155
Depreciation	540,771	50,106
Other Operating Expenses	8,545,332	313,964
Total Operating Expenses	<u>77,594,325</u>	<u>1,730,714</u>
Operating Gain/(Loss)	(70,898,955)	285,762
Non-Operating Revenues/(Expenses):		
Federal and State Grants	71,456,242	55,595
Loss on Sale of Capital Assets	(8,236)	(1,917)
Income Before Transfers	<u>549,051</u>	<u>339,440</u>
Transfers Out	(178,000)	-
Change in Net Assets	<u>371,051</u>	<u>339,440</u>
Total Net Assets July 1, 2004	10,933,141	(1,364,853)
Total Net Assets June 30, 2005	<u><u>\$ 11,304,192</u></u>	<u><u>\$ (1,025,413)</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, 2005

	Enterprise Fund Food Service	Internal Service Fund Print Shop
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Users	\$ 6,695,370	\$ 2,016,476
Cash Payments to Employees for Services	(35,646,463)	(1,309,494)
Cash Payments to Suppliers for Goods and Services	(34,614,482)	(67,155)
Cash Payments for Other Operating Expenses	(8,545,332)	(1,294,399)
Net Cash Used by Operating Activities	<u>(72,110,907)</u>	<u>(654,572)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Advances from Other Funds	-	651,956
State Sources	6,864,929	19,811
Federal Sources	54,737,588	35,784
Transfers Out	(178,000)	-
Net Cash Provided by Non-Capital Financing Activities	<u>61,424,517</u>	<u>707,551</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Facilities Acquisition, Construction, Improvements	(539,585)	(52,979)
Net Cash Used by Capital and Related Financing Activities	<u>(539,585)</u>	<u>(52,979)</u>
Net Decrease in Cash and Cash Equivalents	(11,225,975)	-
Cash and Cash Equivalents July 1, 2004	14,945,623	-
Cash and Cash Equivalents June 30, 2005	<u>\$ 3,719,648</u>	<u>\$ -</u>
Reconciliation of Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Operating Income/(Loss)	\$ (70,898,955)	\$ 285,762
Adjustments to Reconcile Operating Income/(Loss) to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation	540,771	50,106
Donated Food Commodities	3,793,924	-
Increase in Accounts Receivable	-	(781)
(Increase)/Decrease in Inventories	(631,627)	16,324
Decrease in Accounts Payable	(1,174,431)	(995,978)
Increase/(Decrease) in Accrued Salaries and Benefits Payable	(444,296)	4,775
Increase/(Decrease) in Termination Compensation Payable	53,085	(14,780)
Decrease in Severance Payable	(3,349,378)	-
Total Adjustments	<u>(1,211,952)</u>	<u>(940,334)</u>
Net Cash Used by Operating Activities	<u>\$ (72,110,907)</u>	<u>\$ (654,572)</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
June 30, 2005

	Private - Purpose Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ -	\$ 5,657,778
Equity in Pooled Cash and Investments	616,696	20,466,592
Investments	200,014	-
Accounts Receivable	1,172	50,088
Inventories	-	500,973
Total Assets	<u>817,882</u>	<u>26,675,431</u>
LIABILITIES		
Accounts Payable	220,755	-
Payroll Deductions and Withholdings	-	19,988,828
Due to Student Activities	-	5,650,856
Due to Other Funds	-	548,114
Other Liabilities	-	487,633
Total Liabilities	<u>220,755</u>	<u>26,675,431</u>
NET ASSETS		
Held in Trust for Various Purposes	<u>\$ 597,127</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, 2005

	Private Purpose Trust Funds
ADDITIONS	
Gifts and Contributions	\$ 728,535
Interest Received	16,944
Total Additions	<u>745,479</u>
DEDUCTIONS	
Scholarships Awarded	1,056,898
Total Deductions	<u>1,056,898</u>
Change in Net Assets	(311,419)
Net Assets July 1, 2004	908,546
Net Assets June 30, 2005	<u><u>\$ 597,127</u></u>

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

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SCHOOL DISTRICT OF PHILADELPHIA NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2005

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and practices of the School District of Philadelphia (the “School District”), as reflected in the accompanying financial statements for the Fiscal Year that ended June 30, 2005, conform to Generally Accepted Accounting Principles (“GAAP”) for local government units as prescribed by the Governmental Accounting Standards Board (the “GASB”).

The most significant accounting policies are summarized below:

A. Reporting Entity

The School District is the largest school district in the Commonwealth of Pennsylvania (the “Commonwealth”) and the eighth largest public education system in the United States according to enrollment data. It directly serves over 209,000 students and employs close to 27,000 full-time professional and non-professional persons. The boundaries of the School District are coterminous with the boundaries of the City of Philadelphia (the “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 state Constitution to “provide for the maintenance and support of a thorough and efficient system of public education to serve the needs of the Commonwealth.”

As such, the School District is a separate and independent home rule school district of the first class formally established by the Philadelphia Home Rule Charter (the “Charter”) in December of 1965. The Philadelphia Home Rule Charter Act, P.L. 643 (the “Act”) expressly limits the powers of the City of Philadelphia by prohibiting the City from, among other things, assuming the debt of the School District or enacting legislation regulating public education and its administration except only to set tax rates for school purposes as authorized 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 for reporting purposes only and is included in the City of Philadelphia’s Comprehensive Annual Financial Report (the “CAFR”).

Effective December 2001 and in a cooperative effort with the City of Philadelphia to address the School District’s financial needs, the Commonwealth of Pennsylvania assumed governing control of the School District by declaring it financially distressed in accordance with Sections 691 and 696 of the Public School Code of 1949.

Shortly thereafter, a five-member School Reform Commission (the “SRC”) was established. The SRC exercises all powers and has all the duties of the original Board of Education. The Board of Education continues in office, performing only the duties assigned, if any, by the SRC. At the time of this report, the SRC has not delegated any duties to the Board of Education. Furthermore, the Governor of Pennsylvania appointed the chairman and two other members while the Mayor of the City of Philadelphia appointed the remaining two members of the SRC. The five-member Commission performs its fiscal oversight responsibility for the Philadelphia public school system by adhering to priorities renumarated in their *Declaration of Education and Measures That Matter*.

Prior to the formation of the SRC, the School District implemented a new management structure where a Chief Executive Officer (the “CEO”) was appointed in lieu of a “Superintendent” effective November 1, 2000. Although the CEO performs the duties imposed on the Superintendent of Schools by both the Charter and the Public School Code of 1949 (the “School Code”) and serves as the Secretary and Treasurer of the Governing Body of the School District, the new designation was designed to provide the Governing Body with more freedom and to avoid being constrained to select a traditional “academic scholar” ignoring the business experience that is equally necessary. In addition, the new administrative and management structure of the School District recognized the enormity of the job of CEO of a large, urban public school system and successfully sought to implement a more corporate accountability structure and team management approach to ensure that the School District would accomplish specific objectives and overall goals. The new organizational structure now includes a Chief Operating Officer, a Chief Academic Officer, a Chief Financial Officer and a General Counsel, all of whom directly 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, 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 management structure, the CEO still performs the duties of the Superintendent of Schools under the Charter, including the pre-audit duties and functions of the school controller.

Subsequently, Mr. Paul G. Vallas was formally named the CEO after the SRC made the appointment on July 17, 2002. Together, the SRC and Mr. Vallas have redefined the priorities of the School District. The School District developed and plans to maintain a fiscally responsible and stable operating budget. The initial Five-Year Financial Plan was announced in August of 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 current Five-Year Financial Plan was revised and projects that the School District will maintain a positive fund balance through Fiscal Year 2010.

Moreover, the School District also serves as the agent for the Intermediate Unit No. 26 (the “IU”); an entity established by the Commonwealth to provide special education, special education transportation, non-public school services and related management services. Similar to the School District, the SRC also 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 IU services.

B. District-Wide and Fund Financial Statements

In June 1999, 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, better defines the way government entities prepare and present financial information. State and local governments previously used a financial reporting model substantially different from the one used to prepare private sector financial reports. As such, GASB Statement No. 34 establishes requirements and a reporting model for the annual financial reports of all state and local governments. This statement was specifically developed to make annual reports easier to understand and more useful to others 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" (the "MD&A"). This analysis is similar to the analysis that private sector entities provide in their annual reports and is Required Supplementary Information (the "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 only 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 associated with providing such services each year, not just those received or paid in the current fiscal year or soon thereafter. Fiduciary funds are not included in district-wide financial statements.

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 showcasing either the School District as a whole or the activities of 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 presents expenses and revenues in a format that focuses on the cost of each function to 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. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects only capital-specific grants. Multi-purpose 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 by fund types. 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 to reflect the normal budgeting process. A reconciliation is also 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 as well. Since by definition, these assets are held for the benefit of a third party and cannot be used to address activities or other obligations of the School District, these funds are not incorporated into the district-wide financial statements.

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

- (1) Governmental Fund Types - These are the funds through which most costs of district functions are typically paid for or financed. The funds included in this category are:
 - (a) General Fund - accounts for all financial resources except those required to be in another fund and is considered the principal operating fund of the School District.
 - (b) Special Revenue Funds - accounts for the proceeds of certain revenue sources that are legally restricted for specified purposes and/or types of expenditures. Special Revenue funds include:
 - (i) Intermediate Unit Fund - used to account for State appropriations for special education and non-public school services as well as certain administrative costs;
 - (ii) Categorical Funds - used to account for specific purpose Federal, State, City or Private grants; and
 - (iii) Trust Funds – used to account for funds where both principal and earnings may be used to support School District programs that benefit either the district itself or its students.
 - (c) Debt Service Fund - accounts for the accumulation of resources for the payment of debt service and bond issuance costs.
 - (d) Capital Projects Fund - accounts for financial resources used for capital asset acquisition, construction and improvement.
 - (e) Permanent Fund - accounts 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 School District itself or its students.
- (2) Proprietary Fund Types - These are 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 Service Division; and
 - (b) Internal Service Fund – used to account for the operation of the Print Shop and outsourced reproduction of materials 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; and
 - (b) Agency Funds - used to account for assets held by the School District as trustee or agent for others. At June 30, 2005, 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 similar to that used for 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, however, are accounted for using the accrual basis of accounting to recognize receivables and payables.

Non-exchange transactions represent activities where the School District either gives or receives value without directly receiving or giving equal value in exchange and includes grants and donations. Revenues from grants and donations are recognized in the fiscal year in which all eligibility requirements are 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 type of presentation 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 fiscal 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 fiscal period for the General Fund and within 90 days of the current fiscal period for Categorical Funds.

Revenues from grants and donations, however, are recognized in the fiscal year in which all eligibility requirements were satisfied and the resources are available. Expenditures generally are recorded when a liability is incurred as required by 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.

Local taxes, such as liquor sales, school income and business 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, local 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 Projects Funds as its major governmental funds.

Although GASB Statement No. 34 eliminates the presentation of account groups, it provides that these records be maintained and dictates that the information be incorporated 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, are still generally followed in both the district-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance offered by GASB. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The School District elected not to follow subsequent private sector guidance, however.

Likewise, the School District eliminated the effect of interfund activity from its district-wide financial statements. Exceptions to this general rule are categorized in other charges between the School District's food service function and other functions of the district. In this instance, 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 rendered; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenues include all taxes. Indirect costs, such as depreciation, are 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 School District's Enterprise Fund (or Food Service) and Internal Service Fund (or Print Shop) reflect charges for sales and services. Operating expenses for these funds include the costs of sales and services, administrative expenses and depreciation of 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/or collateralized repurchase agreements.

Non-participating investment contracts or, more generally, certificates of deposit and repurchase agreements are reported at cost, which approximates fair value. However, 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 fiscal year or expected to be collected within sixty days after the end of the current fiscal year.

The tax on real estate in Philadelphia for public school purposes for Fiscal Year 2005 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 of the Commonwealth without further approval of the City Council while the remaining 31.15 mills are levied pursuant to legislative authorization and approval by ordinance of the City Council.

Although assessments are certified and taxes are levied on January 1st, taxes are not due and payable until March 31st. Interest and penalty accrue at the rate of 1.5 percent per month beginning April 1st. Unpaid taxes are considered delinquent the following January 1st and are then subject to lien. The City recently established real estate investment and improvement programs that abate, for limited periods, tax increases that result from higher assessments for improved properties or, are otherwise known as “tax abatements”, and typically forgive tax increases for up to ten (10) years.

(3) Due from Other Governments

Grant revenues are recognized when all the applicable eligibility requirements are met and the resources are available. Primarily, the line item titled “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 or 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 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 \$1.7 million. Included are expendable supplies of \$1.2 million 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 available resources.

Enterprise Fund (or Food Service) inventories include \$1.5 million 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 Fund (or Print Shop) inventories are valued at last unit cost and are expensed as they are consumed.

Agency Fund (i.e., Student Bus Token) inventories are valued at cost. This inventory represents tokens on hand at the close of the current fiscal year.

(6) Artwork

The School District is continuing to establish inventory values for artwork that is displayed throughout the buildings and facilities within the district. Historical cost records on many of the items are not available, however. Consequently, values reported in capital assets for artwork inventory are based on replacement values provided by an outside consulting firm with expertise in establishing current market and/or replacement values for artwork. Nonetheless, the School District intends to update replacement costs with historical costs 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 at least \$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 as of the date donated. The costs associated with the normal maintenance and repair of capital assets, that do not add to the value of the asset or materially extend its useful life, 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 monies 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 fiscal period. In Categorical Funds, deferred revenue represents grant funds received prior to expenditure, or grant funds which have been earned but for which 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, workers' compensation, unemployment and weekly indemnity. In addition, the School District purchases excess property insurance to cover losses resulting from damage such as fire, flood or machinery with a deductible of \$500,000 and a limit of \$210.0 million. Certain insurance coverages including, employee performance bonds, student accident and employee dishonesty, are also procured regularly. 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 2005 were comprised of \$15.4 million for Weekly Indemnity, \$27.2 million net for Workers' Compensation and \$3.4 million 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.

(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 fiscal 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 depending on length of service or job classification. In addition, almost all School District employees are entitled to three days of personal leave annually. Vacation

and personal leave may be used 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 with no limitation on accumulation. Upon retirement or termination, such employees are paid 25% of the value of their accumulated sick leave balance at the rate of pay at the time of separation.

(11) Long-Term Obligations

In the district-wide financial statements and proprietary 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 fiscal 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 was originally established by resolution of the Board of Education, 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 summarized below:

- (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 currently outstanding. Funds required to retire all long-term debt are recorded as long-term liabilities in the district-wide Statement of Net Assets; and
- (b) Unreserved Designated Fund Balance: This represents, in the Non-Major Governmental funds, resources that are legally restricted for specific purposes stated in each trust.

(14) Restricted Assets

Certain proceeds of the Debt Service Fund, i.e. 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 2004 is provided as a key element of the MD&A section of this report to better enhance the analysis and comprehension of financial data of the current fiscal 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	\$ 2,142,231,141
Accumulated Depreciation	<u>(958,131,723)</u>
Net Cost of Capital Assets	\$ 1,184,099,418

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:

	97,467,644
Total adjustment to fund balance – governmental funds	<u><u>\$ 1,281,567,062</u></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 are not included in fund balance.

Taxes Receivable	\$ 104,301,614
Grants & Subsidies	22,774,611
Adjustment of Deferred Revenue	<u><u>\$ 127,076,225</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 governmental funds.” The details of this difference are as follows:

Bonds Payable	\$ (2,393,620,000)
Deduct: Discount on Bonds Payable	10,320,020
Add: Premium on Bonds Payable	(31,381,298)
Bond Interest Payable	(20,170,184)
Funds Due to Other Governments	(45,278,566)
Workers' Compensation Payable	(93,607,000)
Unemployment Compensation Payable	(13,552,321)
Compensated Absences	(281,831,744)
Severance Payable	(153,471,109)
Claims and Judgements	(5,097,939)
Early Retirement Incentive	(6,395,000)
Capital Lease	(3,125,154)
Asbestos Loan Payable	(259,359)
	<hr/>
<i>Net adjustment to reduce fund balance - total governmental funds - to arrive at net assets governmental activities .</i>	<i>\$ (3,037,469,654)</i>
	<hr/> <hr/>

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 those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of the \$128,049,011 difference are as follows:

Capital outlay	\$ 198,266,320
Depreciation expense	<u>(70,217,309)</u>

*Net adjustment to increase net changes in fund balances -
total governmental funds to arrive at changes in net assets
of governmental activities.*

\$ 128,049,011

Another element of that reconciliation states that “The net effect of various miscellaneous transactions involving capital asset disposal and sales is a decrease to net assets.” The Statement of Activities report losses arising from the disposal and sale of capital assets. Conversely, governmental funds do

not report any loss on the disposal or sale of capital assets. The details of this (\$61,387,630) difference are as follows:

Loss on Disposal of Capital Assets	\$ (3,837,840)
Loss on Sale of Real Property	<u>(57,549,790)</u>

Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.

\$ (61,387,630)

Another element of the 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 \$21,514,619 difference are as follows:

Principal repayment on bonds	\$ 20,400,000
Principal repayment on loans	368,641
Principal repayment on capital leases	730,978
Principal repayment on authority obligations	<u>15,000</u>

Net effect of differences in the treatment of long-term debt

\$ 21,514,619

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 (\$23,468,363) difference are as follows:

Change in Compensated Absences Payable	\$ 2,244,149
Change in Severance Payable	(81,518)
Change in Workers' Compensation Payable	(14,779,527)
Change in Unemployment Compensation Payable	(5,165,014)
Change in Claims and Judgments Payable	(4,424,377)
Change in Early Retirement Incentive Payable	1,555,000
Change in Net Accrued Bond Interest	(7,412,904)
Change in Bond Issuance Costs	<u>4,595,828</u>

Net adjustment to increase/(decrease) net changes in fund balance - total governmental funds to arrive at changes in net assets of governmental activities.

\$ (23,468,363)

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

A. **Budgetary Information**

- (1) **General Budget Policies** – As required by various legislative mandates, the School District is required to adopt both 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 of each fiscal year, the CEO provides a status report to the

Governing Body on the budget for the current Fiscal Year and provides multi-year projections so that consideration of any changes in the current education program can be discussed.

In mid-November of each fiscal year, program administrators and managers receive budget preparation materials in order to develop goals, objectives and priorities which are transposed into budget requests called program and activity statements. All such statements are further defined by items of expenditures referred to as “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 of each fiscal year. All approved requests are incorporated into the “proposed operating budget.”

In consultation with the SRC, the CEO provides status reports on both 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 and described more fully 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 31st of each year);
- (b) At least thirty days prior to adoption, public hearings must be held (no later than April 30th of each year); and
- (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 31st of each year).

A statement of estimated receipts and expenditures is submitted to the Mayor of the City of Philadelphia and the President of City Council on or before March 31st of each fiscal year. Since the School District has limited taxing power, City Council must approve the continuance of, or changes in, the levy of 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 hearing and debate. No supplementary budgetary appropriations are 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 Chief Operating Officer and represents that office’s research and analyses as well as the priorities of both the SRC and the CEO in consultation with representatives 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 the 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 no later than the date of the adoption of the annual operating budget. 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 Fund 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 individual grants in the Categorical Funds budgets must be approved by funding agencies.

Enterprise (or Food Services) and Internal Service (or Print Shop) Funds budgets are not adopted; however, formal budgets are prepared and approved by management and expenses are controlled and monitored according to appropriate line items.

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

- (2) Encumbrance Accounting - Encumbrance accounting, by 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 \$18.0 million at June 30, 2005. Since Categorical Funds do not have a formal adopted budget, this amount is not shown as a reservation of fund balance at June 30, 2005.

B. Deficit Fund Equity/Negative Net Assets

The Categorical Funds experienced an unreserved fund balance deficit of \$22.8 million while the Internal Service Fund had negative net assets \$1.0 million. The deficit in the Categorical Funds is due to GASB Statement No. 33 provisions which require that grant revenue can only be recognized when collected during the fiscal year or collected soon after the end of the fiscal year to be available to pay the liabilities of the current fiscal period.

4. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS

A. Cash and Investments

(1) General Information

The School District's cash and investments, including \$26.1 million held in agency funds, at June 30, 2005 are summarized as follows:

Cash and Cash Equivalents	\$ 221,955,276
Cash and Investments with Fiscal Agent	50,380,232
Equity in Pooled Cash and Investments	115,772,392
Cash and Investments Held by Trustee	453,651,688
Investments	<u>200,014</u>
Total Cash and Investments	<u>\$ 841,959,602</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 the full faith and credit of the Commonwealth or the political subdivision, money market funds of United States Treasury obligations and collateralized repurchase agreements.

(2) Investments

As of June 30, 2005, the School District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity in Years</u>
Repurchase Agreements	\$ 614,503,078	.02
Forward Purchase Agreement	7,490,627	.40

- a) *Interest Rate Risk:* Securities purchased by the School District relating to forward purchase agreements for sinking fund deposits are designed to mature in six months or less. Repurchase agreements for sinking funds and consolidated cash investments as of June 30, 2005 mature in one day.
- b) *Credit Risk:* The School District's investment policy is contained in SRC resolution SRC-3 dated April 21, 2004. It allows the Chief Financial Officer acting through the Director of Treasury Operations to invest School District funds consistent with Pennsylvania Public School code section 440.1. The resolution delineates the standards and specifications for banks and institutions to be permitted to be used for investment /deposits of School District funds. School District investments in repurchase agreements were rated as follows: Moody's Investors Service Aa1, Aa2, A2; Standard & Poor's AA-, A-; Fitch Ratings AA+, AA-, BBB+. Investments in forward purchase agreements were rated Aaa by Moody's Investors Service; AAA by Standard & Poor's; AAA by Fitch Ratings.

- c) *Concentration of Credit Risk:* The School District does not restrict the amount of deposits made to any particular bank or any counterparty to a repurchase agreement.
- d) *Custodial Credit Risk - Deposits:* The School District deposits funds with financial institutions in accordance with and protected by requirements of state law (Act 72 of 1971) which specify the amount of pooled collateral a bank must maintain before it can accept deposits of School District funds. In addition, School District deposits are protected under the Federal Deposit Insurance Corporation (the "FDIC") or specific collateral if the bank Bauer rating falls below 3.5 in a given quarter of the year and is limited by the amount of available federal insurance or collateral.
- e) *Custodial Credit Risk – Investments:* The School District generally requires that all collateral pertaining to investments in repurchase agreements be held by a third party custodial agent. Collateral is delivered to the School District's custody banks for all repurchase agreements. Allowable collateral includes: i) United States Treasury securities; and ii) United States Government Agencies (full faith and credit with no maturity restrictions; non full faith and credit with maturity restrictions of one year or less). Market value of collateral should be maintained at 102% of investments. At June 30, 2005, a repurchase agreement totaling \$453.7 million was not collateralized at its contracted amount.

B. Receivables

- (1) Net Receivables: Receivables 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, as of the year end are as follows:

(Dollars in Thousands)

	General	Categorical	Debt Service	Capital Projects	Fiduciary	Total
Receivables						
Interest	\$ 24.6	\$ -	\$16.8	\$163.7	\$ -	\$ 205.1
Taxes	237,308.0	-	-	-	-	237,308.0
Accounts	3,109.9	805.5	-	-	51.3	3,966.7
Gross Receivables	240,442.5	805.5	16.8	163.7	51.3	241,479.8
Less: Allowances for Uncollectible						
Taxes	105,310.6	-	-	-	-	105,310.6
Accounts*	1,234.4	-	-	-	-	1,234.4
Total Allowance	106,545.0	-	-	-	-	106,545.0
Net Total Receivables	<u>\$133,897.5</u>	<u>\$ 805.5</u>	<u>\$16.8</u>	<u>\$163.7</u>	<u>\$ 51.3</u>	<u>\$134,934.8</u>

* The allowance for uncollectible accounts is to capture salary overpayments to employees.

- (2) Taxes Receivable: Estimated collectible taxes at June 30, 2005 equaled \$132.0 million as follows:

	(Dollars in Millions)		
	<u>Taxes Receivable</u>	<u>Estimated Uncollectible</u>	<u>Estimated Collectible</u>
<u>Real Estate Taxes</u>			
Current	\$ 61.1	\$ 8.3	\$ 52.8
Prior	<u>139.3</u>	<u>77.4</u>	<u>61.9</u>
Total Real Estate Taxes	<u>200.4</u>	<u>85.7</u>	<u>114.7</u>
<u>Self Assessed Taxes</u>			
Use and Occupancy	20.0	12.0	8.0
School Income Tax	4.2	.8	3.4
Liquor Sales Tax	<u>12.7</u>	<u>6.8</u>	<u>5.9</u>
Total Self Assessed Taxes	<u>36.9</u>	<u>19.6</u>	<u>17.3</u>
Total Taxes Receivable	<u>\$ 237.3</u>	<u>\$ 105.3</u>	<u>\$ 132.0</u>

During July and August 2005, \$17.0 million in real estate taxes receivable and \$10.7 million in self-assessed taxes receivable were collected. Those amounts were accrued and included in Fiscal Year 2005 revenues.

- (3) Deferred Revenue: Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current fiscal period. Governmental funds also defer revenue recognition in connection with resources that were 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)	\$ 104,301,614	-
Accounts receivables earned but not available (General Fund)	1,404,535	-
Grant funds earned but not available (Categorical Funds)	22,774,611	-
Grant funds received prior to meeting all eligibility requirements (Categorical Funds)	-	\$18,965,947
Interest on investments received prior to being earned (Debt Service Fund)	-	2,238,111
Grant funds received prior to meeting all eligibility requirements (Capital Projects Fund)	-	79,671
Total Deferred Revenue for Governmental Funds	<u>\$ 128,480,760</u>	<u>\$21,283,729</u>

C. Capital Assets

Capital Assets activity for the year ended June 30, 2005 are summarized as follows:

	(Dollars in Millions)				
	Balance July 1,2004	Additions	Deletions	Transfers	Balance June 30,2005
Governmental Activities:					
Capital Assets - Not Depreciated					
Land	\$ 117.6	\$ -	\$ (8.0)	\$ -	\$ 109.6
Construction in Progress	55.9	164.3	-	(6.1)	214.1
Total Capital Assets - Not Depreciated	\$ 173.5	\$ 164.3	\$ (8.0)	\$ (6.1)	\$ 323.7
Capital Assets - Depreciated					
Buildings	\$ 854.9	\$ 0.2	\$ (7.1)	\$ 1.8	\$ 849.8
Improvements	887.2	1.0	(129.4)	4.3	763.1
Personal Property	217.1	17.3	(28.8)	-	205.6
Print Shop	0.7	-	-	-	0.7
Total Capital Assets - Depreciated	\$ 1,959.9	\$ 18.5	\$ (165.3)	\$ 6.1	\$ 1,819.2
Less Accumulated Depreciation					
Buildings	\$ (449.5)	\$ (14.4)	\$ 4.7	\$ -	\$ (459.2)
Improvements	(398.9)	(42.1)	54.4	-	(386.6)
Personal Property	(123.6)	(13.8)	25.0	-	(112.4)
Print Shop	(0.4)	-	-	-	(0.4)
Total Accumulated Depreciation	\$ (972.4)	\$ (70.3)	\$ 84.1	\$ -	\$ (958.6)
Net Capital Assets Depreciated	\$ 987.5	\$ (51.8)	\$ (81.2)	\$ 6.1	\$ 860.6
Governmental Activities - Net Capital Assets	<u>\$ 1,161.0</u>	<u>\$ 112.5</u>	<u>\$ (89.2)</u>	<u>\$ -</u>	<u>\$ 1,184.3</u>
Business Type Activities:					
Capital Assets - Depreciated					
Machinery and Equipment	\$ 12.7	\$ 0.5	\$ (0.2)	\$ -	\$ 13.0
Less Accumulated Depreciation	(9.3)	(0.5)	0.2	-	(9.6)
Business Type Activities - Net Capital Assets	<u>\$ 3.4</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3.4</u>

District-wide capital asset balances were decreased by \$14.3 million which includes a reclassification of assets in the amount of \$11.9 million. The resulting net prior period adjustment of \$2.4 million is shown on the Statement of Activities.

Capital asset values were overstated by \$14.5 million inclusive of \$11.9 million and related accumulated depreciation was overstated by \$0.2 million. Depreciation expense was charged to the following activities as follows:

Governmental activities:	(Dollars in Millions)
Instruction	\$ 57.8
Student Support Services	3.6
Administrative Support	6.2
Operation & Maintenance of Plant Services	0.6
Pupil Transportation	0.1
All Other Support Services	2.0
Total Depreciation Expense	<u>\$ 70.3</u>

For Business-type activities, all depreciation expense was charged to the Enterprise Fund (or Food Service).

D. Obligations

(1) Short-Term Obligations:

The School District issued Tax and Revenue Anticipation Notes on July 7, 2004. The principal amount issued totaled \$400.0 million and was issued to address the School District's cyclical cash flow needs. The School District received a premium of \$5.3 million and paid an underwriters discount of \$.4 million. Net proceeds totaled \$404.9 million. Changes in short-term obligations payable during Fiscal Year 2005 were as follows:

	(Dollars in Millions)			
	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Governmental Activities:				
Tax and Revenue Anticipation Note (Series 2004-2005)	\$ -	\$ 400.0	\$ (400.0)	\$ -
Total	\$ -	\$ 400.0	\$ (400.0)	\$ -

(2) Long-Term Obligations: Changes in long-term obligations payable during Fiscal Year 2005 were as follows:

	(Dollars in Millions)				
	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005	Due Within One Year
Governmental Activities:					
Termination Compensation Payable	\$ 320.6	\$ 19.2	\$ (57.7)	\$ 282.1	\$ -
Severance Payable	165.5	2.7	(14.7)	153.5	-
General Obligation Bonds	\$ 2,314.7	\$ 332.6	\$ (253.7)	\$ 2,393.6	\$ 36.4
Bond Premium	23.0	18.5	(10.1)	31.4	2.0
Bond Discount	(10.7)	-	0.4	(10.3)	(0.3)
Total Bonds Payable	\$ 2,327.0	\$ 351.1	\$ (263.4)	\$ 2,414.7	\$ 38.1
Loans Payable - Federal Asbestos	\$ 0.6	\$ -	\$ (0.4)	\$ 0.2	\$ 0.2
Due to Other Governments					
- Deferred Reimbursement	45.3	-	-	45.3	45.3
Other Liabilities	87.9	56.9	(32.6)	112.2	-
Lease Purchase Agreement	3.9	-	(0.7)	3.2	0.8
Deferred Revenue	2.8	-	(0.6)	2.2	0.4
Early Retirement Incentive	7.9	-	(1.5)	6.4	1.6
Governmental Activity - Long-Term Liabilities	\$ 2,961.5	\$ 429.9	\$ (371.6)	\$ 3,019.8	\$ 86.4
Business Type Activities:					
Termination Compensation Payable	\$ 2.0	\$ 0.2	\$ (0.1)	\$ 2.1	\$ -
Severance Payable	4.5	-	(3.4)	1.1	-
Business Type Activities - Long-Term Liabilities	\$ 6.5	\$ 0.2	\$ (3.5)	\$ 3.2	\$ -

(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 Act”). 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 School District has issued various general obligation bonds throughout the years to fund budgeted capital projects, to refund higher interest rate bonds with bonds bearing lower costs and to provide level debt service payments.
- The School District is authorized, pursuant to 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 to manage interest rate risk or interest cost on any debt which the School District is authorized to incur. 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, 2005 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	5.375	2006	\$ 113,505	\$ 7,880	\$ 212	\$ 8,092
1993 - B	5.375 - 5.400	2007	97,620	7,985	437	8,422
1995 - A	6.250	2010	53,725	29,855	5,744	35,599
1997 - A	5.000	2010	52,220	31,800	4,925	36,725
1999 - A	4.000 – 4.750	2027	156,575	112,110	96,227	208,337
1999 - B	5.000 - 5.250	2011	98,405	89,375	17,552	106,927
1999 - D	5.250 - 5.625	2010	73,765	45,235	7,637	52,872
2000 - A	4.650 - 5.750	2011	130,000	22,025	7,593	29,618
2000 - B	QZABS ⁽¹⁾	2014	22,985	22,970	-	22,970
2002 - A	3.500 - 5.250	2012	156,000	10,475	3,272	13,747
2002 - B	5.000 - 5.500	2013	300,000	93,140	21,847	114,987
2003 - A	Variable Rate ⁽²⁾	2028	109,000	108,995	66,759	175,754
2003 - B	3.000 - 5.500 ⁽³⁾	2033	588,140	588,130	741,166	1,329,296
2004 - A	Variable Rate ⁽⁴⁾	2026	100,000	99,995	48,527	148,522
2004 - B	Variable Rate ⁽⁵⁾	2031	652,600	652,575	415,224 ⁽⁷⁾	1,067,799
2004 - C	Variable Rate ^(5&6)	2012	38,475	38,450	4,792 ⁽⁷⁾	43,242
2004 - D	2.250 - 5.250	2034	100,000	99,995	134,445	234,440
2004 - E	QZABS ⁽¹⁾	2019	19,335	19,335	-	19,335
2005 - A	3.000 - 5.000	2023	198,140	198,140	127,126	325,266
2005 - B	3.000 - 5.000	2017	43,415	43,415	19,568	62,983
2005 - C	3.730 - 5.310	2026	71,740	71,740	44,222	115,962
		Total	<u>\$ 3,175,645</u>	<u>\$ 2,393,620</u>	<u>\$ 1,767,275</u>	<u>\$ 4,160,895</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.

School District of Philadelphia

- (4) Maximum interest rate not to exceed 15% in accordance with debt agreement.
- (5) Maximum interest rate 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, 2005 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
2006	\$ 36,426	\$ 72,327	\$ 108,753
2007	60,897	75,188	136,085
2008	64,126	72,020	136,146
2009	67,731	68,782	136,513
2010	68,166	65,456	133,622
2011-2015	368,675	279,282	647,957
2016-2020	377,959	201,686	579,645
2021-2025	361,585	120,753	482,338
2026-2030	291,750	54,513	346,263
2031-2034	<u>108,175</u>	<u>16,102</u>	<u>124,277</u>
Total	<u>\$ 1,805,490</u>	<u>\$ 1,026,109</u>	<u>\$ 2,831,599</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, 2005 is summarized as follows:

<u>Governmental Activities</u> (Dollars in Thousands)				
Year Ending June 30	Interest Rates	Principal	Interest	Total
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	4.000	5	29,947	29,952
2011 – 2015	4.000 – 4.250	25	149,732	149,757
2016 – 2020	4.375 – 4.750	25	149,726	149,751
2021 – 2025	4.750 – 5.250	69,385	147,131	216,516
2026 – 2030	5.000 – 5.500	208,795	111,689	320,484
2031 – 2033	5.000	<u>309,875</u>	<u>33,151</u>	<u>343,026</u>
Total		<u>\$ 588,130</u>	<u>\$ 741,166</u>	<u>\$ 1,329,296</u>

(ii) Sinking Fund Covenants:

- Fixed Rate General Obligation Bonds: The School District has

covenanted that the City will, from local taxes collected on each business day, irrevocably deposit with the paying agent for the bonds 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 the 15th day prior to each specified payment date. These covenants were established to enhance the credit rating 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 and fifteen days prior to the next payment date and 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 rating underlying the School District's general obligation bonds rather than to achieve a prepayment of debt service.
- **Lease Rental Debt:** The School District 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 to 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. These payments are due on or prior to 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 rating 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 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) *Interest Rate Swaps:* The School District elected to execute floating-to-fixed interest rate swaps to synthetically advance refund its outstanding

bonds. 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.

- (ii) *Terms, fair values and credit risk:* The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2005 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	(6,527,169.00)	9/1/2030	Aa2/A+/AA-
Series B-2	54,200,000	6/29/2004	3.7670%	58.5%*1-Month LIBOR+27 bps	(5,895,449.31)	9/1/2030	Aa2/A+/AA-
Series B-3	64,900,000	6/29/2004	3.7670%	58.5%*1-Month LIBOR+27 bps	(7,066,676.17)	9/1/2030	Aa2/A+/AA-
Series B-4	95,000,000	6/29/2004	3.7700%	58.5%*1-Month LIBOR+27 bps	(10,390,983.81)	9/1/2030	Aa3/A+/AA-
Series B-5	78,475,000	6/29/2004	3.7610%	58.5%*1-Month LIBOR+27 bps	(8,479,978.97)	9/1/2030	Aa3/A+/AA-
Series B-6	59,025,000	6/29/2004	3.6838%	60.4%*1-Month LIBOR+32 bps	(3,220,783.72)	9/1/2021	Aa3/A+/AA-
Series B-7	91,000,000	6/29/2004	3.6900%	60.4%*1-Month LIBOR+32 bps	(5,312,224.43)	9/1/2021	Aa3/A+/AA-
Series B-8	80,000,000	6/29/2004	3.6890%	60.4%*1-Month LIBOR+32 bps	(4,685,576.41)	9/1/2021	Aa3/A+/AA-
Series B-9	70,000,000	6/29/2004	3.6890%	60.4%*1-Month LIBOR+32 bps	(5,139,892.18)	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	(559,392.69)	9/1/2011	Aa3/A+/AA-
Total	691,075,000				(57,278,126.69)		

All of the swaps had a negative fair value of (\$57.3) million as of June 30, 2005. 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 were 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, 2005, 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 \$241.6 million in general obligation bonds on a fixed rate basis to advance refund \$233.3 million of outstanding bonds. Bond proceeds of \$3.3 million were utilized for underwriting fees, insurance and other issuance costs. The net proceeds were used to purchase United States government securities of \$256.7 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. Consequently and as of June 30, 2005, \$866.7 million of bonds outstanding are considered to be defeased and the liability was removed from long-term liabilities.

The cash flow required to service the new debt is \$8.7 million less than the flow required to service the old debt. In addition, there was an economic gain of \$7.7 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 within the Commonwealth. 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, 2005, outstanding electoral debt totaled \$2.5 million. The non-electoral and lease rental borrowing capacity (debt limit) for the School District was \$1,536.2 million as of June 30, 2005.

(e) Arbitrage

Federal Arbitrage regulations are applicable to the School District. 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, 2005, 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, 2005 amounted to \$7,669,755. Future minimum lease payments for these leases are as follows:

<u>Fiscal Year Ending</u> <u>June 30</u>	<u>Lease Payments</u> <u>(Dollars in Millions)</u>
2006	\$ 2.9
2007	.6
2008	.4
2009	.3
2010	.1
Total	<u>\$ 4.3</u>

(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 reading, and related skills of students.

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 which began on July 15, 2004. Of this amount, \$834,326 solely represents the cost of the software. The fair value of the software as of June 25, 2004 was \$3,856,133. The software has an economic life of five years with no salvage value. The School 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 next four 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, 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>\$3,337,304</u>	<u>\$ 212,149</u>	<u>\$3,125,155</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. Consequently, the School District will payout \$25,000 per retiree over 5 years for a total cost of \$7.95 million. As of June 30, 2005, the remaining liability totaled \$6.39 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, 2005 was \$153.5 million. July and August 2005 salaries for ten-month employees who had not terminated were budgeted and paid for from Fiscal Year 2006 appropriations.
- (7) Loans Payable: Federal Asbestos Loans consist of \$0.2 million for an interest-free loan expected to be repaid over the next four years.
- (8) Due to Other Governments: Deferred Reimbursement - The Commonwealth of Pennsylvania has agreed to continue to defer amounts due from prior years totaling \$45.3 million for reimbursement of advanced funds provided for Special Education transportation costs to at least Fiscal Year 2006.
- (9) Other Liabilities: Other liabilities consist of \$93.6 million for Workers' Compensation, \$13.6 million for Unemployment Compensation Claims (See Note 1 D 9) and \$5.1 million for Claims & Judgments.

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

E. Interfund Receivables, Payables and Transfers

- (1) The composition of Interfund balances as of June 30, 2005 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Categorical Funds	\$ 9,676,987
General Fund	Capital Projects Fund	200,000
General Fund	Internal Service Fund	956,981
General Fund	Student Bus Token Fund	548,114
	Total	<u>\$ 11,382,082</u>

The balance of \$9,876,987 under the Categorical Funds and Capital Projects Fund represent amounts that were reclassified as due to other funds for reporting purposes and eliminated in the district-wide Statement of Net Assets. The \$956,981, under the Internal Service Fund, was eliminated within the governmental activity column. The \$548,114, due to the General Fund from the Student Bus Token Fund, was reclassified as Third-Party Receivables.

- (2) Interfund transfers at June 30, 2005 were as follows:

<u>Interfund Transfers In</u>	<u>General Fund</u>	<u>Interfund Transfers Out</u>			<u>Total</u>
		<u>Categorical Funds</u>	<u>Capital Projects Fund</u>	<u>Enterprise Fund</u>	
General	\$ -	\$ 2,787,566	\$ -	\$ -	\$ 2,787,566
Intermediate Unit	182,582,521	-	-	-	182,582,521
Categorical	18,708,749	-	-	-	18,708,749
Debt Service	83,708,118	-	173,847	178,000	84,059,965
Total	<u>\$ 284,999,388</u>	<u>\$ 2,787,566</u>	<u>\$ 173,847</u>	<u>\$ 178,000</u>	<u>\$ 288,138,801</u>

Interfund 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 the Debt Service from the Enterprise Fund as a transfer to cover Fiscal Year 2005 allocations of cafeteria renovations.

F. Construction and Equipment Purchase Commitments

The School District's outstanding contractual commitments at June 30, 2005 are summarized as follows:

New Construction and Land	\$ 29,389,518
Environmental Management	67,558
Alterations and Improvements	108,917,093
Major Renovations	7,436,322
Equipment Acquisition	1,796,814
Total	<u>\$ 147,607,305</u>

G. Affiliated Organizations

The Philadelphia Education Fund, Philadelphia Academies, Inc. (formerly *The Philadelphia High School Academies*), Foundations, Community Education Partners, Aspira, Inc., Cora Services, Elwyn, Inc., Philadelphia Youth Network, EducationWorks and the International Education and Community Initiatives are nonprofit corporations and are funded by grants, contributions and approximately \$62.4 million in contract revenue from the School District during Fiscal Year 2005.

These organizations, in cooperation with the School District, administer various programs to enhance the education of School District students. These corporations are governed by independent boards which, in some instances, 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

As previously noted, the School District is also an Intermediate Unit established by the Commonwealth to provide programs for special education and certain non-public school services. Conceptually, the cost of operating an Intermediate Unit for a fiscal year is partially financed by state appropriations. In certain instances (i.e. 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

The following information represents the opinion and disclosures of the Interim General Counsel of the School District concerning litigation and contingencies:

- (1) ***Civil Rights Claims*** – There are 11 lawsuits pending against the School District asserting claims in violation of §1983 of the Civil Rights Act. In the opinion of the Interim General Counsel of the School District, unfavorable outcomes are deemed reasonably possible in an aggregate amount and including other attorney fees of approximately \$3.1 million. There is no limitation on the exposure or potential liability of the School District for civil rights violations.
- (2) ***Other Matters*** - The School District is a party to various claims, legal actions, arbitrations and complaints in the ordinary course of business, which aggregate to a total potential liability of \$4.6 million. In the opinion of the Interim General Counsel of the School District, it is unlikely that final judgments or compromised settlements will approach the total potential liability. Nonetheless, 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. More particularly, compromised settlements or unfavorable outcomes are deemed probable or reasonably possible in the aggregate amounts of \$0.3 and \$1.2 million, respectively, in connection with Labor and Employment matters. Likewise, compromised settlements or unfavorable verdicts are deemed probable or reasonably possible in the aggregate amounts of \$0.7 and \$2.1 million, respectively, arising from Personal Injury and Property Damage claims.
- (3) ***Education Audits*** - The School District receives basic education subsidies from the Commonwealth based principally on student enrollment data. 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 fiscal years ending in 1991, 1992 and 1993 indicated 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.

Consequently, a claim for reimbursement was previously reported and initially estimated at approximately \$40.0 million through Fiscal Year 1999 and, subsequently, reduced by half to \$20.0 million based on additional reviews and documentation. 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 Commonwealth to the School District, beginning in Fiscal Year 1999. On May 13, 1999, the School District appealed the entire finding to the Secretary of Education. The matter remains pending. During the pendency of the School 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 School District for alleged over-reporting of enrollment. The School District denied the claim and produced documentation. Both matters still remain pending. Though discussions with state representatives regarding relief from this potential liability are ongoing, because no final determination of forgiveness has been made to date, there still remains a reasonably possible loss in this category in the total amount of \$40.0 million.

- (4) ***Litigation by Outside Counsel*** – There are several claims against the School District that are being handled by outside legal representation. These matters include:

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, in pertinent part, that the School District committed copyright infringement by the unauthorized copying and use of plaintiff’s copyrighted works or otherwise the drawings it allegedly submitted to the School District. The complaint also alleges that the School District owes the plaintiff \$0.2 million for basic services under the agreement and \$0.6 million for additional services. Moreover, the complaint seeks unspecified damages for alleged copyright infringement, breach of contract and conversion together with an injunction. In addition to filing an answer denying any liability to plaintiff and specifically denying any unauthorized use of any drawings, the School District filed a counterclaim alleging breach of contract claiming damages in excess of \$3.0 million. Soon thereafter, the plaintiff filed a motion for a preliminary injunction seeking to prevent the alleged and continuing unauthorized copying or use of plaintiff’s documents. Consequently, the School District filed an opposition to the motion and based on an agreement of the parties, the Court entered an order combining the hearing of the preliminary injunction with that of the trial. Since that time and pursuant to an Order of the Court requiring completion of all discovery by February 3, 2006, the parties have engaged in substantial discovery. A trial date is set for May 8, 2006. In the opinion of both outside counsel for and the Interim General Counsel of the School District, management is vigorously defending the claims made against it and prosecuting its counterclaim. At this stage of the proceedings, however, the likelihood of an unfavorable outcome or the range of any possible adverse judgment cannot be predicted but is deemed to be reasonably possible but in an amount less than \$1.0 million.

Robert Johnston, et. al. v. The School District of Philadelphia and Kimberly Sangster, Civil Action No. 04-4948, United States District Court for the Eastern District of Pennsylvania. This lawsuit was filed by three former and one current employee alleging reverse racial discrimination and retaliation under Title VII of the Civil Rights Act and the Pennsylvania Human Relations Act. Collectively, plaintiffs claim that the School District and Kimberly Sangster, Chief Procurement Officer and an African American female, terminated their employment on the basis of race (white) and retaliated against them by denying alternative placements or positions. In February of 2003, Ms. Sangster announced the complete restructuring of the Procurement Department and informed plaintiffs that their positions were eliminated to achieve optimal cost reduction and not based on race. Although certain claims were dismissed by the Court, the remaining claims proceeded to a trial by jury which began on December 5, 2005. On December 16, 2005, a jury verdict was entered in favor of the plaintiffs and against the School District and Sangster. The School District intends to file post-trial motions and an appeal. In the opinion of both outside counsel for and the Interim General Counsel of the School District, the likelihood of an unfavorable outcome against the School District is probable in the aggregate amount of \$3.4 million.

J. Post Employment Benefits

As required by collective bargaining agreements, the School District pays the monthly premiums to provide up to \$2,000 of life insurance coverage for 8,018 retired/disabled employees at June 30, 2005. A retired employee is eligible for this benefit if covered for 10 years as an active employee and: (i) retired at age 60 with 30 years of service; or (ii) retired at age 62 with 10 years of service; or (iii) accumulated 35 years of service regardless of age. Disabled employees' eligibility is determined by the insurance company providing the coverage. For Fiscal Year 2005, the cost of life insurance premiums for retirees/disabled employees was \$483,004 and was fully paid by the School District.

K. Pension Plan

(1) Plan Description

The School District contributes to the Public School Employees' Retirement System ("PSERS"), a state governmental cost-sharing multiple-employer defined benefit pension plan. The plan, as administered by 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, 2005, the rate of employer contribution was 4.23 percent of qualifying compensation. The 4.23 percent rate consists of a pension contribution rate of 4.00 percent for pension benefits and .23 percent for health insurance premium assistance. The School District's contributions to PSERS for the fiscal years ending 2003, 2004 and 2005 were \$13,059,249, \$43,059,934 and \$48,901,179 respectively, and were equal to the required contributions for each year.

L. Desegregation

More than thirty years ago, the Pennsylvania Human Relations Commission (the "Commission") initiated an action against the School District in Pennsylvania Commonwealth Court to end historical de facto racial segregation in public schools and sought to compel remedies such as forced busing. Between 1973 and 1993, the School District and the Commission developed a series of desegregation plans, strategies and reforms with the objective of achieving maximum feasible desegregation. Despite the persistence of racially segregated residential patterns and the number of non-minority students choosing to attend any number of parochial or private schools in the region, the Court determined, from time to time and over the years, that such reform efforts were inadequate to cure the problem of racial isolation in the public schools.

In late 1995, the Court joined the Commonwealth of Pennsylvania as a defendant in the action, and in the summer of 1996, held that the Commonwealth was liable for substantial and ongoing financial contributions to the School District to fund and support desegregation mandates. However, the Commonwealth Court's Order was vacated by the Pennsylvania Supreme Court when it assumed plenary jurisdiction of the case in the fall of 1996. After nearly three years, the Supreme Court formally opined 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 of the case was returned to the Commonwealth Court.

Since that time, the School District has continued to implement remedial measures and reports periodically to the Court on its progress toward satisfying the Court's mandates. In May and September of 2001 and at the request of the Court, the School District submitted a Comprehensive School Safety and Security Plan and a Curriculum Renewal Plan (collectively the "Plans") intended to guide management's work in the areas of curriculum and instruction. Following a hearing, the Court issued an Opinion and Order concluding that the School District had made significant and continued effort to comply with the Remedial Order, accepted the Plans, and directed the 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 School District had demonstrated that it can and will provide an equal educational opportunity to all students.

In December of 2001, the Court reiterated its position that the Plans approved by the Court in September 2001 are to be implemented by the School District notwithstanding any changes in its management or organizational structure given the possibility of the impending state “takeover” of the district.

After the Commonwealth assumed control of the district, between July 2002 and July 2003, the School District responded to Court questions, submitted materials, attended conferences, accompanied court officials on tours of elementary schools and provided testimony concerning the series of initiatives being undertaken by management and the SRC. Nevertheless by letter, dated August of 2003, the Court indicated its 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 School District, the Commission and Intervenors meet on a regular and consistent basis to develop a proposed Memorandum of Understanding (the “MOU”).

More specifically, the MOU, which was submitted to the Court for review and approved in March of 2004, stays all judicial proceedings for an initial period of three years while requiring that the School District submit annual reports to the Commission. As detailed in the MOU, the Commission will provide written feedback to the School District based on its review of the 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 of the Court and following a hearing “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 approved the MOU. The order further provided that “[a]t the end of the Term of the Memorandum of Understanding...and unless the Pennsylvania Human Relations Commission or the School District files...an application with the Court indicating that areas of disagreement still remain...the case shall be terminated with prejudice upon praecipe by the Commission.”

Subsequently, the School District submitted an interim report to the Commission and Intervenors in April of 2004 and its first annual report under the MOU in December of 2004. There was no formal feedback or objection to any portion of the School District’s first annual report by the Commission. The School District intends to render its second annual report in December of 2005.

The School District believes that the substantive and procedural aspects of the MOU have the potential to lead to a final resolution of this matter but is unable to express an opinion concerning whether disagreements will remain at the end of the term of the MOU. Should the parties not resolve this matter within the framework of the MOU and should the stay be lifted, the School District believes that it 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.

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. As previously noted, 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 applicable collective bargaining agreements.

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 \$210.0 million. Also, certain insurance coverages including employee performance bonds and fire insurance are obtained.

The School District reported the long-term portion of its risk management obligations totaling \$112.2 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 while both 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 were incurred but not reported, the effects of specific incremental claims adjustment expenditures, salvage and subrogation, and unallocated claims adjustment expenditures.

At June 30, 2005, the amount of these liabilities totaled \$112.2 million. Changes in the balances of claims and liabilities during the past two years are as follows:

	(Dollars in Millions)			
	<u>Beginning Liability</u>	<u>Claims & Adjustments</u>	<u>Claim Payments</u>	<u>Ending Liability</u>
Fiscal Year 2004	\$ 85.4	\$ 34.6	\$ 27.6	\$ 92.4
Fiscal Year 2005	\$ 92.4	\$ 52.4	\$ 32.6	\$ 112.2

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. Special Items: Loss on Sale of Real Property

The School District concluded the sale of a parcel of land and three administration buildings during Fiscal Year 2005. The land was sold during October 2004 for \$3.6 million. The administration buildings were sold during April 2005 for \$24.2 million. The book value of the land, buildings and related improvements was \$85.3 million. As a result of the sale, the School District incurred a loss of \$57.5 million. The loss was reported on the Statement of Activities for Fiscal Year 2005.

O. Prior Period Adjustments

District-wide net assets beginning balances were decreased by \$2.4 million. These adjustments involved an overstatement of asset value of \$2.6 million and an overstatement of accumulated depreciation of \$0.2 million (Note 4C). The Capital Projects Fund beginning fund balance was increased by \$11.9 million as a result of expenditures recorded in Fiscal Year 2004 that were obligations of Fiscal Year 2005.

P. Subsequent Events

(1) Tax and Revenue Anticipation Notes

In July 2005, the School District was authorized to issue up to \$525.0 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, 2006. As of December 2005, the School District has issued \$520.0 million.

(2) General Obligation Bonds

The School District issued \$29.9 million in general obligation bonds during September 2005. The bonds were structured with a 15 year useful life and the proceeds will be used to fund classroom modernization projects, procure security equipment, upgrade athletic fields and procure athletic and band equipment.

(3) Basis Swaps

In May 2005, the SRC authorized the School District to enter into one or more basis swaps related to outstanding general obligation bonds of the School District for the purpose of managing interest expense. The School District entered into basis swaps with two counterparties for the notional amount of \$342.4 million during October 2005. The School District received \$7.2 million in upfront cash payments in addition to ongoing payments that will be received from the counterparties over the term of each basis swap.

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

School District of Philadelphia
Budgetary Comparison Schedules
General and Intermediate Unit Funds
For The Year Ended June 30, 2005

	General Fund			
	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Local Taxes	\$ 669,379,000	\$ 679,487,000	\$ 687,732,788	\$ 8,245,788
Locally Generated Non Tax	54,230,000	57,147,000	56,859,091	(287,909)
State Grants and Subsidies	1,010,310,000	1,039,089,000	1,039,473,963	384,963
Federal Grants and Subsidies	179,000	241,000	292,053	51,053
Total Revenues	1,734,098,000	1,775,964,000	1,784,357,895	8,393,895
OBLIGATIONS				
Current Operating				
Instruction	860,450,400	890,643,285	902,132,500	(11,489,215)
Student Support Services	58,222,700	56,976,684	57,259,173	(282,489)
Administrative Support	94,928,200	101,153,155	99,648,486	1,504,669
Operation & Maintenance of Plant Services	239,427,800	247,926,583	245,102,559	2,824,024
Pupil Transportation	52,411,800	52,649,985	53,034,601	(384,616)
All Other Support Services	(48,350,300)	3,610,608	9,556,534	(5,945,926)
Payments to Charter Schools	177,866,500	182,913,200	184,084,382	(1,171,182)
Allocated Costs	(18,475,300)	(17,258,400)	-	(17,258,400)
Total Obligations	1,416,481,800	1,518,615,100	1,550,818,235	(32,203,135)
Excess of Revenues Over (Under) Obligations	317,616,200	257,348,900	233,539,660	(23,809,240)
OTHER FINANCING SOURCES (USES)				
Transfers In	2,720,000	2,860,000	2,787,566	(72,434)
Transfers Out	(305,933,100)	(288,730,000)	(285,345,354)	3,384,646
Bond Proceeds		72,000,000	71,740,000	(260,000)
Total Other Financing Sources (Uses)	(303,213,100)	(213,870,000)	(210,817,788)	3,052,212
Net Change in Fund Balances	14,403,100	43,478,900	22,721,872	(20,757,028)
Fund Balances, July 1, 2004	65,747,000	70,430,200	43,606,366	(26,823,834)
Change in Inventory Reserve	-	-	(430,743)	(430,743)
Change in Encumbrance Reserve	-	-	(9,358,851)	(9,358,851)
Fund Balances, June 30, 2005	\$ 80,150,100	\$ 113,909,100	\$ 56,538,644	\$ (57,370,456)

Intermediate Unit Fund

Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
Original	Final		
\$ -	\$ -	\$ -	\$ -
333,000	443,000	389,789	(53,211)
69,532,000	70,739,000	71,611,259	872,259
-	-	-	-
69,865,000	71,182,000	72,001,048	819,048
180,834,600	186,342,700	184,906,134	1,436,566
58,515,600	60,071,800	59,087,355	984,445
1,006,200	982,800	788,221	194,579
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
9,825,300	9,836,300	10,147,825	(311,525)
250,181,700	257,233,600	254,929,535	2,304,065
(180,316,700)	(186,051,600)	(182,928,487)	3,123,113
180,316,700	186,051,600	182,928,487	(3,123,113)
-	-	-	-
-	-	-	-
180,316,700	186,051,600	182,928,487	(3,123,113)
-	-	-	-
-	2,758	1,472,179	1,469,421
-	-	-	-
-	-	(30,057)	(30,057)
\$ -	\$ 2,758	\$ 1,442,122	\$ 1,439,364

Refer to notes to required supplementary information

SCHOOL DISTRICT OF PHILADELPHIA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2005

1. BASIS OF BUDGETING

The comparative schedules prepared on the basis of budgeting differ from the Generally Accepted Accounting Principles (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	\$ 1,784,358	\$ 72,001
Revenue - GAAP Basis	<u>\$ 1,784,358</u>	<u>\$ 72,001</u>
Obligations – Basis of Budgeting	\$ 1,550,818	\$ 254,930
Current Year Encumbrances	(6,953)	(1,397)
Prior Year Encumbrance Payments	10,873	1,081
Prior Year Encumbrance Cancellations and Other Adjustments	<u>5,785</u>	<u>-</u>
Expenditures - GAAP Basis	<u>\$ 1,560,523</u>	<u>\$ 254,614</u>
Other Financing Sources (Uses)- Basis of Budgeting	\$ (210,818)	\$ 182,928
Prior Year Encumbrance Cancellations	<u>346</u>	<u>(346)</u>
Other Financing Sources (Uses) - GAAP Basis	<u>\$ (210,472)</u>	<u>\$ 182,582</u>

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

The following budgetary units had significant obligations in excess of appropriations for Fiscal 2005:

A. General Fund

(1.) Instruction	\$ 11,489,215
(2.) Student Support Services	282,489
(3.) Pupil Transportation	384,616
(4.) All Other Support Services	5,945,926
(5.) Payments to Charter Schools	1,171,182

Variances considered by management to be significant are explained below:

General Fund

Under Instruction and Student Support Services, employee benefit costs exceeded budget estimates by over \$9.5 million due to retirement-related costs including termination pay and other related benefit costs; these costs were fully offset by corresponding revenues from the early retirement bond issue. Employee benefit costs were also higher than budgeted due to the disbursement of nearly \$5.8 million in bond funds to settle long-term Workers' Compensation claims; these costs were not included in the final budget but they were fully offset by corresponding revenues from the bond issue.

Instruction was also impacted by an increase of \$2.3 million in Approved Private Schools and \$2.4 million in Private Residential Rehabilitation Institutions. These increased charges were withheld from the Commonwealth's final June 2005 subsidy payment to the School District and resulted from changes in state law enacted late in the fiscal year. This increase in costs is anticipated to be recurring and has been built into the District's current year budget.

Pupil Transportation obligations increases are related to additional bus routes over the anticipated level of services. Other costs in transportation were greater than anticipated due to increased fuel and maintenance costs.

All Other Support Services incurred negative variances in personal services and contracted services in Risk Management. A significant portion of the variance was due to \$5.7 million in spending to settle workers compensation related claims.

Payments to Charter Schools were higher than budgeted due to a slightly higher than projected percentage of maximum enrollment slots being filled.

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 the 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, 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 Intermediate Unit Operations and allocated costs attributable to other funds and other adjustments. The original and final budget for the credit balance was at \$ 17,258,400.

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.

5. *OTHER*

There is no budgetary comparison presented for Categorical Funds because this fund does not have an annual appropriated budget.

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 School District programs that benefit either the School District or its students.

For external reporting purposes we report one Non-Major Special Revenue Trust Fund. However, at June 30, 2005 there were forty-six 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 School District programs that benefit the School District or its students.

For external reporting purposes we report one Permanent Fund Type. However, at June 30, 2005 there were eighty-five Permanent Funds administered by the School District.

School District of Philadelphia
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2005

	Special Revenue Funds	Permanent Funds	Total Non-Major Governmental Funds
ASSETS			
Equity in Pooled Cash and Investments	\$ 3,564,483	\$ 1,785,811	\$ 5,350,294
Accounts Receivable	10	-	10
Total Assets	<u>\$ 3,564,493</u>	<u>\$ 1,785,811</u>	<u>\$ 5,350,304</u>
LIABILITIES AND FUND BALANCES			
Accounts Payable	<u>\$ 2,500</u>	<u>\$ 5,409</u>	<u>\$ 7,909</u>
Fund Balance:			
Reserved for:			
Encumbrances	7,044	4,485	11,529
Trust Fund Principal	1,301,225	1,219,425	2,520,650
Unreserved			
Designated For Trust Purposes	2,253,724	556,492	2,810,216
Total Fund Balances	<u>3,561,993</u>	<u>1,780,402</u>	<u>5,342,395</u>
Total Liabilities and Fund Balances	<u>\$ 3,564,493</u>	<u>\$ 1,785,811</u>	<u>\$ 5,350,304</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, 2005

	Special Revenue Funds	Permanent Funds	Total Non-Major Governmental Funds
REVENUES			
Locally Generated Non Tax	\$ 121,243	\$ 79,839	\$ 201,082
EXPENDITURES			
Instruction	95,628	35,926	131,554
Excess (Deficiency) of Revenues Over Expenditures	25,615	43,913	69,528
Fund Balances, July 1, 2004	3,536,378	1,736,489	5,272,867
Fund Balances, June 30, 2005	\$ 3,561,993	\$ 1,780,402	\$ 5,342,395

Governmental Funds

Governmental funds are the funds through which costs of School 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, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Local Taxes				
Real Estate				
Current	\$ 482,402,000	\$ 461,500,000	\$ 486,814,775	\$ 25,314,775
Prior Years	43,554,000	70,630,000	49,459,199	(21,170,801)
Payment in Lieu of Taxes	-	-	4,619	4,619
Use and Occupancy	95,700,000	97,800,000	99,049,775	1,249,775
School (Non-Business) Income	15,000,000	14,600,000	17,617,205	3,017,205
Liquor Sales	31,900,000	34,100,000	33,930,160	(169,840)
Public Utility Realty	823,000	857,000	857,055	55
Total Local Taxes	669,379,000	679,487,000	687,732,788	8,245,788
Locally Generated Non Tax				
Interest on Investments	3,335,000	7,654,000	8,472,639	818,639
City Contributions	35,000,000	35,000,000	35,000,000	-
Legal Settlements	2,960,000	2,650,000	2,501,324	(148,676)
Stadium Agreements	1,159,000	1,159,000	1,159,200	200
Voluntary Contributions	330,000	170,000	200,356	30,356
Reimbursement from Other Funds	8,446,000	8,014,000	7,221,142	(792,858)
Miscellaneous	3,000,000	2,500,000	2,304,430	(195,570)
Total Locally Generated Non Tax	54,230,000	57,147,000	56,859,091	(287,909)
Other Governments				
State Grants and Subsidies				
Gross Instruction	761,571,000	770,213,000	769,917,234	(295,766)
Less: Reimbursement of Prior Years IU Advances	31,035,000	30,702,000	30,776,951	74,951
Net Instruction	730,536,000	739,511,000	739,140,283	(370,717)
Debt Service	11,184,000	5,965,000	4,471,924	(1,493,076)
School Health Program				
Nurse Services	1,715,000	1,651,000	1,650,586	(414)
Medical and Dental	2,826,000	2,758,000	2,758,837	837
Tuition	881,000	430,000	429,338	(662)
Area Vocational Technical Education	6,356,000	7,084,000	7,588,570	504,570
Transportation	26,503,000	26,889,000	27,071,276	182,276
District Special Education	113,818,000	114,009,000	113,999,817	(9,183)
School District Additional Funding	25,000,000	25,000,000	25,000,000	-
Alternative Education	2,185,000	17,708,000	17,708,355	355
Charter Schools	29,869,000	41,428,000	41,984,209	556,209
Miscellaneous State Subsidies	29,000	29,000	40,641	11,641
Retirement	20,839,000	18,373,000	18,566,492	193,492
Social Security	38,569,000	38,254,000	39,063,635	809,635
Total State Grants and Subsidies	1,010,310,000	1,039,089,000	1,039,473,963	384,963
Federal Grants and Subsidies				
Impacted Area Aid	179,000	241,000	292,053	51,053
Total Federal Grants and Subsidies	179,000	241,000	292,053	51,053
Total Other Governments	1,010,489,000	1,039,330,000	1,039,766,016	436,016
Total Revenues	\$ 1,734,098,000	\$ 1,775,964,000	\$ 1,784,357,895	\$ 8,393,895

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, 2005

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
OBLIGATIONS				
Instruction				
Early Childhood Education				
Personal Services	\$ 1,373,000	\$ 934,400	\$ 810,410	\$ 123,990
Employee Benefits	463,500	301,563	365,390	(63,827)
Prof.,Tech. Services	800	280,800	137,701	143,099
Property,Transportation,Comm.	5,700	8,100	13,453	(5,353)
Materials, Supplies, Books and Equipment	25,700	52,700	145,379	(92,679)
Other	600	600	-	600
	1,869,300	1,578,163	1,472,333	105,830
Elementary Education				
Personal Services	232,500,100	259,156,700	262,341,637	(3,184,937)
Employee Benefits	88,821,900	94,387,181	100,672,402	(6,285,221)
Prof.,Tech. Services	432,600	792,100	262,272	529,828
Property,Transportation,Comm.	2,040,900	2,038,100	1,324,778	713,322
Materials, Supplies, Books and Equipment	6,085,900	6,825,700	5,596,742	1,228,958
Other	(184,500)	(206,500)	1,314	(207,814)
	329,696,900	362,993,281	370,199,145	(7,205,864)
Middle School Education				
Personal Services	85,466,300	84,708,300	83,544,211	1,164,089
Employee Benefits	32,538,900	30,933,975	31,881,994	(948,019)
Prof.,Tech. Services	502,300	1,278,100	254,230	1,023,870
Property,Transportation,Comm.	323,900	331,400	387,117	(55,717)
Materials, Supplies, Books and Equipment	3,069,300	2,320,800	2,312,472	8,328
Other	708,600	6,300	1,395	4,905
	122,609,300	119,578,875	118,381,419	1,197,456
Senior High School Education				
Personal Services	145,802,400	146,471,500	144,857,187	1,614,313
Employee Benefits	52,725,200	51,558,720	52,668,609	(1,109,889)
Prof.,Tech. Services	4,899,000	2,626,700	2,081,827	544,873
Property,Transportation,Comm.	1,094,600	1,122,400	1,357,261	(234,861)
Materials, Supplies, Books and Equipment	8,611,000	4,492,800	4,443,288	49,512
Other	(2,631,300)	1,702,100	39,864	1,662,236
	210,500,900	207,974,220	205,448,036	2,526,184
Special Education				
Personal Services	12,589,100	9,987,700	9,649,182	338,518
Employee Benefits	4,755,500	3,543,641	3,749,480	(205,839)
Prof.,Tech. Services	469,500	34,000	26,787	7,213
Property,Transportation,Comm.	65,400	90,000	118,055	(28,055)
Materials, Supplies, Books and Equipment	1,313,500	954,700	841,605	113,095
Other	(9,487,600)	(9,479,700)	-	(9,479,700)
	9,705,400	5,130,341	14,385,109	(9,254,768)
Area Vocational Technical Education				
Personal Services	31,936,100	29,597,900	31,426,350	(1,828,450)
Employee Benefits	11,454,700	10,309,158	11,667,445	(1,358,287)
Prof.,Tech. Services	899,100	906,700	226,007	680,693
Property,Transportation,Comm.	293,900	294,400	201,468	92,932
Materials, Supplies, Books and Equipment	1,823,900	1,775,100	1,626,564	148,536
Other	195,800	1,000	161	839
	46,603,500	42,884,258	45,147,995	(2,263,737)

(Continued on pages 98 through 102)

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, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Desegregation				
Personal Services	\$ 7,263,400	\$ 7,377,000	\$ 7,035,940	\$ 341,060
Employee Benefits	2,527,500	2,565,070	2,590,269	(25,199)
Prof.,Tech. Services	49,900	76,800	85,080	(8,280)
Property,Transportation,Comm.	40,300	41,200	86,291	(45,091)
Materials, Supplies, Books and Equipment	1,456,800	1,274,200	1,242,574	31,626
Other	-	-	805	(805)
	<hr/>	<hr/>	<hr/>	<hr/>
	11,337,900	11,334,270	11,040,959	293,311
	<hr/>	<hr/>	<hr/>	<hr/>
School Support Services				
Personal Services	9,593,600	9,588,900	6,400,124	3,188,776
Employee Benefits	1,678,100	1,683,174	1,347,555	335,619
Prof.,Tech. Services	1,940,900	1,940,900	1,184,064	756,836
Property,Transportation,Comm.	33,200	33,200	18,917	14,283
Materials, Supplies, Books and Equipment	282,700	1,595,900	1,246,150	349,750
Payments to Other Educational Entities	83,829,500	94,133,300	98,800,946	(4,667,646)
	<hr/>	<hr/>	<hr/>	<hr/>
	97,358,000	108,975,374	108,997,756	(22,382)
	<hr/>	<hr/>	<hr/>	<hr/>
Adult Education				
Personal Services	96,500	96,500	79,777	16,723
Employee Benefits	16,500	16,271	11,225	5,046
Property,Transportation,Comm.	600	600	1,208	(608)
Materials, Supplies, Books and Equipment	1,000	1,000	1,000	-
	<hr/>	<hr/>	<hr/>	<hr/>
	114,600	114,371	93,210	21,161
	<hr/>	<hr/>	<hr/>	<hr/>
Partnership Schools				
Personal Services	6,079,500	5,682,700	4,488,689	1,194,011
Employee Benefits	1,915,100	1,785,932	1,462,446	323,486
Prof.,Tech. Services	19,373,500	20,266,300	18,722,844	1,543,456
Property,Transportation,Comm.	135,800	31,000	19,195	11,805
Materials, Supplies, Books and Equipment	3,150,700	2,314,200	2,273,364	40,836
	<hr/>	<hr/>	<hr/>	<hr/>
	30,654,600	30,080,132	26,966,538	3,113,594
	<hr/>	<hr/>	<hr/>	<hr/>
Total Instruction	<hr/>	<hr/>	<hr/>	<hr/>
	860,450,400	890,643,285	902,132,500	(11,489,215)
	<hr/>	<hr/>	<hr/>	<hr/>
Student Support Services				
Counseling				
Personal Services	24,530,000	24,305,000	24,153,772	151,228
Employee Benefits	8,667,600	8,386,343	8,806,385	(420,042)
Property,Transportation,Comm.	2,400	2,400	533	1,867
Materials, Supplies, Books and Equipment	19,000	19,000	19,431	(431)
Other	-	-	1,287	(1,287)
	<hr/>	<hr/>	<hr/>	<hr/>
	33,219,000	32,712,743	32,981,408	(268,665)
	<hr/>	<hr/>	<hr/>	<hr/>
Family & Student Support Services				
Personal Services	17,662,300	17,095,500	17,083,605	11,895
Employee Benefits	6,365,900	6,242,571	6,550,640	(308,069)
Prof.,Tech. Services	-	50,000	(1,358)	51,358
Property,Transportation,Comm.	102,700	102,700	60,415	42,285
Materials, Supplies, Books and Equipment	207,900	207,900	121,766	86,134
	<hr/>	<hr/>	<hr/>	<hr/>
	24,338,800	23,698,671	23,815,068	(116,397)
	<hr/>	<hr/>	<hr/>	<hr/>

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, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Office of Specialized Services				
Personal Services	\$ 300,300	\$ 227,900	\$ 191,466	\$ 36,434
Employee Benefits	95,200	116,370	72,032	44,338
Prof.,Tech. Services	162,000	126,900	111,281	15,619
Property,Transportation,Comm.	85,400	29,600	25,203	4,397
Materials, Supplies, Books and Equipment	22,000	64,500	62,715	1,785
	664,900	565,270	462,697	102,573
Total Student Support Services	58,222,700	56,976,684	57,259,173	(282,489)
Administrative Support				
Regional Offices				
Personal Services	4,865,700	5,099,600	5,152,437	(52,837)
Employee Benefits	1,504,800	1,502,003	1,616,734	(114,731)
Prof.,Tech. Services	64,200	67,300	6,707	60,593
Property,Transportation,Comm.	163,800	165,200	211,140	(45,940)
Materials, Supplies, Books and Equipment	329,000	324,500	292,581	31,919
	6,927,500	7,158,603	7,279,599	(120,996)
Business & Financial Services				
Personal Services	14,633,600	13,884,000	13,844,460	39,540
Employee Benefits	4,999,500	4,802,789	4,776,523	26,266
Prof.,Tech. Services	1,755,400	3,936,800	3,922,322	14,478
Property,Transportation,Comm.	587,400	592,100	622,003	(29,903)
Materials, Supplies, Books and Equipment	427,000	335,800	222,032	113,768
Other	(563,200)	4,600	690	3,910
	21,839,700	23,556,089	23,388,030	168,059
Human Resources				
Personal Services	6,535,700	5,590,200	5,299,079	291,121
Employee Benefits	2,121,600	1,925,095	1,873,662	51,433
Prof.,Tech. Services	767,400	699,600	635,628	63,972
Property,Transportation,Comm.	351,900	345,600	314,638	30,962
Materials, Supplies, Books and Equipment	168,500	167,700	86,946	80,754
Other	(1,410,000)	(335,800)	-	(335,800)
	8,535,100	8,392,395	8,209,953	182,442
Information Technology				
Personal Services	6,449,500	6,480,300	6,080,823	399,477
Employee Benefits	2,049,500	2,055,692	2,112,226	(56,534)
Prof.,Tech. Services	6,553,400	6,042,400	5,826,261	216,139
Property,Transportation,Comm.	1,159,800	1,077,800	1,129,529	(51,729)
Materials, Supplies, Books and Equipment	1,221,800	2,150,800	2,422,571	(271,771)
Other	(4,182,100)	(4,106,300)	(3,743,482)	(362,818)
	13,251,900	13,700,692	13,827,928	(127,236)
Municipal Services				
Personal Services	3,146,900	2,922,300	2,865,849	56,451
Employee Benefits	1,587,100	1,533,029	1,423,748	109,281
Prof.,Tech. Services	566,800	316,800	268,000	48,800
Property,Transportation,Comm.	5,700	5,700	2,300	3,400
Other	(62,100)	(62,100)	(66,536)	4,436
	5,244,400	4,715,729	4,493,361	222,368

(Continued on pages 100 through 102)

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, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Accountability, Assessment & Intervention				
Personal Services	\$ 2,121,000	\$ 1,414,100	\$ 1,464,559	\$ (50,459)
Employee Benefits	586,500	409,346	439,411	(30,065)
Prof.,Tech. Services	588,500	253,600	231,464	22,136
Property,Transportation,Comm.	195,200	159,600	151,895	7,705
Materials, Supplies, Books and Equipment	134,000	148,900	106,718	42,182
Other	(640,600)	-	-	-
	<hr/> 2,984,600	<hr/> 2,385,546	<hr/> 2,394,047	<hr/> (8,501)
Office of School Management				
Personal Services	3,277,000	5,347,600	5,317,311	30,289
Employee Benefits	1,065,300	1,779,883	1,661,125	118,758
Prof.,Tech. Services	123,000	147,800	62,387	85,413
Property,Transportation,Comm.	250,500	332,300	234,249	98,051
Materials, Supplies, Books and Equipment	171,500	81,400	71,194	10,206
Other	(513,500)	200	-	200
	<hr/> 4,373,800	<hr/> 7,689,183	<hr/> 7,346,266	<hr/> 342,917
Office of Secondary Education				
Personal Services	3,765,100	3,402,100	3,319,952	82,148
Employee Benefits	1,026,700	999,341	803,548	195,793
Prof.,Tech. Services	2,251,100	1,149,700	1,156,557	(6,857)
Property,Transportation,Comm.	159,700	273,900	316,176	(42,276)
Materials, Supplies, Books and Equipment	205,200	378,200	438,480	(60,280)
Other	(2,199,200)	1,400	-	1,400
	<hr/> 5,208,600	<hr/> 6,204,641	<hr/> 6,034,713	<hr/> 169,928
Curriculum, Instruction & Professional Development				
Personal Services	3,108,000	2,642,300	2,628,242	14,058
Employee Benefits	882,500	831,103	838,625	(7,522)
Prof.,Tech. Services	2,119,800	1,560,500	1,555,378	5,122
Property,Transportation,Comm.	201,800	302,800	414,998	(112,198)
Materials, Supplies, Books and Equipment	239,600	921,500	888,809	32,691
Other	1,337,000	806,900	571,750	235,150
	<hr/> 7,888,700	<hr/> 7,065,103	<hr/> 6,897,802	<hr/> 167,301
Executive / Board Management				
Personal Services	8,467,400	8,516,000	8,509,548	6,452
Employee Benefits	2,789,100	2,902,911	2,861,900	41,011
Prof.,Tech. Services	5,521,500	6,000,300	5,921,606	78,694
Property,Transportation,Comm.	420,900	637,200	612,150	25,050
Materials, Supplies, Books and Equipment	257,000	340,000	240,370	99,630
Other	(151,200)	4,800	-	4,800
	<hr/> 17,304,700	<hr/> 18,401,211	<hr/> 18,145,574	<hr/> 255,637
Office of the Chief Academic Officer				
Personal Services	1,183,800	905,600	870,536	35,064
Employee Benefits	344,800	338,263	268,456	69,807
Prof.,Tech. Services	39,300	360,500	359,492	1,008
Property,Transportation,Comm.	104,600	93,600	112,047	(18,447)
Materials, Supplies, Books and Equipment	66,800	42,800	20,682	22,118
Other	(370,100)	143,200	-	143,200
	<hr/> 1,369,200	<hr/> 1,883,963	<hr/> 1,631,213	<hr/> 252,750
Total Administrative Support	<hr/> 94,928,200	<hr/> 101,153,155	<hr/> 99,648,486	<hr/> 1,504,669

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, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Operation & Maintenance of Plant Services				
Facilities Management & Services				
Personal Services	\$ 76,659,400	\$ 70,378,500	\$ 70,286,105	\$ 92,395
Employee Benefits	36,639,500	34,459,758	33,671,445	788,313
Prof.,Tech. Services	3,250,600	2,311,600	1,608,653	702,947
Property,Transportation,Comm.	9,451,800	8,741,300	8,655,992	85,308
Materials, Supplies, Books and Equipment	8,366,500	9,201,500	9,261,579	(60,079)
Other	(4,534,300)	1,715,000	-	1,715,000
	129,833,500	126,807,658	123,483,774	3,323,884
Utilities				
Prof.,Tech. Services	260,000	260,000	266,158	(6,158)
Property,Transportation,Comm.	11,699,700	11,818,500	11,653,897	164,603
Materials, Supplies, Books and Equipment	37,600,100	45,733,500	45,882,715	(149,215)
	49,559,800	57,812,000	57,802,770	9,230
Security Operations				
Personal Services	43,118,700	44,633,700	44,096,173	537,527
Employee Benefits	18,171,400	18,314,625	18,169,330	145,295
Prof.,Tech. Services	305,600	605,600	447,432	158,168
Property,Transportation,Comm.	683,900	646,600	402,768	243,832
Materials, Supplies, Books and Equipment	907,300	1,024,700	700,312	324,388
Other	(3,152,400)	(1,918,300)	-	(1,918,300)
	60,034,500	63,306,925	63,816,015	(509,090)
Total Oper. & Maint. of Plant Services	239,427,800	247,926,583	245,102,559	2,824,024
Pupil Transportation				
Personal Services	21,418,900	21,002,200	21,565,239	(563,039)
Employee Benefits	10,555,600	10,544,885	10,201,067	343,818
Prof.,Tech. Services	79,300	81,200	125,440	(44,240)
Property,Transportation,Comm.	47,331,600	49,106,600	50,065,698	(959,098)
Materials, Supplies, Books and Equipment	1,958,600	2,175,100	2,763,344	(588,244)
Other	(28,932,200)	(30,260,000)	(31,686,187)	1,426,187
	52,411,800	52,649,985	53,034,601	(384,616)
Total Pupil Transportation	52,411,800	52,649,985	53,034,601	(384,616)
All Other Support Services				
Risk Management				
Personal Services	206,700	213,700	2,994,812	(2,781,112)
Employee Benefits	68,100	35,327	70,395	(35,068)
Prof.,Tech. Services	25,400	25,000	3,036,588	(3,011,588)
Property,Transportation,Comm.	1,321,000	1,801,400	1,612,972	188,428
Materials, Supplies, Books and Equipment	5,400	6,600	1,802	4,798
Losses and Judgements	2,385,700	2,385,700	2,391,733	(6,033)
	4,012,300	4,467,727	10,108,302	(5,640,575)

(Continued on page 102)

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, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Temporary Borrowing				
Prof.,Tech. Services	713,000	306,500	306,450	50
Property,Transportation,Comm.	20,000	11,000	11,000	-
Interest	6,990,400	6,733,700	6,718,227	15,473
	<u>7,723,400</u>	<u>7,051,200</u>	<u>7,035,677</u>	<u>15,523</u>
Undistributed				
Other	(60,086,000)	(1,714,219)	(1,714,219)	-
Cancellation of Prior Years' Encumbrances	-	(6,194,100)	(5,873,226)	(320,874)
	<u>(60,086,000)</u>	<u>(7,908,319)</u>	<u>(7,587,445)</u>	<u>(320,874)</u>
Total All Other Support Services	<u>(48,350,300)</u>	<u>3,610,608</u>	<u>9,556,534</u>	<u>(5,945,926)</u>
Payments to Charter Schools	<u>177,866,500</u>	<u>182,913,200</u>	<u>184,084,382</u>	<u>(1,171,182)</u>
Allocated Costs	<u>(18,475,300)</u>	<u>(17,258,400)</u>	<u>-</u>	<u>(17,258,400)</u>
Total Obligations	<u>1,416,481,800</u>	<u>1,518,615,100</u>	<u>1,550,818,235</u>	<u>(32,203,135)</u>
OTHER FINANCING USES				
Local Share of Categorical Programs	19,252,100	18,433,400	18,708,748	(275,348)
Bond Issuance Expense/Asbestos Loan	-	-	1,568,184	(1,568,184)
Debt Service Fund	106,364,300	84,245,000	82,139,934	2,105,066
Special Education	180,316,700	186,051,600	182,928,488	3,123,112
Total Other Financing Uses	<u>305,933,100</u>	<u>288,730,000</u>	<u>285,345,354</u>	<u>3,384,646</u>
Total General Fund	<u>\$ 1,722,414,900</u>	<u>\$ 1,807,345,100</u>	<u>\$ 1,836,163,589</u>	<u>\$ (28,818,489)</u>
Fund Totals - Object Classes				
Personal Services	\$ 774,150,000	\$ 787,662,200	\$ 786,357,475	\$ 1,304,725
Employee Benefits	296,417,600	294,264,019	302,634,067	(8,370,048)
Prof.,Tech. Services	53,713,900	52,504,500	48,827,258	3,677,242
Property,Transportation,Comm.	78,334,100	80,236,300	80,137,346	98,954
Materials, Supplies, Books, and				
Equipment	78,127,700	84,931,500	83,333,185	1,598,315
Other	(116,858,300)	(43,696,819)	(36,593,158)	(7,103,661)
Interest on Temporary Borrowing	6,990,400	6,733,700	6,718,227	15,473
Payments to Other Educational				
Entities	83,829,500	94,133,300	98,800,946	(4,667,646)
Losses and Judgements	2,385,700	2,385,700	2,391,733	(6,033)
Payments to Charter Schools	177,866,500	182,913,200	184,084,382	(1,171,182)
Allocated Costs	(18,475,300)	(17,258,400)	-	(17,258,400)
Other Financing Uses	305,933,100	288,730,000	285,345,354	3,384,646
Cancellation of Prior Years' Encumbrances	-	(6,194,100)	(5,873,226)	(320,874)
Total General Fund	<u>\$ 1,722,414,900</u>	<u>\$ 1,807,345,100</u>	<u>\$ 1,836,163,589</u>	<u>\$ (28,818,489)</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, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Locally Generated Non Tax				
Interest				
Special Education Transportation	\$ 71,000	\$ 163,000	\$ 142,263	\$ (20,737)
Non-Public School Programs	94,000	183,000	186,938	3,938
Tuition	168,000	97,000	60,588	(36,412)
Total Locally Generated Non Tax	333,000	443,000	389,789	(53,211)
State Grants and Subsidies				
Special Education Program	4,060,000	4,074,000	4,092,938	18,938
Special Education Transportation	40,467,000	41,849,000	42,238,375	389,375
Non-Public School Programs	14,934,000	15,433,000	15,433,299	299
Management Services Program	560,000	560,000	560,105	105
Social Security	6,381,000	5,682,000	6,480,764	798,764
Retirement	3,130,000	3,141,000	2,805,778	(335,222)
Total State Grants and Subsidies	69,532,000	70,739,000	71,611,259	872,259
Total Revenues	<u>\$ 69,865,000</u>	<u>\$ 71,182,000</u>	<u>\$ 72,001,048</u>	<u>\$ 819,048</u>
OBLIGATIONS				
Instruction				
Special Education *				
Personal Services	\$ 116,306,800	\$ 116,351,500	\$ 115,011,124	\$ 1,340,376
Employee Benefits	42,897,100	43,412,400	43,331,949	80,451
Prof.,Tech. Services	4,447,900	8,979,600	7,848,100	1,131,500
Property,Transportation,Comm.	338,800	394,000	238,444	155,556
Materials, Supplies, Books and Equipment	3,938,900	3,591,200	3,467,351	123,849
Other	(896,400)	(794,900)	727,129	(1,522,029)
Total Special Education	167,033,100	171,933,800	170,624,097	1,309,703
Services to Non-Public School Students				
Personal Services	63,600	89,100	47,666	41,434
Employee Benefits	23,600	26,300	22,473	3,827
Prof.,Tech. Services	13,712,600	14,291,800	14,211,898	79,902
Property,Transportation,Comm.	400	400	-	400
Materials, Supplies, Books and Equipment	1,300	1,300	-	1,300
Total Services to Non-Public School Students	13,801,500	14,408,900	14,282,037	126,863
Total Instruction	180,834,600	186,342,700	184,906,134	1,436,566
Student Support Services				
Special Education *				
Personal Services	15,786,900	15,891,800	14,894,692	997,108
Employee Benefits	8,688,000	8,805,300	7,481,389	1,323,911
Property,Transportation,Comm.	5,055,300	5,055,300	5,009,130	46,170
Materials, Supplies, Books and Equipment	42,400	42,400	14,083	28,317
Allocated Costs	(11,595,000)	(11,735,000)	(10,692,577)	(1,042,423)
Total Special Education	17,977,600	18,059,800	16,706,717	1,353,083

* 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, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Transportation				
Allocated Costs	\$ 40,538,000	\$ 42,012,000	\$ 42,380,638	\$ (368,638)
Total Student Support Services	58,515,600	60,071,800	59,087,355	984,445
Administrative Support				
Special Education				
Personal Services	-	-	1,486	(1,486)
Employee Benefits	-	-	222	(222)
Total Special Education	-	-	1,708	(1,708)
Services to Non-Public School Students				
Personal Services	697,500	685,700	562,595	123,105
Employee Benefits	261,000	249,400	193,714	55,686
Prof.,Tech. Services	2,000	2,000	2,000	-
Property,Transportation,Comm.	30,000	30,000	22,577	7,423
Materials, Supplies, Books and Equipment	15,700	15,700	5,627	10,073
	1,006,200	982,800	786,513	196,287
Total Administrative Support	1,006,200	982,800	788,221	194,579
Allocated Costs				
Special Education	9,000,000	9,000,000	9,000,000	-
Services to Non-Public School Students	265,300	276,300	587,720	(311,420)
Management Services	560,000	560,000	560,105	(105)
Total Allocated Costs	9,825,300	9,836,300	10,147,825	(311,525)
Total Obligations	250,181,700	257,233,600	254,929,535	2,304,065
OTHER FINANCING SOURCES				
Operating Transfers from Other Funds	(180,316,700)	(186,051,600)	(182,928,487)	(3,123,113)
Total Intermediate Unit	\$ 69,865,000	\$ 71,182,000	\$ 72,001,048	\$ (819,048)
Fund Totals - Object Classes				
Personal Services	\$ 132,854,800	\$ 133,018,100	\$ 130,517,563	\$ 2,500,537
Employee Benefits	51,869,700	52,493,400	51,029,747	1,463,653
Prof.,Tech. Services	18,162,500	23,273,400	22,061,998	1,211,402
Property,Transportation,Comm.	5,424,500	5,479,700	5,270,151	209,549
Materials, Supplies, Books and Equipment	3,998,300	3,650,600	3,487,061	163,539
Other	(896,400)	(794,900)	727,129	(1,522,029)
Allocated Costs	38,768,300	40,113,300	41,835,886	(1,722,586)
Total Obligations	250,181,700	257,233,600	254,929,535	2,304,065
Other Financing Sources				
Operating Transfers from Other Funds	(180,316,700)	(186,051,600)	(182,928,487)	(3,123,113)
Total Intermediate Unit	\$ 69,865,000	\$ 71,182,000	\$ 72,001,048	\$ (819,048)

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, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Locally Generated Non Tax				
Interest on Investments	\$ 1,542,000	\$ 1,073,000	\$ 1,188,986	\$ 115,986
Time Value Earnings from Swaption	3,079,000	-	-	-
Variable Rate Income	-	15,204,000	11,383,180	(3,820,820)
Total Revenues	<u>\$ 4,621,000</u>	<u>\$ 16,277,000</u>	<u>\$ 12,572,166</u>	<u>\$ (3,704,834)</u>
OBLIGATIONS				
Principal				
Bonds	\$ 47,210,000	\$ 20,400,000	\$ 20,400,000	\$ -
Loans	368,600	368,600	368,641	(41)
Interest	71,834,100	41,560,600	41,560,618	(18)
Principal & Interest - Authority	36,787,600	33,995,900	33,614,554	381,346
Variable Rate Payments		15,883,800	12,156,759	3,727,041
Fixed Rate Swap Payments		17,202,600	17,202,642	(42)
Issuance Costs	4,600,000	5,005,602	4,748,736	256,866
Administrative Expenses	930,100	2,811,600	2,346,021	465,579
Total Obligations	<u>\$ 161,730,400</u>	<u>\$ 137,228,702</u>	<u>\$ 132,397,971</u>	<u>\$ 4,830,731</u>
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	\$ 111,142,300	\$ 84,548,000	\$ 84,059,966	\$ (488,034)
Swaption Net Proceeds	26,500,000	-	-	-
Land Sale Proceeds	25,064,000	28,657,000	27,754,440	(902,560)
Debt Issuance	-	241,554,875	241,555,000	125
Bond Premium	-	18,512,125	18,512,125	-
Bond Defeasement	-	(256,746,398)	(256,746,398)	-
Total Other Financing Sources (Uses)	<u>\$ 162,706,300</u>	<u>\$ 116,525,602</u>	<u>\$ 115,135,133</u>	<u>\$ (1,390,469)</u>
Net Change in Fund Balance	<u>\$ 5,596,900</u>	<u>\$ (4,426,100)</u>	<u>\$ (4,690,672)</u>	<u>\$ (264,572)</u>

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, 2005

	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	\$ 17,233,944	\$ 9,833,944
Miscellaneous	12,600,000	12,600,000	200,000	(12,400,000)
Total Locally Generated Non Tax	20,000,000	20,000,000	17,433,944	(2,566,056)
State Grants and Subsidies	-	-	229,946	229,946
Total Revenues	<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>	<u>\$ 17,663,890</u>	<u>\$ (2,336,110)</u>
OBLIGATIONS				
Undistributed				
Cancellation of Prior Years' Encumbrances	\$ -	\$ -	\$ (5,592,500)	\$ 5,592,500
New Buildings and Additions	169,126,952	28,752,491	109,857,294	(81,104,803)
Environmental Management				
Asbestos Abatement	2,667,200	3,200,400	-	3,200,400
Environmental Services	14,917,440	15,210,100	3,050,852	12,159,248
Total Environmental Management	17,584,640	18,410,500	3,050,852	15,359,648
Alterations and Improvements				
Various Projects	220,987,216	206,274,202	16,689,149	189,585,053
Administrative Support	35,614,483	31,271,736	20,731,278	10,540,458
Major/Building Renovations	157,315,809	21,984,871	100,896,727	(78,911,856)
Total Alterations and Improvements	413,917,508	259,530,809	138,317,154	121,213,655
Total Obligations	<u>\$ 600,629,100</u>	<u>\$ 306,693,800</u>	<u>\$ 245,632,800</u>	<u>\$ 61,061,000</u>
OTHER FINANCING SOURCES (USES)				
Debt Issuance	\$ 319,336,000	\$ 19,335,700	\$ 19,335,000	\$ (700)
Gain on Sale of Fixed Assets	-	-	221,507	221,507
Bond Issuance Costs	(5,600,000)	(1,300,000)	(143,997)	1,156,003
Total Other Financing Sources (Uses)	<u>\$ 313,736,000</u>	<u>\$ 18,035,700</u>	<u>\$ 19,412,510</u>	<u>\$ 1,376,810</u>
Net Change in Fund Balance	<u>\$ (266,893,100)</u>	<u>\$ (268,658,100)</u>	<u>\$ (208,556,400)</u>	<u>\$ 60,101,700</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, 2005 there were thirteen 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, 2005 there were four Agency Funds administered by the School District: Payroll Liabilities, Student Bus Token, Student Activities, and Unclaimed Monies.

School District of Philadelphia
Combining Schedule of Fiduciary Net Assets
Agency Funds
June 30, 2005

	Payroll Liabilities	Student Bus Token Fund	Student Activities Fund (1)	Unclaimed Monies Fund	Total
ASSETS					
Cash and Cash Equivalents	\$ -	\$ 6,922	\$ 5,650,856	\$ -	\$ 5,657,778
Equity in Pooled Cash and Investments	19,979,151	-	-	487,441	20,466,592
Accounts Receivable	9,677	40,411	-	-	50,088
Inventories	-	500,973	-	-	500,973
Total Assets	19,988,828	548,306	5,650,856	487,441	26,675,431
LIABILITIES					
Payroll Deductions and Withholdings	19,988,828	-	-	-	19,988,828
Due to Other Funds	-	548,114	-	-	548,114
Due to Student Activities	-	-	5,650,856	-	5,650,856
Other Liabilities	-	192	-	487,441	487,633
Total Liabilities	19,988,828	548,306	5,650,856	487,441	26,675,431
NET ASSETS					
Held in Trust for Various Purposes	\$ -	\$ -	\$ -	\$ -	\$ -

(1) Amounts reflect balances as of May 31, 2005.

School District of Philadelphia
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the Year Ended June 30, 2005

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Payroll Liabilities Fund				
Assets				
Equity in Pooled Cash and Investments	\$ 32,881,051	\$ 1,869,274,264	\$ 1,882,176,164	\$ 19,979,151
Accounts Receivable	1,135,636	-	1,125,959	9,677
Total Assets	\$ 34,016,687	\$ 1,869,274,264	\$ 1,883,302,123	\$ 19,988,828
Liabilities				
Payroll Deductions and Withholdings	\$ 34,016,687	\$ 1,869,274,264	\$ 1,883,302,123	\$ 19,988,828
Total Liabilities	\$ 34,016,687	\$ 1,869,274,264	\$ 1,883,302,123	\$ 19,988,828
Student Bus Token Fund				
Assets				
Cash and Cash Equivalents	\$ 12,489	\$ 4,063,192	\$ 4,068,759	\$ 6,922
Accounts Receivable	44,735	18,514	22,838	40,411
Inventories	455,442	17,821,008	17,775,477	500,973
Total Assets	\$ 512,666	\$ 21,902,714	\$ 21,867,074	\$ 548,306
Liabilities				
Accounts Payable	\$ -	\$ 12,214,549	\$ 12,214,357	\$ 192
Due to Other Funds	512,666	9,688,165	9,652,717	548,114
Total Liabilities	\$ 512,666	\$ 21,902,714	\$ 21,867,074	\$ 548,306
Student Activities Fund				
Assets				
Cash	\$ 5,256,590	\$ 14,086,419	\$ 13,692,153	\$ 5,650,856
Liabilities				
Due to Student Activities	\$ 5,256,590	\$ 14,086,419	\$ 13,692,153	\$ 5,650,856
Unclaimed Monies Fund				
Assets				
Equity in Pooled Cash and Investments	\$ 246,086	\$ 1,543,340	\$ 1,301,985	\$ 487,441
Liabilities				
Other Liabilities	\$ 246,086	\$ 1,543,340	\$ 1,301,985	\$ 487,441
All Agency Funds				
Assets				
Cash and Cash Equivalents	\$ 5,269,079	\$ 18,149,611	\$ 17,760,912	\$ 5,657,778
Equity in Pooled Cash and Investments	33,127,137	1,870,817,604	1,883,478,149	20,466,592
Accounts Receivable	1,180,371	18,514	1,148,797	50,088
Inventories	455,442	17,821,008	17,775,477	500,973
Total Assets	\$ 40,032,029	\$ 1,906,806,737	\$ 1,920,163,335	\$ 26,675,431
Liabilities				
Accounts Payable	\$ -	\$ 12,214,549	\$ 12,214,357	\$ 192
Payroll Deductions and Withholdings	34,016,687	1,869,274,264	1,883,302,123	19,988,828
Due to Other Funds	512,666	9,688,165	9,652,717	548,114
Due to Student Activities	5,256,590	14,086,419	13,692,153	5,650,856
Other Liabilities	246,086	1,543,340	1,301,985	487,441
Total Liabilities	\$ 40,032,029	\$ 1,906,806,737	\$ 1,920,163,335	\$ 26,675,431

SCHOOL DISTRICT OF PHILADELPHIA
SCHEDULE OF BONDS OUTSTANDING
JUNE 30, 2005

Date of Issue	Original Principal Issued	Principal Outstanding	Maturity Dates	Interest Rates %	Fiscal 2006 Debt Service Requirements		
					Interest	Fixed Swap Interest	Principal
APRIL 1, 1993 (SERIES A)	\$ 113,505,000	\$ 7,880,000 <u>7,880,000</u>	JULY 1, 2005	5.3750	\$ 211,775 <u>211,775</u>	\$ - <u>-</u>	\$ 7,880,000 <u>7,880,000</u>
APRIL 1, 1993 (SERIES B)	97,620,000	2,675,000 <u>2,825,000</u> <u>5,500,000</u>	JULY 1, 2005 JULY 1, 2006	5.3750 5.4000	71,891 <u>152,550</u> <u>224,441</u>	- <u>-</u> <u>-</u>	2,675,000 <u>-</u> <u>2,675,000</u>
		1,210,000 <u>1,275,000</u> <u>2,485,000</u> <u>7,985,000</u>	JULY 1, 2005 JULY 1, 2006	5.3750 5.4000	32,519 <u>68,850</u> <u>101,369</u> <u>325,810</u>	- <u>-</u> <u>-</u> <u>-</u>	1,210,000 <u>-</u> <u>1,210,000</u> <u>3,885,000</u>
			(A)				
OCTOBER 1, 1995 (SERIES A)	53,725,000	6,780,000 <u>7,215,000</u> <u>7,680,000</u> <u>8,180,000</u> <u>29,855,000</u>	SEPT 1, 2006 SEPT 1, 2007 SEPT 1, 2008 SEPT 1, 2009	6.2500 6.2500 6.2500 6.2500	423,750 <u>450,938</u> <u>480,000</u> <u>511,250</u> <u>1,865,938</u>	- <u>-</u> <u>-</u> <u>-</u> <u>-</u>	- <u>-</u> <u>-</u> <u>-</u> <u>-</u>
JUNE 1, 1997 (SERIES A)	52,220,000	5,755,000 <u>6,045,000</u> <u>6,345,000</u> <u>6,660,000</u> <u>6,995,000</u> <u>31,800,000</u>	APRIL 1, 2006 APRIL 1, 2007 APRIL 1, 2008 APRIL 1, 2009 APRIL 1, 2010	5.0000 5.0000 5.0000 5.0000 5.0000	287,750 <u>302,250</u> <u>317,250</u> <u>333,000</u> <u>349,750</u> <u>1,590,000</u>	- <u>-</u> <u>-</u> <u>-</u> <u>-</u> <u>-</u>	5,755,000 <u>-</u> <u>-</u> <u>-</u> <u>-</u> <u>5,755,000</u>
DECEMBER 15, 1998 (SERIES A)	156,575,000	5,000 <u>5,000</u> <u>5,000</u> <u>5,000</u> <u>7,785,000</u> <u>44,625,000</u> <u>59,680,000</u> <u>112,110,000</u>	APRIL 1, 2006 APRIL 1, 2007 APRIL 1, 2008 APRIL 1, 2009 APRIL 1, 2018 APRIL 1, 2019-23 APRIL 1, 2024-27	4.0000 4.1000 4.1250 4.2500 4.5000 4.5000 4.7500	200 <u>205</u> <u>206</u> <u>213</u> <u>350,325</u> <u>2,008,125</u> <u>2,834,800</u> <u>5,194,074</u>	- <u>-</u> <u>-</u> <u>-</u> <u>-</u> <u>-</u> <u>-</u> <u>-</u>	5,000 <u>-</u> <u>-</u> <u>-</u> <u>-</u> <u>-</u> <u>-</u> <u>5,000</u>
DECEMBER 15, 1998 (SERIES B)	98,405,000	2,465,000 <u>12,690,000</u> <u>18,465,000</u> <u>19,415,000</u> <u>15,300,000</u> <u>21,040,000</u> <u>89,375,000</u>	OCT 1, 2005 OCT 1, 2006 OCT 1, 2007 OCT 1, 2008 OCT 1, 2009 OCT 1, 2010-12	5.0000 5.0000 5.0000 5.0000 5.2500 5.2500	61,625 <u>634,500</u> <u>923,250</u> <u>970,750</u> <u>803,250</u> <u>1,104,600</u> <u>4,497,975</u>	- <u>-</u> <u>-</u> <u>-</u> <u>-</u> <u>-</u> <u>-</u>	2,465,000 <u>-</u> <u>-</u> <u>-</u> <u>-</u> <u>-</u> <u>2,465,000</u>
DECEMBER 1, 1999 (SERIES D)	73,765,000	5,030,000 <u>12,765,000</u> <u>9,960,000</u> <u>10,510,000</u> <u>6,970,000</u> <u>45,235,000</u>	MAR 1, 2006 MAR 1, 2007 MAR 1, 2008 MAR 1, 2009 MAR 1, 2010	5.2500 5.5000 5.5000 5.6250 5.6250	264,075 <u>702,075</u> <u>547,800</u> <u>591,188</u> <u>392,063</u> <u>2,497,201</u>	- <u>-</u> <u>-</u> <u>-</u> <u>-</u> <u>-</u>	5,030,000 <u>-</u> <u>-</u> <u>-</u> <u>-</u> <u>5,030,000</u>
NOVEMBER 30, 2000 (SERIES A)	130,000,000	5,000 <u>5,000</u> <u>5,000</u> <u>5,000</u> <u>5,000</u> <u>22,000,000</u> <u>22,025,000</u>	FEB 1, 2006 FEB 1, 2007 FEB 1, 2008 FEB 1, 2009 FEB 1, 2010 FEB 1, 2011	4.6500 4.7000 4.7500 4.8000 4.8500 5.7500	233 <u>235</u> <u>238</u> <u>240</u> <u>243</u> <u>1,265,000</u> <u>1,266,189</u>	- <u>-</u> <u>-</u> <u>-</u> <u>-</u> <u>-</u> <u>-</u>	5,000 <u>-</u> <u>-</u> <u>-</u> <u>-</u> <u>-</u> <u>5,000</u>
NOVEMBER 30, 2000 (SERIES B) QZAB	22,985,000	5,000 <u>5,000</u> <u>5,000</u> <u>5,000</u> <u>5,000</u> <u>22,945,000</u> <u>22,970,000</u>	NOV 30, 2005 NOV 30, 2006 NOV 30, 2007 NOV 30, 2008 NOV 30, 2009 NOV 30, 2010-13	- - - - - -	- <u>-</u> <u>-</u> <u>-</u> <u>-</u> <u>-</u> <u>-</u>	- <u>-</u> <u>-</u> <u>-</u> <u>-</u> <u>-</u> <u>-</u>	5,000 <u>-</u> <u>-</u> <u>-</u> <u>-</u> <u>-</u> <u>5,000</u>

SCHOOL DISTRICT OF PHILADELPHIA
SCHEDULE OF BONDS OUTSTANDING
JUNE 30, 2005

Date of Issue	Original Principal Issued	Principal Outstanding	Maturity Dates	Interest Rates %	Fiscal 2006 Debt Service Requirements		
					Fixed Swap		Principal
					Interest	Interest	
JANUARY 1, 2002 (SERIES A)	156,000,000	5,000 5,000 5,000 5,000 3,315,000 7,140,000 <u>10,475,000</u>	FEB 1, 2006 FEB 1, 2007 FEB 1, 2008 FEB 1, 2009 FEB 1, 2010 FEB 1, 2011-12	3.5000 3.9000 4.1000 4.3000 5.0000 5.2500	175 195 205 215 165,750 374,851 <u>541,391</u>	- - - - - - <u>-</u>	5,000 - - - - - <u>5,000</u>
MAY 15, 2002 (SERIES B)	300,000,000	9,590,000 10,080,000 10,625,000 11,225,000 11,860,000 39,760,000 <u>93,140,000</u>	AUG 1, 2005 AUG 1, 2006 AUG 1, 2007 AUG 1, 2008 AUG 1, 2009 AUG 1, 2010-12	5.0000 5.0000 5.5000 5.5000 5.5000 5.5000	239,750 504,000 584,375 617,375 652,300 2,186,800 <u>4,784,600</u>	- - - - - - <u>-</u>	9,590,000 - - - - - <u>9,590,000</u>
AUGUST 12, 2003 (SERIES A) VARIABLE INTEREST RATE Dauphin County General Authority	109,000,000	5,000 5,000 5,000 5,000 5,000 25,000 52,000,000 39,500,000 17,445,000 <u>108,995,000</u>	AUG 1, 2005 AUG 1, 2006 AUG 1, 2007 AUG 1, 2008 AUG 1, 2009 AUG 1, 2010-14 AUG 1, 2015-19 AUG1, 2020-24 AUG 1, 2025-27	4.0000 4.0000 4.0000 4.0000 4.0000 4.0000 4.0000 4.0000 4.0000	33 200 200 200 200 1,000 2,080,000 1,580,000 697,800 <u>4,359,633</u>	- - - - - - - - - <u>-</u>	5,000 - - - - - - - - <u>5,000</u>
SEPTEMBER 10, 2003 (SERIES B) State Public School Building Authority Capital Obligation Bonds	588,140,000	5,000 5,000 5,000 5,000 5,000 25,000 25,000 69,385,000 208,795,000 309,875,000 <u>588,130,000</u>	JUNE 1, 2006 JUNE 1, 2007 JUNE 1, 2008 JUNE 1, 2009 JUNE 1, 2010 JUNE 1, 2011-15 JUNE 1, 2016-20 JUNE 1, 2021-25 JUNE 1, 2026-30 JUNE 1, 2031-33	3.0000 4.0000 4.0000 4.0000 4.0000 4.0750 4.5500 5.2140 5.1880 5.0000	150 200 200 200 200 1,019 1,138 3,617,826 10,832,988 15,493,750 <u>29,947,671</u>	- - - - - - - - - - <u>-</u>	5,000 - - - - - - - - - <u>5,000</u>
JUNE 29, 2004 (SERIES A) VARIABLE INTEREST RATE Dauphin County General Authority	100,000,000	5,000 5,000 5,000 5,000 2,625,000 37,100,000 37,400,000 20,500,000 2,350,000 <u>99,995,000</u>	JUNE 1, 2006 JUNE 1, 2007 JUNE 1, 2008 JUNE 1, 2009 JUNE 1, 2010 JUNE 1, 2011-15 JUNE 1, 2016-20 JUNE 1, 2021-25 JUNE 1, 2026	4.0000 4.0000 4.0000 4.0000 4.0000 4.0000 4.0000 4.0000 4.0000	200 200 200 200 105,000 1,484,000 1,496,000 820,000 94,000 <u>3,999,800</u>	- - - - - - - - - <u>-</u>	5,000 - - - - - - - - <u>5,000</u>
JUNE 29, 2004 (SERIES B) GOB-Refunding Auction Reset Securities	652,600,000	25,000 25,000 25,000 25,000 25,000 114,375,000 130,225,000 158,550,000 217,150,000 32,150,000 <u>652,575,000</u>	SEPT 1, 2005 SEPT 1, 2006 SEPT 1, 2007 SEPT 1, 2008 SEPT 1, 2009 SEPT 1, 2010-14 SEPT 1, 2015-19 SEPT 1, 2020-24 SEPT 1, 2025-29 SEPT 1, 2030	4.0000 4.0000 4.0000 4.0000 4.0000 4.0000 4.0000 4.0000 4.0000 4.0000	250 1,000 1,000 1,000 1,000 4,575,000 5,209,000 6,342,000 8,686,000 1,286,000 <u>26,102,250</u>	933 933 933 933 933 4,266,709 4,857,986 5,914,638 8,100,685 1,199,342 <u>24,344,025</u>	25,000 - - - - - - - - - <u>25,000</u>
JUNE 29, 2004 (SERIES C) GOB-Refunding Auction Reset Securities	38,475,000	25,000 4,725,000 7,625,000 7,850,000 8,125,000 10,100,000 <u>38,450,000</u>	SEPT 1, 2005 SEPT 1, 2006 SEPT 1, 2007 SEPT 1, 2008 SEPT 1, 2009 SEPT 1, 2010-11	4.0000 4.0000 4.0000 4.0000 4.0000 4.0000	250 189,000 305,000 314,000 325,000 404,000 <u>1,537,250</u>	810 153,040 246,970 254,257 263,164 327,134 <u>1,245,375</u>	25,000 - - - - - <u>25,000</u>

SCHOOL DISTRICT OF PHILADELPHIA
SCHEDULE OF BONDS OUTSTANDING
JUNE 30, 2005

Date of Issue	Original Principal Issued	Principal Outstanding	Maturity Dates	Interest Rates %	Fiscal 2006 Debt Service Requirements		
					Interest	Fixed Swap Interest	Principal
JUNE 29, 2004 (SERIES D) GOB Fixed Rate	100,000,000	150,000	JUNE 1, 2006	2.2500	3,375	-	150,000
		100,000	JUNE 1, 2007	2.7000	2,700	-	-
		50,000	JUNE 1, 2008	3.0000	1,500	-	-
		5,000	JUNE 1, 2009	3.3000	165	-	-
		5,000	JUNE 1, 2010	3.5000	175	-	-
		8,720,000	JUNE 1, 2011-15	4.9980	435,786	-	-
		25,000	JUNE 1, 2016-20	5.0000	1,250	-	-
		4,375,000	JUNE 1, 2021-25	5.0000	218,750	-	-
		10,540,000	JUNE 1, 2026-30	5.0480	532,069	-	-
		76,025,000	JUNE 1, 2031-34	5.1740	3,933,781	-	-
		<u>99,995,000</u>			<u>5,129,551</u>	<u>-</u>	<u>150,000</u>
AUGUST 1, 2004 2004 QZAB CSF P	19,335,000	1,381,071	SEPT 1, 2005	-	-	-	1,381,071
		1,381,071	SEPT 1, 2006	-	-	-	-
		1,381,071	SEPT 1, 2007	-	-	-	-
		1,381,071	SEPT 1, 2008	-	-	-	-
		1,381,071	SEPT 1, 2009	-	-	-	-
		6,905,355	SEPT 1, 2010-14	-	-	-	-
		5,524,290	SEPT 1, 2015-18	-	-	-	-
		<u>19,335,000</u>			<u>-</u>	<u>-</u>	<u>1,381,071</u>
MAY 25, 2005 (SERIES A) GOB-Refunding	198,140,000	5,000	AUGUST 1, 2005	3.0000	28	-	5,000
		20,000	AUGUST 1, 2006	3.0000	410	-	-
		25,000	AUGUST 1, 2007	3.0000	513	-	-
		475,000	AUGUST 1, 2008	3.0000	9,738	-	-
		795,000	AUGUST 1, 2009	3.0000	16,298	-	-
		34,725,000	AUGUST 1, 2010-14	4.9260	1,168,877	-	-
		95,970,000	AUGUST 1, 2015-19	5.0000	3,278,976	-	-
		66,125,000	AUGUST 1, 2020-22	5.0000	2,259,272	-	-
		<u>198,140,000</u>			<u>6,734,112</u>	<u>-</u>	<u>5,000</u>
MAY 25, 2005 (SERIES B) GOB-Refunding	43,415,000	205,000	APRIL 1, 2006	3.0000	5,228	-	205,000
		5,000	APRIL 1, 2007	3.0000	128	-	-
		5,000	APRIL 1, 2008	3.0000	128	-	-
		5,000	APRIL 1, 2009	3.0000	128	-	-
		5,000	APRIL 1, 2010	3.2500	138	-	-
		29,220,000	APRIL 1, 2011-15	5.0000	1,241,851	-	-
		13,970,000	APRIL 1, 2016-17	5.0000	593,726	-	-
		<u>43,415,000</u>			<u>1,841,327</u>	<u>-</u>	<u>205,000</u>
JUNE 16, 2005 (SERIES C) GOB-Non	71,740,000	2,150,000	JULY 1, 2006	3.7300	43,439	-	-
		2,375,000	JULY 1, 2007	3.9700	51,072	-	-
		2,470,000	JULY 1, 2008	4.1100	54,988	-	-
		2,570,000	JULY 1, 2009	4.2000	58,468	-	-
		2,680,000	JULY 1, 2010	4.2900	62,277	-	-
		15,275,000	JULY 1, 2011-15	4.5800	378,982	-	-
		19,330,000	JULY 1, 2016-20	5.0900	532,945	-	-
		24,890,000	JULY 1, 2021-25	5.3100	715,899	-	-
		<u>71,740,000</u>			<u>1,898,070</u>	<u>-</u>	<u>-</u>
TOTAL SERIAL BONDS		<u>\$ 2,393,620,000</u>			<u>\$ 104,324,617</u>	<u>\$ 25,589,400</u>	<u>\$ 36,431,071</u>

NON-ELECTORAL DEBT-SERIAL BONDS	\$ 1,803,005,000
CAPITAL OBLIGATION BONDS	588,130,000
ELECTORAL DEBT (A)-SERIAL BONDS	2,485,000
TOTAL SERIAL BONDS OUTSTANDING	<u>\$ 2,393,620,000</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 at least \$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, 2005
(Dollars in Thousands)

	<u>2005</u>	<u>2004 (1)</u>
Governmental Funds Capital Assets:		
Land	\$ 109,614	\$ 110,997
Buildings	849,826	855,017
Improvements	763,127	887,155
Construction in Progress	214,034	76,880
Personal Property	205,630	217,093
Total Governmental Funds Capital Assets	<u>\$ 2,142,231</u>	<u>\$ 2,147,142</u>
Investments in Governmental Funds Capital Assets by Source:		
General Fund	\$ 90,376	\$ 134,799
Capital Projects Fund	2,006,323	1,295,644
Categorical Funds	45,532	771
Undetermined Sources (Prior to July 1, 1984)	-	715,928
Total Governmental Funds Capital Assets	<u>\$ 2,142,231</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.

(1) 2004 balances shown before 2005 prior period adjustments.

School District of Philadelphia
Capital Assets Used in the Operation of Governmental Funds
Schedule by Function and Activity
 June 30, 2005
 (Dollars in Thousands)

Function/Activity	Land	Buildings	Improvements	Construction in Progress	Personal Property	Total Governmental Funds Capital Assets
Instruction	\$ 108,714	\$ 844,911	\$ 732,421	\$ 96,300	\$ 109,630	\$ 1,891,976
Student Support Services	821	4,491	2,291	420	46,642	54,665
Administrative Support	79	424	28,415	117,314	45,083	191,315
Operation & Maintenance of Plant Services	-	-	-	-	4,568	4,568
Pupil Transportation	-	-	-	-	(394)	(394)
All Other Support Services	-	-	-	-	100	100
Early Childhood Education	-	-	-	-	1	1
Total Governmental Funds Capital Assets	\$ 109,614	\$ 849,826	\$ 763,127	\$ 214,034	\$ 205,630	\$ 2,142,231

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, 2005
(Dollars in Thousands)

Function/Activity	Governmental Funds Capital Assets (1) July 1, 2004	Prior Period Adjustments	Additions	Deletions	Governmental Funds Capital Assets June 30, 2005
Instruction	\$ 1,863,913	\$ (3,063)	\$ 57,087	\$ 25,961	\$ 1,891,976
Student Support Services	55,915	-	2,690	3,940	54,665
Administrative Support	220,657	(11,387)	120,070	138,025	191,315
Operation & Maintenance of Plant Services	4,663	-	7,498	7,593	4,568
Pupil Transportation	(8)	-	26	412	(394)
All Other Support Services	2,002	-	1,536	3,438	100
Early Childhood Education	-	-	1	-	1
Total	<u>\$ 2,147,142</u>	<u>\$ (14,450)</u>	<u>\$ 188,908</u>	<u>\$ 179,369</u>	<u>\$ 2,142,231</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.

(1) July 1, 2004 balances were adjusted to accurately reflect amounts by Function/Activity.





STATISTICAL SECTION

SCHOOL DISTRICT OF PHILADELPHIA
GENERAL GOVERNMENTAL EXPENDITURES/USES BY FUNCTION
FISCAL YEARS 1996 THROUGH 2005
(Dollars in Millions)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Instruction	\$ 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	\$ 1,370.0
Early Childhood Education	-	-	-	-	-	-	24.5	25.6	21.6	21.0
Payments to Charter Schools	-	-	3.9	16.9	44.4	71.4	95.3	126.1	153.4	184.1
Support and Administration	231.8	236.0	257.5	269.4	380.2	395.6	-	-	-	-
Student Support Services	-	-	-	-	-	-	183.3	188.9	201.9	221.9
Administrative Support	-	-	-	-	-	-	107.3	113.7	108.3	111.0
Pupil Transportation	-	-	-	-	-	-	41.7	44.2	76.5	82.2
All Other Support Services	-	-	-	-	-	-	4.9	0.3	26.4	15.3
Operation & Maintenance of Plant Services	234.7	284.2	289.5	311.4	366.0	382.3	226.6	233.2	241.6	256.0
Debt Service and Temporary Borrowing	72.4	83.6	43.9	84.5	89.6	77.9	93.8	105.1	168.9	133.2
Net Transfers/Uses (1) (2)	56.7	51.0	-	103.7	74.9	-	-	-	692.0	256.7
Capital Outlay	-	-	-	-	-	-	125.4	57.0	134.7	198.3
Total General Expenditures/Uses	\$ 1,681.5	\$ 1,800.0	\$ 1,702.0	\$ 1,894.1	\$ 1,961.1	\$ 2,006.5	\$ 2,057.6	\$ 2,111.1	\$ 3,147.6	\$ 2,849.7

Summary of Expenditures/Uses
by Fund:

General	\$ 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	\$ 1,560.5
Intermediate Unit	196.4	197.6	196.3	199.2	200.5	208.2	215.5	225.9	238.4	254.6
Categorical	182.7	192.7	200.6	195.4	233.8	279.7	295.6	319.5	389.1	447.0
Debt Service	119.9	124.9	43.9	178.4	154.8	77.9	93.8	105.1	860.9	389.2
Capital Projects	70.6	118.5	118.0	138.5	143.8	149.2	125.4	57.0	137.2	198.3
Non-Major	-	-	-	-	-	-	0.7	0.7	0.4	0.1
Total General Governmental Expenditures/Uses	\$ 1,681.5	\$ 1,800.0	\$ 1,702.0	\$ 1,894.1	\$ 1,961.1	\$ 2,006.5	\$ 2,057.6	\$ 2,111.1	\$ 3,147.6	\$ 2,849.7

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

1996 as Base Year	\$ 1,681.5	\$ 1,758.7	\$ 1,644.1	\$ 1,785.9	\$ 1,802.3	\$ 1,783.9	\$ 1,792.3	\$ 1,806.4	\$ 2,579.8	\$ 2,258.6
2005 as Base Year	\$ 2,121.5	\$ 2,218.9	\$ 2,074.3	\$ 2,253.3	\$ 2,274.0	\$ 2,250.7	\$ 2,261.3	\$ 2,279.1	\$ 3,255.0	\$ 2,849.7

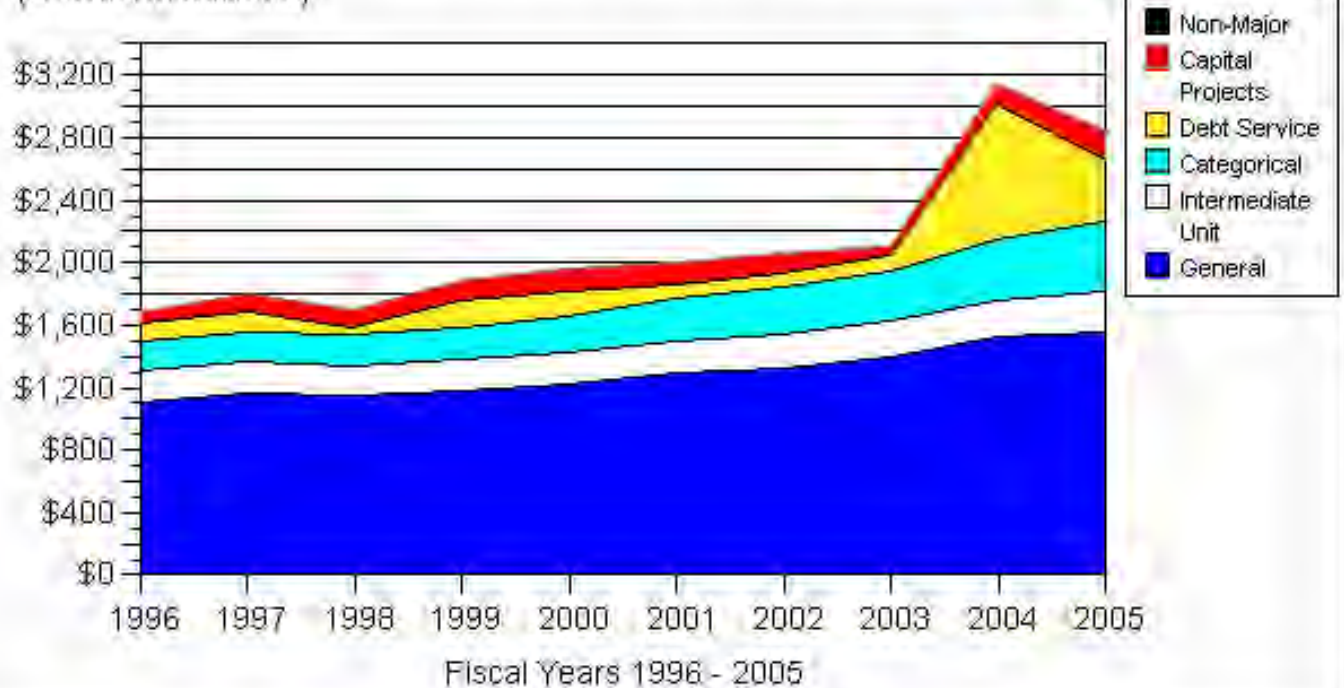
(1) Includes bond defeasement costs of \$56.7 million in 1996, \$51.0 million in 1997, \$103.7 million in 1999 and \$74.9 million in 2000.

(2) Includes bond defeasement costs of \$692.0 million in 2004 and \$256.7 million in 2005.

(3) Source: Bureau of Labor Statistics, U.S. Department of Labor.

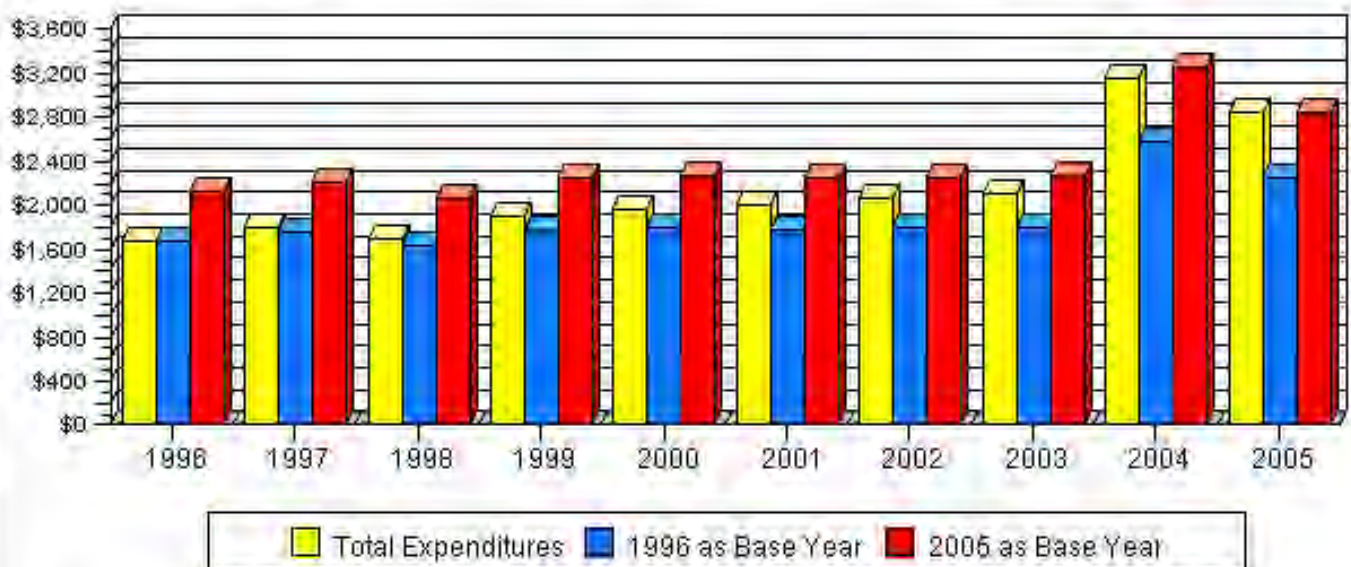
School District of Philadelphia General Governmental Expenditures/Uses by Fund

(Dollars in Millions)



Total General Governmental Expenditures Fiscal Years 1996 through 2005

(Dollars in Millions)



SCHOOL DISTRICT OF PHILADELPHIA
GENERAL GOVERNMENTAL REVENUES/SOURCES
FISCAL YEARS 1996 THROUGH 2005
(Dollars in Millions)

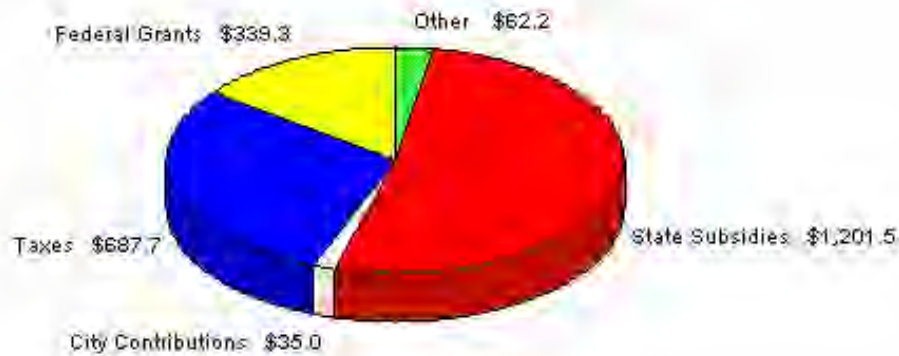
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Local										
Taxes										
Real Estate	\$ 401.9	\$ 420.7	\$ 403.2	\$ 413.4	\$ 414.8	\$ 427.6	\$ 439.2	\$ 488.7	\$ 513.5	\$ 536.3
Use and Occupancy	84.5	81.4	80.8	82.9	90.6	94.7	94.9	98.8	96.2	99.0
Other	42.1	85.3	45.4	48.0	51.9	50.6	46.8	46.1	48.7	-635.3
Total Taxes	528.5	587.4	529.4	544.3	557.3	572.9	580.9	633.6	658.4	0.0
City Contributions	15.0	15.0	15.0	30.0	-	15.0	60.0	35.0	35.0	2.5
Other	47.3	56.1	67.9	58.3	70.1	54.1	34.8	33.1	37.1	94.7
Total Local	590.8	658.5	612.3	632.6	627.4	642.0	675.7	701.7	730.5	97.2
State Subsidies	834.7	851.0	848.7	854.1	896.4	942.6	974.6	1,063.0	1,099.8	1,201.5
Federal Grants	132.8	144.9	151.5	161.7	189.0	211.4	219.3	260.3	306.7	339.3
Total General Revenues	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	1,638.0
Other Financing Sources	213.1	154.5	-	257.4	177.5	157.5	477.1	-	1,637.9	379.1
Total General Revenues and Other Sources (2)	<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>	<u>\$ 2,017.1</u>
Summary of Revenues/Sources by Fund:										
General	\$ 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	\$ 1,856.1
Intermediate	72.9	65.8	67.5	52.4	54.8	57.0	60.3	63.1	66.9	72.0
Categorical	163.0	178.5	187.0	181.4	216.1	262.4	277.0	303.3	350.5	438.9
Debt Service (1) (2)	114.3	124.2	37.8	179.0	144.6	79.4	88.9	114.8	748.4	300.4
Capital Projects	164.1	116.4	17.3	157.9	120.0	167.2	163.0	6.4	883.6	37.2
Non-Major	-	-	-	-	-	-	0.3	0.1	0.2	0.2
Total General Revenues and Other Sources	<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>	<u>\$ 2,704.8</u>
Totals Restated on a Constant Dollar Basis: (3)										
1996 as base year	<u>\$ 1,771.4</u>	<u>\$ 1,767.4</u>	<u>\$ 1,557.7</u>	<u>\$ 1,796.9</u>	<u>\$ 1,737.2</u>	<u>\$ 1,736.8</u>	<u>\$ 2,044.2</u>	<u>\$ 1,732.7</u>	<u>\$ 3,093.9</u>	<u>\$ 2,143.8</u>
2005 as base year	<u>\$ 2,234.9</u>	<u>\$ 2,229.9</u>	<u>\$ 1,965.3</u>	<u>\$ 2,267.2</u>	<u>\$ 2,191.9</u>	<u>\$ 2,191.3</u>	<u>\$ 2,579.1</u>	<u>\$ 2,186.1</u>	<u>\$ 3,903.7</u>	<u>\$ 2,704.8</u>

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

(2) Includes swaption proceeds of \$55.8 million in 2004, bond defeasement proceeds of \$ 691.1 million in 2004 and bond defeasement proceeds of \$260.1 million in 2005.

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

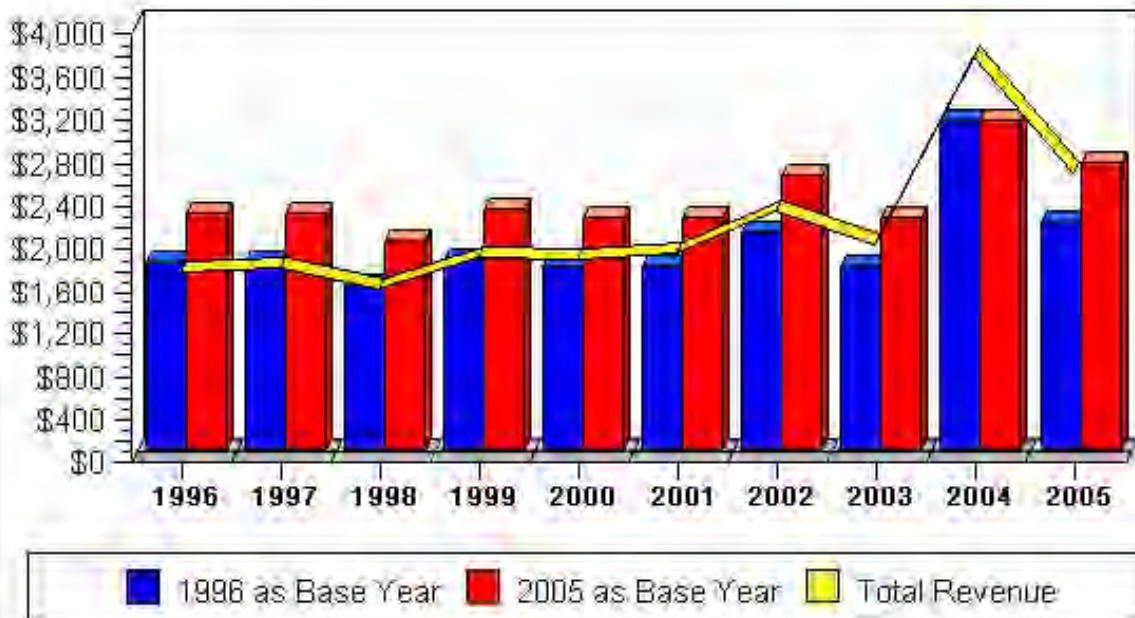
School District of Philadelphia
 General Governmental Revenues by Source
 Fiscal Year 2005 (Dollars in Millions)



Total Governmental Revenues

Fiscal Years 1996 through 2005

(Dollars in Millions)



School District of Philadelphia
Real Estate Tax Levies and Collections
Calendar Years 1996 through 2005
(Dollars in Thousands)

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
1996	407,351	365,407	89.7%	40,226	405,633	99.6%	1,718	0.4%
1997	405,558	369,735	91.2%	48,828 (a)	418,563	103.2%	(13,005)	-3.2%
1998	408,489	366,011	89.6%	35,944	401,955	98.4%	6,534	1.6%
1999	414,421	378,390	91.3%	34,363	412,753	99.6%	1,668	0.4%
2000	421,291	375,140	89.0%	47,805	422,945	100.4%	(1,654)	-0.4%
2001	430,266	390,669	90.8%	34,729	425,398	98.9%	4,888	1.1%
2002	444,264	391,820	88.2%	29,344	421,164	94.8%	23,100	5.2%
2003	488,071 (b)	473,253	97.0%	64,984	538,237	110.3%	(50,166)	-10.3%
2004	524,286 (c)	451,656	86.1%	70,066	521,722	99.5%	2,564	0.5%
2005	522,207 (d)	477,313 (e)	91.4%	44,350 (e)	521,663	99.9%	544	0.1%

(a) Increased prior years tax collections are attributable primarily to the tax lien sale on 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: City Department of Revenue Accounts Receivable Activity for the period October 31, 2004 through November 30, 2004.

(e) Source: Philadelphia School District - As of November 29, 2005.

FISCAL YEARS 1996 THROUGH 2005
(Dollars in Thousands)

Fiscal Year	Current Tax Collections	Prior Year Tax Collections	Total Tax Collections
1996	361,008	40,911	401,919
1997	369,631	51,092	420,723
1998	365,681	37,474	403,155
1999	375,953	37,462	413,415
2000	379,063	35,761	414,824
2001	390,032	37,535	427,567
2002	401,978	39,188	441,166
2003	451,067	37,615	488,682
2004	458,085	55,438	513,523

SCHOOL DISTRICT OF PHILADELPHIA
 ASSESSED AND ESTIMATED MARKET VALUE OF TAXABLE REALTY IN PHILADELPHIA
 FOR THE CALENDAR YEARS 1996 THROUGH 2005
 (Dollars in Millions)

Calendar Year	Assessed Value (1) Adjusted to 6/30/05		Market Value on Basis of STEB Ratio			Estimated Market Value Based on Sales		
	Amount	Percentage Increase Over Prior Year	Assessment Ratio of State Tax Equalization Board (2)	Adjusted Amount	Percentage Increase (Decrease) Over Prior Year	Assessment Ratio (3) as Determined by Sales	Amount (2)	Percentage Increase (Decrease) Over Prior Year
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	10,958	5.60	0.297	34,243	-0.61	0.237	46,258	0.39
2005 (4)	11,032	0.68	0.320	34,475	0.68	0.234	47,099	1.82
Total Increase (Decrease) 1996-2005	\$ 2,136	24.01 %						
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 assessec 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 30,2005.

SCHOOL DISTRICT OF PHILADELPHIA
PROPERTY TAX RATES - ALL DIRECT AND OVERLAPPING GOVERNMENTS
CALENDAR YEARS 1996 THROUGH 2005
(PER \$100 ASSESSED VALUE)

<u>Calendar Year</u>	<u>City of Philadelphia</u>	<u>School District of Philadelphia</u>	<u>Total</u>
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
2005	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 1996 THROUGH 2005
(Dollars in Thousands)

Fiscal Year	City of Philadelphia Estimated Population*	Assessed Valuation (1)	Gross Bonded Debt (2)	Amount Available in Debt Service Fund	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita	
							Actual	In Constant Dollars - 1996 as Base Year
1996	1,472	\$ 8,896	\$ 628,190	\$ 35,322	\$ 592,868	6.66 %	\$ 403	\$ 403
1997	1,451	8,966	704,038	26,348	677,690	7.56	467	456
1998	1,434	9,037	697,170	36,186	660,984	7.31	461	445
1999	1,418	9,192	822,067	37,773	784,294	8.53	553	521
2000 (3)	1,518	9,343	891,389	20,964	870,425	9.32	573	527
2001 (4)	1,500	9,593	1,017,780	22,675	995,105	10.37	663	590
2002 (4)	1,489	9,858	1,440,475	29,588	1,410,887	14.31	948	825
2003 (4)	1,479	10,377	1,405,895	34,138	1,371,757	13.22	927	794
2004	1,492	10,958	2,314,730	20,318	2,294,412	20.94	1,538	1,260
2005 (5)	N/A	11,032	2,393,620	28,048	2,365,572	21.44	N/A	N/A

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

(1) Adjusted as of June 30, 2005. 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 on July 1st - first day of fiscal year.

(5) Population estimates were not available.

SCHOOL DISTRICT OF PHILADELPHIA
BORROWING BASE AND DEBT LIMITS
AS OF JUNE 30, 2005

BORROWING BASE

Gross revenues, General, Special Revenue
and Debt Service Funds
for years ended June 30, 2003,
2004 and 2005

\$ 6,489,541,701

Less: Statutory exclusions

1,141,340,964

Net revenues for years ended
June 30, 2003, 2004 and 2005

\$ 5,348,200,737

Borrowing base (average of net
revenue for three fiscal years)

\$ 1,782,733,579

DEBT LIMIT

Electoral debt limit

No Limit

Electoral debt outstanding

\$ 2,485,000

Electoral borrowing capacity

\$ No Limit

Non-electoral debt limit - 100% borrowing
base

\$ 1,782,733,579

Non-electoral debt outstanding

1,803,005,000

Outstanding Deficit Bonds excluded

(291,280,000)

Termination Bonds excluded

(70,540,721)

Non-electoral borrowing capacity

\$ 341,549,300

Non-electoral and lease rental debt limit -
200% of borrowing base

\$ 3,565,467,158

Less: Non-electoral debt outstanding

1,803,005,000

Lease rental debt outstanding

588,130,000

Deficit Bonds Outstanding

(291,280,000)

Termination Bonds Outstanding

(70,540,721)

Total

2,029,314,279

Non-electoral and lease rental
borrowing capacity

\$ 1,536,152,879

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.

Termination bonds are exempt from borrowing capacity per Commonwealth Debt Act.

SCHOOL DISTRICT OF PHILADELPHIA
DIRECT AND OVERLAPPING LONG TERM TAX SUPPORTED OBLIGATIONS
JUNE 30, 2005
(Dollars in Millions)

	<u>City of Philadelphia</u>	<u>School District of Philadelphia</u>	<u>Total Overlapping Obligations</u>
Gross bonded debt	\$ 5,118.0	\$ 2,393.6	\$ 7,511.6
Self-supporting debt	(4,130.1)	-	(4,130.1)
Amounts available for Debt Retirement	-	(28.1)	(28.1)
	<hr/>	<hr/>	<hr/>
Net bonded debt-tax supported	987.9	2,365.5	3,353.4
Other long term obligations (1)	3,692.9	604.9	4,297.8
	<hr/>	<hr/>	<hr/>
Net total long-term obligations	\$ 4,680.8	\$ 2,970.4	\$ 7,651.2
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

(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 1996 THROUGH 2005
(Dollars in Thousands)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
General Bonded Debt Principal	\$ 34,135	\$ 33,675	\$ 8,595	\$ 34,600	\$ 36,405	\$ 20,197	\$ 33,305	\$ 34,585	\$ 45,000	\$ 20,410
General Bonded Debt Interest	22,282	36,233	34,890	36,290	40,490	55,004	53,476	70,193	74,044	70,165
Loans	369	369	369	369	369	369	369	369	369	369
State Public School Building Authority (1)	-	-	-	-	-	-	-	-	21,717	29,952
Total Debt Service Expenditures (2)	<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>	<u>\$ 120,896</u>
Total General Expenditures Excluding Categorical Funds	<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>\$ 2,066,101</u>	<u>\$ 2,146,065</u>
Ratio of Debt Service to Total General Expenditures Excluding Categorical Funds	<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>6.83</u>	<u>5.63</u>
Total General Expenditures (2) (3)	<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>\$ 2,455,588</u>	<u>\$ 2,592,929</u>
Ratio of Debt Service to Total General Expenditures	<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>5.75</u>	<u>4.66</u>

(1) Includes both principal and interest payments.

(2) Does not include bond issuance, defeasement costs or authority obligation program expenses.

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

SCHOOL DISTRICT OF PHILADELPHIA
DEMOGRAPHIC STATISTICS
FOR THE FISCAL YEARS 1995 THROUGH 2004

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<u>City of Philadelphia</u>										
Population (1) (2) (Thousands)	1,496	1,472	1,452	1,435	1,418	1,518	1,500	1,489	1,479	1,492
Per Capita Personal Income (2)	\$19,938	\$20,792	\$21,342	\$22,444	\$23,137	\$24,572	\$25,266	\$26,369	\$28,194	N/A
Public School Enrollment (3)	208,973	211,053	213,465	213,053	208,061	205,120	201,328	197,344	193,076	188,397
Unemployment Rate (4)	7.8%	6.9%	7.0%	6.4%	6.3%	6.0%	6.3%	7.9%	7.8%	7.1%
Civilian Labor Force (4) (Thousands)	656.1	656.7	658.7	646.5	651.7	667.1	674.4	685.7	673.5	637.7
<u>Philadelphia, Pa. - N.J. PMSA (5)</u>										
Population (2) (Thousands)	4,968	4,977	4,984	5,002	5,020	5,041	5,055	5,078	5,100	N/A
Per Capita Personal Income (2)	\$26,352	\$27,628	\$29,008	\$30,868	\$31,896	\$34,186	\$35,192	\$37,106	\$38,122	N/A
Unemployment Rate (4)	6.0%	5.2%	4.9%	4.4%	4.3%	4.1%	4.4%	5.8%	5.6%	4.6%
Civilian Labor Force (4) (Thousands)	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	2,608.7
<u>U.S.A. National</u>										
Unemployment Rate (4) (6)	5.8%	5.5%	5.2%	4.7%	4.5%	4.1%	4.7%	6.0%	6.5%	5.5%
Civilian Labor Force (4) (6) (Thousands)	133,447	135,083	137,557	138,798	140,666	143,874	144,553	145,940	148,117	147,401

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 1995 THROUGH 2004
(Dollars in Millions)

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
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
2004	19,883	9,636	10,958	46,258	N/A	N/A	N/A	N/A	N/A

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

(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, 2005
(Dollars in Millions)

<u>Location</u>	<u>Owner</u>	<u>Assessment Value</u>	<u>Percentage of Total Assessments</u>
1650 Market Street	Philadelphia Liberty Property, L.P.	\$ 57.6	0.52%
1735 Market Street	Nine Penn Center Associates	54.1	0.49%
50 S. 16th Street	Shorenstein Company	53.1	0.48%
1500-42 Market Street	HUB Properties Trust	51.2	0.46%
4301 Byberry Road	Franklin Mills Associates	48.4	0.44%
1717 Arch Street	Bell Atlantic	44.2	0.40%
1901-17 Market Street	PRU 1901 Market LLC	32.9	0.30%
2001 Market Street	Maguire/Thomas	32.0	0.29%
2005 Market Street	Commerce Square Partners	30.5	0.28%
2000 Kitty Hawk Avenue	Philadelphia Shipyard Development Corp.	30.3	0.27%
Total of the Ten Largest Real Estate Assessments		<u>\$ 434.3</u>	<u>3.94%</u>
Total Taxable Assessments		<u>\$ 11,031.8</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, 2005
(Listed Alphabetically)

Employer

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

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

Source: Philadelphia Department of Revenue.

SCHOOL DISTRICT OF PHILADELPHIA
MISCELLANEOUS STATISTICS
FOR FISCAL YEARS 2001 THROUGH 2005

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 operates 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 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Number of Schools (1)					
Elementary	175	175	175	175	176
Junior/Middle	42	42	41	42	38
Special	11	8	10	11	11
Senior	32	32	33	35	38
Vocational/Technical	5	5	5	5	7
Total Public Schools	265	262	264	268	270
Number of Charter Schools (2)	35	41	46	48	52
Total Schools	300	303	310	316	322
School Enrollment (2)					
Elementary	102,118	99,992	96,786	94,247	91,932
Junior/Middle	33,618	31,519	30,042	29,380	25,572
Senior/Special/Vocational					
Technical	65,592	65,833	66,248	64,770	64,222
Total Public Schools	201,328	197,344	193,076	188,397	181,726
Charter Schools	11,396	15,250	18,164	21,695	25,055
Alternative Schools	-	-	-	-	2,538
Total	212,724	212,594	211,240	210,092	209,319
Number of Public High School Graduates (1)	9,388	8,559	9,407	10,331	10,800
Number of High School Charter Graduates (3)	-	-	-	-	-
Total of High School Graduates	9,388	8,559	9,407	10,331	10,800

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

(2) School District of Philadelphia, Office of Management and Budget.

(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 John Byars, Esq., Interim Equal Opportunity Compliance Officer, Procurement Department, 440 N. Broad Street, Philadelphia, PA 19130, (215) 400-5345.



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Commemoramus
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Et Nam hunc
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Coulson