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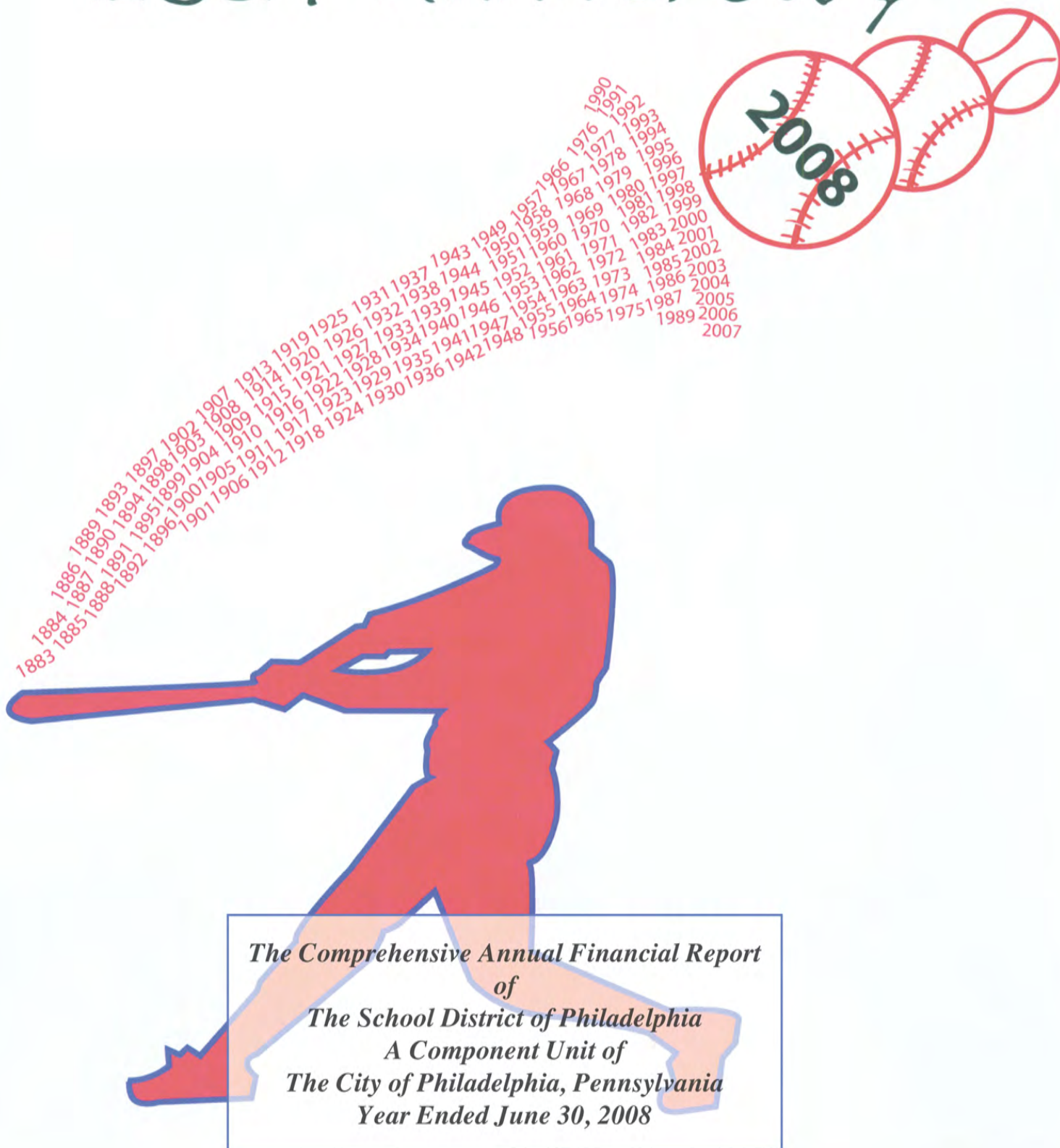
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Phillies

125th Anniversary



*The Comprehensive Annual Financial Report
of
The School District of Philadelphia
A Component Unit of
The City of Philadelphia, Pennsylvania
Year Ended June 30, 2008*

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, 2008



Marcy F. Blender, CPA
Comptroller

Prepared by
Office of General Accounting

STUDENT ART

The art displayed in this report is the work of Philadelphia school students and was selected from entries submitted to the 2008 Cover Design Contest entitled, "PHILADELPHIA PHILLIES – 125th ANNIVERSARY". From their first game played on May 1, 1883 at Recreation Park at 24th Street and Ridge Avenue to the present day games at Citizen's Bank Park, the Philadelphia Phillies have brought great joy and entertainment, and sometimes sorrow and disappointment to their fans over the many years. This year marks the 125th anniversary of the Phillies, one of major league baseball's oldest franchises. Philadelphians are extremely proud of the Phillies rich and interesting history and consistently remain loyal fans to their home town team. The contest theme provides a unique opportunity for students to challenge their intellect, imagination and creativity to visually express their ideas, research and experience with the Phillies.

The winners are as follows:

	<u>STUDENT</u>	<u>ART TEACHER</u>
1 st Prize Front Cover	Loqueysa Jones Jules E. Mastbaum AVTS Grade 11	Ms. Katie Newnam/ Ms. Wendy Turrentine
2 nd Prize Back Cover	Mychal Bridgemon Jules E. Mastbaum AVTS Grade 12	Ms. Katie Newnam/ Ms. Wendy Turrentine
3 rd Prize Divider: 1 st	Taylor Campbell The HS for Creative and Performing Arts Grade 9	Mr. John Fantine
	Ferdinand Cruz Jules E. Mastbaum AVTS Grade 11	Ms. Katie Newnam/ Ms. Wendy Turrentine
2 nd	Lung Ung The HS for Creative and Performing Arts Grade 10	Mr. John Fantine
	Kavi Prom Howard Furness High School Grade 11	Ms. Meredith McDonald
3 rd	Janet Edmunds E. Washington Rhodes High School Grade 9	Mr. Peter Koller
	Raelyn Reynolds E. Washington Rhodes High School Grade 9	Mr. Peter Koller
	Ms. Tessie Varthas, Content Specialist – Art Education Office of Teaching and Learning	



LIVE THE DREAM

PHILADELPHIA PHILLIES

1883

Phillies™

1980

2008



125TH ANNIVERSARY

SCHOOL DISTRICT OF PHILADELPHIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
TABLE OF CONTENTS

I.	<u>INTRODUCTORY SECTION</u>	<u>Page</u>
	Letter of Transmittal	1-7
	Certificate of Achievement for Excellence in Financial Reporting, Government Finance Officers Association	8
	Certificate of Excellence in Financial Reporting, Association of School Business Officials	9
	Organizational Chart	10
	List of Principal Officials	11
II.	<u>FINANCIAL SECTION</u>	
	Independent Auditor's Report	13-14
A.	Management's Discussion and Analysis	15-32
B.	Basic Financial Statements	33
	District-Wide Financial Statements	
	Statement of Net Assets	34
	Statement of Activities	35
	Governmental Funds Financial Statements	
	Balance Sheet	36-37
	Reconciliation of the Balance Sheet for Governmental Funds to the Statement of Net Assets	38
	Statement of Revenues, Expenditures, and Changes in Fund Balances	40-41
	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	42
	Proprietary Funds Financial Statements	
	Statement of Net Assets	43
	Statement of Revenues, Expenses, and Changes in Fund Net Assets	44
	Statement of Cash Flows	45
	Fiduciary Funds Financial Statements	
	Statement of Fiduciary Net Assets	46
	Statement of Changes in Fiduciary Net Assets	47
	Notes to the Financial Statements	49-86

SCHOOL DISTRICT OF PHILADELPHIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008
 TABLE OF CONTENTS

	<u>Page</u>
II. FINANCIAL SECTION, CONT.	
C. Required Supplementary Information other than Management Discussion & Analysis	87
Budgetary Comparison Schedules	
General and Intermediate Unit Funds	88-89
Notes to the Required Supplementary Information	90-92
D. Other Supplementary Information	93
Non-Major Governmental Funds	94
Combining Balance Sheet – Non-Major Governmental Funds	95
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Governmental Funds	96
Governmental Funds	97
Schedule of Detailed Budgetary and Actual Revenues – General Fund	98
Schedule of Budgetary and Actual Organizational Unit Obligations	
By Object Class and Uses – General Fund	99- 105
Schedule of Budgetary and Actual Revenues and Organizational Unit Obligations	
By Object Class and Uses – Intermediate Unit Fund	106-107
Schedule of Budgetary and Actual Revenues and Organizational Unit Obligations	
By Object Class and Uses – Debt Service Fund	108
Schedule of Budgetary and Actual Revenues and Organizational Unit Obligations	
By Object Class and Uses – Capital Projects Fund	109
Fiduciary Funds	111
Combining Statement of Fiduciary Net Assets - Agency Funds	112
Combining Statement of Changes in Assets and Liabilities - Agency Funds	113
Schedule of Bonds Outstanding	114-116
Capital Assets Used in the Operation of Governmental Funds	117
Comparative Schedule by Source	118
Schedule by Function and Activity	119
Schedule of Changes by Function and Activity	120

SCHOOL DISTRICT OF PHILADELPHIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
TABLE OF CONTENTS

III. <u>STATISTICAL SECTION</u>	<u>Page</u>
Statistical Section	121
Financial Trends:	
Table 1 Net Assets by Component For the Fiscal Years 2002 through 2008	122
Table 2 Expenses, Program Revenues, and Net (Expense)/Revenue For the Fiscal Years 2002 through 2008	123
Table 3 Net (Expenses)/Revenue, General Revenues, and Total Change in Net Assets For the Fiscal Years 2002 through 2008	124
Table 4 Fund Balances of Governmental Funds For the Fiscal Years 1999 through 2008	125
Table 5 Governmental Funds Revenues For the Fiscal Years 1999 through 2008	126
Table 6 Governmental Funds Expenditures and Debt Service Ratio For the Fiscal Years 1999 through 2008	127
Table 7 Other Financing Sources and (Uses) and Net Change in Fund Balance Governmental Funds For the Fiscal Years 1999 through 2008	128
Revenue Capacity:	
Table 8 Governmental Funds Revenue By Own-Sources For the Fiscal Years 1999 through 2008	129
Table 9 Assessed and Estimated Actual Market Value of Taxable Property For the Calendar Years 1999 through 2008	130
Table 10 Property Tax Rates – All Direct and Overlapping Governments For the Calendar Years 1999 through 2008	131
Table 11 Principal Property Taxpayers Current Calendar Year and Nine Years Ago	132
Table 12 Real Estate Tax Levies and Collections For the Years 1999 through 2008	133
Debt Capacity:	
Table 13 Ratios of Outstanding Debt by Type For the Fiscal Years 1999 through 2008	134
Table 14 Ratios of Net General Bonded Debt Outstanding For the Fiscal Years 1999 through 2008	135
Table 15 Direct and Overlapping Governmental Activities Debt As of June 30, 2008	136
Table 16 Legal Debt Margin Information For the Fiscal Years 1999 through 2008	137
Table 17 Ratio of Annual Debt Service for General Bonded Debt and Authority Payments To Total Governmental Funds Expenditures Excluding Categorical Funds For the Fiscal Years 1999 through 2008	138
Demographic and Economic Information	
Table 18 Demographic and Economic Statistics For the Calendar Years 1998 through 2007	139
Table 19 Principal Employers Current Calendar Year and Nine Years Ago	140
Operating Information	
Table 20 School District Employees by Function For the Fiscal Years 2000 through 2008	141
Table 21 Operating Statistics For the Fiscal Years 1999 through 2008	142
Table 22 Miscellaneous Statistics For the Fiscal Years 1999 through 2008	143
Table 23 Teacher Base Salaries For the Calendar Years 1999 through 2008	144
Table 24 Capital Asset Information For the School Year 2007-2008	145

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THE SCHOOL DISTRICT OF PHILADELPHIA

440 NORTH BROAD STREET
PHILADELPHIA, PENNSYLVANIA 19130

DR. ARLENE C. ACKERMAN
CHIEF EXECUTIVE OFFICER

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

December 29, 2008

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 ("CAFR") of The School District of Philadelphia for the Fiscal Year ended June 30, 2008. Pursuant to provisions of The Philadelphia Home Rule Charter ("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.

The 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, 2008 are fairly presented in conformity with GAAP. The Independent Auditor's Report is presented for your formal review and consideration.

As further required, senior management of the School District established a comprehensive system of internal controls that is designed to protect the School District's assets from loss, theft and misuse. Internal offices of the School District, namely the offices of Management and Budget, General Accounting, Accounts Payable and Audit Services, regularly review expenditures of School District funds and perform selective and random reviews of operations and controls further ensuring 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 thereto with legal requirements involving the administration of federal awards and grants. 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

Despite being a component unit of the City of Philadelphia (“City”), for financial reporting purposes only, the School District is an agency of the Commonwealth of Pennsylvania (“Commonwealth”) created to assist in the administration of the Commonwealth’s responsibility under the Pennsylvania Constitution to “provide for the maintenance and support of a thorough and efficient system of public education.” The School District itself has no component units. It is by far the largest of the 501 school districts in the Commonwealth employing over 22,000 employees and the eighth largest in the United States based on student enrollment data. Although considered a quasi-state agency, the School District directly serves the citizens of the City of Philadelphia, Pennsylvania, the sixth largest city in the United States with a population of close to 1.5 million and a land area of approximately 130 square miles. The School District educates eleven percent (11%) of the Commonwealth’s 1.8 million public school students. Total enrollment in the School District has declined by eight percent (8%) over the past decade while charter school enrollment has significantly increased. Enrollment for the School District is close to 200,000 students including over 30,000 attending charter schools and 4,000 in alternative education programs. In addition, there are 266 schools that the School District operates, as well as 16 remedial discipline schools and 61 charter schools managed by other entities, which also serve Philadelphia’s children. By fiscal year 2009 it is projected that one (1) of every (6) public school students in the School District will attend charter schools, making the School District a national leader in providing meaningful school choice to parents and students.

About twenty percent (20%) of the School District’s buildings are forty (40) years old or less, forty-five percent (45%) are between forty-one (41) and eighty (80) years old, thirty-five percent (35%) are over eighty-one (81) years old.

As 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 they require, the School District was organized into eight geographic academic regions and one central administrative office for fiscal year 2008. However, for fiscal year 2009, the numbers of geographic academic regions were expanded to eleven to increase support to our classrooms.

As an agency of the Commonwealth, the School District is governed by both The Public School Code (“School Code”) and the 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 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.

Prior to 2001, the School District was governed by the Board of Education (“Board”) consisting of nine members appointed generally by the Mayor of the City. In December of 2001, however, the Secretary of Education of the Commonwealth declared the School District financially distressed suspending the governing powers of the Board and placing management of the School District under the control of a five-member School Reform

Commission ("SRC"). Three members, including the Chairwoman, 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 original Board, along with additional powers. 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 educational policy, the adoption of an annual budget, the development of a comprehensive capital improvement budget and program and the incurrence of indebtedness.

The School District's fiscal year is July 1st to June 30th and is identical with those of both the City and the Commonwealth. 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 excess of \$15,000. 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

The major financial focus of the School District during fiscal year 2008 was to implement further significant measures, in addition to those that were implemented in fiscal year 2007, designed to correct the budget shortfall of the previous year, reduce the projected operating budget deficit for fiscal year 2008 and sustain a positive fund balance in future years.

It is important to note how successful the implementation of these measures has been toward eliminating a projected operating budget deficit of \$181 million, absent any corrective actions to cut expenses or increase revenues. With financial assistance from the City and the Commonwealth, in combination with stronger fiscal controls and the concerted efforts of management and staff, the School District has reduced the projected deficit to \$0.5 million for fiscal year 2008, an almost balanced result. These goals were accomplished through the implementation and monitoring of a deficit reduction plan focused on reducing expenditures with the least impact on educational programs and academic reforms during fiscal year 2008 and beyond. The SRC on May 31, 2007, adopted the original Operating Budget of \$2.2 billion which was based on securing \$36.5 million in additional revenues from the Commonwealth and \$36.5 million from the City and achieving \$87.5 million in expenditure reductions. On May 28, 2008, the SRC amended the Fiscal Year 2008 Operating Budget to \$2.9 billion and projected a negative ending fund balance of \$29.7 million. The actual fiscal year 2008 results compared to the May projection show an improved position of \$29.2 million for an ending negative unreserved/undesignated operating fund balance of \$0.5 million.

The School District will continue to aggressively pursue additional revenue opportunities and alternative savings to ensure that current academic reforms are funded and to continue on the path of academic achievement and fiscal accountability. With the strengthening of the School District's leadership in the beginning of fiscal year 2009 to include a new Chief Executive Officer and executive leadership team, along with stronger supports for our classrooms, the District is well positioned for both fiscal and academic excellence for the 2008/2009 school year. Aligning budget line items and expenditures with the priorities of the SRC's 2004 Declaration of Education and the leadership initiatives of the new Chief Executive Officer is the guiding focus for the School District. This establishes 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 and Core Beliefs to put children first include: the standardization of core curriculum in all grade levels, and, reaching and, in many instances exceeding academic achievement goals and testing, enhancing school choice, expanding pre- and after-school programs, establishing community partnerships and reduced class size, particularly in corrective action schools, and continuing a comprehensive capital improvement program to make the school environment safer and more conducive to learning for our students. The achievement of both fiscal and academic excellence is demonstrated by the fact that the School District has made steady progress in raising student performance in math and reading over the past 6 years as measured by the increase in the percentage of students performing at grade level for reading and math.

The Capital Improvement Program identifies over \$1.7 billion in facilities' needs through fiscal years 2008-2014 to improve major infrastructure systems and buildings. In fiscal year 2008 the School District obligated \$38.9 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. For fiscal year 2009, the School District is expected to spend an additional \$359.6 million on facilities improvements to continue the School District's transition to a K-8 and 9-12 grade configuration.

The School District continues to also pursue ongoing reductions of administrative costs to maximize resources for its primary educational mission. The School District spends about five percent (5%) of its operating budget on administrative costs; one of the lowest rates when compared with other large urban public school systems. Ninety five percent (95%) of the operating budget is spent on items directly benefiting the schools. Specifically, seventy-two percent (72%) of that is spent on academic and education support services and the remaining twenty-three percent (23%) is spent on capital financing and maintenance directly benefiting the schools.

Factors Affecting Financial Conditions

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

The Local Economy: The economy features a large financial sector, a big health services sector that has provided most of the jobs in recent years and a big business services sector. The City is in the heart of a nine-county metropolitan area with approximately 5.1 million residents. Air, rail, highway, and water routes provide easy access to the City. The City is strategically located on the east coast with easy access to markets, resources, government centers, and transportation. The City's metropolitan area is the nation's fourth largest in the retail market.

As a major urban center with a rich historical legacy, Philadelphia is increasingly gaining national recognition for its cultural and recreational resources, which include the many tourism assets concentrated within city limits. The City is rich in history, art, architecture, and entertainment. World-class cultural and historic attractions include the Philadelphia Museum of Art (which houses the third largest art collection in the United States), the Philadelphia Orchestra, Academy of Music, Pennsylvania Ballet, the Constitution Center, the Kimmel Center, Pennsylvania Academy of Fine Arts, Franklin Institute, Mann Music Center, Opera Company of Philadelphia and the Rodin Museum. The South Philadelphia sports complex is home to the Philadelphia 76ers, Flyers, Phillies and Eagles. The City also offers its residents and visitors America's most historic square mile, which includes Independence Hall and the Liberty Bell, as well as Fairmount Park and the nation's first zoo.

The City is a center for health, education, and science facilities with the nation's largest concentration of healthcare resources within a 100-mile radius. There are presently more than thirty (30) hospitals, seven (7) medical schools, two (2) dental schools, two (2) pharmacy schools, as well as schools of optometry, podiatry and veterinary medicine. The City is one of the largest health care and health care education centers in the world, and a number of the nation's largest pharmaceutical companies are located in the Philadelphia area. Children's Hospital of Philadelphia is ranked number one in U.S. children's hospitals.

The City has the second largest concentration of students on the east coast with eighty degree granting institutions of higher education. The undergraduate and graduate programs at these institutions help provide a well-educated and trained work force to the Philadelphia community.

During the ten-year period between 1990 and 2000, the population of the City decreased from 1,585,577 to 1,517,550. During the same period, the population of Pennsylvania increased by 3.4%, less than one-third the national rate of increase. The 2007 (estimated) population of the City is 1,449,634, a decline of 4.5% from 2000.

The employment changes within the City principally have been due to declines in the manufacturing sector and the relatively stronger performance of the service economy. The City's and region's economies are diversified, with strong representation in the health care, government and education sectors but without the dominance of any single employer or industry. The 2007 unemployment rate was 6.0% compared with the United States unemployment rate of 4.6%.

Despite challenges in the national economy, Philadelphia's central business district shows stable office market conditions. In January 2008, Grubb & Ellis ranked Philadelphia sixth in a study evaluating top office and retail markets in which to invest this year, the city's first-ever appearance on the list. One of the contributing factors is that Philadelphia remains affordable when compared to its peers. According to a January 2008 assessment of U.S. property markets by Moody's Investor Service, in 2007 Philadelphia's multi-family sector improved the most of the sixty (60) monitored metro areas.

Philadelphia is also in a key position to access regional and international markets, due to its transportation infrastructure. The capacity of Philadelphia's transportation infrastructure is demonstrated by its median commuting time, which is 19.0% lower than the national metropolitan average.

Long-Term Debt of the School District: The School District's outstanding general obligation and lease rental indebtedness equaled approximately \$2.6 billion for the fiscal year ending June 30, 2008. All outstanding 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. 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 has never defaulted in the payment of debt service on any of its bonds, notes or lease rental obligations. 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 continues to implement 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. The School District accounts for all monies received and disbursed, 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 and help to determine the best forms of investment of idle funds consistent with legal limitations. Generally, cash temporarily idle during the fiscal year 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 upon 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 2008 was approximately 4.05% and total interest income was \$36.6 million. This was a \$9.1 million decrease over fiscal year 2007 primarily due to lower capital and operating cash balances available for investment and lower average interest rates than the previous fiscal year.

Risk Management: The School District is self-insured for most of its risks including casualty losses, public liability, unemployment and workers' compensation program. The School District purchases certain insurance, including excess insurance over its \$5 million self-insured retention for workers' compensation program and \$250 million per occurrence on its excess insurance over its \$500,000 self-insured retention on its property insurance to cover losses related to damage sustained from fire or flood, boiler and machinery. Certain insurance coverage, including employee performance bonds, student and travel accident insurance and employee dishonesty bonds, are also typically procured along with property and liability insurance or surety bonds when required by law, leases or other contracts. Unemployment and workers' compensation coverages are initially funded through the General Fund which, in turn, charges a proportionate share of the costs to each fund. The School District annually budgets an amount believed to be sufficient, based on historical data and a periodic actuarial review, to provide for all claims when they become fixed and determinable in amount. Pursuant to 42 Pa. C.S.A. §8541, the School District's liability is capped at \$500,000 for motor vehicle, personal injury and real property claims.

Pension Plan: Pursuant to federal law, school districts within the Commonwealth 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 Commonwealth. In fiscal year 2008, the employer contribution rate was 7.13% of payroll costs. The School District's total contribution is projected to increase over the next ten years potentially reaching a high of 11.23% in fiscal year 2013 if proposed legislation is not passed to establish a floor for the employer rate. Consequently, the School District may have to provide for and budget a larger expenditure for PSERS contributions in the future.

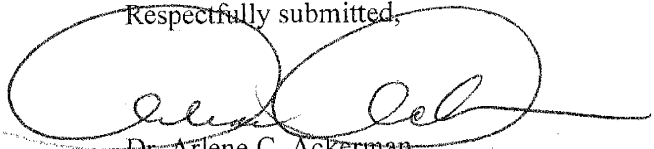
Awards and Acknowledgements

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 up to and including 2007. 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 up to and including 2007. 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 2008.

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 participants who assisted in and contributed to the preparation of this report. We also thank the Office of the City Controller for their cooperation, support and continued assistance.

Respectfully submitted,



Dr. Arlene C. Ackerman
Chief Executive Officer



Mr. Michael J. Masch
Chief Business 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, 2007

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.



Charles S. Cox

President

Jeffrey R. Emer

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, 2007

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

Glenn E. Brendel

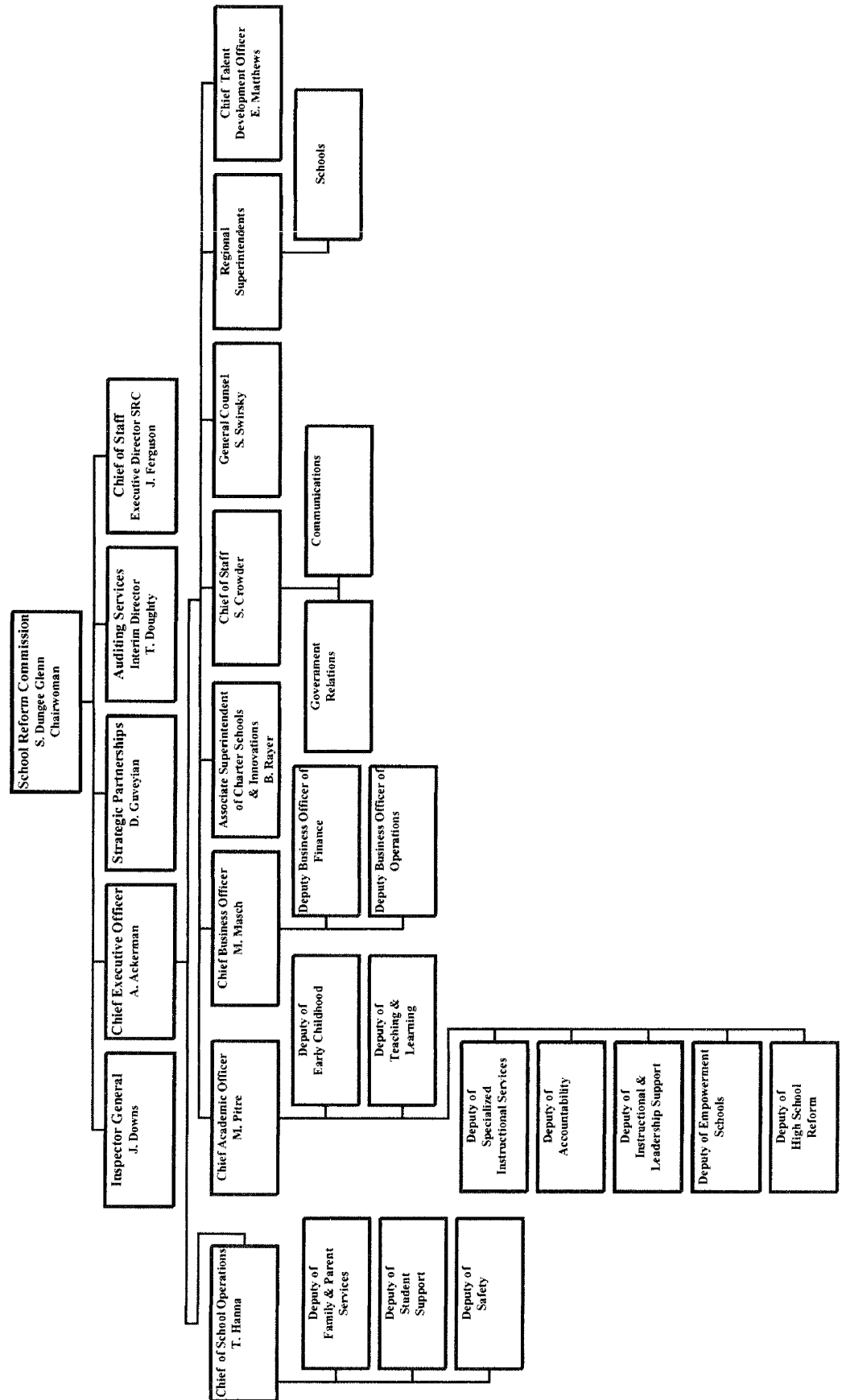
President

John D. Mueser

Executive Director

School District of Philadelphia

Organizational Chart



SCHOOL DISTRICT OF PHILADELPHIA, PENNSYLVANIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

List of Principal Officials of the School District

School Reform Commission

Sandra Dungee Glenn, Chairwoman
Denise McGregor Armbrister, Member
Martin G. Bednarek, Member
James P. Gallagher, Ph.D., Member
Heidi Ramirez, Ph.D., Member

School District of Philadelphia

Arlene C. Ackerman, Ed. D.
Chief Executive Officer

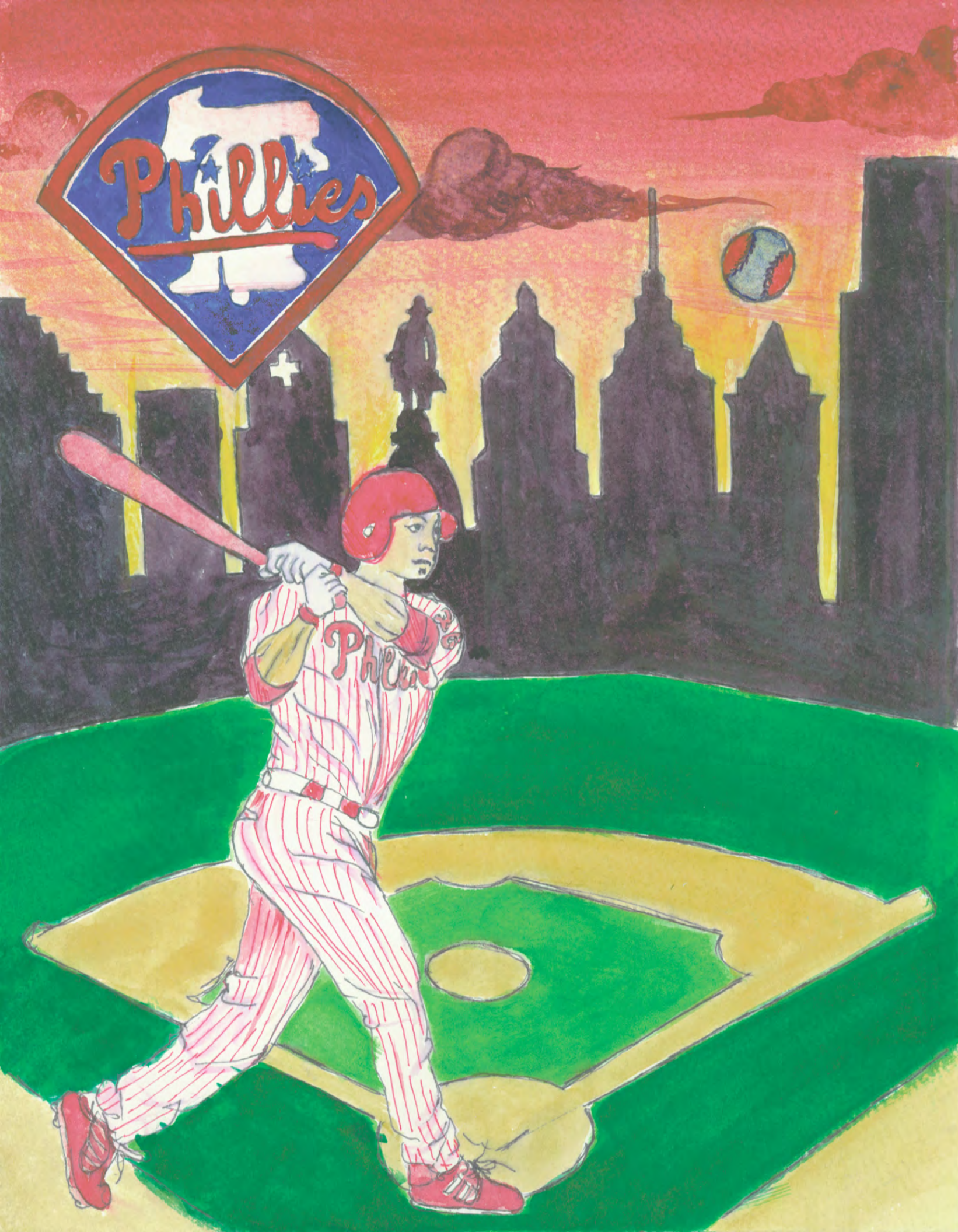
Maria Pitre, Ed. D.
Chief Academic Officer

Michael J. Masch
Chief Business Officer

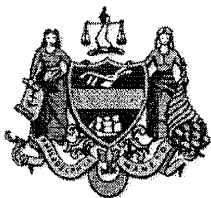
Tomás Hanna
Chief of School Operations

Sherry A. Swirsky, Esquire
General Counsel

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CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER
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ALAN BUTKOVITZ
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, Pennsylvania, as of and for the year ended June 30, 2008, 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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously 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, 2008, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

CITY OF PHILADELPHIA
OFFICE OF THE CONTROLLER

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 88 through 92, 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 inquires 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 accompanying Introductory Section, Other Supplementary Information, and the Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 2008 financial information listed as Other Supplementary Information in the table of contents, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2008 basic financial statements taken as a whole. We also have previously audited, in accordance with auditing standards generally accepted in the United States, the School District of Philadelphia's basic financial statements for the year ended June 30, 2007, which are not presented with the accompanying financial statements. In our report dated December 28, 2007, we expressed unqualified opinions on the respective 2007 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. The 2007 amounts included in the Comparative Schedule by Source of Capital Assets Used in the Operation of Governmental Funds on page 118 have been subjected to the auditing procedures applied in the audit of the 2007 basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the 2007 basic financial statements taken as a whole. The Introductory Section and Statistical Section as listed in the table of contents 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, 2008


ALBERT F. SCAPEROTTO, CPA
Deputy City Controller

SCHOOL DISTRICT OF PHILADELPHIA MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

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, 2008. 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 intended 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 or any material deviations from the School District's financial position, along with identifying any individual fund issues or concerns. As such, this section should be read in conjunction with and as a complement 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 six 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 has helped to realign and reallocate resources, amend school policies and procedures, develop achievement plans and implement district-wide reforms in an effort to improve both the quality of education and administrative efficiencies.

The School Reform Commission's 2004 *Declaration of Education*, federal legislative mandates such as the "No Child Left Behind," and the need to maintain a balanced budget within an appropriate financial control environment, are key factors in determining how resources are allocated. In addition, the School District continues to develop quantifiable goals and strategic measures to ensure long-term educational and financial success.

A discussion of the successful financial results for Fiscal Year 2008 follows. The favorable outcome was made possible due to the collaboration of the School District, Commonwealth and City in taking corrective action to cut expenses or increase revenues.

Management's Discussion and Analysis

Several key financial highlights for Fiscal Year 2008 include, but are not limited to, the following:

- Total revenues for the governmental funds were \$2.6 billion. Although a majority of revenues represent subsidies and grants awarded and appropriated to the School District by state governmental entities and agencies, a significant portion is also derived from the collection of local taxes with the smallest amount of revenues derived from federal grants and subsidies.
- Total expenses for the governmental funds were \$3.0 billion, which includes \$374.4 million of capital expenditures from funds received in prior years. Approximately ninety five percent (95%) of all expenses were incurred for instructional, direct student-related costs and expenditures and services directly benefitting the schools such as transportation, utilities and debt service for school renovations and construction.
- At the end of the current fiscal year, total net assets were (\$1,200.6) million resulting from an excess of liabilities over assets. Bonds payable and other unfunded liabilities, such as workers' compensation, compensated absences and severance payable and other contingent liabilities are the primary long-term liabilities impacting this balance. Non-capitalized bond fund expenditures allowable under the covenants, also contribute to this negative net asset position.
- The operating funds, comprised of the General Fund, Debt Service Fund and the Intermediate Unit Fund, ended the fiscal year almost balanced with an unreserved/undesignated negative fund balance of \$0.5 million. This ending negative fund balance is comprised of a General Fund unreserved negative fund balance of \$73.6 million, which is offset by \$73.1 million in the Debt Service Fund. The \$73.1 million in the Debt Service Fund includes a positive fund balance of \$74.0 million reduced by \$0.9 million in trapped funds for future appropriations.

Financial results for Fiscal Year 2008, compared to Fiscal Year 2007, are the result of several factors and events; the most significant include, but are not limited to:

- Total revenues for the governmental funds increased by \$138.4 million compared to Fiscal Year 2007 as a result of both higher local tax collections and the award of additional federal and state grants and subsidies. Local revenues increased by \$53.0 million while federal, state grants and subsidies increased by \$85.4 million. A significant portion of the total revenue increase, \$73.0 million, was due to increased State and City revenues allocated to alleviate the projected budget deficit.
- Total expenses for the governmental funds increased by \$152.3 million compared to Fiscal Year 2007. This resulted from expenditure increases of \$49.8 million in capital outlays, \$45.8 million in instructional costs, \$29.3 million in payments to charter schools, \$20.6 million in pupil transportation costs and \$6.8 million in all other costs.
- Debt service expenditures increased by \$7.5 million when compared to Fiscal Year 2007. This increase reflects anticipated scheduled principal and interest payments of \$17.9 million, an increase in variable rate interest payments of \$1.4 million and a decrease in bond issuance costs of \$11.8 million which were due primarily to certain refunding transactions. In addition, net financing sources and (uses) increased by \$10.7 million as a result of an increase in fund transfers to cover bond payments and the increase in the use of the funds for strategic financial restructuring of outstanding Auction Rate Securities. Revenues decreased by \$4.6 million due primarily to a reduction in variable rate income.
- The operating funds had a change in undesignated/unreserved fund balance from Fiscal Year 2007 to Fiscal Year 2008 of \$0.3 million. This resulted from the change in the ending Fiscal Year 2007 balance of (\$0.8) million to the ending Fiscal Year 2008 balance of (\$0.5) million. This positive change is primarily due to a strategic reduction of expenditures, the

Management's Discussion and Analysis

implementation of improved operational and financial controls, additional State and City funding and other financing sources and uses in these three funds.

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 long-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. For example, 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 as well as its remaining borrowing capacity. This statement 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 to which 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

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.

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 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.

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/or parents. These types

Management's Discussion and Analysis

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 a trustee for the Fiduciary Funds.

IV. REPORTING BY THE SCHOOL DISTRICT AS A WHOLE

As previously mentioned, the Statement of Net Assets and the Statement of Activities provide 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 2008. These two statements report the School District's net assets and any changes in net assets which are shown on Table 1 and Table 2 below. 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, 2008. A more detailed Statement of Net Assets can be found on page 34 of the Basic Financial Statement section:

Net Assets
As of June 30, 2008
(Dollars in Millions)
Table 1

	Governmental		Business-Type		Total	
	Activities		Activities			
Assets	2008	2007	2008	2007	2008	2007
Current & Other Assets	\$ 567.5	\$ 892.1	\$ 8.9	\$ 7.0	\$ 576.4	\$ 899.1
Capital Assets	1,774.9	1,525.0	4.0	4.4	1,778.9	1,529.4
Total Assets	\$ 2,342.4	\$ 2,417.1	\$ 12.9	\$ 11.4	\$ 2,355.3	\$ 2,428.5
Liabilities						
Long-Term Liabilities	\$ 3,290.9	\$ 3,358.4	\$ 3.3	\$ 4.8	\$ 3,294.2	\$ 3,363.2
Other Liabilities	248.8	284.7	12.9	9.1	261.7	293.8
Total Liabilities	\$ 3,539.7	\$ 3,643.1	\$ 16.2	\$ 13.9	\$ 3,555.9	\$ 3,657.0
Net Assets						
Invested in Capital Assets -	\$ 27.1	\$ 1.2	\$ 4.0	\$ 3.1	\$ 31.1	\$ 4.3
Net of Related Debt						
Restricted	84.0	76.1	-	-	84.0	76.1
Unrestricted	\$ (1,308.4)	(1,303.3)	(7.3)	(5.6)	(1,315.7)	(1,308.9)
Total Net Assets	\$ (1,197.3)	\$ (1,226.0)	\$ (3.3)	\$ (2.5)	\$ (1,200.6)	\$ (1,228.5)

For the Fiscal Year ending June 30, 2008, the School District's total net assets were (\$1,200.6) million. This negative net asset amount is cumulative and represents the accumulated results of all prior fiscal year operations of which (\$1,315.7) million is unrestricted. This balance also reflects an increase of \$27.9 million from Fiscal Year ending June 30, 2007. This increase was caused primarily by a net decrease in receivables, cash and cash equivalents of \$297.3 million offset by an increase in capital asset investments related to the Capital Improvement Program (CIP) of \$249.6 million; a net decrease in due from other governments resulting from quicker filings for categorical funds of \$25.2 million; a decrease in categorical fund unearned revenues of \$32.7 million, a decrease in severance payable of \$49.7 million; a decrease in bonds payable and bond debt related liabilities of \$26.3; and, the combination of various net decreases to net assets of \$7.9 million.

Management's Discussion and Analysis

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 on page 35 of the Basic Financial Statement section. Table 2, below, summarizes the data from that presentation:

Changes in Net Assets
Fiscal Year Ended June 30, 2008
(Dollars in Millions)
Table 2

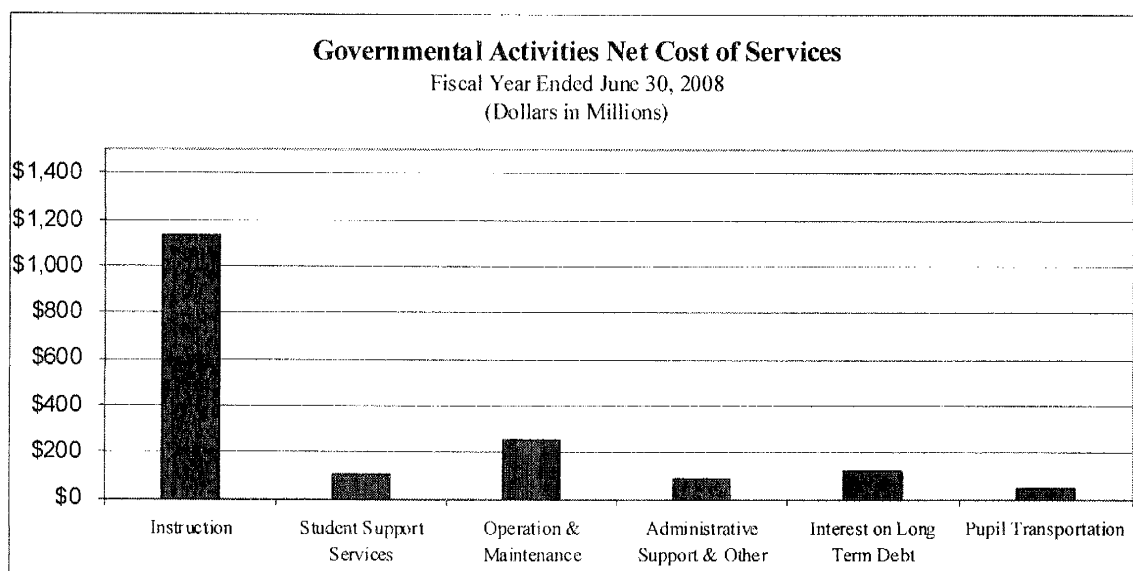
	Governmental Activities		Business-Type Activities	
Revenues	2008	2007	2008	2007
Program Revenues				
Charges for Services	\$ 5.8	\$ 2.5	\$ 3.7	\$ 5.1
Operating Grants & Contributions	853.7	805.0	69.5	68.5
Capital Grants & Contributions	-	0.1	-	-
General Revenues				
Property Taxes	598.6	549.5	-	-
Other Taxes	177.6	168.5	-	-
Grants & Contributions Not Restricted	133.8	142.9	-	-
State & Federal Subsidies Not Restricted	870.7	843.7	-	-
Contributed Capital	-	-	0.1	0.3
Total Revenues	\$ 2,640.2	\$ 2,512.2	\$ 73.3	\$ 73.9
Expenses				
Instruction	\$ 1,733.7	\$ 1,706.3	\$ -	\$ -
Student Support Services	210.5	262.0	-	-
Administrative Support & Other	262.2	272.3	-	-
Pupil Transportation	107.0	89.1	-	-
Operation & Maintenance	273.3	270.2	-	-
Early Childhood Education	22.8	20.4	-	-
Food Service	-	-	78.2	81.8
Total Expenses	\$ 2,609.5	\$ 2,620.3	\$ 78.2	\$ 81.8
Excess (Deficiency) before Transfers	\$ 30.7	\$ (108.1)	\$ (4.9)	\$ (7.9)
Transfers	\$ (4.1)	\$ 0.2	\$ 4.1	\$ (0.2)
Increase/(Decrease) in Net Assets	\$ 26.6	\$ (107.9)	\$ (0.8)	\$ (8.1)
Disposal of Capital Assets	-	-	-	-
Net Assets - Beginning	\$ (1,226.0)	\$ (1,116.9)	\$ (2.5)	\$ 5.6
Prior Period Adjustment	2.1	(1.2)	-	-
Net Assets - Ending	\$ (1,197.3)	\$ (1,226.0)	\$ (3.3)	\$ (2.5)

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. For each activity, the statement presents gross expenses and the resulting net cost, offset by program revenues, of each general activity. 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, 2008
(Dollars in Millions)
Table 3

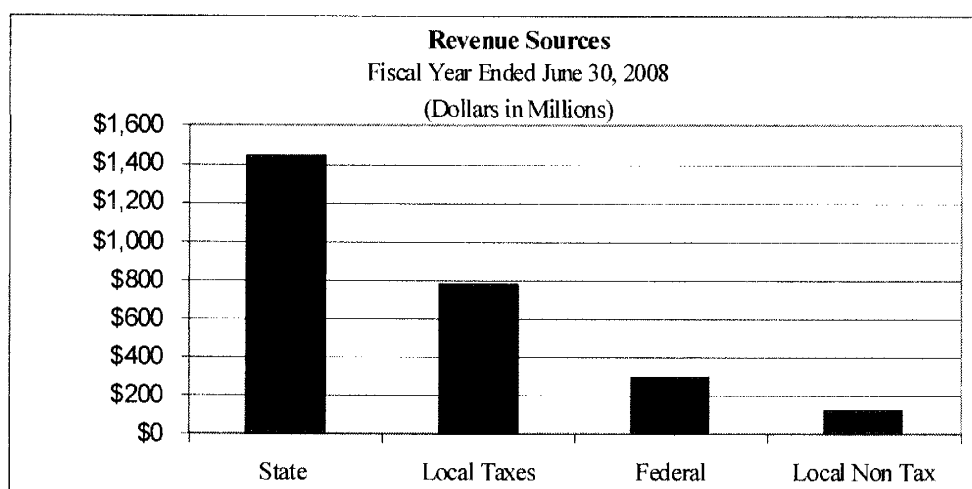
Functional Expense	Gross Cost of Services	Net Cost of Services
Instruction	\$ 1,733.7	\$ 1,135.8
Student Support Services	210.5	103.2
Operation & Maintenance	273.3	251.8
Administrative Support & Other	124.3	87.3
Interest on Long Term Debt	137.9	120.5
Pupil Transportation	107.0	49.0
Food Service	78.2	5.0
Early Childhood Education	22.8	2.3
Total Expenses	<u>\$ 2,687.7</u>	<u>\$ 1,754.9</u>



Major Sources of Revenues

The School District's revenues are derived primarily from three sources: (i) state grants and subsidies totaling 55%; (ii) local taxes and non-tax revenues totaling 34%; and (iii) federal grants and subsidies totaling 11%. 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 and collection of taxes such as real estate, business use and occupancy, non-business income, liquor by the drink and public utility realty. A third 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 all Governmental Funds for Fiscal Year 2008:



As previously illustrated in Table 2 on page 19, 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 for the General Fund, Intermediate Unit Fund and Categorical Fund. Total revenues for all Government Funds of \$2,636.1 million can be found on pages 40-41 of the Basic Financial Statement Section in the Statement of Revenues, Expenditures and Changes in Fund Balance:

Revenue by Source and Type
Fiscal Year Ended June 30, 2008
(Dollars in Millions)
Table 4

Revenue Source	General Fund	Intermediate Unit Fund	Categorical Funds
Local Taxes	\$ 777.6	\$ -	\$ -
Local Non-Tax	75.1	1.0	7.0
State Grants and Subsidies	1,201.6	81.8	155.0
Federal Grants and Subsidies	0.3	-	296.8
Total Revenue	<u>\$ 2,054.6</u>	<u>\$ 82.8</u>	<u>\$ 458.8</u>

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 serves as the School District's main operating fund, recording all financial activity except for those transactions that must be specifically accounted for in another type of fund, for example the Debt Service Fund. For Fiscal Year 2008, the General Fund had an excess of revenues over expenditures of \$407.3 million and net transfers to other funds of \$399.5 million which together resulted in a \$7.8 million positive impact to the fund balance. The General Fund's ending fund balance on June 30, 2008 was a negative \$43.4 million compared to a negative \$51.1 million fund balance on June 30, 2007. This improvement in the General Fund primarily resulted from inter-Operating fund transfers from the General Fund that were a net \$7.4 million less than in the final Fiscal Year 2008 Budget. The General Fund transferred to the Intermediate Fund \$196.7 million versus the \$207.2 million budgeted; this savings of \$10.5 million was reduced by a transfer from the General Fund to the Debt Service Fund that was \$3.1 million greater than budgeted, \$193.4 million instead of the \$190.3 million in the final Fiscal Year 2008 Budget. All other net improvements totaled \$0.4 million.

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 administrative costs include physical and occupational therapy, special education transportation, health counseling and sign language interpretation. During Fiscal Year 2008, the Intermediate Unit Fund had a \$1.3 million net increase in fund balance which resulted in an ending fund balance of \$2.6 million at June 30, 2008.

Categorical Funds

Categorical Funds are used to account for specific purpose federal, state, city or private grants to cover the costs of dedicated programs and special initiatives. Categorical Funds had a \$6.2 million net increase in fund balance which offset the ending fund balance to a negative \$12.3 million at June 30, 2008. At June 30, 2008, this \$12.3 million was still outstanding from grantors and recorded as deferred revenues and not yet recognized as current revenues under GASB Statement No. 33 guidelines. For Categorical Funds, the School District considers revenues to be available if received within 90 days of the current fiscal period.

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 2008, the Debt Service Fund had a \$4.0 million net increase in fund balance thereby increasing the balance to \$74.0 million as of June 30, 2008. This change was due to debt service and escrow payments for restructuring outstanding Auction Rate Securities of \$902.4 million. Interfund transfers of \$194.3 million to cover these expenditures and refunding proceeds of \$682.7 million, provided additional resources. In addition, locally generated income of \$23.8 million along with capital asset proceeds of \$5.6 million contributed to achieving this net increase.

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 to the School District's major capital facilities and buildings. During Fiscal Year 2008, the addition of new Qualified Zone Academy Bonds (QZAB) funds combined with the delay of capital outlays resulted in a negative net change of \$317.6 million in the Capital Projects Fund. This decreased the June 30, 2008 fund balance to \$119.0 million. New building construction totaling \$147.0 million and capital alterations and improvements totaling \$213.1 million, offset by the issuance of the QZAB for \$41.7 million account for much of the activity in the fund throughout the year.

Enterprise Fund

The Enterprise Fund is used to account for the operation of the Food Service Division. The Enterprise Fund had a negative total net asset balance of \$2.5 million at the end of Fiscal Year 2007 compared to a negative total net asset balance of \$3.3 million as of June 30, 2008, which resulted in a negative net change of \$0.8 million. Revenues originally expected from operations decreased by \$1.4 million compared with Fiscal Year 2007. In addition, the rising costs of food products and regulations about healthy food requirements collectively contributed to this change. There was a one time subsidy from the general fund of \$4.3 million to offset the cost of purchasing the Point of Service System of \$1.8 million due to the cancellation of a vendor service outsourcing agreement in September of 2008 and to offset \$2.5 million or 50% of the Food Service Fund's Fiscal Year 2008 operating deficit.

The financial performance and position of each of the previously discussed major funds and also non-major governmental funds can be found in the Statement of Revenues, Expenditures and Changes in Fund Balances on pages 40-41 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, 2008

(Dollars in Millions)

Table 5

Fund	Fiscal Year 2008	Fiscal Year 2007
General	\$ 7.8	\$ 14.8
Intermediate Unit	1.3	0.8
Categorical	6.2	(1.3)
Debt Service	4.0	5.4
Capital Projects	(317.6)	10.9
Enterprise	(0.8)	(8.1)
Non-Major Governmental	0.2	0.4
Total Change in Fund Balance	<u>\$ (298.9)</u>	<u>\$ 22.9</u>

Total Fund Balances for Major and Non-Major Governmental Funds
As of June 30, 2008
(Dollars in Millions)
Table 6

<u>Fund</u>	<u>Fiscal Year</u>	<u>Fiscal Year</u>
	<u>2008</u>	<u>2007</u>
General	\$ (43.4)	\$ (51.1)
Intermediate Unit	2.6	1.3
Categorical	(12.3)	(18.5)
Debt Service	74.0	70.1
Capital Projects	119.0	436.6
Enterprise	(3.3)	(2.5)
Non-Major Governmental	6.2	6.0
Total Fund Balance	<u>\$ 142.8</u>	<u>\$ 441.9</u>

VI. 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. Each budget is based on obligations; the most significant budgeted fund being the General Fund. 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. 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 annually holds hearings to determine the level of local tax funding for the School District.

The capital budget is prepared as part of a six-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.

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.

General Fund Budget

For Fiscal Year 2008, the final budgeted General Fund revenue was \$74.1 million higher than the original adopted budget. This resulted from a net increase of \$26.8 million in state Charter School and Alternative Education revenues related to the final passage of the state's budget, \$10.7 million of additional state revenues from accelerated processing of Debt Service (PlanCon) reimbursements, and \$16.2 million in reduced reimbursements from the District to the state for the Prior Year's IU Transportation advances; the last item helped the District adjust to the initial year cost of a new policy regarding SEPTA transpasses. Local Real Estate Tax revenues increased by \$15.5 million primarily due to the City's passage of a bill shifting additional millage from the City to the District and Local Tax revenues from the School Income Tax also increased by \$3.2 million. The City also increased its Local Non-Tax contribution by \$2.0 million from \$35.0 to \$37.0 million and the Philadelphia Parking Authority provided \$2.2 million to the District. These increases were offset by a net decline of \$2.5 million in all other revenue sources.

The anticipated obligations in the final General Fund budget represented an increase of \$16.6 million over the original adopted budget. In order to better measure savings and assure savings are achieved, the District reduced the amount of assumed savings budgeted in the centralized Undistributed Agency by \$40.0 million, from \$82.1 million at adoption, to \$42.1 million in the final Fiscal Year 2008 Budget, and distributed these savings to individually identified line items which resulted in the reduction of Agencies' budgeted expenditures by \$21.2 million in salaries, \$23.4 million in employee benefits, \$4.3 million in temporary borrowing, \$3.3 million in losses and judgments, \$1.2 million in payments to other educational entities and \$0.9 million in other categories (net). This generated net savings of \$14.3 million, which limited the increase in the overall expenditure budget to \$16.6 million to fund an increase of \$21.6 million for transportation and \$9.3 million for payments to charter schools; the transportation increase resulted from a change in District policies for providing SEPTA transpasses that was implemented after Fiscal Year 2008 Budget Adoption.

The anticipated Other Financing (Sources)/Uses in the General Fund budget were increased by \$9.8 million from the original adopted budget. This resulted from a correction in the amount of early childhood expenditures borne by the General Fund included in the Adopted Budget.

Actual General Fund revenues of \$2,054.6 million are \$6.6 million more than those estimated in the final General Fund budget of \$2,048.0 million. Actual General Fund obligations totaling \$1,659.2 million were \$13.1 million lower than estimated in the budget of \$1,672.3 million. Other financing uses of \$399.6 million were also \$4.0 million below budget. The net change in the fund balance represented an increase of \$23.7 million over the final budget estimate of a negative \$27.9 million.

Table 7 presents a summary comparison of the General Fund's original and final operating budgets with actual performance as can be seen in more detail in the General Fund Budgetary Comparison Schedule on page 88 of the Required Supplementary Information section:

General Fund Budget Comparison

Fiscal Year Ended June 30, 2008

(Dollars in Millions)

Table 7

	Budget		Actual	Variance vs
	Original	Final		Final Budget
Total Revenues	\$ 1,973.9	\$ 2,048.0	\$ 2,054.6	\$ 6.6
Total Obligations	1,655.7	1,672.3	1,659.2	13.1
Total Other Financing (Sources)/Uses	393.8	403.6	399.6	4.0
Net Change in Fund Balance	(75.6)	(27.9)	(4.2)	23.7
Fund Balance Beginning of Year	26.7	(51.1)	(51.1)	-
Change in Reserves	-	-	11.9	11.9
Fund Balance End of Year	<u>\$ (48.9)</u>	<u>\$ (79.0)</u>	<u>\$ (43.4)</u>	<u>\$ 35.6</u>

During Fiscal Year 2008, the School District incurred a number of variances compared to the final General Fund budget including, but not limited to:

- Revenues had a \$6.6 million favorable variance primarily because of Local Tax revenues that were better than budgeted by \$11.2 million in Real Estate and \$2.4 million in School Income Tax. Local Non-Tax interest income exceeded budget by \$1.3 million. These positive variances were partially offset by lower state revenues, including \$3.7 million in Debt Service (Plan Con), \$2.3 million in Charter reimbursements and \$2.6 in retirement/PSERS and social security/FICA reimbursements, which resulted from salary expenditures that were below budget. All other revenues (net) were \$0.3 favorable to budget.
- Obligations were \$13.1 million less than budgeted primarily due to lower than projected costs in the categories of salaries (\$10.3 million), benefits (\$9.8 million), transportation (\$6.5 million), charter schools (\$5.6 million) and payments to other educational entities (\$3.9 million) which resulted from corrective actions and spending adjustments taken by the School District to close the projected budget gap. These savings were partially offset by a net \$23.0 million increase in other non-personnel categories, primarily due to the budgeting of savings initiatives in the centralized Undistributed Agency while the actual savings are ultimately captured in individual Agency budgets. Although significant progress was made in Fiscal Year 2008 to eliminate the practice of centralized budgeting for projected savings, full implementation will not occur until Fiscal Year 2009.
- Other Financing (Sources)/Uses were \$4.0 million favorable from the final budget due to inter-operating fund transfers from the General Fund to the Intermediate Unit Fund and Debt Service Funds that were \$7.3 million less than budgeted and a transfer from the General Fund to the Categorical Funds for early childhood and Junior ROTC programs that was \$3.9 million less than budgeted. These savings were partially offset by transfers totaling \$7.4 million from the General Fund to the Internal Services and Enterprise Funds to eliminate and reduce negative fund balances, respectively.

VII. CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of the end of Fiscal Year 2008, the School District had \$2,960.9 million invested in capital assets. Over the years, these assets have depreciated by \$1,182.0 million leaving a carrying value of \$1,778.9 million. This represents an increase of \$249.6 million over the Fiscal Year 2007 ending balance. Table 8 represents Net Capital Assets net of prior period adjustments. Refer to Note 4C, page 65 for additional information.

Net Capital Assets
As of June 30, 2008
(Dollars in Millions)
Table 8

<u>Capital Asset Category</u>	<u>2008</u>	<u>2007</u>
Land	\$ 113.7	\$ 112.7
Buildings & Improvements	1,051.5	917.0
Personal Property	89.0	90.6
Construction In Progress	<u>524.7</u>	<u>409.0</u>
Total Net Book Value	<u>\$ 1,778.9</u>	<u>\$ 1,529.3</u>

Debt Administration

The School District is a component unit of the City of Philadelphia ("City") for financial reporting purposes only and the debt that is incurred is not considered the debt of the City. The School District issues debt in the form of bonds to be used for the acquisition of land and equipment purchases, construction purposes and notes to cover its short-term cash flow needs.

The School District recognizes bond premiums as unearned revenue in the Statement of Net Assets and the bond premium is amortized over the life of the bond issue. In December of 2007, the School District issued two series of Qualified Zone Academy Bonds in the aggregate amount of \$41.7 million to fund projects in the Capital Improvement Program. In April, 2008 the School District elected to refund \$678.6 million of maturities of the outstanding Auction Rate Securities due to unfavorable conditions in the financial markets through the issuance of \$682.6 million in variable rate general obligation bonds.

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

Long-Term Obligations Outstanding
As of June 30, 2008
(Dollars in Millions)
Table 9

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Total Bonded Debt	\$ 2,633.7	\$ 2,664.2	\$ -	\$ -
Employee Related Obligations	451.0	505.1	3.3	3.5
Due to Other Governments	61.4	45.3	-	-
Other	<u>143.5</u>	<u>143.8</u>	<u>-</u>	<u>1.3</u>
Total Long-Term Obligations Outstanding	<u>\$ 3,289.6</u>	<u>\$ 3,358.4</u>	<u>\$ 3.3</u>	<u>\$ 4.8</u>

Total long-term obligations outstanding for governmental activities decreased by \$67.5 million. This includes a decrease in bonded debt of \$30.5 million with a corresponding decrease in employee obligations of \$54.0 million. All other long-term obligations increased by \$17.0 million. Refer to Note 4D(2), pages 67-74 for additional information.

VIII. FUTURE CHALLENGES FOR THE SCHOOL DISTRICT

Current Financial Situation

Executive management of the School District, along with the School Reform Commission along with the City and State, began to successfully address the financial challenges of Fiscal Year 2007 by reducing the undesignated/unreserved negative fund balance from \$0.8 million at June 30, 2007 to a negative fund balance of \$0.5 million in the operating funds at the end of Fiscal Year 2008. The School District must achieve a corresponding operating surplus in Fiscal Year 2009 in order to reestablish a positive fund balance, as required by the Pennsylvania School Code and the Charter. The final Fiscal Year 2008 Budget assumed a negative fund balance of \$29.7 million which required the Fiscal Year 2009 Adopted Budget to run a corresponding surplus to reach a balanced Fiscal Year 2009 projected ending fund balance. Because the Fiscal Year 2008 actual negative ending fund balance of \$0.5 million is \$29.2 million better than the final Fiscal Year 2008 Budget, the Fiscal Year 2009 Budget should be better-positioned to return the School District to a positive fund balance at the end of Fiscal Year 2009. The size of any positive fund balance will be impacted by an additional \$10.0 million in salary and benefit costs resulting from one-year labor contracts negotiated for Fiscal Year 2009 as well as local tax revenues, utilities, debt service and other costs that could be affected by the global financial crisis.

The School District is currently operating under Act 45 of 2007 that amended the Pennsylvania School Code to require enhanced quarterly financial reporting to the Commonwealth Secretary of Education. On October 15th and 19th, 2007, the School District submitted Part I and Part II of the report respectively, to the Commonwealth Secretary of Education that included detailed budget to actual financial data and expenditure reduction implementation plans for over 100 specific items that either increased revenues or reduced operating expenditures. The District was required to provide a second quarter report by January 15, 2008, which updated the status of the initiatives and identified further possible expenditure reductions or revenue enhancements that were developed to reduce the estimated shortfall. Both the School Reform Commission and members of executive management with revenue assistance from the State and City were successful in closing all but a small portion (\$0.5 million) of the projected operating gap by June 30, 2008.

Along with the School District's continuous focus on balancing its budget, the School District continues to achieve significant academic improvements that have led to six consecutive years of major increases in test scores and schools qualifying as meeting Adequate Yearly Progress (AYP) under the federal "No Child Left Behind" legislation. The School District remains fully committed to the educational reform initiatives defined in the School Reform Commission's *Declaration of Education* and the *Measures that Matter*. In order to meet these goals while meeting its financial objectives, the District is continuing a rigorous and extensive process of prioritization and evaluation of its budget and programs.

No Child Left Behind

One major cost driver that affects School District spending is implementing the requirements of "No Child Left Behind" ("NCLB"). As part of "NCLB", 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 "NCLB", the School District in 2008 supported sixty-one (61) charter schools where 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 the passage of this law. 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

Management's Discussion and Analysis

or even from the same school or neighborhood. Under the current charter school environment, the School District has been unable 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. Additionally, approximately thirty percent (30%) of charter school students have come from private or parochial schools for which the School District did not provide education previously. Therefore, these per pupil costs were not borne by the School District in prior years but are now part of the charter school expenses.

In Fiscal Year 2008, one hundred and thirteen (113) schools out of two hundred and sixty-six (266) made AYP. The number of schools making AYP increased from 107 in 2007. The AYP status of schools is used to determine student eligibility for "NCLB" School Choice and Supplemental Educational Services (SES). School Choice is required to be offered to students in schools that fail to make AYP for at least two consecutive years. SES is required to be offered to students in schools that fail to make AYP for at least three consecutive years. The 2008 AYP school determinations are used to indicate eligibility for SES for the 2008-2009 school year, while 2008-2009 eligibility for School Choice is obtained from the prior year's AYP determinations (2007-2008). Based on the 2007 AYP determinations, students from 128 schools were eligible for School Choice transfers for the 2008-2009 school year, with 186 students receiving "NCLB" School Choice transfers. Based on the 2008 AYP determinations, students from 140 schools will be eligible for School Choice transfers for the 2009-2010 school year. Based on 2008 AYP determinations, eligible (low-income) students from 120 schools are eligible for SES. The School District will continue to set aside money for "NCLB" School Choice and SES, as mandated by "NCLB."

"NCLB" also 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 2007, over 85.2% of teachers in the School District were considered highly qualified, and 96.2% were considered fully certified, as a result of effective professional development initiatives and additional outreach efforts. In Fiscal Year 2008, the percentage increased to 97.9% for teachers who were considered fully certified. Fiscal Year 2008 Highly Qualified information is not currently available from the Pennsylvania Department of Education, however, it is anticipated that there will be another increase from the prior year.

Lastly, "NCLB" 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 2008, fifty six (56) School District students requested transfers as a victim of a crime/serious incident; zero (0) requested transfers as a witness to a crime/serious incident, one hundred one (101) requested transfers as an opt out of unsafe schools, and forty seven (47) requested other safety-related transfers. The School District has been making progress in improving school safety since Fiscal Year 2004 when twenty-seven (27) schools were labeled "Persistently Dangerous" based on serious incidents from the previous year. For the Fiscal Year 2008, twelve (12) schools are identified as "Persistently Dangerous."

Management's Discussion and Analysis

In September 2007, the School District embarked on a major project to address the violence and related issues at forty (40) of its "at risk" schools, including those on the "Persistently Dangerous" list. This combination of schools constitutes the District's 2007-08 "Focus 40 Schools". The District's initiative focused on several key strategies that build capacity to improve and expand school climate and safety services for this targeted group of schools. As of June 2008, all of the focus schools completed their Readiness and Emergency Management for Schools (REMS) Safety Plan, and their safety teams received professional development. An analysis of reported serious incidents and related disciplinary data for the "Focus 40 Schools", covering the period September 2007 through June 2008, shows an aggregate reduction of 4% in violent incidents when compared to the same period the previous school year. The School District continues its efforts to enhance school climate by providing professional development for school leadership teams in the precepts and effective practices of Single School Culture. Every school is required to identify and set forth a shared sense of purpose, in partnership with the community it serves. Every school will have an administrator or manager who is responsible solely for school safety and discipline. The School District will continue to be held accountable for the safety of its schools and will continue its efforts to enhance school climate.

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 strive to achieve by the end of 2008. Reaching or approaching these goals requires implementing a wide array of reform efforts and substantial investments.

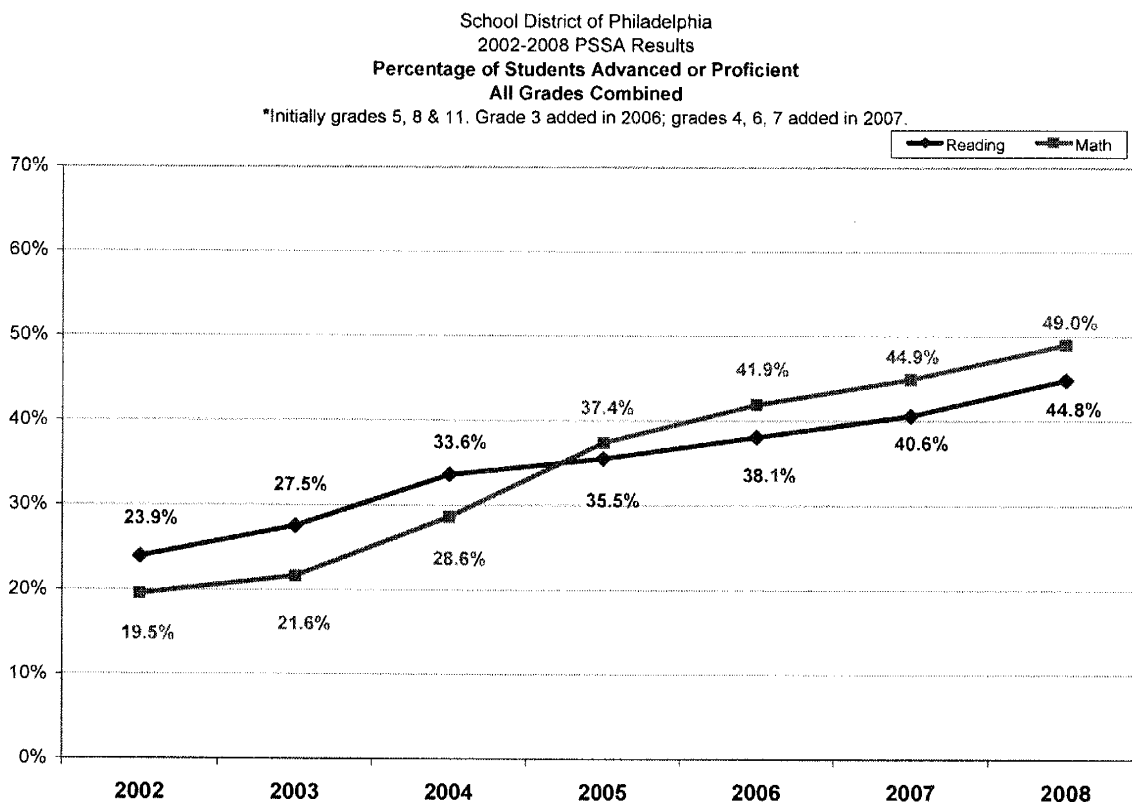
As previously mentioned, the School District is strongly committed to creating a safe and orderly environment in all its schools. The School District is undertaking efforts to not only remove schools from the Persistently Dangerous list, but also to enhance school climate beyond simply reducing and eliminating violence. Stricter enforcement of the Student Code of Conduct and a Zero Tolerance policy for violence, weapons, and drugs, for example, will create an environment that is more conducive to learning. Since students cannot learn if they are not in school, the School District has undertaken 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 out of school suspensions or disciplinary transfers, students with two or more suspensions or minor Level One Code of Conduct infractions, are required to attend SMART for a minimum of two Saturdays, and are provided with 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 transition program required by legislation that assesses, evaluates and prepares students before they return to school.

In the area of Academic Achievement, many programs required by the federal "NCLB" legislative mandate will also help the School District reach its own goals. The School District committed to achieving much more aggressive targets than simply meeting AYP. 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.

A review of the most recent data from the 2007-2008 school year that tracks progress toward the ambitious goals laid out in the Declaration of Education, indicates that the School District made progress towards these goals. For example, as displayed on the graph below, results on the Pennsylvania System of School Assessment (PSSA) have increased each of the past six years, with reading scores increasing by almost 21 percentage points and in math by about 30 percentage points. In addition, almost all grade and

Management's Discussion and Analysis

subject combinations, grade 5 reading or grade 11 math, for example, showed increases from 2007 to 2008 in the percentages of students scoring proficient or above with only one exception out of 14 subject grade combinations.



Finally, the indicators included in Measures that Matter for the period 2004-2008, are in the process of being revised for the 2008-2009 school year and beyond.

Capital Improvement Program

The School District's Capital Improvement Program ("CIP") was launched in order to support the School District's initiative to make schools more equitable; provide space for reduced class size; enhance academic reform efforts by ensuring students have state-of-the-art facilities; and present all students with a safe, modern, learning environment. The original CIP addressed the need for new construction, renovations and repairs and was assessed to total \$1.5 billion from Fiscal Year 2003 to Fiscal Year 2007. 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 has funded the construction of six (6) new neighborhood high schools, eight (8) new smaller high schools and four (4) new neighborhood elementary schools; seven (7) middle to high school conversions; and fifteen (15) school additions, and three (3) primary education centers. Other specific plans under the CIP include classroom modernization, upgrades to school athletic fields and stadiums, environmental projects, boiler and roof replacements, replacements and substantial renovation and repairs to existing school buildings, which will collectively stabilize the School District's real property portfolio. The current CIP covers \$2.6 billion from fiscal Year 2003 to Fiscal Year 2014 and is updated every year with the planned annual expenditure level dependant on the district's ability to fund and issue long-term debt instruments as determined by the annual operating budget's debt capacity.

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 Michael J. Masch, Chief Business Officer, or Marcy F. Blender, Comptroller, CPA, at 440 North Broad Street, Philadelphia, PA 19130.

BASIC FINANCIAL STATEMENTS

School District of Philadelphia
Statement of Net Assets
June 30, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash & Cash Equivalents	\$ 980,762	\$ 72,216	\$ 1,052,978
Cash and Investments with Fiscal Agent	71,500,756	-	71,500,756
Equity In Pooled Cash and Investments	41,075,106	-	41,075,106
Taxes Receivable (Net)	129,664,539	-	129,664,539
Due from Other Governments	55,756,160	6,550,014	62,306,174
Accounts Receivable (Net of Allowance)	5,786,379	-	5,786,379
Accrued Interest Receivable	669,033	-	669,033
Third-Party Receivable	9,708,612	-	9,708,612
Inventory	1,480,044	2,232,971	3,713,015
Prepaid Expenses	58,802	-	58,802
Deferred Debt Issuance Cost	23,176,026	-	23,176,026
Deferred Charge Refunding	54,722,625	-	54,722,625
Restricted Assets:			
Cash and Cash Equivalents	54,055,046	-	54,055,046
Cash and Investments Held by Trustee	118,824,848	-	118,824,848
Capital Assets:			
Land	113,723,844	-	113,723,844
Artwork	8,434,350	-	8,434,350
Buildings and Improvements	2,068,133,598	-	2,068,133,598
Personal Property	230,622,797	15,267,153	245,889,950
Construction in Progress	524,708,227	-	524,708,227
Accumulated Depreciation	(1,170,706,164)	(11,261,669)	(1,181,967,833)
Total Assets	2,342,375,390	12,860,685	2,355,236,075
LIABILITIES			
Accounts Payable	133,361,383	12,667,352	146,028,735
Overpayment of Taxes	12,391,226	-	12,391,226
Accrued Salaries and Benefits Payable	36,245,668	208,928	36,454,596
Termination Compensation Payable	29,433,784	-	29,433,784
Severance Payable	8,354,685	-	8,354,685
Unearned Revenue	8,800,057	-	8,800,057
Due to Other Governments	1,167,054	-	1,167,054
Bond Interest Payable	19,061,396	-	19,061,396
Non-Current Liabilities			
Due within one year	197,344,799	300,000	197,644,799
Due in more than one year	3,093,510,534	3,025,250	3,096,535,784
Total Liabilities	3,539,670,586	16,201,530	3,555,872,116
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	27,118,568	4,005,484	31,124,052
Restricted for:			
Debt Service	74,032,313	-	74,032,313
Special Revenue Funds & Permanent Funds			
Expendable - Student Health	2,813,877	-	2,813,877
Non-Expendable - Scholarships	3,392,605	-	3,392,605
Arbitrage Rebate Payable	3,766,975	-	3,766,975
Unrestricted (Deficit)	(1,308,419,534)	(7,346,329)	(1,315,765,863)
Total Net Assets	\$ (1,197,295,196)	\$ (3,340,845)	\$ (1,200,636,041)

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

School District of Philadelphia
Statement of Activities
For the Year Ended June 30, 2008

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
Governmental Activities						
Instruction	\$ 1,733,663,184	\$ 685,542	\$ 597,201,984	\$ -	\$ (1,135,775,658)	\$ -
Student Support Services	210,458,004	65,158	107,149,678	-	(103,243,168)	-
Administrative Support	92,099,700	3,843,049	31,471,973	-	(56,784,678)	-
Operation & Maintenance of Plant Services	273,335,400	959,326	20,577,321	21,756	(251,776,997)	-
Pupil Transportation	107,049,506	-	58,063,706	-	(48,985,800)	-
All Other Support Services	32,047,461	-	1,522,114	-	(30,525,347)	-
Early Childhood Education	22,815,542	217,988	20,265,248	-	(2,332,306)	-
Interest on Long-Term Debt	137,906,107	-	17,408,382	-	(120,497,725)	-
Total Governmental Activities	2,609,374,904	5,771,063	853,660,406	21,756	(1,749,921,679)	-
Business-Type Activities:						
Food Service	78,189,318	3,708,636	69,445,520	-	-	(5,035,162)
Total Business-Type Activities	78,189,318	3,708,636	69,445,520	-	-	(5,035,162)
Total	\$ 2,687,564,222	\$ 9,479,699	\$ 923,105,926	\$ 21,756	\$ (1,749,921,679)	\$ (5,035,162)
					\$ (1,749,921,679)	\$ (1,754,956,841)
General Revenues/Contributed Capital/Transfers:						
Property Taxes					\$ 598,556,454	\$ 598,556,454
Use & Occupancy Taxes					108,298,217	108,298,217
Liquor Taxes					41,615,552	41,615,552
School (Non-Business) Income Taxes					26,650,169	26,650,169
Public Utility / PILOT Taxes					1,053,633	1,053,633
Grants and Contributions Not Restricted to Specific Programs					133,801,000	133,801,000
State & Federal Subsidies Not Restricted to Specific Programs					870,686,263	870,686,263
Contributed Capital					-	62,500
Transfers					(4,112,218)	4,112,218
Total General Revenues and Transfers					\$ 1,776,549,070	\$ 1,780,723,788
Change in Net Assets					26,627,391	(860,444)
Net Assets - As of July 1, 2007					(1,226,029,039)	(1,228,509,440)
Prior Period Adjustments					2,106,452	2,106,452
Net Assets - As of June 30, 2008					\$ (1,197,295,196)	\$ (1,200,636,041)

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

School District of Philadelphia
Balance Sheet
Governmental Funds
June 30, 2008

	General Fund	Intermediate Unit Fund	Categorical Funds
ASSETS			
Cash & Cash Equivalents	\$ 960,280	\$ -	\$ 20,482
Cash and Investments with Fiscal Agent	-	-	-
Equity in Pooled Cash and Investments	21,485,849	9,648,985	-
Cash and Investments Held by Trustee	-	-	-
Taxes Receivable (Net)	129,664,539	-	-
Due from Other Funds	12,654,931	-	-
Due from Other Governments	11,276,821	2,668,534	41,688,454
Accounts Receivable (Net)	4,706,154	-	762,042
Accrued Interest Receivable	-	-	-
Inventory	1,442,834	-	-
Prepaid Items	-	-	-
Total Assets	\$ 182,191,408	\$ 12,317,519	\$ 42,470,978
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 46,976,565	\$ 5,644,472	\$ 24,385,761
Overpayment of Taxes	12,391,226	-	-
Accrued Salaries and Benefits Payable	25,895,768	4,035,127	5,952,050
Termination Compensation Payable	29,433,784	-	-
Severance Payable	8,354,685	-	-
Deferred Revenue	102,543,286	-	20,286,236
Due to Other Funds	-	-	2,946,319
Due to Other Governments	-	75	1,166,979
Total Liabilities	225,595,314	9,679,674	54,737,345
Fund Balances:			
Reserved for:			
Inventories	1,204,174	-	-
Encumbrances	29,013,932	2,637,845	-
Retirement of Long Term Debt	-	-	-
Debt Service Interest	-	-	-
Trust Principal	-	-	-
Arbitrage Rebate Payable	-	-	-
Unreserved:			
Designated:			
Special Revenue Funds	-	-	-
Permanent Funds	-	-	-
Undesignated:			
General Fund	(73,622,012)	-	-
Categorical Funds	-	-	(12,266,367)
Capital Projects Fund	-	-	-
Total Fund Balances	(43,403,906)	2,637,845	(12,266,367)
Total Liabilities and Fund Balances	\$ 182,191,408	\$ 12,317,519	\$ 42,470,978

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

Debt Service Fund	Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 54,055,046	\$ -	\$ 55,035,808
71,500,756	-	-	71,500,756
1,187,240	2,456,754	6,213,737	40,992,565
-	118,824,848	-	118,824,848
-	-	-	129,664,539
-	-	-	12,654,931
-	115,555	-	55,749,364
1,699,512	-	-	7,167,708
663,712	5,321	-	669,033
-	-	-	1,442,834
58,802	-	-	58,802
<u>\$ 75,110,022</u>	<u>\$ 175,457,524</u>	<u>\$ 6,213,737</u>	<u>\$ 493,761,188</u>
\$ 194,899	\$ 56,027,855	\$ 4,698	\$ 133,234,250
-	-	-	12,391,226
-	343,453	-	36,226,398
-	-	-	29,433,784
-	-	-	8,354,685
882,810	79,671	-	123,792,003
-	-	-	2,946,319
-	-	-	1,167,054
<u>1,077,709</u>	<u>56,450,979</u>	<u>4,698</u>	<u>347,545,719</u>
-	-	-	1,204,174
-	72,689,236	2,557	104,343,570
48,741,350	-	-	48,741,350
25,290,963	-	-	25,290,963
-	-	2,592,164	2,592,164
-	3,766,975	-	3,766,975
-	-	2,813,753	2,813,753
-	-	800,565	800,565
-	-	-	(73,622,012)
-	-	-	(12,266,367)
-	42,550,334	-	42,550,334
<u>74,032,313</u>	<u>119,006,545</u>	<u>6,209,039</u>	<u>146,215,469</u>
<u>\$ 75,110,022</u>	<u>\$ 175,457,524</u>	<u>\$ 6,213,737</u>	<u>\$ 493,761,188</u>

School District of Philadelphia
Reconciliation of the Balance Sheet for Governmental Funds
To the Statement of Net Assets
June 30, 2008

Fund Balance - Total Governmental Funds (page 37)	\$ 146,215,469
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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.	1,852,605,006
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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.	113,610,617
--	-------------

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.	(3,309,726,288)
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Net assets of governmental activities (page 34)	<u>\$ (1,197,295,196)</u>
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The notes to the basic 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, 2008

	General Fund	Intermediate Unit Fund	Categorical Funds
REVENUES			
Local Taxes	\$ 777,585,389	\$ -	\$ -
Locally Generated Non Tax	75,082,517	954,793	6,990,262
State Grants and Subsidies	1,201,610,468	81,821,353	154,991,832
Federal Grants and Subsidies	285,401	-	296,843,052
Total Revenues	<u>2,054,563,775</u>	<u>82,776,146</u>	<u>458,825,146</u>
EXPENDITURES			
Current:			
Instruction	871,609,186	198,673,371	297,696,916
Student Support Services	62,785,477	68,839,145	94,879,732
Administrative Support	42,035,746	10,546,159	29,518,948
Operation & Maintenance of Plant Services	262,294,805	-	8,707,823
Pupil Transportation	107,373,290	-	293,118
All Other Support Services	31,472,877	-	-
Early Childhood Education	-	-	22,814,168
Payments to Charter Schools	269,695,215	-	-
Debt Service:			
Principal	-	-	791,342
Loans	-	-	-
Interest	-	-	42,984
Principal & Interest - Authority	-	-	-
Issuance Costs	-	-	-
Administrative Expenses	-	-	-
Capital Outlay:			
New Buildings and Additions	-	-	-
Environmental Management	-	-	-
Alterations and Improvements	-	-	-
Equipment Acquisitions	-	-	-
Total Expenditures	<u>1,647,266,596</u>	<u>278,058,675</u>	<u>454,745,031</u>
Excess (Deficiency) of Revenues over Expenditures	<u>407,297,179</u>	<u>(195,282,529)</u>	<u>4,080,115</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	2,396,387	196,616,610	4,503,502
Transfers Out	(401,871,194)	-	(2,396,387)
Capital Asset Proceeds	-	-	-
Debt Issuance	-	-	-
Bond Defeasement	-	-	-
Total Other Financing Sources and (Uses)	<u>(399,474,807)</u>	<u>196,616,610</u>	<u>2,107,115</u>
Net Change in Fund Balances	7,822,372	1,334,081	6,187,230
Fund Balances, July 1, 2007	(51,146,019)	1,303,764	(18,453,597)
Change in Inventory Reserve	(80,259)	-	-
Fund Balances, June 30, 2008	<u>\$ (43,403,906)</u>	<u>\$ 2,637,845</u>	<u>\$ (12,266,367)</u>

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

Debt Service Fund	Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 777,585,389
23,829,895	15,525,535	275,495	122,658,497
-	328,703	-	1,438,752,356
-	-	-	297,128,453
<u>23,829,895</u>	<u>15,854,238</u>	<u>275,495</u>	<u>2,636,124,695</u>
-	-	62,724	1,368,042,197
-	-	-	226,504,354
-	-	-	82,100,853
-	-	-	271,002,628
-	-	-	107,666,408
-	-	-	31,472,877
-	-	-	22,814,168
-	-	-	269,695,215
65,626,071	-	-	66,417,413
6,725	-	-	6,725
99,582,063	-	-	99,625,047
49,062,000	-	-	49,062,000
3,369,941	-	-	3,369,941
2,900,535	-	-	2,900,535
-	147,023,716	-	147,023,716
-	3,504,137	-	3,504,137
-	213,146,483	-	213,146,483
-	10,682,252	-	10,682,252
<u>220,547,335</u>	<u>374,356,588</u>	<u>62,724</u>	<u>2,975,036,949</u>
<u>(196,717,440)</u>	<u>(358,502,350)</u>	<u>212,771</u>	<u>(338,912,254)</u>
194,344,728	-	-	397,861,227
-	(774,627)	-	(405,042,208)
5,612,102	32,791	-	5,644,893
682,630,000	41,670,000	-	724,300,000
(681,892,949)	-	-	(681,892,949)
<u>200,693,881</u>	<u>40,928,164</u>	<u>-</u>	<u>40,870,963</u>
3,976,441	(317,574,186)	212,771	(298,041,291)
70,055,872	436,580,731	5,996,268	444,337,019
-	-	-	(80,259)
<u>\$ 74,032,313</u>	<u>\$ 119,006,545</u>	<u>\$ 6,209,039</u>	<u>\$ 146,215,469</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, 2008

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)	\$ (298,041,291)
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.	287,507,448
Non capitalized purchases that exceed capital outlays.	(37,699,520)
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.	1,987,963
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.	(49,680,822)
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.	71,599,137
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.	47,872,639
The net revenue (loss) of certain activities of the Internal Service Fund is reported with governmental activities.	3,081,837
Change in net assets of governmental activities (page 35)	<u>\$ 26,627,391</u>

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

School District of Philadelphia
Statement of Net Assets
Proprietary Funds
June 30, 2008

	Enterprise Fund Food Service	Internal Service Fund Print Shop
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 72,216	\$ -
Equity in Pooled Cash and Investments	-	82,541
Due From Other Governments	6,550,014	6,796
Inventories	2,232,971	37,210
Total Current Assets	<u>8,855,201</u>	<u>126,547</u>
Noncurrent Assets:		
Machinery & Equipment	15,267,153	812,197
Accumulated Depreciation	<u>(11,261,669)</u>	<u>(601,900)</u>
Total Noncurrent Assets	<u>4,005,484</u>	<u>210,297</u>
 Total Assets	 <u><u>\$ 12,860,685</u></u>	 <u><u>\$ 336,844</u></u>
 LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 2,958,740	\$ 127,133
Accrued Salaries and Benefits Payable	208,928	19,270
Due to Other Funds	<u>9,708,612</u>	<u>-</u>
Total Current Liabilities	<u>12,876,280</u>	<u>146,403</u>
Noncurrent Liabilities:		
Termination Compensation Payable	2,065,969	190,441
Severance Payable	<u>1,259,281</u>	<u>-</u>
Total Noncurrent Liabilities	<u>3,325,250</u>	<u>190,441</u>
 Total Liabilities	 <u>16,201,530</u>	 <u>336,844</u>
 NET ASSETS		
Invested in Capital Assets	4,005,484	210,297
Unrestricted	<u>(7,346,329)</u>	<u>(210,297)</u>
Total Net Assets	<u>(3,340,845)</u>	<u>-</u>
Total Liabilities and Net Assets	<u><u>\$ 12,860,685</u></u>	<u><u>\$ 336,844</u></u>

The notes to the basic 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, 2008

	Enterprise Fund Food Service	Internal Service Fund Print Shop
Operating Revenues:		
Food Service Revenue	\$ 3,708,636	\$ -
Sale of Printing Services	-	1,349,314
Total Operating Revenues	<u>3,708,636</u>	<u>1,349,314</u>
Operating Expenses:		
Salaries	18,242,099	559,566
Employee Benefits	11,857,024	201,984
Other Purchased Service - Food	36,550,847	-
Other Purchased Service - Supplies	-	(2,108)
Depreciation	861,938	66,377
Other Operating Expenses	10,664,304	510,421
Total Operating Expenses	<u>78,176,212</u>	<u>1,336,240</u>
Operating Gain/(Loss)	(74,467,576)	13,074
Non-Operating Revenues/(Expenses):		
Federal and State Grants	69,445,520	41,342
Loss on Sale of Capital Assets	(13,106)	(831)
Income (loss) Before Contributions and Transfers	<u>(5,035,162)</u>	<u>53,585</u>
Contributed Capital - POS	62,500	-
Transfers In	4,300,000	3,068,763
Transfers Out	(187,782)	-
Change in Net Assets	<u>(860,444)</u>	<u>3,122,348</u>
Total Net Assets July 1, 2007	(2,480,401)	(3,122,348)
Total Net Assets June 30, 2008	<u><u>\$ (3,340,845)</u></u>	<u><u>\$ -</u></u>

The notes to the basic 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, 2008

	Enterprise Fund Food Service	Internal Service Fund Print Shop
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Users	\$ 3,708,636	\$ 1,349,314
Cash Payments to Employees for Services	(30,284,894)	(829,664)
Cash Payments to Suppliers for Goods and Services	(36,934,177)	2,108
Cash Payments for Other Operating Expenses	(10,664,304)	(1,626,308)
Net Cash Used by Operating Activities	<u>(74,174,739)</u>	<u>(1,104,550)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Advances from Other Funds	7,787,232	(1,918,836)
State Sources	6,279,310	19,929
Federal Sources	57,646,113	21,414
Transfers In	4,300,000	3,068,763
Transfers Out	(187,782)	-
Net Cash Provided by Non-Capital Financing Activities	<u>75,824,873</u>	<u>1,191,270</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Facilities Acquisition, Construction, Improvements	(1,685,065)	(4,179)
Net Cash Used by Capital and Related Financing Activities	<u>(1,685,065)</u>	<u>(4,179)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	(34,931)	82,541
Cash and Cash Equivalents July 1, 2007	107,147	-
Cash and Cash Equivalents June 30, 2008	<u>\$ 72,216</u>	<u>\$ 82,541</u>
Reconciliation of Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Operating Income/(Loss)	\$ (74,467,576)	\$ 13,074
Adjustments to Reconcile Operating Income/(Loss) to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation	861,938	66,377
Donated Food Commodities	3,884,419	-
Decrease in Accounts Receivable	-	1,685
(Increase) in Inventories	(297,593)	(2,108)
(Decrease) in Accounts Payable	(3,970,156)	(1,115,465)
Increase/(Decrease) in Accrued Salaries and Benefits Payable	5,614	(3,238)
(Decrease) in Termination Compensation Payable	(30,430)	(64,875)
Decrease in Severance Payable	(160,955)	-
Total Adjustments	<u>292,837</u>	<u>(1,117,624)</u>
Net Cash Used by Operating Activities	<u>\$ (74,174,739)</u>	<u>\$ (1,104,550)</u>

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

School District of Philadelphia
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

	Private - Purpose Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ -	\$ 5,303,423
Equity in Pooled Cash and Investments	668,346	36,990,636
Investments	200,002	-
Accounts Receivable	1,163	7,933,908
Inventories	-	310,560
Total Assets	<u>869,511</u>	<u>50,538,527</u>
LIABILITIES		
Accounts Payable	229,824	-
Payroll Deductions and Withholdings	-	44,520,169
Due to Student Activities	-	5,303,423
Other Liabilities	-	714,935
Total Liabilities	<u>229,824</u>	<u>50,538,527</u>
NET ASSETS		
Held in Trust for Various Purposes	<u>\$ 639,687</u>	<u>\$ -</u>

The notes to the basic 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, 2008

	Private Purpose Trust Funds
ADDITIONS	
Gifts and Contributions	\$ 900,246
Interest Received	26,971
Total Additions	<u>927,217</u>
DEDUCTIONS	
Scholarships Awarded	868,025
Total Deductions	<u>868,025</u>
Change in Net Assets	59,192
Net Assets July 1, 2007	580,495
Net Assets June 30, 2008	<u><u>\$ 639,687</u></u>

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

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SCHOOL DISTRICT OF PHILADELPHIA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008

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, 2008, 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 educational system in the United States according to enrollment data. In Fiscal Year 2008, the School District served close to 200,000 students, including those in Charter and Alternative Schools, as well as employed over 22,000 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 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, in a cooperative effort with the City to address the School District's financial needs, the Commonwealth 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 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 of the SRC while the Mayor of the City of Philadelphia appointed the remaining two members. The five-member commission performs its fiscal oversight responsibility for the Philadelphia public school system by adhering to priorities enumerated 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 all 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 for such a large school district. 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 Business Officer, a Chief Academic Officer and a Chief of School Operations, all of whom directly report to the CEO. Likewise, the General Counsel of the School District directly reports 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.

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 performs all IU services, pursuant to contracts between the two.

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,” 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 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 rely upon 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 present 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 utilize a 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;
 - (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, most of which are through scholarships and awards; and
 - (b) Agency Funds - used to account for assets held by the School District as trustee or agent for others. At June 30, 2008, 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 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 that recognizes both 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 for the General Fund if they are collected within 60 days of the end of the current fiscal period or beyond the normal time of receipt because of highly unusual circumstances 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 by the drink, 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 does provide that these records be maintained and requires 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 as 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 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 2008 was 49.59 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 Council of the City of Philadelphia ("City Council") while the remaining 32.84 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 of each calendar year. 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 has 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 \$1.4 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 \$1.7 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

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. This methodology was established because historical cost records on many of the items are not 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 (1) year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital 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.

Land and Construction in Progress are not depreciated. However, 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 also using the 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 were 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 the expenditure of grant funds.

(9) Insurance

The School District is self-insured for most of its risks including casualty losses, public liability, unemployment and weekly indemnity. Workers' Compensation is covered by excess insurance over a \$5.0 million self-insured retention. The School District does purchase certain other insurance as well. For instance, the School District maintains property insurance to cover losses related to damage sustained from fire, flood or boiler and machinery with a deductible of \$500,000 and a limit of \$250.0 million per occurrence. Certain insurance coverages including, employee performance bonds, student accident and employee dishonesty bonds, are also procured regularly. Unemployment and workers' compensation coverage are funded by pro-rata charges to each fund, while the cost of weekly indemnity coverage is shared by the School District and covered employees.

Payments in Fiscal Year 2008 were comprised of \$17.3 million for Weekly Indemnity, \$31.2 million for Workers' Compensation and \$4.6 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 is payable only upon termination of employment or retirement. 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 the time of 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 presented 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) 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.

(13) 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.

(14) Comparative Data

Comparative data from Fiscal Year 2007 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 (i.e., 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.

School District of Philadelphia

Cost of Capital Assets	\$ 2,944,810,619
Accumulated Depreciation	<u>(1,170,104,264)</u>
Net Cost of Capital Assets	\$ 1,774,706,355

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 deferred charges:

	<u>77,898,651</u>
Total adjustment to fund balance – governmental funds	<u>\$ 1,852,605,006</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	\$ 101,161,958
Grants & Subsidies	12,266,367
Investments	<u>182,292</u>
Adjustment of Deferred Revenue	<u>\$ 113,610,617</u>

Another element of that reconciliation explains that "Long-term liabilities, including bonds payable, are not due and payable in the current fiscal period and therefore are not reported in the governmental funds." The details of the (\$3,309,726,288) difference are as follows:

Bonds Payable	\$ (2,613,381,787)
Deduct: Discount on Bonds Payable	2,137,380
Add: Premium on Bonds Payable	(22,470,553)
Bond Interest Payable	(19,061,396)
Funds Due to Other Governments	(61,378,566)
Workers' Compensation Payable	(126,677,509)
Unemployment Compensation Payable	(6,194,209)
Compensated Absences	(285,235,775)
Severance Payable	(163,586,775)
Claims and Judgments	(7,209,200)
Arbitrage Rebate Payable	(3,766,975)
Early/Voluntary Retirement Incentive	(2,085,000)
Capital Lease	(812,561)
Asbestos Loan Payable	<u>(3,362)</u>

Net adjustment to reduce fund balance - total governmental funds - to arrive at net assets governmental activities.

\$ (3,309,726,288)

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 \$287,507,448 difference are as follows:

Capital outlay	\$ 374,356,588
Depreciation expense	<u>(86,849,140)</u>
<i>Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.</i>	<u><u>\$ 287,507,448</u></u>

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 reports losses and gains 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 \$1,987,963 difference are as follows:

Loss on Disposal of Capital Assets	\$ (1,107,584)
Gain on Sale of Capital Assets	<u>3,095,547</u>
<i>Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.</i>	<u><u>\$ 1,987,963</u></u>

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 \$71,599,137 difference are as follows:

Principal Repayment on Bonds	\$ 65,626,071
Principal Repayment on Authority Obligations	5,175,000
Principal Repayment on Loans	6,724
Principal Repayment on Capital Leases	<u>791,342</u>
<i>Net effect of differences in the treatment of long-term debt</i>	<u><u>\$ 71,599,137</u></u>

Another element of the reconciliation states that, “Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.” The details of the \$47,872,639 difference are as follows:

Change in Compensated Absences Payable	\$ 2,490,544
Change in Severance Payable	49,651,411
Change in Workers' Compensation Payable	(1,300,225)
Change in Unemployment Compensation Payable	4,271,051
Change in Claims and Judgments Payable	(827,290)
Change in Early/Voluntary Retirement Incentive Payable	1,760,000
Change in Due to Other Governments Payable	(16,100,000)
Change in Arbitrage Rebate Payable	(3,766,975)
Change in Net Accrued Bond Interest	8,324,182
Change in Bond Issuance Costs	<u>3,369,941</u>
<i>Net adjustment to increase/(decrease) net changes in fund balance - total governmental funds to arrive at changes in net assets of governmental activities.</i>	<u><u>\$ 47,872,639</u></u>

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 educational 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 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 and the President of City Council on or before March 31st of each fiscal year. Since the School District has limited taxing power, the 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, public hearing and debate. No supplementary budgetary appropriations are necessary during the fiscal year. Unencumbered appropriations lapse at year-end.

In 2008, 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 fiscal year's appropriations. Administrative control is maintained at the individual project level.

The SRC is not required to adopt a budget for Categorical Funds. However, 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 \$49.3 million at June 30, 2008. Since Categorical Funds do not have a formal adopted budget, this amount is not shown as a reservation of fund balance at June 30, 2008.

B. Deficit Fund Equity/Negative Net Assets

The operating funds, which consist of the General Fund, Intermediate Unit Fund and Debt Service Fund, experienced an undesignated/unreserved negative fund balance of \$0.5 million. This amount is comprised of a General Fund unreserved negative fund balance of \$73.6 million, which is offset by \$73.1 million in the Debt Service Fund. The \$73.1 million in the Debt Service Fund includes \$74.0 million in fund balance offset by \$0.9 million in trapped funds for future appropriations to debt service.

Categorical Funds experienced an unreserved negative fund balance of \$12.3 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.

The Enterprise Fund had negative net assets of \$3.3 million.

4. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS

A. Cash and Investments

(1) General Information

The School District's cash and investments, including \$42.3 million held in agency funds, at June 30, 2008 are summarized as follows:

Cash and Cash Equivalents	\$ 60,411,447
Cash and Investments with Fiscal Agent	71,500,756
Equity in Pooled Cash and Investments	78,734,088
Cash and Investments Held by Trustee	118,824,848
Investments	<u>200,002</u>
Total Cash and Investments	<u>\$ 329,671,141</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 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.

The School District's investment policy is contained in a formal resolution of the SRC, namely SRC-3, dated April 21, 2004. It allows the Chief Business 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 other institutions permitted to be used for investments /deposits of School District funds.

(2) Investments

As of June 30, 2008, the School District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity in Years</u>
Repurchase Agreements	\$ 74,113,517	.003
Discounted Notes	31,816,287	.422

(a) *Interest Rate Risk* - Repurchase agreements for sinking funds and consolidated cash, and capital fund investments, as of June 30, 2008 mature in one (1) day. Discounted Notes purchased by the School District relating to forward purchase agreements for sinking fund deposits are designed to mature in less than a year.

(b) *Credit Risk* - School District investments in collateral securities were rated as follows:

<u>Investment</u>	<u>Name</u>	<u>Moody's</u>	<u>S& P</u>	<u>Fitch</u>
Repurchase Agreements	Federal Home Loan Mortgage Corp. (FHLMC)	Aaa	AAA	AAA
	Federal Home Loan Bank (FHLB)	Aaa	AAA	N/R
	Federal National Mortgage Association (FNMA)	Aaa	AAA	AAA
Discounted Notes under Forward Purchase Agreement	Federal Home Loan Mortgage Corp. (FHLMC)	Aaa	AAA	AAA
	Federal Home Loan Bank (FHLB)	Aaa	AAA	N/R
	Federal National Mortgage Association (FNMA)	Aaa	AAA	AAA

Please note Fitch does not rate (N/R) FHLB.

- (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 maintains all deposits in depositories which are insured by the Federal Deposit Insurance Company (the "FDIC") to the extent permitted by law and to the extent not so insured, shall be secured by collateral pledged in accordance with Pennsylvania law (Act 72 of 1971). In addition, for any depository bearing a Bauer Financial rating of three stars or less in any quarter of the year, School District deposits in those institutions are limited to the amount of available federal insurance, and appropriate collateral pledged specifically to the School District for those deposits.
- (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 (1) year or less). The market value of collateral is maintained at 102% of investments.

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 fiscal year end are as follows:

	(Dollars in Thousands)					
	<u>General</u>	<u>Categorical</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Fiduciary</u>	<u>Total</u>
Receivables						
Interest	\$ -	\$ -	\$ 663.7	\$ 5.3	\$ -	\$ 669.0
Taxes	241,955.3	-	-	-	-	241,955.3
Accounts (net)	<u>4,706.1</u>	<u>762.0</u>	<u>1,699.5</u>	<u>-</u>	<u>7,935.1</u>	<u>15,102.7</u>
Gross Receivables	246,661.4	762.0	2,363.2	5.3	7,935.1	257,727.0
Less: Allowances for Uncollectible						
Taxes	<u>112,290.7</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>112,290.7</u>
Total Allowance	112,290.7	-	-	-	-	112,290.7
Net Total Receivables	<u>\$ 134,370.7</u>	<u>\$ 762.0</u>	<u>\$2,363.2</u>	<u>\$ 5.3</u>	<u>\$ 7,935.1</u>	<u>\$ 145,436.3</u>

(2) Taxes Receivable

The totals reported for taxes receivable on the Statement of Net Assets, Balance Sheet and the table above have been aggregated. The following details of the components of those taxes are presented in the table below. Estimated collectible taxes at June 30, 2008 equaled \$129.6 million as follows:

	(Dollars in Millions)		
	<u>Taxes Receivable</u>	<u>Estimated Uncollectible</u>	<u>Estimated Collectible</u>
<u>Real Estate Taxes</u>			
Current	\$ 70.4	\$ 10.5	\$ 59.9
Prior	<u>138.5</u>	<u>81.6</u>	<u>56.9</u>
Total Real Estate Taxes	208.9	92.1	116.8
<u>Self Assessed Taxes</u>			
Use and Occupancy	15.5	10.6	4.9
School Income Tax	3.7	1.6	2.1
Liquor Sales Tax	<u>13.8</u>	<u>8.0</u>	<u>5.8</u>
Total Self Assessed Taxes	33.0	20.2	12.8
Total Taxes Receivable	<u>\$ 241.9</u>	<u>\$ 112.3</u>	<u>\$ 129.6</u>

During July and August 2008, \$21.3 million in real estate taxes receivable and \$7.1 million in self-assessed taxes receivable were collected. Those amounts were accrued and included in Fiscal Year 2008 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)	\$ 101,161,958	-
Accounts receivables earned but not available (General Fund)	1,381,328	-
Grant funds earned but not available (Categorical Funds)	12,266,367	-
Grant funds received prior to meeting all eligibility requirements (Categorical Funds)	-	\$ 8,019,869
Interest on investments received prior to being earned (Debt Service Fund)	-	700,518
Interest on investments earned but not available (Debt Service Fund)	182,292	-
Grant funds received prior to meeting all eligibility requirements (Capital Projects Fund)	-	79,671
Total Deferred Revenue for Governmental Funds	<u>\$ 114,991,945</u>	<u>\$ 8,800,058</u>

C. Capital Assets

Capital Assets activity for the fiscal year ended June 30, 2008 are summarized as follows:

(Dollars in Millions)

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2008</u>
Governmental Activities:					
Capital Assets - Not Depreciated					
Land	\$ 113.4	\$ 0.5	\$ (0.2)	\$ -	\$ 113.7
Construction in Progress	409.0	233.7	-	(118.0)	524.7
Artwork	8.4	-	-	-	8.4
Total Capital Assets - Not Depreciated	<u>\$ 530.8</u>	<u>\$ 234.2</u>	<u>\$ (0.2)</u>	<u>\$ (118.0)</u>	<u>\$ 646.8</u>
Capital Assets - Depreciated					
Buildings	\$ 1,049.8	\$ 59.9	\$ (2.9)	\$ 53.3	\$ 1,160.1
Improvements	826.4	22.5	(5.5)	64.7	908.1
Personal Property	225.7	22.4	(18.3)	-	229.8
Print Shop	0.8	-	-	-	0.8
Total Capital Assets - Depreciated	<u>\$ 2,102.7</u>	<u>\$ 104.8</u>	<u>\$ (26.7)</u>	<u>\$ 118.0</u>	<u>\$ 2,298.8</u>
Less Accumulated Depreciation					
Buildings	\$ (494.4)	\$ (19.4)	\$ 2.4	\$ -	\$ (511.4)
Improvements	(464.1)	(45.0)	3.8	-	(505.3)
Personal Property	(148.1)	(22.5)	17.2	-	(153.4)
Print Shop	(0.6)	-	-	-	(0.6)
Total Accumulated Depreciation	<u>\$ (1,107.2)</u>	<u>\$ (86.9)</u>	<u>\$ 23.4</u>	<u>\$ -</u>	<u>\$ (1,170.7)</u>
Net Capital Assets Depreciated	<u>\$ 995.5</u>	<u>\$ 17.9</u>	<u>\$ (3.3)</u>	<u>\$ 118.0</u>	<u>\$ 1,128.1</u>
Governmental Activities - Net Capital Assets	<u><u>\$ 1,526.3</u></u>	<u><u>\$ 252.1</u></u>	<u><u>\$ (3.5)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,774.9</u></u>
Business-Type Activities:					
Capital Assets - Depreciated					
Machinery and Equipment	\$ 15.0	\$ 0.5	\$ (0.2)	\$ -	\$ 15.3
Less Accumulated Depreciation	(10.6)	(0.9)	0.2	-	(11.3)
Business-Type Activities - Net Capital Assets	<u><u>\$ 4.4</u></u>	<u><u>\$ (0.4)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4.0</u></u>

The beginning balances of certain capital asset accounts were adjusted by a net total of \$1.5 million which is reflected as a prior period adjustment in the district-wide Statement of Activities.

Depreciation expense was charged to the following activities as follows:

Governmental Activities:	(Dollars in Millions)
Instruction	\$ 74.5
Student Support Services	2.3
Administrative Support	7.7
Operation & Maintenance of Plant Services	0.5
All Other Support Services	<u>1.9</u>
Total Depreciation Expense	<u>\$ 86.9</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 \$550.0 million of Tax and Revenue Anticipation Notes on July 5, 2007 as authorized by the SRC. The proceeds of the Notes were used to address the School District's cyclical cash flow needs. All of the Notes were repaid as of June 30, 2008. Changes in short-term obligations payable during Fiscal Year 2008 were as follows:

	Balance July 1, 2007	(Dollars in Millions) Additions	Deletions	Balance June 30, 2008
<u>Governmental Activities:</u>				
Tax and Revenue Anticipation Note (Series 2007-2008)	\$ -	\$ 550.0	\$ (550.0)	\$ -
Total	<u>\$ -</u>	<u>\$ 550.0</u>	<u>\$ (550.0)</u>	<u>\$ -</u>

(2) Long-Term Obligations

Changes in long-term obligations payable during Fiscal Year 2008 were as follows:

	(Dollars in Millions)				
	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Due Within One Year
Governmental Activities:					
General Obligation Bonds/Lease Rental Debt	\$ 2,638.4	\$ 724.3	\$ (749.4)	\$ 2,613.3	\$ 75.8
Bond Premium	27.4	-	(4.9)	22.5	1.5
Bond Discount	(1.6)	(0.6)	0.1	(2.1)	(0.1)
Total Bonded Debt	<u>\$ 2,664.2</u>	<u>\$ 723.7</u>	<u>\$ (754.2)</u>	<u>\$ 2,633.7</u>	<u>\$ 77.2</u>
Termination Compensation Payable	\$ 288.0	\$ 26.9	\$ (29.5)	\$ 285.4	\$ 28.0
Severance Payable	213.2	10.8	(60.4)	163.6	10.0
Due to Other Governments					
- Deferred Reimbursement	45.3	16.1	-	61.4	50.6
Other Liabilities	142.2	38.3	(40.4)	140.1	29.0
Lease Purchase Agreements	1.6	-	(0.8)	0.8	0.8
Deferred Revenue	-	-	-	-	-
Early/Voluntary Retirement Incentive	3.9	-	(1.8)	2.1	1.7
Arbitrage Liability	-	3.8	-	3.8	-
Governmental Activity - Long-Term Liabilities	<u>\$ 3,358.4</u>	<u>\$ 819.6</u>	<u>\$ (887.1)</u>	<u>\$ 3,290.9</u>	<u>\$ 197.3</u>
Business-Type Activities:					
Termination Compensation Payable	\$ 2.1	\$ 2.1	\$ (2.1)	\$ 2.1	\$ 0.2
Severance Payable	1.4	1.2	(1.4)	1.2	0.1
Other Liabilities	1.3	-	(1.3)	-	-
Business-Type Activities - Long-Term Liabilities	<u>\$ 4.8</u>	<u>\$ 3.3</u>	<u>\$ (4.8)</u>	<u>\$ 3.3</u>	<u>\$ 0.3</u>

(a) General Obligation Bonds & Lease Rental Debt

(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 and lease rental debt. The School District has issued various general obligation bonds and lease rental debt throughout the years to fund budgeted capital projects and to refund higher interest rate bonds with bonds bearing lower costs.
- 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, 2008 by bond issue are summarized as follows:

(Dollars in Thousands)						
Issue ⁽¹⁾	Interest Rates	Maturity Year Ending June 30	Original Principal Issued	Principal	Interest	Total
1995 - A	6.250	2010	53,725	15,860	1,007	16,867
1997 - A	5.000	2010	52,220	13,655	1,032	14,687
1999 - A	4.250 – 4.500	2023	156,575	52,415	29,790	82,205
1999 - B	5.000 - 5.250	2013	98,405	55,755	5,595	61,350
1999 - D	5.625	2010	73,765	17,480	1,375	18,855
2000 - A	4.800 - 5.750	2011	130,000	22,010	3,796	25,806
2000 - B	QZABS ⁽²⁾	2014	22,985	22,955	-	22,955
2002 - A	4.300 - 5.250	2012	156,000	10,460	1,649	12,109
2002 - B	5.500	2013	300,000	62,845	9,021	71,866
2003 - A	Variable Rate ⁽³⁾	2028	109,000	108,980	60,391	169,371
2003 - B	5.500 ⁽⁴⁾	2028	588,140	43,505	47,856	91,361
2004 - A	Variable Rate ⁽⁵⁾	2026	100,000	99,980	41,094	141,074
2004 - D	3.300 - 5.000	2015	100,000	8,730	3,049	11,779
2004 - E	QZABS ⁽²⁾	2019	19,335	15,192	-	15,192
2005 - A	3.000 - 5.000	2023	198,140	198,090	100,683	298,773
2005 - B	3.000 - 5.000	2017	43,415	43,200	13,406	56,606
2005 - C	4.110 - 5.310	2026	71,740	67,215	35,484	102,699
2005 - D	3.500 - 5.500	2021	29,920	26,710	10,948	37,658
2006 - A	4.486 - 5.000 ⁽⁴⁾	2036	317,125	311,955	261,372	573,327
2006 - B	3.500 - 5.000 ⁽⁴⁾	2033	545,570	545,565	572,929	1,118,494
2007 - A	3.700 - 5.000	2034	146,530	146,525	157,449	303,974
2007 - C	QZABS ⁽²⁾	2023	13,510	13,510	-	13,510
2007 - D	QZABS ⁽²⁾	2023	28,160	28,160	5,104	33,264
2008 - A	Variable Rate ⁽⁶⁾	2031	254,885	254,885	147,196 ⁽⁷⁾	402,081
2008 - B	Variable Rate ⁽⁶⁾	2031	250,845	250,845	147,669 ⁽⁷⁾	398,514
2008 - C	Variable Rate ⁽⁶⁾	2022	91,900	91,900	28,076 ⁽⁷⁾	119,976
2008 - D	Variable Rate ⁽⁶⁾	2022	85,000	85,000	19,378 ⁽⁷⁾	104,378
Total			<u>\$ 4,036,890</u>	<u>\$2,613,382</u>	<u>\$ 1,705,349</u>	<u>\$ 4,318,731</u>

⁽¹⁾ All debt has been issued for Capital purposes, except for issues for 2002-B, 20 percent of 2004-A, 2005-A and 2005-C.

⁽²⁾ Prior to 2006, Qualified Zone Academy Bonds were interest free to the issuer. The 2007D QZABS bear interest at 1.25%.

⁽³⁾ Maximum interest rate not to exceed 12% in accordance with debt agreement.

⁽⁴⁾ Lease rental debt issued through the State Public School Building Authority.

⁽⁵⁾ Maximum interest rate not to exceed 15% in accordance with debt agreement.

⁽⁶⁾ Maximum interest rate on the Series A, B, C, and D Bonds shall be the lesser of 12% or the maximum permitted by law in accordance with bond provisions and is secured by letters of credit which expire in 2011.

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

Debt service to maturity on general obligation bonds at June 30, 2008 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
2009	\$ 70,352	\$ 67,673	\$ 138,025
2010	70,832	67,956	138,788
2011	72,767	64,932	137,699
2012	75,817	60,900	136,717
2013	78,182	57,512	135,694
2014-2018	395,963	241,796	637,759
2019-2023	429,329	155,582	584,911
2024-2028	297,230	77,870	375,100
2029-2033	147,415	25,436	172,851
2034-2036	74,470	3,536	78,006
Total	<u>\$ 1,712,357</u>	<u>\$ 823,193</u>	<u>\$ 2,535,550</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, 2008 is summarized as follows:

<u>Governmental Activities</u> (Dollars in Thousands)				
Year Ending June 30	Interest Rates	Principal	Interest	Total
2009	4.000	\$ 5,410	\$ 43,648	\$ 49,058
2010	4.000	5,660	43,398	49,058
2011	4.000	5,945	43,115	49,060
2012	4.000	6,230	42,828	49,058
2013	4.000	6,540	42,516	49,056
2014 – 2018	4.000 – 4.375	37,845	207,451	245,296
2019 – 2023	4.000 – 4.750	57,485	196,994	254,479
2024 – 2028	5.000 – 5.500	236,960	165,665	402,625
2029 – 2033	5.000 – 5.500	482,650	91,416	574,066
2034 – 2036	5.000	56,300	5,125	61,425
Total		<u>\$ 901,025</u>	<u>\$ 882,156</u>	<u>\$ 1,783,181</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 fifteenth (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 (15) 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 variable rate bonds and to assure timely payment 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 (15th) 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) The School District is authorized under amendments to the Debt Act enacted in September of 2003 to enter into qualified interest rate management agreements for the purpose of managing interest rate risk or interest cost, pursuant to resolutions adopted by the School Reform Commission.

On June 29, 2004, the School District simultaneously with the issuance of its General Obligation Refunding Bonds, Series B of 2004 and Series C of 2004 (the "2004 Bonds"), entered into certain qualified interest rate management agreements related to the 2004 Bonds (the "2004 Swaps"). The 2004 Swaps were insured by financial guaranty insurance policies issued by FGIC (the "Swap Insurance Policies"). The 2004 Swaps were floating-to-fixed swaps with counterparties (having at least one rating of "AA" or higher from Standard & Poor's or "Aa" or higher from Moody's) were entered into for the purpose of managing interest rate rise and cost associated with the 2004 Bonds. Each 2004 Swap was associated with a subseries of 2004 Bonds which were either 7-day reset auction-rate securities or 35-day reset auction-rate securities. The combination of auction-rate securities and floating-to-fixed swaps created synthetic fixed-rate debt expected to bear a rate lower than was then available for the conventional fixed rate bonds. The rate of 58.5% of LIBOR + 27 basis points swaps was used to hedge the 7-day auction-rate

securities and a rate of 60.4% of LIBOR + 32 basis point swaps was used to hedge the 35-day securities.

On November 21, 2006, the School District entered into two basis swaps related to a portion of the lease rental debt associated with the 2003 Bonds and all or a portion of the lease rental debt to be incurred by the School District in connection with the partial refunding of the 2003 Bonds. The basis swaps were entered into in order to manage the interest costs of the School District. The basis swaps provide for periodic payments at a floating rate equal to the SIFMA Municipal Swap Index ("SIFMA") by the School District in exchange for an upfront cash payment of \$10 million and periodic scheduled payments at a floating rate equal to 67% of LIBOR (a tax-exempt proxy) plus 27.88 basis points by counterparties on the notional amount of \$500.0 million (the "2006 Basis Swaps").

The financial credit crisis which began in 2007 triggered by the sub-prime mortgage crisis resulted in a lack of liquidity and the downgrade of FGIC and the lack of the auction rate market. These events lead to rate dislocations and unanticipated increases in interest rate expense for auction rate securities, such as the 2004 Bonds. Therefore, the School District refunded the 2004 Bonds by issuing General Obligation Refunding Bonds, Series A, B, C and D of 2008 (the "Series 2008 Bonds"). Simultaneously with the issuance of the Series 2008 Bonds, the School District amended the 2004 Swaps in order to terminate the FGIC insurance for each 2004 Swap and to relate the Series 2008 Bonds to the amended 2004 Swaps, as so amended, (the "2008 Swaps"). The aggregate notional amounts of the 2008 Swaps are equal to \$682,630,000 aggregate principal amount of the Series 2008 Bonds. An aggregate principal amount of Series 2008 bonds of \$4,055,000 is unhedged.

- 2008 Swap Agreements:
 - \$95,000,000 relating to the General Obligation Refunding Bonds, Series A of 2008 (Subseries A-1)
 - \$78,475,000 relating to the General Obligation Refunding Bonds, Series A of 2008 (Subseries A-2)
 - \$80,000,000 relating to the General Obligation Refunding Bonds, Series A of 2008 (Subseries A-3)
 - \$60,000,000 relating to the General Obligation Refunding Bonds, Series B of 2008 (Subseries B-1)
 - \$54,200,000 relating to the General Obligation Refunding Bonds, Series B of 2008 (Subseries B-2)
 - \$64,900,000 relating to the General Obligation Refunding Bonds, Series B of 2008 (Subseries B-3)
 - \$70,000,000 relating to the General Obligation Refunding Bonds, Series B of 2008 (Subseries B-4)
 - \$91,000,000 relating to the General Obligation Refunding Bonds, Series C of 2008 (Subseries C-1)
 - \$58,925,000 relating to the General Obligation Refunding Bonds, Series D of 2008 (Subseries D-1)
 - \$26,075,000 relating to the General Obligation Refunding Bonds, Series D of 2008 (Subseries D-2)

- (ii) *Terms, fair values and credit risk:* The terms, including the fair values and credit ratings of the bank counterparties on the outstanding swaps as of June 30, 2008 are as follows:

Related Bonds	Pays	Receives	Maturity Date	Initial Notional	Current Notional	Bank Counterparty	Moody's	S&P	Fitch	Total Value
Series 2003	SIFMA Swap Index	67% of USD-LIBOR + 0.2788%	5/15/2033	\$150,000,000	\$150,000,000	Wachovia Bank	Aa1	AA	AA-	(\$5,562,554.66)
Series 2003	SIFMA Swap Index	67% of USD-LIBOR + 0.2788%	5/15/2033	\$350,000,000	\$350,000,000	Bear Stearns Financial Products Inc.	Aaa	AAA	N/A	(\$12,979,294.19)
Series 2008 B-1	3.7670%	58.5% of USD-LIBOR + 0.27%	9/1/2030	\$60,000,000	\$60,000,000	Wachovia Bank	Aa1	AA	AA-	(\$5,257,873.14)
Series 2008 B-2	3.7670%	58.5% of USD-LIBOR + 0.27%	9/1/2030	\$54,200,000	\$54,200,000	Wachovia Bank	Aa1	AA	AA-	(\$4,733,322.20)
Series 2008 B-3	3.7670%	58.5% of USD-LIBOR + 0.27%	9/1/2030	\$64,900,000	\$64,900,000	Wachovia Bank	Aa1	AA	AA-	(\$5,670,397.77)
Series 2008 A-1	3.8150%	58.5% of USD-LIBOR + 0.27%	9/1/2030	\$95,000,000	\$95,000,000	Morgan Stanley Capital Services Inc.	Aa3	A+	AA-	(\$8,369,762.23)
Series 2008 A-2	3.7610%	58.5% of USD-LIBOR + 0.27%	9/1/2030	\$78,475,000	\$78,475,000	Goldman Sachs Capital Markets, L.P.	Aa3	AA-	AA-	(\$6,799,905.97)
Series 2008 D-1	3.6838%	60.4% of USD-LIBOR + 0.32%	9/1/2021	\$59,025,000	\$58,925,000	Goldman Sachs Capital Markets, L.P.	Aa3	AA-	AA-	(\$3,045,266.41)
Series 2008 C-1	3.7350%	60.4% of USD-LIBOR + 0.32%	9/1/2021	\$91,000,000	\$91,000,000	Morgan Stanley Capital Services Inc.	Aa3	A+	AA-	(\$4,494,779.20)
Series 2008 A-3	3.6890%	60.4% of USD-LIBOR + 0.32%	9/1/2021	\$80,000,000	\$80,000,000	Goldman Sachs Capital Markets, L.P.	Aa3	AA-	AA-	(\$4,119,920.36)
Series 2008 B-4	3.6890%	60.4% of USD-LIBOR + 0.32%	9/1/2021	\$70,000,000	\$70,000,000	Goldman Sachs Capital Markets, L.P.	Aa3	AA	AA	(\$3,604,423.77)
Series 2008 D-2	3.2400%	58.5% of USD-LIBOR + 0.27%	9/1/2011	\$38,475,000	\$26,075,000	Merrill Lynch Capital Services	A1	A	A+	(\$580,290.68)
										Total
										(\$65,217,790.58)

The swaps had a total negative fair value of (\$65.2 million) as of June 30, 2008. As of June 30, 2007, when the prevailing interest rates were higher, the swaps had a negative fair value of (\$16.7 million). The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. 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 payment on the swaps.

- (iii) *Discussion of Risks:*

- **Credit Risk** – In compliance with the applicable requirements of the Local Government Unit Debt Act (the “Debt Act”), added in September of 2003, the School District adopted a written interest rate management plan pursuant to a resolution of the School Reform Commission, adopted on February 2, 2004, to, among other items required by the Debt Act, monitor the credit rating of each counterparty and credit enhancer, if any, insuring qualified interest rate management agreement payments. The School District entered into swaps only with counterparties having at least one rating of “AA” or higher from Standard & Poor’s or “Aa” or higher from Moody’s at the time of execution. As of June 30, 2008, 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 one-way collateral agreements with the counterparties. The swaps require collateralization by the counterparty of the fair value of the swap should the counterparty’s credit rating fall below the applicable thresholds.
- **Basis Risk** - The basis risk on the fixed-to-floating swaps is the risk that the interest rate paid by the School District on a series of related variable rate bonds to bondholders differs from the variable swap rate received from the applicable counterparty on the related swap. The School District bears basis risk on each of its fixed-to-floating swaps 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.

The basis risk on the basis swaps is the risk that benchmark tax-exempt interest rates paid by the School District on each basis swap differ from the variable swap rate received from the applicable counterparty on the related swap. The School District bears basis risk on each of its basis swaps since the School District receives a percentage of LIBOR and pays the tax-exempt benchmark SIFMA. The School District is exposed to basis risk should the floating rate that it receives on a swap plus the spread is less than SIFMA the School District pays on the swaps. Depending on the magnitude and duration of any basis risk shortfall, the expected cost savings from the basis swap may not be realized.

- Termination Risk - The School District can terminate a swap at any time at its option; the counterparty to a swap may only terminate a swap upon the occurrence of certain specified termination events as provided in each swap. If a fixed-to-floating swap is terminated, the related variable-rate bonds would no longer be hedged to a fixed rate; if a basis swap is terminated, the associated expected savings on the fixed-rate bonds would no longer be recognized. 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, calculated pursuant to the procedures stated in each swap.

(c) General Obligation Bonds and Refunding Bonds

- (i) *General Obligation Bonds:* On December 28, 2007, the School District issued two series of Qualified Zone Academy Bonds in the aggregate amount of \$41.7 million. The Series C Bonds of \$13.5 million and the Series D Bonds of \$28.2 million were issued to fund projects in the Capital Improvement Program.
- (ii) *Refunding Bonds:* The School District elected to refund its 2004 Series B and Series C bonds that were Auction Rate Securities (ARS) due to unfavorable conditions in the financial markets for this product. On April 1, 2008, the School District issued \$682.6 million of General Obligation Refunding Bonds to refund \$678.6 million of all of the maturities of the 2004B and 2004C Bonds. In addition to the proceeds of \$682.6 million, the 2004B and 2004C Sinking Funds had \$1.3 million and \$4.7 million, respectively, accumulated for debt service on those bonds. This \$6.0 million plus earnings of \$115,640 on the deposits in the Escrow Account were used to retire all of the 2004B and 2004C bonds and to pay costs of issuance of \$2.6 million including underwriting fees, insurance and other issuance costs. The net proceeds were deposited in an irrevocable trust with the escrow agent to provide for all future debt service payments for the refunded bonds. As a result, the 2004 Series B and Series C ARS bonds were defeased and the liability for those bonds were removed from the District-Wide Statement of Net Assets. As of June 30, 2008, none of the refunded bonds remain outstanding.

For accounting purposes, the advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$59.0 million. This difference is being amortized through the operations in the district-wide statements until the year 2031.

An analysis was completed to determine the cash flow difference between old debt and new debt. The basis of this comparison was the application of the ARS maximum rate of 12.0% on the 2004 bonds versus an estimated annualized benchmark for variable rate debt of 3.0% on the 2008 refunded bonds. This analysis results in a cash flow of \$779.7 million less than the cash flow required to service the old debt. In addition, there was an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$590.4 million to the School District.

- (iii) *Defeasements:* In prior years, the School District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provided for all future debt service payments on the old debt. As such, the trust account assets and liability for the defeased bonds are not included in the School District's financial statements. As of June 30, 2008, \$1.3 billion of bonds outstanding are considered to be defeased and the liability has been removed from long-term liabilities.

In addition, the QZAB bond Series 2004E of \$19.3 million, issued September 2004, and due September 1, 2018 is considered partially defeased in substance for accounting and financial reporting purposes. The School District irrevocably places \$1.4 million in trust with its fiscal agent each September 1st. These amounts are invested in a forward purchase agreement to be used solely for satisfying scheduled payments of the defeased debt. As of June 30, 2008, \$4.1 million is considered partially defeased in substance for accounting and financial reporting purposes.

(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 certain other exclusions like deficit financing bonds. As of June 30, 2008, the non-electoral and lease rental borrowing capacity (debt limit) for the School District was \$1,813.0 million.

(e) Arbitrage

Federal arbitrage regulations are applicable to any issuer of tax-exempt bonds. Rebate-able arbitrage earnings occur when the investment earnings on the bond proceeds from the sale of tax-exempt securities exceeds the bond yield paid to investors. As of June 30, 2008, the arbitrage rebate calculation indicates a liability in 2011 (based on current market conditions which could change when actually due and payable) totaling \$3,766,975.27 for the Capital Projects Fund. The School District has reserved this amount under the fund balance of the Capital Projects Fund. In addition, a contingent liability has been accounted for in the governmental activities column of the government-wide statement of net assets.

(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 fiscal year ended June 30, 2008 amounted to \$9,763,361. 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>
2009	\$ 7.7
2010	6.4
2011	3.2
2012	2.3
2013	2.3
2014-17	7.5
Total	<u>\$ 29.4</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 non-cancelable lease is five years (5) 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 annual cost of the software. The remaining fair value of the software as of June 30, 2008 was \$812,561. The software has an economic life of five years (5) 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 payment in total for the next fiscal year, presenting a deduction for the imputed interest to reduce the net minimum future lease payment to its' present value:

<u>Payment</u> <u>Date</u>	<u>Lease</u> <u>Payment</u>	<u>Interest</u>	<u>Amortized</u> <u>Principal</u>
July 15, 2008	\$ 834,326	\$ 21,765	\$ 812,561

(4) Termination Compensation Payable

Termination pay consists of accumulated leave not expected to be paid with available resources.

(5) Early/Voluntary Retirement Incentive

In 2004, the School District provided an early retirement incentive for eligible employees who retired before June 30, 2004. A total of 348 personnel took advantage of the program. Consequently, the School District is to pay out \$25,000 per retiree over 5 years for a total cost of \$8.7 million. As of June 30, 2008, the remaining liability totaled \$1.9 million.

In 2006, the School District provided a voluntary retirement incentive for certain eligible employees who retired by July 31, 2006. A total of 17 personnel took advantage of the plan. The School District is to pay out \$12,500 per retiree over 5 years for a total cost of \$212,500. As of June 30, 2008, the remaining liability totaled \$127,500.

(6) Severance Payable

Pursuant to collective bargaining agreements with the Philadelphia Federation of Teachers and the Commonwealth Association of School Administrators, ten (10) month salary schedules were extended over twelve (12) 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 or retirement. Estimated severance payable based on current salaries at June 30, 2008 was \$163.6 million. July and August 2008 salaries for ten (10) month employees who had not terminated were budgeted and will be paid for from Fiscal Year 2009 appropriations.

(7) Loans Payable

Federal Asbestos Loans consist of \$3,362 for an interest-free loan expected to be repaid over the next year.

(8) Due to Other Governments

Deferred Reimbursement – The School District of Philadelphia owes the Commonwealth \$61.4 million. Of that amount, the Commonwealth 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 at least through Fiscal Year 2008. The remaining amount of \$16.1 million, incurred during Fiscal Year 2008, has been deferred by the Commonwealth for reimbursement over a three year period beginning with Fiscal Year 2009.

(9) Other Liabilities

Other liabilities consist of \$126.7 million for Workers' Compensation, \$6.2 million for Unemployment Compensation Claims and \$7.2 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, 2008 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Categorical Funds	\$ 2,946,319
General Fund	Enterprise Fund	9,708,612
	Total	<u>\$ 12,654,931</u>

Interfund receivables and payables arose from operating activity between funds. Any unpaid balance at the end of the fiscal year is reported as an interfund receivable and/or payable.

The balance of \$2,946,319 under the Categorical Funds represents amounts that were reclassified as Due to Other Funds for reporting purposes and eliminated in the district-wide Statement of Net Assets. The \$9,708,612, under the Enterprise Fund was reclassified as a liability.

School District of Philadelphia

(2) Interfund transfers at June 30, 2008 were as follows:

Interfund Transfers In	Interfund Transfers Out				Total
	General Fund	Categorical Funds	Capital Projects Fund	Enterprise Fund	
General	\$ -	\$ 2,396,387	\$ -	\$ -	\$ 2,396,387
Intermediate Unit	196,616,610	-	-	-	196,616,610
Categorical	4,503,502	-	-	-	4,503,502
Debt Service	193,382,319	-	774,627	187,782	194,344,728
Enterprise	4,300,000	-	-	-	4,300,000
Internal Service	3,068,763	-	-	-	3,068,763
Total	<u>\$ 401,871,194</u>	<u>\$ 2,396,387</u>	<u>\$ 774,627</u>	<u>\$ 187,782</u>	<u>\$ 405,229,990</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 Fund from the Enterprise Fund as a transfer to cover Fiscal Year 2008 allocations of cafeteria renovations.

F. Construction and Equipment Purchase Commitments

The School District's outstanding contractual commitments at June 30, 2008 are summarized as follows:

New Construction and Land	\$ 17,692,044
Environmental Management	91,706
Alterations and Improvements	48,564,558
Equipment Acquisition	<u>6,340,928</u>
Total	<u>\$ 72,689,236</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, International Education and Community Initiatives, and Philadelphia's Children First Fund are nonprofit corporations and are funded by grants, contributions and approximately \$64.4 million in contract revenue from the School District during Fiscal Year 2008. 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, with the exception of a small start-up contribution to Philadelphia's Children First Fund, does not subsidize the operations of these corporations. In addition, the School District does not guarantee any of their debt service. These organizations are not considered component units of the School District 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 fiscal 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 General Counsel of the School District concerning litigation and contingencies:

- (1) ***Special Education and Civil Rights Claims*** – There are four-hundred forty (440) various claims against the School District, by or on behalf of students, which aggregate to a total potential liability of \$9.8 million.

Of those, four-hundred sixteen (416) are administrative due process hearings and appeals to the state appeals panel pending against the School District. These appeals are based on alleged violations by the School District to provide a free, appropriate public education to students under federal and state civil rights, special education or the Rehabilitation Act and anti-discrimination laws. In the opinion of the General Counsel of the School District, three hundred twelve (312) unfavorable outcomes are deemed probable and eighty-three (83) are considered reasonably possible, including attorney's fees, of approximately \$2.3 million and \$0.8 million, respectively.

There are twenty-four (24) lawsuits pending against the School District asserting claims in violation of §1983 of the Civil Rights Act. In the opinion of the General Counsel of the School District, unfavorable outcomes are deemed probable and reasonably possible in the aggregate amounts, including attorney's fees, of approximately \$0.6 million and \$0.5 million respectively.

- (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 \$17.5 million. In the opinion of the General Counsel of the School District, it is unlikely that final judgments or compromised settlements will approach the total potential liability, however. Nevertheless, 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 amounts of \$2.4 million and \$1.7 million, respectively, in connection with disputed contracts and labor and employment matters. Likewise, compromised settlements or unfavorable verdicts are deemed probable or reasonably possible in the aggregate amounts of \$1.9 million and \$2.6 million, respectively, arising from personal injury and property damage claims and lawsuits, as well as administrative claims.

- (3) ***Education Audits*** - The School District receives basic education subsidies from the Commonwealth based primarily on student enrollment. In July of 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 School District over-reporting of student enrollment in Fiscal Year 1991, the year established by the Commonwealth as the base for all subsidies through Fiscal Year 1999. Consequently, a claim for reimbursement due was 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. On May 13, 1999, the School District of Philadelphia appealed the entire finding to the Secretary of Education. The matter remains pending.

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 District denied the claim and produced documentation. Both matters remain pending. Though discussions with state representatives regarding relief from this potential liability are ongoing, no final determination of forgiveness has been made to date. However, there still remains a reasonably possible loss in this category in the total amount of \$40.0 million.

- (4) **Federal Audit** -The School District was recently the subject of an audit by the National Science Foundation ("NSF") Office of Inspector General ("OIG") of two grant awards from the NSF covering the period from July 1, 1999 through August 31, 2005. The NSF OIG auditors issued a final audit report in May 2008 questioning \$4,160,047 in federal funds expended under the awards. The NSF Cost Analysis and Audit Resolution ("CAAR") branch has requested additional information and documentation from the School District to aid in its determination of whether to seek repayment of any funds from the School District based upon the auditor's final conclusions. The School District has responded and will continue to respond to these requests as they are made. As of this date, NSF has made no finding of liability for the School District, and NSF has initiated no administrative or legal proceedings to recover any funds from the School District making the potential for material liability remote.
- (5) **Litigation by Outside Counsel** -There is one suit against the School District that is being handled by outside legal representation. This matter includes:
- Robert Johnston et al v. The School District of Philadelphia et al, Civil Action No. 04-4948, United States District Court for the Eastern District of Pennsylvania. This lawsuit was filed by three (3) former and one (1) current employee alleging reverse race discrimination and retaliation under Title VII of the Civil Rights Act and the Pennsylvania Human Relations Act. Collectively, plaintiffs claimed that the School District (District) and its Chief Procurement Officer, terminated their employment on the basis of race and retaliated against them by denying alternative placements or positions. On December 16, 2005, a jury verdict was entered in favor of the plaintiffs and against the District and the Chief Procurement Officer. That verdict included an award of back-pay, front-pay and reinstatement as well as compensatory damages in the amount of \$2 million. The total value of the award, including future earnings, was in excess of \$4 million. On June 28, 2006, the District entered into a Settlement Agreement and General Release of Claims which provided for payments of over \$3.8 million to the plaintiffs in Fiscal Year 2007, Fiscal Year 2008 and Fiscal Year 2009. As part of the resolution, the plaintiffs waived reinstatement rights to positions with the District and released all claims against the District. In July 2007, the District made the final installment of settlement payments in the amount of \$1.3 million and payroll related expenditures of \$0.3 million. As of June 30, 2008, the District is still obligated to pay \$0.2 million of payroll related expenditures in Fiscal Year 2009.
- (6) **The School District of Philadelphia 403(b) Plan and 457(b) Deferred Compensation Plan**
Pursuant to resolutions of the School Reform Commission, the School District of Philadelphia implemented a new 403(b) Plan and a 457(b) Deferred Compensation Plan in fiscal years 2005 and 2006. The School District obtained advice from outside legal counsel on the creation of the new 403(b) and 457(b) Plans and on the appropriate tax treatment of automatic and mandatory employer contributions of termination pay to the Plans for employees retiring during or after the calendar year in which they attain age 55. Termination pay is the accrued and unpaid amounts of vacation, personal and sick leave for a resigning or retiring employee. Prior to July 1, 2005, the School District would pay termination pay owed to a resigning or retiring employee in cash or, at the direction of the employee, would deposit such termination pay into the retiring or resigning employee's 403(b) account up to the annual contribution limit for section 403(b) accounts. For employees retiring after June 1, 2005, the School District eliminated payment of termination pay in cash and replaced it with an automatic and mandatory employer contribution of termination pay to the Plans up to the annual contribution limits for such Plans for employees who retire during or after the calendar year in which they attain age 55. Based on the advice of counsel, the School District has treated its termination pay contributions to the 403(b) Plan as employer contributions to a retirement plan, which are not included in employee wages and are not subject to FICA, Pennsylvania Personal Income Tax or Philadelphia Wage Tax. Since employer contributions to a 457(b) Plan are considered wages for FICA purposes, the School District has withheld those taxes from its termination payments made to the 457(b) Plan. Employer contributions to 457(b) Plans are not subject to Pennsylvania Personal Income Tax or Philadelphia Wage Tax. For that reason, the School District has not withheld those taxes from its termination pay contributions to the 457(b) Plan. No taxing authorities have challenged the tax treatment accorded these

termination payments, and the School District has no reason to believe that any such challenge, if brought, would be successful. Outside legal counsel advised on the arrangement and has provided an opinion as to its proper tax treatment. Furthermore, on June 30, 2008, the School District submitted a request for a Private Letter Ruling ("PLR") from the Internal Revenue Service to further confirm the School District's determination. The School District is seeking this PLR without prejudice to the School District's position that no such ruling is necessary under these circumstances. Management believes that if it were finally determined that any liability for state or Federal taxes (including interest and penalties) relating to these plans existed at June 30, 2008, such liability would not be material to the School District's financial position or results of operations for the fiscal year ended June 30, 2008.

J. Other Post Employment Life Insurance Benefits

Required Supplementary Information:

The schedule of funding progress presents the results of Other Postemployment Benefits (OPEB) valuations as of July 1, 2008 for the fiscal year ending June 30, 2008. Looking forward, the schedule will eventually provide multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Accrued Liability (AAL)	Actuarial Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL Percentage of Covered Payroll
6/30/08	\$ 0	\$13,862,000	\$13,862,000	0.0%	N/A	N/A

■ Note: As of June 30, 2008, the plan is not funded and therefore there are no assets. Payroll is assumed to increase at an average rate of 4.00% per year. (N/A= not applicable- life insurance benefit is not based upon payroll)

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal year ended June 30, 2008 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Paid	Net OPEB Obligation
6/30/08	\$ 591,379	100.0 %	\$ 0

From an accrual accounting perspective, the cost of postemployment life insurance benefits, like the cost of pension benefits, generally should be associated with the periods in which the costs occurs, rather than in the future when it will be paid. In adopting the requirements of GASB Statement No. 45 during the year ended June 30, 2008, the School District recognizes the costs of postemployment life insurance in the year when the employee services are received, reports the accumulated liability from prior years, and provide information useful in assessing potential demands on the School District's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008.

Plan Description:

The School District provides up to \$2,000 of life insurance coverage for retired and disabled employees. A retired employee is eligible for this benefit if covered for 10 years as an active employee and retired at age 60 with 30 years of service or aged 62 with 10 years of service or 35 years of service regardless of age. Disabled employees' eligibility is determined by the insurance company providing the coverage.

Funding Policy: The School District is not required by law or contractual agreement to provide funding for the life insurance benefits other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible disabled employees. For the fiscal year ended June 30, 2008, the District paid \$591,379. The numbers of eligible participants enrolled to receive such benefits were:

	<u>Number of Employees</u>	<u>Average Age</u>
Active		
Represented	14,661	47.1
Non-represented	1,071	49.9
Retirees	8,556	75.6
Disabled	<u>148</u>	<u>57.7</u>
Total	<u>24,436</u>	<u>57.2</u>

Annual OPEB Cost and Net OPEB Obligation: The School District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount that was actuarially determined by the Entry Age Normal Actuarial Cost Method (one of the actuarial cost methods in accordance with the parameters of GASB Statement No. 45). Under this method, a contribution is determined that consists of the normal cost and the unfunded actuarial liability payment. The normal cost for each employee is derived as a level contribution from entry age to assumed retirement age. The accumulation of normal costs for service already completed is the Actuarial Accrued Liability, which under GASB Statement No. 45 may be amortized over no more than 30 years. The following table shows the elements of the District's annual OPEB cost for the year, the amount paid in behalf of the plan, and changes in the District's net OPEB obligation to the plan for the year ended June 30, 2008:

Annual required contribution	\$ 591,379
Interest on net OPEB obligation	0
Adjustment to annual required contribution	<u>0</u>
Annual OPEB cost (expense)	\$ 591,379
Payments made	<u>591,379</u>
Increase/(Decrease) in net OPEB obligation	\$ 0
Net OPEB obligation – beginning year	<u>0</u>
Net OPEB obligation – end of year	<u>\$ 0</u>

Basis of Accounting: As defined by GASB No. 45, if the amount of expenditures recognized during the current year is not equal to the annual OPEB cost, the difference is added or subtracted to the net obligation. The School District's policy is to recognize an expense equal to what is contributed as long as it satisfies the requirement for GASB Statement No. 45.

Funded Status and Funding Progress: As of June 30, 2008, the most recent (initial) actuarial valuation date, the Plan was 0.0% funded. The actuarial accrued liability of \$13.9 million, and the actuarial value of assets was \$0, resulting in an unfunded actuarial liability (UAAL) of \$13.9 million.

Active	\$ 3,316,000
Inactive	<u>10,546,000</u>
Total	<u>\$ 13,862,000</u>

Actuarial Methods and Assumptions: The actuarial assumptions used in the June 30, 2008 OPEB actuarial valuations are those specific to the OPEB valuations.

- Investment return (discount rate) not fully funded: 4.00%
- Mortality for healthy and disabled participants: The Uninsured Pensioner 1994 Mortality Table (UP94) projected for 10 years, with an age set back one year for males and females.
- Payroll increases: Payroll is assumed to increase at an average rate of 4.00% per year.
- No actuarial liability is included for non-vested participants who terminated prior to the valuation date
- Withdrawal: During the first five years of service withdrawal rates were assumed as follows:

<u>Service</u>	<u>Rate</u>
Less One Year	24.49%
1 - 2	25.23%
2 - 3	16.54%
3 - 4	14.07%
4 - 5	10.88%

- Disability incidence: See table of sample rates.
- Retirement age: After five years of service, the following retirement rates are used:

<u>Age</u>	<u>Rate of Retirement</u>
55	11.31%
56	13.41%
57	17.98%
58	19.52%
59	20.73%
60	29.37%
61	32.59%
62	30.28%
63	20.56%
64	18.43%
65	33.22%
66	19.27%
67	19.55%
68	18.91%
69	17.03%
70+	100.00%

- Accelerated death benefit: This benefit was assumed as an immaterial value.
- Table of Sample Rates:

<u>Attained Age</u>	<u>Withdrawal</u>	<u>Percentage Disability Incidence</u>	
		<u>Male</u>	<u>Female</u>
25	24.75%	0.016%	0.027%
30	18.01%	0.016%	0.027%
35	10.98%	0.067%	0.053%
40	7.91%	0.120%	0.087%
45	6.71%	0.120%	0.120%
50	4.03%	0.187%	0.167%
55	3.81%	0.287%	0.320%
60	6.40%	0.387%	0.320%
65	13.63%	0.067%	0.107%

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, 2008, the rate of employer contribution was 7.13 percent of qualifying compensation. The 7.13 percent rate consists of a pension contribution rate of 6.44 percent for pension benefits and .69 percent for health insurance premium assistance. The School District's contributions to PSERS for the Fiscal Years ending 2006, 2007 and 2008 were \$55,760,173, \$69,277,635 and \$78,228,400 respectively, and were equal to the required contributions for each year.

L. Desegregation

Following several decades of proceedings in an action initiated by the Pennsylvania Human Relations Commission ("PHRC") to end historical de facto racial segregation in the School District, the PHRC and the School District (along with an intervenor in the proceedings) entered into a Memorandum of Understanding ("MOU") in February of 2004. The MOU was approved by Order of the Commonwealth Court in March of 2004 resulting in a stay of judicial proceedings for an initial period of three years while requiring the School District to submit annual reports to the PHRC. The MOU additionally requires the PRHC to provide feedback to the School District and includes a multi-level dispute resolution process by which the parties may seek to address disagreements, if any, remaining at the end of the initial period of the MOU before returning to Court. (The MOU further preserves the legal positions of the parties in the event the MOU does not result in a final resolution of this case and the stay is lifted.)

The School District submitted annual status reports to the PHRC in December 2004, 2005 and 2006. The PHRC provided its annual response to the School District's December 2006 status report during the summer of 2007. The PHRC is in the process of preparing its overall evaluation, which will state whether PHRC believes the School District is in substantial compliance with the law and whether the case should be concluded. Depending on the PHRC's conclusion, the parties may proceed to the negotiation and dispute resolution processes set forth in the MOU.

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 as to whether and what disagreements may remain after the PHRC's evaluation and any negotiation and dispute resolution processes the parties elect to pursue. If the parties do not resolve this matter within the framework of the MOU and if the court lifts the stay, 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 \$250.0 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 \$140.1 million in the district-wide Statement of Net Assets. Workers' Compensation coverage is funded by a pro-rata charge to the various funds while both the School District and covered employees share the cost of Weekly Indemnity and Unemployment Compensation coverage.

Claims expenditures and liabilities are reported when it is probable that a loss has occurred and to the amount 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, 2008, the amount of these liabilities totaled \$140.1 million. Changes in the balances of claims and liabilities during the past two (2) years are as follows:

	(Dollars in Millions)				
	<u>Beginning Liability</u>	<u>Claims & Adjustments</u>	<u>Claim Payments</u>	<u>Ending Liability</u>	<u>Due Within One Year</u>
Fiscal Year 2007	\$ 99.0	\$ 83.2	\$ 40.0	\$ 142.2	\$ 33.9
Fiscal Year 2008	\$ 142.2	\$ 38.3	\$ 40.4	\$ 140.1	\$ 29.0

Settled claims covered by commercial insurance have not exceeded the amount of insurance coverage in any of the past three (3) years. There has not been a significant reduction in insurance coverage from coverage in the prior fiscal year for any risk category. The School District has not entered into any annuity contracts as part of claims settlements.

N. Prior Period Adjustments

District-wide net assets beginning balances were increased by \$2.1 million. These adjustments involved (1) a net understatement of capital assets valued at \$1.8 million; (2) an understatement of accumulated depreciation of \$0.3 million (Note 4C); (3) a net overstatement of deferred charges of \$2.9 million; and (4) an overstatement of net bond premiums of \$3.5 million.

O. Subsequent Events

(1) Tax and Revenue Anticipation Notes

- (a) For Fiscal Year 2009, the Commonwealth agreed to make certain advances of portions of installments of the basic education subsidy to the School District, thereby eliminating the need for the School District to issue its annual tax and revenue anticipation notes. Since the Commonwealth budget was not enacted by June 30th, the initial amount of the installment could not be advanced in early July to assist the School District in meeting its cyclical cash flow requirements. Therefore, on July 2, 2008, the School District issued \$350.0 million of tax and revenue anticipation notes for a one month period (the "FY2009 Notes") through negotiation with Bank of America, N.A. and Wachovia Bank, N.A. On July 10, 2008, the Commonwealth advanced \$350.0 million to the School District and advanced another \$150.0 million on November 6, 2008, thereby covering the School District's cyclical cash flow needs. On August 3, 2008, the School District repaid the FY2009 Notes in full.

(2) General Obligation Bonds

- (a) The School Reform Commission authorized the sale of \$396,580,000 General Obligation Bonds on October 29, 2008, at a combined true interest cost of 5.98%. The bond issue was comprised of two series--the Series E Bonds of \$282,365,000 for capital improvement purposes and the Series F Bonds of \$114,215,000 which were issued to prepay a variable rate loan made by the Dauphin County General Authority to the School District on August 12, 2003.

The proceeds of the Series E Bonds will provide the final phase of funding for the SRC authorized \$1.5 billion capital improvement program.

Both series of bonds were issued as fixed rate debt.

- (b) The Dauphin County General Authority (DCGA) advised the School District on December 1, 2008, that the other participating school districts in DCGA's Pool I are withdrawing from the pool. With \$100 million borrowed from the pool, the School District would remain as the sole participant in Pool I. The Bank of Nova Scotia has informed DCGA that it will not renew its letter of credit for Pool I which expires on August 1, 2009. The School District is currently reviewing its options to refund this outstanding debt.

(3) Future Financial Market Risks

- (a) Just like every other governmental entity, the School District recognizes that it could be negatively impacted by the global financial crisis that we are currently experiencing. The School District understands it could affect future revenues, investment earnings and even market access.

(4) Federal Grants

- (a) The School District is audited annually by the City Controller on behalf of the federal government with respect to its federal grant awards in accordance with the Office of Management and Budget Circular No. A-133, "Audits of States, Local Governments, and Non-Profit Organizations." The Single Audit report for FY2007 was issued to the School District by the City Controller in November, 2008 questioning \$6,790,248 of expenditures under the awards, of which \$5,539,583 related to the Improving Teacher Quality State Grants (ITQ) award. In accordance with applicable audit standards, the School District will have an opportunity to pursue appeals to the finding with the ITQ state and federal program offices. While no assurance can be given as to the outcome of the final resolution of the FY2007 Single Audit questioned costs, the outcome will not have a material effect upon the financial condition of the School District.
- (b) The US Department of Education Federal Office of the Inspector General (OIG) has been conducting an audit of significant federal grants which the School District received for FY2006 since May, 2007. No draft audit report has been issued by the OIG and, in accordance with applicable audit standards; the School District will have an opportunity to respond to any findings which are made, and to pursue appeals of the findings with program managers. No assurance can be given as to the outcome of the audit, the amounts, if any, which may be required to be repaid by the School District or whether such repayments could have a material adverse effect on the financial condition of the School District.

**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, 2008

General Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local Taxes	\$ 743,435,000	\$ 762,929,000	\$ 777,585,389	\$ 14,656,389
Locally Generated Non Tax	65,472,000	73,705,000	75,082,517	1,377,517
State Grants and Subsidies	1,164,783,000	1,211,107,000	1,201,610,468	(9,496,532)
Federal Grants and Subsidies	197,000	217,000	285,401	68,401
Total Revenues	1,973,887,000	2,047,958,000	2,054,563,775	6,605,775
OBLIGATIONS				
Current Operating				
Instruction	958,015,073	905,733,389	875,067,064	30,666,325
Student Support Services	55,998,142	61,386,419	61,950,109	(563,690)
Administrative Support	109,432,144	101,241,711	88,075,017	13,166,694
Operation & Maintenance of Plant Services	272,232,808	274,581,688	263,246,791	11,334,897
Pupil Transportation	57,799,932	79,385,588	72,905,758	6,479,830
All Other Support Services	(43,666,030)	(11,240,273)	28,092,826	(39,333,099)
Payments to Charter Schools	266,212,516	275,487,493	269,859,877	5,627,616
Allocated Costs	(20,333,529)	(14,324,940)	-	(14,324,940)
Total Obligations	1,655,691,056	1,672,251,075	1,659,197,442	13,053,633
Excess of Revenues Over (Under) Obligations	318,195,944	375,706,925	395,366,333	19,659,408
OTHER FINANCING SOURCES (USES)				
Transfers In	2,678,000	2,300,000	2,396,387	96,387
Transfers Out	(396,508,300)	(405,902,683)	(401,968,860)	3,933,823
Total Other Financing Sources (Uses)	(393,830,300)	(403,602,683)	(399,572,473)	4,030,210
Net Change in Fund Balances	(75,634,356)	(27,895,758)	(4,206,140)	23,689,618
Fund Balances, July 1, 2007	26,663,483	(51,146,019)	(51,146,019)	-
Change in Inventory Reserve	-	-	(80,259)	(80,259)
Change in Encumbrance Reserve	-	-	12,028,512	12,028,512
Fund Balances, June 30, 2008	\$ (48,970,873)	\$ (79,041,777)	\$ (43,403,906)	\$ 35,637,871

Intermediate Unit Fund

Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
Original	Final		
\$ -	\$ -	\$ -	\$ -
986,000	968,000	954,793	(13,207)
82,024,000	82,245,000	81,821,353	(423,647)
-	-	-	-
83,010,000	83,213,000	82,776,146	(436,854)
212,091,096	209,941,600	199,829,510	10,112,090
70,417,940	69,512,275	68,788,493	723,782
1,139,944	1,006,753	954,514	52,239
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
9,965,262	9,956,673	9,917,905	38,768
293,614,242	290,417,301	279,490,422	10,926,879
(210,604,242)	(207,204,301)	(196,714,276)	10,490,025
210,604,300	207,204,301	196,714,276	(10,490,025)
-	-	-	-
210,604,300	207,204,301	196,714,276	(10,490,025)
58	-	-	-
17	1,303,764	1,303,764	-
-	-	-	-
-	-	1,334,081	1,334,081
\$ 75	\$ 1,303,764	\$ 2,637,845	\$ 1,334,081

Refer to notes to the required supplementary information

SCHOOL DISTRICT OF PHILADELPHIA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2008

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	\$ 2,054,564	\$ 82,776
Revenue - GAAP Basis	\$ 2,054,564	\$ 82,776
Obligations – Basis of Budgeting	\$ 1,659,197	\$ 279,490
Current Year Encumbrances	(19,890)	(1,597)
Prior Year Encumbrance Payments	2,962	165
Prior Year Encumbrance Cancellations and Other Adjustments	4,998	1
Expenditures - GAAP Basis	\$ 1,647,267	\$ 278,059
Other Financing Sources (Uses) - Basis of Budgeting	\$ (399,572)	\$ 196,714
Prior Year Encumbrance Cancellations	97	(97)
Other Financing Sources (Uses) - GAAP Basis	\$ (399,475)	\$ 196,617

3. OBLIGATIONS IN EXCESS OF APPROPRIATIONS

The following budgetary units had significant obligations in excess of appropriations for Fiscal 2008:

A. General Fund

(1). Student Support Services	\$ 563,690
(2). All Other Support Services	39,333,099
(3). Allocated Costs	14,324,940

Variances considered by management to be significant are explained below:

General Fund

The negative variance of \$563,690 in “Student Support Services” reflects a shift in resources into additional counseling services within the Area Vocational Technical schools. The School District permits schools to shift funds to their priorities as long as they remain within their overall school budgets.

The negative variance of \$39.3 million in “All Other Support Services” resulted from two historical School District practices: 1) The School District budgets, as part of “Undistributed”, the general operating fund reductions which are realized throughout the year in the appropriate agencies; and, 2) The School District budgets a negative expenditure budget for Lapsed Appropriations in “Undistributed” to represent the significant amount of budget authority for contracted services, materials, supplies and equipment that goes unspent every year, although it cannot be known and budgeted in advance in any given agency. These historical practices are being discontinued and the final FY09 Budget will be amended to distribute planned reductions to specific Agency budgets and to eliminate the budgeting of Lapsed Appropriations.

The negative variance of \$14.3 million in Allocated Costs results from the required distribution of actual expenditures across Agencies in the Administrative Support and Operation and Maintenance of Plant Services categories. These actual expenditures represent costs allocated to the Intermediate Unit and to Categorical Funds reflecting administrative, operational and indirect support costs which are all originally expensed to the General Fund. The final FY09 Budget will be amended to distribute the budget for Allocated Costs using the same distribution methodology; the variance in FY09 will be much smaller.

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 \$ 20,333,529 and \$ 14,324,940, respectively.

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 the School District reports one Non-Major Special Revenue Trust Fund. However, at June 30, 2008 there were forty-four individual Special Revenue Trust Funds administered by the School District.

Permanent Funds

Permanent Funds 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 the School District reports one Permanent Fund. However, at June 30, 2008 there were eighty-seven Permanent Funds administered by the School District.

School District of Philadelphia
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2008

	Special Revenue Funds	Permanent Funds	Total Non-Major Governmental Funds
ASSETS			
Equity in Pooled Cash and Investments	\$ 4,120,285	\$ 2,093,452	\$ 6,213,737
Total Assets	<u>\$ 4,120,285</u>	<u>\$ 2,093,452</u>	<u>\$ 6,213,737</u>
LIABILITIES AND FUND BALANCES			
Accounts Payable	\$ 3,000	\$ 1,698	\$ 4,698
Fund Balance:			
Reserved for:			
Encumbrances	2,307	250	2,557
Trust Fund Principal	1,301,225	1,290,939	2,592,164
Unreserved			
Designated For Trust Purposes	2,813,753	800,565	3,614,318
Total Fund Balances	<u>4,117,285</u>	<u>2,091,754</u>	<u>6,209,039</u>
Total Liabilities and Fund Balances	<u>\$ 4,120,285</u>	<u>\$ 2,093,452</u>	<u>\$ 6,213,737</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, 2008

	Special Revenue Funds	Permanent Funds	Total Non-Major Governmental Funds
REVENUES			
Locally Generated Non Tax	\$ 195,005	\$ 80,490	\$ 275,495
EXPENDITURES			
Instruction	46,208	16,516	62,724
Excess (Deficiency) of Revenues Over Expenditures	148,797	63,974	212,771
Fund Balances, July 1, 2007	3,968,488	2,027,780	5,996,268
Fund Balances, June 30, 2008	\$ 4,117,285	\$ 2,091,754	\$ 6,209,039

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, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Local Taxes				
Real Estate				
Current	\$ 519,002,000	\$ 538,586,000	\$ 547,579,701	\$ 8,993,701
Prior Years	53,710,000	49,644,000	51,813,859	2,169,859
Payment in Lieu of Taxes	-	-	4,619	4,619
Use and Occupancy	108,000,000	108,000,000	108,614,258	614,258
School (Non-Business) Income	21,200,000	24,500,000	26,937,696	2,437,696
Liquor Sales	40,400,000	41,150,000	41,586,242	436,242
Public Utility Realty	1,123,000	1,049,000	1,049,014	14
Total Local Taxes	743,435,000	762,929,000	777,585,389	14,656,389
Locally Generated Non Tax				
Interest on Investments	15,094,000	15,772,000	17,058,624	1,286,624
City Contributions	35,000,000	37,000,000	37,000,000	-
Legal Settlements	2,554,000	2,590,000	2,555,102	(34,898)
Stadium Agreements	2,898,000	3,000,000	3,000,000	-
Voluntary Contributions	252,000	319,000	352,622	33,622
Parking Authority Contributions	-	2,200,000	2,221,349	21,349
Reimbursement from Other Funds	7,224,000	7,224,000	7,232,663	8,663
Miscellaneous	2,450,000	5,600,000	5,662,157	62,157
Total Locally Generated Non Tax	65,472,000	73,705,000	75,082,517	1,377,517
Other Governments				
State Grants and Subsidies				
Gross Instruction	881,652,000	881,914,000	881,835,006	(78,994)
Less: Reimbursement of Prior Years IU Advances	37,840,000	21,673,000	21,672,939	(61)
Net Instruction	843,812,000	860,241,000	860,162,067	(78,933)
Debt Service	9,592,000	20,318,000	16,574,056	(3,743,944)
School Health Program				
Nurse Services	1,523,000	1,573,000	1,573,054	54
Medical and Dental	2,611,000	2,697,000	2,696,664	(336)
Tuition	321,000	551,000	593,710	42,710
Area Vocational Technical Education	9,212,000	9,420,000	9,516,883	96,883
Transportation	27,842,000	25,178,000	25,181,385	3,385
District Special Education	124,351,000	124,631,000	124,618,599	(12,401)
Alternative Education	2,657,000	17,522,000	16,659,986	(862,014)
Charter Schools	66,025,000	77,880,000	75,537,823	(2,342,177)
Miscellaneous State Subsidies	60,000	60,000	59,570	(430)
Retirement	35,611,000	33,714,000	32,158,466	(1,555,534)
Social Security	41,166,000	37,322,000	36,278,205	(1,043,795)
Total State Grants and Subsidies	1,164,783,000	1,211,107,000	1,201,610,468	(9,496,532)
Federal Grants and Subsidies				
Impacted Area Aid	197,000	217,000	285,401	68,401
Total Federal Grants and Subsidies	197,000	217,000	285,401	68,401
Total Other Governments	1,164,980,000	1,211,324,000	1,201,895,869	(9,428,131)
Total Revenues	\$ 1,973,887,000	\$ 2,047,958,000	\$ 2,054,563,775	\$ 6,605,775

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, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OBLIGATIONS				
Instruction				
Early Childhood Education				
Personal Services	\$ 47,526	\$ 72,816	\$ 77,119	\$ (4,303)
Employee Benefits	11,224	16,078	24,624	(8,546)
Prof.,Tech. Services	98,900	29,475	29,475	-
Property,Transportation,Comm.	21,040	17,803	22,400	(4,597)
Materials, Supplies, Books and Equipment	75,150	46,966	46,641	325
	253,840	183,138	200,259	(17,121)
Elementary Education				
Personal Services	268,077,782	262,965,365	259,936,416	3,028,949
Employee Benefits	127,684,384	120,037,751	118,489,824	1,547,927
Prof.,Tech. Services	2,106,468	1,288,276	1,103,397	184,879
Property,Transportation,Comm.	160,820	76,280	328,597	(252,317)
Materials, Supplies, Books and Equipment	7,261,344	7,460,966	6,337,136	1,123,830
Other	407,743	407,743	500	407,243
	405,698,541	392,236,381	386,195,870	6,040,511
Middle School Education				
Personal Services	65,613,819	64,717,770	64,412,281	305,489
Employee Benefits	31,422,186	29,322,486	29,533,210	(210,724)
Prof.,Tech. Services	575,600	418,596	290,243	128,353
Property,Transportation,Comm.	1,730	133,820	259,073	(125,253)
Materials, Supplies, Books and Equipment	3,000,900	2,935,237	1,621,104	1,314,133
Other	-	-	(300)	300
	100,614,235	97,527,909	96,115,611	1,412,298
Senior High School Education				
Personal Services	142,776,780	134,183,223	137,943,869	(3,760,646)
Employee Benefits	66,158,969	60,403,134	59,218,141	1,184,993
Prof.,Tech. Services	3,927,326	1,922,411	921,627	1,000,784
Property,Transportation,Comm.	631,340	1,461,628	1,604,012	(142,384)
Materials, Supplies, Books and Equipment	4,705,448	5,093,589	4,422,372	671,217
Other	11,951,074	6,668,293	-	6,668,293
	230,150,937	209,732,278	204,110,021	5,622,257
Special Education				
Personal Services	2,884,389	10,367,243	5,170,246	5,196,997
Employee Benefits	1,515,499	4,312,422	2,351,226	1,961,196
Prof.,Tech. Services	46,227	36,894	-	36,894
Property,Transportation,Comm.	15,400	15,400	735	14,665
Materials, Supplies, Books and Equipment	811,046	807,479	7,467	800,012
Other	2,000	2,000	-	2,000
	5,274,561	15,541,438	7,529,674	8,011,764

(Continued on pages 100 through 105)

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, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Area Vocational Technical Education				
Personal Services	\$ 31,618,358	\$ 30,337,307	\$ 29,223,345	\$ 1,113,962
Employee Benefits	14,503,321	13,274,258	12,605,568	668,690
Prof.,Tech. Services	884,200	615,822	390,639	225,183
Property,Transportation,Comm.	253,479	338,965	378,318	(39,353)
Materials, Supplies, Books and Equipment	1,456,902	1,632,586	1,077,621	554,965
Other	-	400	400	-
	<hr/>	<hr/>	<hr/>	<hr/>
	48,716,260	46,199,338	43,675,891	2,523,447
	<hr/>	<hr/>	<hr/>	<hr/>
Desegregation				
Personal Services	6,837,883	5,951,504	5,683,138	268,366
Employee Benefits	3,254,840	2,792,170	2,852,792	(60,622)
Prof.,Tech. Services	63,860	57,200	42,913	14,287
Property,Transportation,Comm.	21,247	-	28,693	(28,693)
Materials, Supplies, Books and Equipment	1,441,863	1,988,146	1,879,762	108,384
	<hr/>	<hr/>	<hr/>	<hr/>
	11,619,693	10,789,020	10,487,298	301,722
	<hr/>	<hr/>	<hr/>	<hr/>
School Support Services				
Personal Services	13,679,331	3,040,379	4,236,823	(1,196,444)
Employee Benefits	5,124,622	2,482,400	1,203,781	1,278,619
Prof.,Tech. Services	1,505,300	1,205,300	1,156,450	48,850
Property,Transportation,Comm.	23,200	1,800	2,647	(847)
Materials, Supplies, Books and Equipment	6,758,746	2,044,865	105,529	1,939,336
Payments to Other Educational Entities	115,051,400	113,837,100	109,909,831	3,927,269
	<hr/>	<hr/>	<hr/>	<hr/>
	142,142,599	122,611,844	116,615,061	5,996,783
	<hr/>	<hr/>	<hr/>	<hr/>
Adult Education				
Personal Services	57,892	54,481	48,763	5,718
Employee Benefits	13,675	12,029	8,065	3,964
Prof.,Tech. Services	23,000	27,200	27,200	-
Property,Transportation,Comm.	6,792	6,792	13	6,779
Materials, Supplies, Books and Equipment	6,830	6,830	5,349	1,481
	<hr/>	<hr/>	<hr/>	<hr/>
	108,189	107,332	89,390	17,942
	<hr/>	<hr/>	<hr/>	<hr/>
Partnership Schools				
Personal Services	186,129	327,142	292,961	34,181
Employee Benefits	18,448	72,152	77,345	(5,193)
Prof.,Tech. Services	13,231,641	10,405,417	9,660,962	744,455
Property,Transportation,Comm.	-	-	120	(120)
Materials, Supplies, Books and Equipment	-	-	16,601	(16,601)
	<hr/>	<hr/>	<hr/>	<hr/>
	13,436,218	10,804,711	10,047,989	756,722
	<hr/>	<hr/>	<hr/>	<hr/>
Total Instruction	958,015,073	905,733,389	875,067,064	30,666,325
	<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, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Student Support Services				
Counseling				
Personal Services	\$ 18,380,850	\$ 23,300,350	\$ 23,968,540	\$ (668,190)
Employee Benefits	8,509,841	10,117,748	10,367,923	(250,175)
Property, Transportation, Comm.	-	-	-	-
Materials, Supplies, Books and Equipment	1,700	-	33,444	(33,444)
	26,892,391	33,418,098	34,369,907	(951,809)
Family & Student Support Services				
Personal Services	19,149,587	18,603,707	18,418,461	185,246
Employee Benefits	8,789,547	8,209,954	8,223,670	(13,716)
Prof., Tech. Services	325,000	325,000	263,412	61,588
Property, Transportation, Comm.	80,446	77,461	12,127	65,334
Materials, Supplies, Books and Equipment	191,997	191,847	156,227	35,620
	28,536,577	27,407,969	27,073,897	334,072
Office of Specialized Services				
Personal Services	269,505	290,882	259,363	31,519
Employee Benefits	104,336	105,521	96,674	8,847
Prof., Tech. Services	137,700	129,200	129,200	-
Property, Transportation, Comm.	41,541	13,419	5,620	7,799
Materials, Supplies, Books and Equipment	16,092	21,330	15,448	5,882
	569,174	560,352	506,305	54,047
Total Student Support Services	55,998,142	61,386,419	61,950,109	(563,690)
Administrative Support				
Regional Offices				
Personal Services	5,765,210	4,527,837	4,316,433	211,404
Employee Benefits	2,228,563	1,715,477	1,596,547	118,930
Prof., Tech. Services	72,300	20,150	9,650	10,500
Property, Transportation, Comm.	126,252	77,018	69,167	7,851
Materials, Supplies, Books and Equipment	324,150	320,541	299,904	20,637
Other	-	-	(282,506)	282,506
	8,516,475	6,661,023	6,009,195	651,828
Business & Financial Services				
Personal Services	14,706,647	14,377,701	14,109,668	268,033
Employee Benefits	6,493,719	6,011,905	5,657,464	354,441
Prof., Tech. Services	1,876,484	2,259,927	2,095,657	164,270
Property, Transportation, Comm.	2,726,814	2,328,689	3,250,921	(922,232)
Materials, Supplies, Books and Equipment	340,144	781,241	279,467	501,774
Other	3,649	6,282	(543,478)	549,760
	26,147,457	25,765,745	24,849,699	916,046

(Continued on pages 102 through 105)

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, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Human Resources				
Personal Services	\$ 4,809,054	\$ 4,813,952	\$ 4,563,421	\$ 250,531
Employee Benefits	2,237,430	2,166,448	1,957,533	208,915
Prof.,Tech. Services	307,598	334,238	254,571	79,667
Property,Transportation,Comm.	190,557	143,806	55,710	88,096
Materials, Supplies, Books and Equipment	121,723	164,191	70,438	93,753
Other	-	2,295,000	33,589	2,261,411
	<hr/> 7,666,362	<hr/> 9,917,635	<hr/> 6,935,262	<hr/> 2,982,373
Information Technology				
Personal Services	6,172,404	5,899,847	5,465,786	434,061
Employee Benefits	2,561,973	2,381,042	2,215,296	165,746
Prof.,Tech. Services	6,229,700	5,578,000	5,528,194	49,806
Property,Transportation,Comm.	950,644	2,008,649	1,899,365	109,284
Materials, Supplies, Books and Equipment	1,398,509	2,456,578	2,441,207	15,371
Other	(3,500,000)	(3,500,000)	(4,095,842)	595,842
	<hr/> 13,813,230	<hr/> 14,824,116	<hr/> 13,454,006	<hr/> 1,370,110
Municipal Services				
Personal Services	3,288,076	3,338,100	2,806,368	531,732
Employee Benefits	1,982,979	1,995,277	1,533,772	461,505
Prof.,Tech. Services	900	(1,100)	(2,000)	900
Property,Transportation,Comm.	152	2,152	5,169	(3,017)
	<hr/> 5,272,107	<hr/> 5,334,429	<hr/> 4,343,309	<hr/> 991,120
Accountability, Assessment & Intervention				
Personal Services	1,864,409	1,627,758	1,300,471	327,287
Employee Benefits	735,082	626,034	451,645	174,389
Prof.,Tech. Services	831,436	798,898	307,505	491,393
Property,Transportation,Comm.	97,714	106,037	90,547	15,490
Materials, Supplies, Books and Equipment	153,722	160,288	104,350	55,938
Other	(80,000)	(78,955)	(101,374)	22,419
	<hr/> 3,602,363	<hr/> 3,240,060	<hr/> 2,153,144	<hr/> 1,086,916
Office of School Management				
Personal Services	6,451,101	3,858,365	3,547,102	311,263
Employee Benefits	2,641,312	1,425,787	1,287,534	138,253
Prof.,Tech. Services	69,600	69,600	-	69,600
Property,Transportation,Comm.	123,088	180,779	100,343	80,436
Materials, Supplies, Books and Equipment	100,015	90,013	22,404	67,609
Other	187	168	(201,951)	202,119
	<hr/> 9,385,303	<hr/> 5,624,712	<hr/> 4,755,432	<hr/> 869,280

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, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Office of Secondary Education				
Personal Services	\$ 1,230,285	\$ 1,154,496	\$ 1,036,650	\$ 117,846
Employee Benefits	422,170	377,383	326,359	51,024
Prof.,Tech. Services	1,588,855	1,506,895	1,202,809	304,086
Property,Transportation,Comm.	60,916	82,383	68,793	13,590
Materials, Supplies, Books and Equipment	272,126	218,739	194,029	24,710
Other	3,242	-	(112,496)	112,496
	3,577,594	3,339,896	2,716,144	623,752
Curriculum, Instruction & Professional Development				
Personal Services	6,146,723	4,970,718	4,123,172	847,546
Employee Benefits	3,148,530	2,651,231	2,263,420	387,811
Prof.,Tech. Services	378,351	322,251	97,445	224,806
Property,Transportation,Comm.	551,639	355,266	303,317	51,949
Materials, Supplies, Books and Equipment	438,445	639,421	537,529	101,892
Other	978,081	(581,844)	(139,797)	(442,047)
	11,641,769	8,357,043	7,185,086	1,171,957
Office of the Chief Operations Officer				
Personal Services	1,915,970	1,644,612	1,664,191	(19,579)
Employee Benefits	845,541	697,010	665,607	31,403
Prof.,Tech. Services	50,301	49,689	2,380	47,309
Property,Transportation,Comm.	12,393	196,353	161,016	35,337
Materials, Supplies, Books and Equipment	32,408	29,066	4,010	25,056
Other	-	-	(112,127)	112,127
	2,856,613	2,616,730	2,385,077	231,653
Executive / Board Management				
Personal Services	7,145,274	6,131,311	6,026,045	105,266
Employee Benefits	2,964,926	2,489,227	2,150,876	338,351
Prof.,Tech. Services	4,632,852	4,908,955	4,136,975	771,980
Property,Transportation,Comm.	345,869	473,403	415,724	57,679
Materials, Supplies, Books and Equipment	286,016	274,735	146,492	128,243
Other	4,678	6,374	(550,445)	556,819
	15,379,615	14,284,005	12,325,667	1,958,338
Office of the Chief Academic Officer				
Personal Services	750,708	663,088	630,810	32,278
Employee Benefits	268,273	241,153	181,020	60,133
Prof.,Tech. Services	345,879	189,870	142,678	47,192
Property,Transportation,Comm.	16,443	23,450	20,750	2,700
Materials, Supplies, Books and Equipment	110,953	158,756	32,775	125,981
Other	81,000	-	(45,037)	45,037
	1,573,256	1,276,317	962,996	313,321
Total Administrative Support	109,432,144	101,241,711	88,075,017	13,166,694

(Continued on pages 104 through 105)

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, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Operation & Maintenance of Plant Services				
Facilities Management & Services				
Personal Services	\$ 73,435,936	\$ 73,925,557	\$ 70,853,056	\$ 3,072,501
Employee Benefits	42,066,245	39,505,476	38,551,851	953,625
Prof.,Tech. Services	13,231,725	14,535,839	14,249,321	286,518
Property,Transportation,Comm.	10,326,966	10,584,109	8,600,369	1,983,740
Materials, Supplies, Books and Equipment	8,242,371	8,340,578	8,444,770	(104,192)
Other	10,000	(3,490,000)	(6,273,183)	2,783,183
	147,313,243	143,401,559	134,426,184	8,975,375
Utilities				
Prof.,Tech. Services	225,475	355,475	355,000	475
Property,Transportation,Comm.	13,609,980	14,136,534	14,062,474	74,060
Materials, Supplies, Books and Equipment	53,277,391	59,015,336	58,122,836	892,500
Other	-	-	(3,257,148)	3,257,148
	67,112,846	73,507,345	69,283,162	4,224,183
Security Operations				
Personal Services	39,304,265	40,183,915	41,126,426	(942,511)
Employee Benefits	19,393,130	18,708,270	18,945,749	(237,479)
Prof.,Tech. Services	225,740	34,852	182,557	(147,705)
Property,Transportation,Comm.	271,823	214,400	115,944	98,456
Materials, Supplies, Books and Equipment	325,561	686,477	549,692	136,785
Other	(1,713,800)	(2,155,130)	(1,382,923)	(772,207)
	57,806,719	57,672,784	59,537,445	(1,864,661)
Total Oper. & Maint. of Plant Services	272,232,808	274,581,688	263,246,791	11,334,897
Pupil Transportation				
Personal Services	21,675,256	21,732,140	21,533,126	199,014
Employee Benefits	13,422,639	12,933,387	12,428,897	504,490
Prof.,Tech. Services	2,100	2,100	(45)	2,145
Property,Transportation,Comm.	55,695,336	76,704,050	72,684,309	4,019,741
Materials, Supplies, Books and Equipment	2,926,201	4,634,011	4,509,576	124,435
Other	(35,921,600)	(36,620,100)	(38,250,105)	1,630,005
Total Pupil Transportation	57,799,932	79,385,588	72,905,758	6,479,830
All Other Support Services				
Risk Management				
Personal Services	225,181	225,150	225,185	(35)
Employee Benefits	93,811	91,007	128,458	(37,451)
Prof.,Tech. Services	25,000	-	-	-
Property,Transportation,Comm.	2,001,029	2,046,876	2,040,973	5,903
Materials, Supplies, Books and Equipment	5,052	4,547	3,652	895
Losses and Judgments	10,090,000	6,800,000	6,682,555	117,445
	12,440,073	9,167,580	9,080,823	86,757

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, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Temporary Borrowing				
Prof.,Tech. Services	\$ 440,500	\$ 440,500	\$ 375,180	\$ 65,320
Property,Transportation,Comm.	25,500	25,500	9,820	15,680
Interest	25,487,400	21,223,800	21,291,521	(67,721)
	<u>25,953,400</u>	<u>21,689,800</u>	<u>21,676,521</u>	<u>13,279</u>
Undistributed				
Other	(82,059,503)	(42,097,653)	2,332,739	(44,430,392)
Cancellation of Prior Years' Encumbrances	-	-	(4,997,257)	4,997,257
	<u>(82,059,503)</u>	<u>(42,097,653)</u>	<u>(2,664,518)</u>	<u>(39,433,135)</u>
Total All Other Support Services	<u>(43,666,030)</u>	<u>(11,240,273)</u>	<u>28,092,826</u>	<u>(39,333,099)</u>
Payments to Charter Schools	<u>266,212,516</u>	<u>275,487,493</u>	<u>269,859,877</u>	<u>5,627,616</u>
Allocated Costs	<u>(20,333,529)</u>	<u>(14,324,940)</u>	<u>-</u>	<u>(14,324,940)</u>
Total Obligations	<u>1,655,691,056</u>	<u>1,672,251,075</u>	<u>1,659,197,442</u>	<u>13,053,633</u>
OTHER FINANCING USES				
Local Share of Categorical Programs	6,707,000	8,396,982	4,503,502	3,893,480
Bond Issuance Expense/Asbestos Loan	-	-	6,429	(6,429)
Debt Service Fund	179,197,000	190,301,400	193,375,890	(3,074,490)
Special Education	210,604,300	207,204,301	196,714,276	10,490,025
Enterprise Fund	-	-	4,300,000	(4,300,000)
Internal Service Fund	-	-	3,068,763	(3,068,763)
Total Other Financing Uses	<u>396,508,300</u>	<u>405,902,683</u>	<u>401,968,860</u>	<u>3,933,823</u>
Total General Fund	<u>\$ 2,052,199,356</u>	<u>\$ 2,078,153,758</u>	<u>\$ 2,061,166,302</u>	<u>\$ 16,987,456</u>
Fund Totals - Object Classes				
Personal Services	\$ 764,466,330	\$ 743,286,716	\$ 732,999,235	\$ 10,287,481
Employee Benefits	368,617,215	345,174,217	335,394,871	9,779,346
Prof.,Tech. Services	53,460,018	47,866,930	42,953,395	4,913,535
Property,Transportation,Comm.	88,390,150	111,832,822	106,597,066	5,235,756
Materials, Supplies, Books, and Equipment	94,082,805	100,204,359	91,487,832	8,716,527
Other	(109,833,249)	(79,137,422)	(52,981,484)	(26,155,938)
Interest on Temporary Borrowing	25,487,400	21,223,800	21,291,521	(67,721)
Payments to Other Educational Entities	115,051,400	113,837,100	109,909,831	3,927,269
Losses and Judgments	10,090,000	6,800,000	6,682,555	117,445
Payments to Charter Schools	266,212,516	275,487,493	269,859,877	5,627,616
Allocated Costs	(20,333,529)	(14,324,940)	-	(14,324,940)
Other Financing Uses	396,508,300	405,902,683	401,968,860	3,933,823
Cancellation of Prior Years' Encumbrances	-	-	(4,997,257)	4,997,257
Total General Fund	<u>\$ 2,052,199,356</u>	<u>\$ 2,078,153,758</u>	<u>\$ 2,061,166,302</u>	<u>\$ 16,987,456</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, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Locally Generated Non Tax				
Interest				
Special Education Transportation	\$ 442,000	\$ 312,000	\$ 439,972	\$ 127,972
Non-Public School Programs	464,000	339,000	240,753	(98,247)
Tuition	80,000	317,000	274,068	(42,932)
Total Locally Generated Non Tax	986,000	968,000	954,793	(13,207)
State Grants and Subsidies				
Special Education Program	4,283,000	4,276,000	4,308,682	32,682
Special Education Transportation	47,784,000	48,201,000	49,069,278	868,278
Non-Public School Programs	16,251,000	16,553,000	16,553,089	89
Management Services Program	560,000	560,000	560,105	105
Social Security	6,831,000	6,550,000	6,547,352	(2,648)
Retirement	6,315,000	6,105,000	4,782,847	(1,322,153)
Total State Grants and Subsidies	82,024,000	82,245,000	81,821,353	(423,647)
Total Revenues	<u>\$ 83,010,000</u>	<u>\$ 83,213,000</u>	<u>\$ 82,776,146</u>	<u>\$ (436,854)</u>
OBLIGATIONS				
Instruction				
Special Education *				
Personal Services	\$ 123,217,440	\$ 122,593,237	\$ 116,515,619	\$ 6,077,618
Employee Benefits	60,814,218	57,331,672	53,827,064	3,504,608
Prof.,Tech. Services	11,828,035	12,413,736	9,266,819	3,146,917
Property,Transportation,Comm.	257,129	138,972	102,284	36,688
Materials, Supplies, Books and Equipment	3,071,339	3,936,590	3,592,312	344,278
Other	(2,340,858)	(2,025,181)	990,943	(3,016,124)
Total Special Education	196,847,303	194,389,026	184,295,041	10,093,985
Services to Non-Public School Students				
Personal Services	72,048	78,822	75,672	3,150
Employee Benefits	31,721	31,639	37,479	(5,840)
Prof.,Tech. Services	15,138,324	15,440,413	15,421,218	19,195
Property,Transportation,Comm.	400	400	-	400
Materials, Supplies, Books and Equipment	1,300	1,300	100	1,200
Total Services to Non-Public School Students	15,243,793	15,552,574	15,534,469	18,105
Total Instruction	212,091,096	209,941,600	199,829,510	10,112,090
Student Support Services				
Special Education *				
Personal Services	16,935,576	16,402,470	16,033,512	368,958
Employee Benefits	11,291,064	10,746,505	9,667,127	1,079,378
Property,Transportation,Comm.	5,055,300	5,055,300	4,678,292	377,008
Materials, Supplies, Books and Equipment	686,000	686,000	158,257	527,743
Allocated Costs	(11,776,000)	(11,891,000)	(11,257,945)	(633,055)
Total Special Education	22,191,940	20,999,275	19,279,243	1,720,032

* 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, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Transportation				
Allocated Costs	\$ 48,226,000	\$ 48,513,000	\$ 49,509,250	\$ (996,250)
Total Student Support Services	70,417,940	69,512,275	68,788,493	723,782
Services to Non-Public School Students				
Personal Services	734,332	640,562	642,377	(1,815)
Employee Benefits	357,912	318,491	274,101	44,390
Prof., Tech. Services	2,000	2,000	2,000	-
Property, Transportation, Comm.	30,000	30,000	33,490	(3,490)
Materials, Supplies, Books and Equipment	15,700	15,700	2,546	13,154
	1,139,944	1,006,753	954,514	52,239
Total Administrative Support	1,139,944	1,006,753	954,514	52,239
Allocated Costs				
Special Education	9,000,000	9,000,000	9,000,000	-
Services to Non-Public School Students	405,262	396,673	357,800	38,873
Management Services	560,000	560,000	560,105	(105)
Total Allocated Costs	9,965,262	9,956,673	9,917,905	38,768
Total Obligations	293,614,242	290,417,301	279,490,422	10,926,879
OTHER FINANCING SOURCES				
Operating Transfers from Other Funds	(210,604,300)	(207,204,301)	(196,714,276)	(10,490,025)
Total Intermediate Unit	\$ 83,009,942	\$ 83,213,000	\$ 82,776,146	\$ 436,854
Fund Totals - Object Classes				
Personal Services	\$ 140,959,396	\$ 139,715,091	\$ 133,267,180	\$ 6,447,911
Employee Benefits	72,494,915	68,428,307	63,805,771	4,622,536
Prof., Tech. Services	26,968,359	27,856,149	24,690,037	3,166,112
Property, Transportation, Comm.	5,342,829	5,224,672	4,814,066	410,606
Materials, Supplies, Books and Equipment	3,774,339	4,639,590	3,753,215	886,375
Other	(2,340,858)	(2,025,181)	990,943	(3,016,124)
Allocated Costs	46,415,262	46,578,673	48,169,210	(1,590,537)
Total Obligations	293,614,242	290,417,301	279,490,422	10,926,879
Other Financing Sources				
Operating Transfers from Other Funds	(210,604,300)	(207,204,301)	(196,714,276)	(10,490,025)
Total Intermediate Unit	\$ 83,009,942	\$ 83,213,000	\$ 82,776,146	\$ 436,854

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, 2008

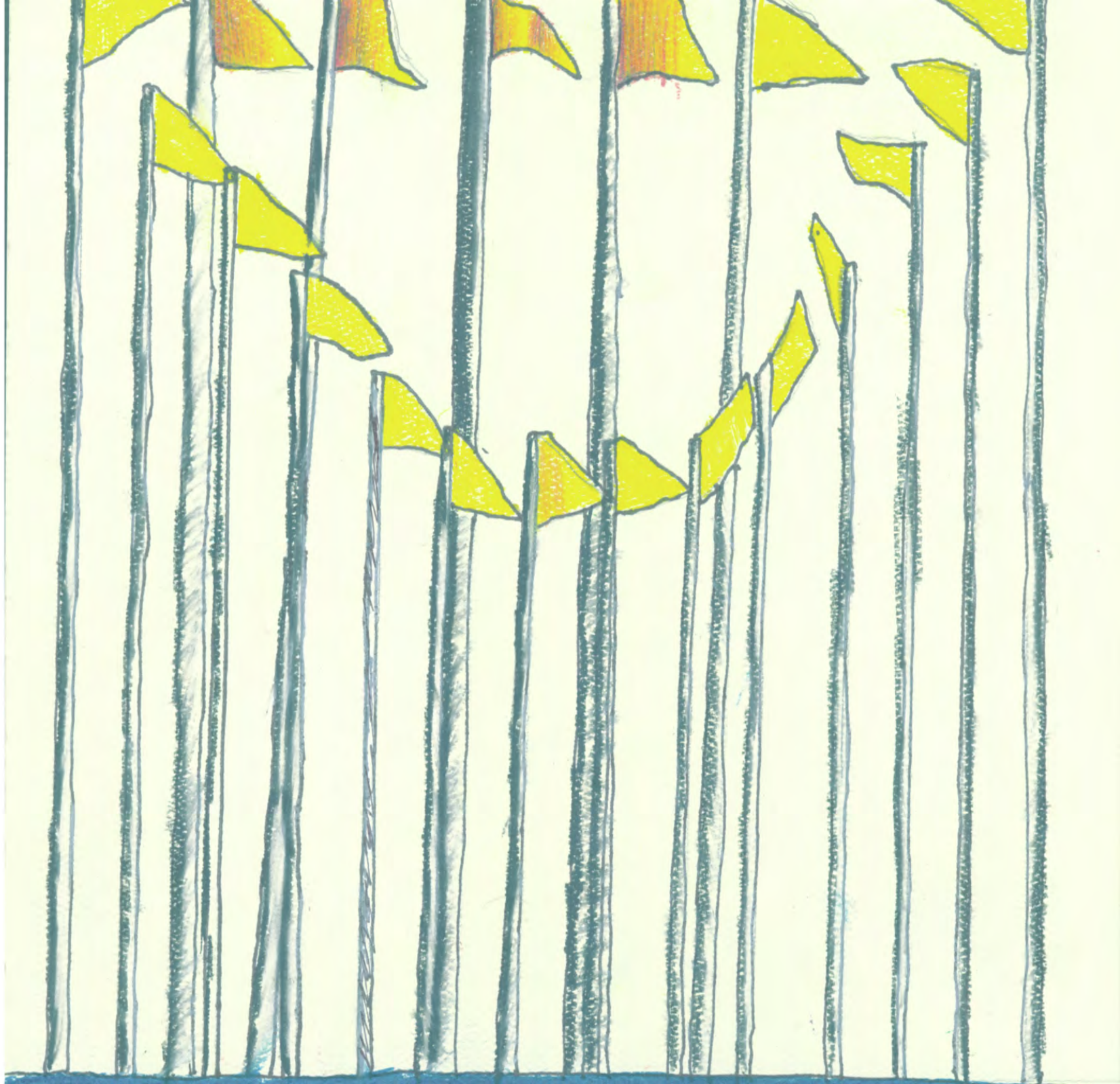
	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Locally Generated Non Tax				
Interest on Investments	\$ 2,902,000	\$ 1,897,000	\$ 3,132,344	\$ 1,235,344
Variable Rate Income	30,710,000	18,905,000	19,312,160	407,160
Basis Swap	-	-	1,385,391	1,385,391
Total Revenues	\$ 33,612,000	20,802,000	23,829,895	3,027,895
OBLIGATIONS				
Principal				
Bonds	\$ 65,626,071	\$ 65,626,071	\$ 65,626,071	\$ -
Loans	6,700	6,725	6,725	-
Interest	48,951,987	46,794,461	47,585,857	(791,396)
Authority Obligations (SPSBA)				
Principal	5,175,000	5,175,000	5,175,000	-
Interest	43,887,000	43,887,000	43,887,000	-
Variable Rate Payments	31,567,143	29,208,200	26,440,230	2,767,970
Fixed Rate Swap Payments	25,310,536	25,186,700	25,555,976	(369,276)
Issuance Costs	4,995,000	200,000	3,369,941	(3,169,941)
Administrative Expenses	2,841,163	2,549,021	2,900,535	(351,514)
Total Obligations	\$ 228,360,600	\$ 218,633,178	\$ 220,547,335	\$ (1,914,157)
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	\$ 184,370,000	\$ 190,679,400	\$ 194,344,728	\$ 3,665,328
Land Sale Proceeds	11,010,000	5,610,000	5,612,102	2,102
Debt Proceeds	-	682,630,000	682,630,000	-
Bond Defeasement	-	(682,630,000)	(681,892,949)	737,051
Total Other Financing Sources (Uses)	\$ 195,380,000	\$ 196,289,400	\$ 200,693,881	\$ 4,404,481
Net Change in Fund Balance	631,400	(1,541,778)	3,976,441	5,518,219
Fund Balances, July 1, 2007	69,834,788	70,055,872	70,055,872	-
Fund Balances, June 30, 2008	\$ 70,466,188	\$ 68,514,094	\$ 74,032,313	\$ 5,518,219

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, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Locally Generated Non Tax				
Interest on Investments	\$ 20,000,000	\$ 13,045,000	\$ 15,410,125	\$ 2,365,125
Miscellaneous	300,000	150,000	115,410	(34,590)
Total Locally Generated Non Tax	20,300,000	13,195,000	15,525,535	2,330,535
State Grants and Subsidies	-	-	328,703	328,703
Total Revenues	\$ 20,300,000	\$ 13,195,000	\$ 15,854,238	\$ 2,659,238
OBLIGATIONS				
Undistributed				
Cancellation of Prior Years' Encumbrances	\$ -	\$ -	\$ (154,417,791)	\$ 154,417,791
New Buildings and Additions	170,390,864	132,079,545	54,752,216	77,327,329
Environmental Management				
Asbestos Abatement	4,814,300	4,904,000	-	4,904,000
Environmental Services	16,998,400	16,998,400	3,571,559	13,426,841
Total Environmental Management	21,812,700	21,902,400	3,571,559	18,330,841
Alterations and Improvements				
Various Projects	69,193,833	76,031,838	29,523,016	46,508,822
Administrative Support	30,499,106	21,417,900	8,823,544	12,594,356
Major/Building Renovations	238,376,797	160,112,017	96,598,754	63,513,263
Total Alterations and Improvements	338,069,736	257,561,755	134,945,314	122,616,441
Total Obligations	\$ 530,273,300	\$ 411,543,700	\$ 38,851,298	\$ 372,692,402
OTHER FINANCING SOURCES (USES)				
Debt Issuance	\$ 270,000,000	\$ 41,241,003	\$ 41,670,000	\$ 428,997
Bond Premium	-	-	-	-
Gain on Sale of Fixed Assets	-	-	32,791	32,791
Bond Issuance Costs	(4,500,000)	(200,000)	(774,627)	(574,627)
Total Other Financing Sources (Uses)	\$ 265,500,000	\$ 41,041,003	\$ 40,928,164	\$ (112,839)
Net Change in Fund Balance	\$ (244,473,300)	\$ (357,307,697)	\$ 17,931,104	\$ 375,238,801

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2008 WORLD SERIES
Champions



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, the School District reports one combined Private Purpose Trust Fund. However, at June 30, 2008 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, 2008 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 Statement of Fiduciary Net Assets
Agency Funds
June 30, 2008

	Payroll Liabilities	Student Bus Token Fund	Student Activities Fund (1)	Unclaimed Monies Fund	Total
ASSETS					
Cash and Cash Equivalents	\$ -	\$ -	\$ 5,303,423	\$ -	\$ 5,303,423
Equity in Pooled Cash and Investments	36,618,030	-	-	372,606	36,990,636
Accounts Receivable	7,902,139	31,769	-	-	7,933,908
Inventories	-	310,560	-	-	310,560
Total Assets	44,520,169	342,329	5,303,423	372,606	50,538,527
LIABILITIES					
Payroll Deductions and Withholdings	44,520,169	-	-	-	44,520,169
Due to Student Activities	-	-	5,303,423	-	5,303,423
Other Liabilities	-	342,329	-	372,606	714,935
Total Liabilities	44,520,169	342,329	5,303,423	372,606	50,538,527
NET ASSETS					
Held in Trust for Various Purposes	\$ -	\$ -	\$ -	\$ -	\$ -

(1) Amounts reflect balances as of May 31, 2008.

School District of Philadelphia
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2008

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Payroll Liabilities Fund				
Assets				
Equity in Pooled Cash and Investments	\$ 48,342,385	\$ 825,747,139	\$ 837,471,494	\$ 36,618,030
Accounts Receivable	7,695,187	7,902,139	7,695,187	7,902,139
Total Assets	\$ 56,037,572	\$ 833,649,278	\$ 845,166,681	\$ 44,520,169
Liabilities				
Payroll Deductions and Withholdings	\$ 56,037,572	\$ 833,649,278	\$ 845,166,681	\$ 44,520,169
Total Liabilities	\$ 56,037,572	\$ 833,649,278	\$ 845,166,681	\$ 44,520,169
Student Bus Token Fund				
Assets				
Cash and Cash Equivalents	\$ 6,099	\$ 1,126,199	\$ 1,132,298	\$ -
Accounts Receivable	31,769	-	-	31,769
Inventories	442,591	31,680,015	31,812,046	310,560
Total Assets	\$ 480,459	\$ 32,806,214	\$ 32,944,344	\$ 342,329
Liabilities				
Other Liabilities	\$ 480,459	\$ 32,806,214	\$ 32,944,344	\$ 342,329
Total Liabilities	\$ 480,459	\$ 32,806,214	\$ 32,944,344	\$ 342,329
Student Activities Fund				
Assets				
Cash	\$ 4,624,387	\$ 11,932,329	\$ 11,253,293	\$ 5,303,423
Liabilities				
Due to Student Activities	\$ 4,624,387	\$ 11,932,329	\$ 11,253,293	\$ 5,303,423
Unclaimed Monies Fund				
Assets				
Equity in Pooled Cash and Investments	\$ 495,971	\$ 473,781	\$ 597,146	\$ 372,606
Liabilities				
Other Liabilities	\$ 495,971	\$ 473,781	\$ 597,146	\$ 372,606
All Agency Funds				
Assets				
Cash and Cash Equivalents	\$ 4,630,486	\$ 13,058,528	\$ 12,385,591	\$ 5,303,423
Equity in Pooled Cash and Investments	48,838,356	826,220,920	838,068,640	36,990,636
Accounts Receivable	7,726,956	7,902,139	7,695,187	7,933,908
Inventories	442,591	31,680,015	31,812,046	310,560
Total Assets	\$ 61,638,389	\$ 878,861,602	\$ 889,961,464	\$ 50,538,527
Liabilities				
Payroll Deductions and Withholdings	\$ 56,037,572	\$ 833,649,278	\$ 845,166,681	\$ 44,520,169
Due to Student Activities	4,624,387	11,932,329	11,253,293	5,303,423
Other Liabilities	976,430	33,279,995	33,541,490	714,935
Total Liabilities	\$ 61,638,389	\$ 878,861,602	\$ 889,961,464	\$ 50,538,527

SCHOOL DISTRICT OF PHILADELPHIA
SCHEDULE OF BONDS OUTSTANDING
JUNE 30, 2008

Date of Issue	Original Principal Issued	Principal Outstanding	Maturity Dates	Interest Rates %	Fiscal 2009 Debt Service Requirements		
					Fixed Swap		Principal
					Interest	Interest	
OCTOBER 1, 1995 (SERIES A)	53,725,000	7,680,000	SEPT 1, 2008	6.2500	240,000	-	7,680,000
		8,180,000	SEPT 1, 2009	6.2500	511,250	-	-
		<u>15,860,000</u>			<u>751,250</u>	<u>-</u>	<u>7,680,000</u>
JUNE 1, 1997 (SERIES A)	52,220,000	6,660,000	APRIL 1, 2009	5.0000	333,000	-	6,660,000
		6,995,000	APRIL 1, 2010	5.0000	349,750	-	-
		<u>13,655,000</u>			<u>682,750</u>	<u>-</u>	<u>6,660,000</u>
DECEMBER 15, 1998 (SERIES A)	156,575,000	5,000	APRIL 1, 2009	4.2500	213	-	5,000
		7,785,000	APRIL 1, 2018	4.5000	350,325	-	-
		8,140,000	APRIL 1, 2019	4.5000	366,300	-	-
		8,515,000	APRIL 1, 2020	4.5000	383,175	-	-
		8,905,000	APRIL 1, 2021	4.5000	400,725	-	-
		19,065,000	APRIL 1, 2022-23	4.5000	857,925	-	-
		<u>52,415,000</u>			<u>2,358,663</u>	<u>-</u>	<u>5,000</u>
DECEMBER 15, 1998 (SERIES B)	98,405,000	19,415,000	OCT 1, 2008	5.0000	485,375	-	19,415,000
		15,300,000	OCT 1, 2009	5.2500	803,250	-	-
		6,590,000	OCT 1, 2010	5.2500	345,975	-	-
		7,120,000	OCT 1, 2011	5.2500	373,800	-	-
		7,330,000	OCT 1, 2012	5.2500	384,825	-	-
		<u>55,755,000</u>			<u>2,393,225</u>	<u>-</u>	<u>19,415,000</u>
DECEMBER 1, 1999 (SERIES D)	73,765,000	10,510,000	MAR 1, 2009	5.6250	591,188	-	10,510,000
		6,970,000	MAR 1, 2010	5.6250	392,063	-	-
		<u>17,480,000</u>			<u>983,251</u>	<u>-</u>	<u>10,510,000</u>
NOVEMBER 1, 2000 (SERIES A)	130,000,000	5,000	FEB 1, 2009	4.8000	240	-	5,000
		5,000	FEB 1, 2010	4.8500	243	-	-
		22,000,000	FEB 1, 2011	5.7500	1,265,000	-	-
		<u>22,010,000</u>			<u>1,265,483</u>	<u>-</u>	<u>5,000</u>
NOVEMBER 30, 2000 (SERIES B) - QZAB	22,985,000	5,000	NOV 30, 2008	-	-	-	5,000
		5,000	NOV 30, 2009	-	-	-	-
		5,000	NOV 30, 2010	-	-	-	-
		5,000	NOV 30, 2011	-	-	-	-
		5,000	NOV 30, 2012	-	-	-	-
		22,930,000	NOV 30, 2013	-	-	-	-
		<u>22,955,000</u>			<u>-</u>	<u>-</u>	<u>5,000</u>
JANUARY 1, 2002 (SERIES A)	156,000,000	5,000	FEB 1, 2009	4.3000	215	-	5,000
		3,315,000	FEB 1, 2010	5.0000	165,750	-	-
		3,475,000	FEB 1, 2011	5.2500	182,438	-	-
		3,665,000	FEB 1, 2012	5.2500	192,413	-	-
		<u>10,460,000</u>			<u>540,816</u>	<u>-</u>	<u>5,000</u>
MAY 15, 2002 (SERIES B)	300,000,000	11,225,000	AUG 1, 2008	5.5000	308,688	-	11,225,000
		11,860,000	AUG 1, 2009	5.5000	652,300	-	-
		12,530,000	AUG 1, 2010	5.5000	689,150	-	-
		13,240,000	AUG 1, 2011	5.5000	728,200	-	-
		13,990,000	AUG 1, 2012	5.5000	769,450	-	-
		<u>62,845,000</u>			<u>3,147,788</u>	<u>-</u>	<u>11,225,000</u>
AUGUST 12, 2003 (SERIES A) VARIABLE INTEREST RATE Dauphin County General Authority	109,000,000	5,000	AUG 1, 2008	4.5000	38	-	5,000
		5,000	AUG 1, 2009	4.5000	225	-	-
		5,000	AUG 1, 2010	4.5000	225	-	-
		5,000	AUG 1, 2011	4.5000	225	-	-
		5,000	AUG 1, 2012	4.5000	225	-	-
		32,710,000	AUG 1, 2013-17	4.5000	1,471,278	-	-
		44,500,000	AUG 1, 2018-22	4.5000	2,001,586	-	-
		31,745,000	AUG 1, 2023-27	4.5000	1,427,872	-	-
		<u>108,980,000</u>			<u>4,901,674</u>	<u>-</u>	<u>5,000</u>
SEPTEMBER 10, 2003 (SERIES B) State Public School Building Authority Capital Obligation Bonds	588,140,000	43,505,000	JUNE 1, 2028	5.5000	2,392,775	-	-
		<u>43,505,000</u>			<u>2,392,775</u>	<u>-</u>	<u>-</u>
JUNE 29, 2004 (SERIES A) VARIABLE INTEREST RATE Dauphin County General Authority	100,000,000	5,000	JUNE 1, 2009	4.5000	225	-	5,000
		2,625,000	JUNE 1, 2010	4.5000	118,125	-	-
		5,800,000	JUNE 1, 2011	4.5000	261,000	-	-
		5,250,000	JUNE 1, 2012	4.5000	236,250	-	-
		5,750,000	JUNE 1, 2013	4.5000	258,750	-	-
		46,000,000	JUNE 1, 2014-18	4.5000	2,070,000	-	-
		25,500,000	JUNE 1, 2019-23	4.5000	1,147,500	-	-
		9,050,000	JUNE 1, 2024-26	4.5000	407,250	-	-
		<u>99,980,000</u>			<u>4,499,100</u>	<u>-</u>	<u>5,000</u>

SCHOOL DISTRICT OF PHILADELPHIA
SCHEDULE OF BONDS OUTSTANDING
JUNE 30, 2008

Date of Issue	Original Principal Issued	Principal Outstanding	Maturity Dates	Interest Rates %	Fiscal 2009 Debt Service Requirements		
					Fixed Swap		Principal
					Interest	Interest	
JUNE 29, 2004 (SERIES D) GOB Fixed Rate	100,000,000	5,000 5,000 5,000 5,000 8,705,000 <u>8,730,000</u>	JUNE 1, 2009 JUNE 1, 2010 JUNE 1, 2011 JUNE 1, 2012 JUNE 1, 2013 JUNE 1, 2014-15	3.3000 3.5000 3.7000 3.8500 4.0000 4.9989	165 175 185 193 200 435,208 <u>436,126</u>	- - - - - - <u>-</u>	5,000 - - - - - <u>5,000</u>
AUGUST 1, 2004 2004 QZAB CSF P (SERIES E)	19,335,000	1,381,071 1,381,071 1,381,071 1,381,071 6,905,355 1,381,077 <u>15,191,787</u>	SEPT 1, 2008 SEPT 1, 2009 SEPT 1, 2010 SEPT 1, 2011 SEPT 1, 2012 SEPT 1, 2013-17 SEPT 1, 2018	- - - - - - -	- - - - - - <u>-</u>	- - - - - - <u>-</u>	1,381,071 - - - - - <u>1,381,071</u>
MAY 25, 2005 (SERIES A) GOB-Refunding	198,140,000	475,000 795,000 825,000 855,000 890,000 86,840,000 107,410,000 <u>198,090,000</u>	AUGUST 1, 2008 AUGUST 1, 2009 AUGUST 1, 2010 AUGUST 1, 2011 AUGUST 1, 2012 AUGUST 1, 2013-17 AUGUST 1, 2018-22	3.0000 3.0000 4.0000 4.0000 4.0000 5.0000 5.0000	7,125 23,850 33,000 34,200 35,600 4,342,000 5,370,500 <u>9,846,275</u>	- - - - - - <u>-</u>	475,000 - - - - - <u>475,000</u>
MAY 25, 2005 (SERIES B) GOB-Refunding	43,415,000	5,000 5,000 5,310,000 5,410,000 5,860,000 26,610,000 <u>43,200,000</u>	APRIL 1, 2009 APRIL 1, 2010 APRIL 1, 2011 APRIL 1, 2012 APRIL 1, 2013 APRIL 1, 2014-17	3.0000 3.2500 5.0000 5.0000 5.0000 5.0000	150 163 265,500 270,500 293,000 1,330,500 <u>2,159,813</u>	- - - - - <u>-</u>	5,000 - - - - <u>5,000</u>
JUNE 16, 2005 (SERIES C) GOB-Non	71,740,000	2,470,000 2,570,000 2,680,000 2,795,000 2,915,000 16,725,000 21,360,000 15,700,000 <u>67,215,000</u>	JULY 1, 2008 JULY 1, 2009 JULY 1, 2010 JULY 1, 2011 JULY 1, 2012 JULY 1, 2013-17 JULY 1, 2018-22 JULY 1, 2023-25	4.1100 4.2000 4.2900 4.4300 4.4700 4.7186 5.1847 5.3100	50,759 107,940 114,972 123,819 130,301 809,985 1,107,444 833,671 <u>3,278,891</u>	- - - - - - <u>-</u>	2,470,000 - - - - - <u>2,470,000</u>
OCTOBER 20, 2005 (SERIES D) GOB-Non	29,920,000	1,540,000 1,595,000 1,660,000 1,725,000 1,815,000 10,560,000 7,815,000 <u>26,710,000</u>	JUNE 1, 2009 JUNE 1, 2010 JUNE 1, 2011 JUNE 1, 2012 JUNE 1, 2013 JUNE 1, 2014-18 JUNE 1, 2019-21	3.5000 4.0000 4.0000 5.2500 5.0000 5.2157 5.5000	53,900 63,800 66,400 90,563 90,750 561,275 429,825 <u>1,356,513</u>	- - - - - <u>-</u>	1,540,000 - - - - <u>1,540,000</u>
DECEMBER 07, 2006 (SERIES A) GOB-Non State Public School Building Authority Capital Obligation Bonds	317,125,000	5,405,000 5,655,000 5,940,000 6,225,000 6,535,000 37,820,000 48,185,000 61,490,000 61,220,000 73,480,000 <u>311,955,000</u>	JUNE 1, 2009 JUNE 1, 2010 JUNE 1, 2011 JUNE 1, 2012 JUNE 1, 2012 JUNE 1, 2013-17 JUNE 1, 2018-22 JUNE 1, 2023-27 JUNE 1, 2028-32 JUNE 1, 2033-36	4.6300 5.0000 4.8316 5.0000 5.0000 4.9004 5.0000 5.0000 4.8620 4.4861	250,250 282,750 287,000 311,250 326,750 1,854,950 2,409,250 3,074,500 2,976,513 3,296,389 <u>15,069,602</u>	- - - - - - - - <u>-</u>	5,405,000 - - - - - - - <u>5,405,000</u>
DECEMBER 07, 2006 (SERIES B) GOB-Refunding State Public School Building Authority Capital Obligation Bonds	545,570,000	5,000 5,000 5,000 5,000 5,000 25,000 9,300,000 131,965,000 404,250,000 <u>545,565,000</u>	JUNE 1, 2009 JUNE 1, 2010 JUNE 1, 2011 JUNE 1, 2012 JUNE 1, 2013 JUNE 1, 2014-18 JUNE 1, 2019-23 JUNE 1, 2024-28 JUNE 1, 2029-33	3.5000 3.5000 3.5000 3.5000 3.5000 3.6000 4.0956 5.0000 4.7347	175 175 175 175 175 913 445,988 6,598,250 19,139,925 <u>26,185,951</u>	- - - - - - - <u>-</u>	5,000 - - - - - - <u>5,000</u>

SCHOOL DISTRICT OF PHILADELPHIA
SCHEDULE OF BONDS OUTSTANDING
JUNE 30, 2008

Date of Issue	Original Principal Issued	Principal Outstanding	Maturity Dates	Interest Rates %	Fiscal 2009 Debt Service Requirements		
					Fixed Swap		Principal
					Interest	Interest	
APRIL 25, 2007 (SERIES A) GOB-Refunding	146,530,000	10,000 10,000 10,000 10,000 10,000 65,000 1,610,000 64,690,000 5,640,000 74,470,000 <u>146,525,000</u>	JUNE 1, 2009 JUNE 1, 2010 JUNE 1, 2011 JUNE 1, 2012 JUNE 1, 2013 JUNE 1, 2014-18 JUNE 1, 2019-23 JUNE 1, 2024-28 JUNE 1, 2029-33 JUNE 1, 2034	3.7000 3.7000 3.7000 3.7000 4.0000 4.2308 5.0000 5.0000 5.0000 4.7482	379 379 379 379 410 2,819 82,513 3,315,363 289,052 3,445,957 <u>7,137,630</u>	- - - - - - - - - -	10,000 - - - - - - - - - <u>10,000</u>
DECEMBER 28, 2007 (SERIES C) QZAB	13,510,000	900,667 900,667 900,667 900,667 900,667 4,503,333 4,503,332 <u>13,510,000</u>	DEC 28, 2008 DEC 28, 2009 DEC 28, 2010 DEC 28, 2011 DEC 28, 2012 DEC 28, 2013-17 DEC 28, 2018-22	- - - - - - -	- - - - - - -	- - - - - - -	900,667 - - - - - - <u>900,667</u>
DECEMBER 28, 2007 (SERIES D) QZAB	28,160,000	5,000 5,000 5,000 5,000 5,000 5,020,000 23,115,000 <u>28,160,000</u>	DEC 28, 2008 DEC 28, 2009 DEC 28, 2010 DEC 28, 2011 DEC 28, 2012 DEC 28, 2013-17 DEC 28, 2018-22	1.2500 1.2500 1.2500 1.2500 1.2500 1.2500 1.2500	31 63 63 63 63 62,752 288,965 <u>352,000</u>	- - - - - - -	5,000 - - - - - - <u>5,000</u>
APRIL 1, 2008 (SERIES A) GOB Refunding	254,885,000	50,000 45,000 520,000 8,825,000 9,875,000 31,795,000 47,810,000 86,555,000 69,410,000 <u>254,885,000</u>	SEPT 1, 2008 SEPT 1, 2009 SEPT 1, 2010 SEPT 1, 2011 SEPT 1, 2012 SEPT 1, 2013-17 SEPT 1, 2018-22 SEPT 1, 2023-27 SEPT 1, 2028-30	4.5000 4.5000 4.5000 4.5000 4.5000 4.5000 4.5000 4.5000 4.5000	563 2,025 23,400 397,125 444,375 1,430,775 2,151,450 3,894,975 3,123,450 <u>11,468,138</u>	1,605 1,445 16,692 283,285 316,990 1,020,628 1,534,713 2,778,438 2,228,079 <u>8,181,875</u>	50,000 - - - - - - - - <u>50,000</u>
APRIL 1, 2008 (SERIES B) GOB Refunding	250,845,000	60,000 55,000 485,000 7,735,000 8,660,000 27,935,000 44,060,000 89,490,000 72,365,000 <u>250,845,000</u>	SEPT 1, 2008 SEPT 1, 2009 SEPT 1, 2010 SEPT 1, 2011 SEPT 1, 2012 SEPT 1, 2013-17 SEPT 1, 2018-22 SEPT 1, 2023-27 SEPT 1, 2028-30	4.5000 4.5000 4.5000 4.5000 4.5000 4.5000 4.5000 4.5000 4.5000	675 2,475 21,825 348,075 389,700 1,257,075 1,982,700 4,027,050 3,256,425 <u>11,286,000</u>	1,918 1,759 15,507 247,310 276,885 893,163 1,408,726 2,861,255 2,313,720 <u>8,020,243</u>	60,000 - - - - - - - - <u>60,000</u>
APRIL 1, 2008 (SERIES C) GOB Refunding	91,900,000	55,000 55,000 605,000 10,035,000 11,235,000 36,175,000 33,740,000 <u>91,900,000</u>	SEPT 1, 2008 SEPT 1, 2009 SEPT 1, 2010 SEPT 1, 2011 SEPT 1, 2012 SEPT 1, 2013-17 SEPT 1, 2018-21	4.5000 4.5000 4.5000 4.5000 4.5000 4.5000 4.5000	619 2,475 27,225 451,575 505,575 1,627,875 1,518,300 <u>4,133,644</u>	1,752 1,752 19,273 319,677 357,904 1,152,397 1,074,827 <u>2,927,582</u>	55,000 - - - - - - <u>55,000</u>
APRIL 1, 2008 (SERIES D) GOB Refunding	85,000,000	7,875,000 8,150,000 7,975,000 6,850,000 7,550,000 24,700,000 21,900,000 <u>85,000,000</u>	SEPT 1, 2008 SEPT 1, 2009 SEPT 1, 2010 SEPT 1, 2011 SEPT 1, 2012 SEPT 1, 2013-17 SEPT 1, 2018-21	4.5000 4.5000 4.5000 4.5000 4.5000 4.5000 4.5000	88,594 366,750 358,875 308,250 339,750 1,111,500 985,500 <u>3,559,219</u>	227,199 235,133 230,084 197,627 217,822 712,611 631,829 <u>2,452,305</u>	7,875,000 - - - - - - <u>7,875,000</u>
TOTAL SERIAL BONDS		<u>\$ 2,613,381,787</u>			<u>\$ 120,186,577</u>	<u>\$ 21,582,005</u>	<u>\$ 75,761,738</u>
NON-ELECTORAL DEBT- SERIAL BONDS		<u>\$ 1,712,356,787</u>					
CAPITAL OBLIGATION BONDS		<u>901,025,000</u>					
TOTAL SERIAL BONDS OUTSTANDING		<u>\$ 2,613,381,787</u>					

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 capital assets are valued at their estimated fair market value on the date donated.

Capital assets acquired or constructed, for governmental fund accounting 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, 2008
(Dollars in Thousands)

	<u>2008</u>	<u>2007</u>
Governmental Funds Capital Assets:		
Land	\$ 113,724	\$ 112,700
Buildings	1,160,082	1,048,780
Improvements	908,052	826,418
Construction in Progress	524,708	409,030
Personal Property	238,245	234,095
Total Governmental Funds Capital Assets	<u>\$ 2,944,811</u>	<u>\$ 2,631,023</u>

Investments in Governmental Funds Capital Assets by Source:

General Fund	\$ 80,861	\$ 85,147
Capital Projects Fund	2,808,388	2,492,999
Categorical Funds	55,562	52,877
Total Governmental Funds Capital Assets	<u>\$ 2,944,811</u>	<u>\$ 2,631,023</u>

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

School District of Philadelphia
Capital Assets Used in the Operation of Governmental Funds
Schedule by Function and Activity
June 30, 2008
(Dollars in Thousands)

Function/Activity	Land	Buildings	Improvements	Construction in Progress	Personal Property	Total Governmental Funds Capital Assets
Instruction	\$ 109,707	\$ 1,059,909	\$ 847,519	\$ 524,708	\$ 174,970	\$ 2,716,813
Student Support Services	821	5,072	7,230	-	20,968	34,091
Administrative Support	3,196	95,101	53,303	-	4,053	155,653
Operation & Maintenance of Plant Services	-	-	-	-	7,957	7,957
Pupil Transportation	-	-	-	-	466	466
All Other Support Services	-	-	-	-	29,831	29,831
Total Governmental Funds Capital Assets	\$ 113,724	\$ 1,160,082	\$ 908,052	\$ 524,708	\$ 238,245	\$ 2,944,811

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, 2008
(Dollars in Thousands)

Function/Activity	Governmental Funds Capital Assets (1) July 1, 2007	Prior Period Adjustments	Additions	Deletions	Governmental Funds Capital Assets June 30, 2008
Instruction	\$ 2,409,277	\$ 1,782	\$ 323,879	\$ 18,125	\$ 2,716,813
Student Support Services	32,383	-	5,727	4,019	34,091
Administrative Support	147,992	-	7,850	189	155,653
Operation & Maintenance of Plant Services	7,530	-	451	24	7,957
Pupil Transportation	527	-	2	63	466
All Other Support Services	33,314	28	1,082	4,593	29,831
Total	<u>\$ 2,631,023</u>	<u>\$ 1,810</u>	<u>\$ 338,991</u>	<u>\$ 27,013</u>	<u>\$ 2,944,811</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, 2007 balances were adjusted to accurately reflect amounts by Function/Activity.

Statistical Section

This part of the School District of Philadelphia's ("School District") Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the School District's overall financial health.

<u>Contents</u>	<u>Page</u>
<u>Financial Trends</u>	
These schedules contain trend information to help the reader understand how the School District's financial performance and well-being have changed over time.	122
<u>Revenue Capacity</u>	
These schedules contain information to help the reader assess the School District's most significant local revenue source, property taxes.	129
<u>Debt Capacity</u>	
These schedules present information to help the reader assess the affordability of the School District's current levels of outstanding debt and their ability to issue additional debt in the future.	134
<u>Demographic and Economic Information</u>	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the School District's financial activities take place.	139
<u>Operating Information</u>	
These schedules contain service and infrastructure data to help the reader understand how the information in the School District's financial report relates to the services the School District provides and the activities it performs.	141

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The District implemented GASB Statement No. 34 in fiscal year 2002; schedules presenting government-wide information include information beginning in that fiscal year.

School District of Philadelphia
Table 1
Net Assets by Component
For the Fiscal Years 2002 through 2008
(accrual basis of accounting)
(dollars in thousands)

	2002 (1)	2003	2004	2005	2006	2007	2008
Governmental Activities							
Invested in Capital Assets, Net of Related Debt	\$ 76,633	\$ 68,267	\$ (76,702)	\$ 15,075 (2)	\$ 10,345	\$ 1,183	\$ 27,119
Restricted							
Debt Service	53,102	63,072	55,071	50,380	64,613	70,056	74,032
Special Revenue & Permanent Funds	5,406	5,422	5,256	5,331	-	-	-
Expendable	-	-	-	-	1,969	2,667	2,814
Non-Expendable	-	-	-	-	3,622	3,329	3,393
Arbitrage Rebate Payable	-	-	-	-	-	-	3,767
Workers' Compensation/Termination/Other	-	-	19,624	23,889	2,354	-	-
Other (3)	118,389	68,227	-	-	-	-	-
Unrestricted (Deficit)	(737,437)	(772,940)	(696,786)	(1,031,304)	(1,199,787)	(1,303,264)	(1,308,420)
Total Governmental Activities Net Assets	(483,907)	(567,952)	(693,537)	(936,629)	(1,116,884)	(1,226,029)	(1,197,295)
Business-type Activities							
Invested in Capital Assets, Net of Related Debt	3,638	3,625	3,459	3,449	3,188	3,133	4,005
Restricted							
Unrestricted (Deficit)	7,405	8,143	7,474	7,855	2,442	(5,613)	(7,346)
Total Business-type Activities Net Assets	11,043	11,768	10,933	11,304	5,630	(2,480)	(3,341)
Total School District							
Invested in Capital Assets, Net of Related Debt	80,271	71,893	(73,243)	18,524	13,533	4,316	31,124
Restricted	176,897	136,720	79,951	79,600	72,558	76,052	84,006
Unrestricted (Deficit)	(730,032)	(764,797)	(689,312)	(1,023,449)	(1,197,345)	(1,308,877)	(1,315,766)
Total School District Net Assets	\$ (472,864)	\$ (556,184)	\$ (682,604)	\$ (925,325)	\$ (1,111,254)	\$ (1,228,509)	\$ (1,200,636)

Notes:

- (1) The School District of Philadelphia began reporting accrual information when it implemented GASB Statement No. 34 in Fiscal Year 2002.
- (2) The School District refined the computation for Invested in Capital Assets Net of Related Debt for Governmental Activities for Fiscal Year 2005 and thereafter. This change reflects inclusion of deferred charges, bond premiums and discounts, and uncapitalized expenditures.
- (3) During Fiscal Years 2002 and 2003 the School District reported restricted net assets for capital projects, educational projects, inventories, self-insurance, and tax liens proceeds. Starting in Fiscal Year 2004 the School District eliminated restrictions on these net assets.

Source: The School District of Philadelphia Comprehensive Annual Financial Reports for the Fiscal Years ended 2002 through 2008.

School District of Philadelphia
Table 2
Expenses, Program Revenues, and Net (Expense)/Revenue
For the Fiscal Years 2002 through 2008
(accrual basis of accounting)
(dollars in thousands)

	2002 (1)	2003	2004	2005	2006	2007	2008
Expenses:							
Governmental Activities							
Instruction	\$ 1,202,232	\$ 1,283,177	\$ 1,382,087	\$ 1,458,022	\$ 1,696,973	\$ 1,706,310	\$ 1,733,663
Student Support Services	283,732	326,276	352,299	412,991	247,845	262,044	210,458
Administrative Support	124,344	120,226	114,931	117,811	112,455	114,397	92,100
Operation & Maintenance of Plant Services	229,683	238,238	243,485	258,985	263,163	270,163	273,335
Pupil Transportation	42,237	44,708	76,382	84,170	88,867	89,079	107,050
All Other Support Services	4,858	279	26,868	15,815	38,422	19,654	32,047
Early Childhood Education	24,481	25,562	21,628	20,952	18,005	20,448	22,816
Interest on Long-Term Debt	52,458	76,895	88,732	114,535	128,245	138,286	137,906
Loss on Disposal of Capital Assets (2)	-	-	6,323 (3)	3,838	-	-	-
Loss on Sale of Real Property	-	-	-	57,550	-	-	-
Total Governmental Activities Expenses (4)	1,964,025	2,115,361	2,312,735	2,544,669	2,593,975	2,620,381	2,609,375
Business-type Activities:							
Food Service	70,730	72,538	80,638	77,595	79,851	81,798	78,189
Loss on Disposal of Capital Assets	-	-	-	8	6	-	-
Total Business-type Activities Expenses	70,730	72,538	80,638	77,603	79,857	81,798	78,189
Total School District Expenses	\$ 2,034,755	\$ 2,187,899	\$ 2,393,373	\$ 2,622,272	\$ 2,673,832	\$ 2,702,179	\$ 2,687,564
Program Revenues							
Governmental Activities							
Charges for Services	\$ 6,499	\$ 6,881	\$ 7,721	\$ 5,036	\$ 2,976	\$ 2,529	\$ 5,771
Operating grants and contributions	392,115	541,135	657,783	743,746	778,978	804,980	853,660
Capital grants and contributions	24	5,176	2,565	200	-	123	22
Total Governmental Activities Program Revenues	398,638	553,192	668,069	748,982	781,954	807,632	859,453
Business-type Activities							
Charges for Services:							
Food Service	8,613	8,186	8,219	6,695	4,834	5,086	3,709
Operating grants and contributions	62,186	65,152	71,660	71,457	69,527	68,530	69,445
Capital grants and contributions	-	-	-	-	-	-	-
Total Business-type Activities Program Revenues	70,799	73,338	79,879	78,152	74,361	73,616	73,154
Total School District Program Revenues	\$ 469,437	\$ 626,530	\$ 747,948	\$ 827,134	\$ 856,315	\$ 881,248	\$ 932,607
Net (Expense)/Revenue							
Governmental Activities	(1,565,387)	(1,562,169)	(1,644,666)	(1,795,687)	(1,812,021)	(1,812,749)	(1,749,922)
Business-type Activities	69	800	(759)	549	(5,496)	(8,183)	(5,035)
Total School District Net (Expense)/Revenue	\$ (1,565,318)	\$ (1,561,369)	\$ (1,645,425)	\$ (1,795,138)	\$ (1,817,517)	\$ (1,820,932)	\$ (1,754,957)

Notes:

- (1) The School District of Philadelphia began reporting accrual information when it implemented GASB Statement No. 34 in Fiscal Year 2002.
- (2) With the initial implementation of GASB Statement No. 34, the School District identified and reported fully depreciated personal property assets that were scrapped. Beginning in Fiscal Year 2004, the School District refined the procedures for identifying depreciable scrapped personal property. The new method identified scrapped assets into two categories: (a) fully depreciated and (b) not fully depreciated. Dollars reported, for Fiscal Years 2004 and thereafter, represent the value of net personal property exclusive of depreciation that had not been fully depreciated.
- (3) During Fiscal Year 2004, the net value of the personal property not fully depreciated was reported as an adjustment after computing the change in net assets. This practice was discontinued after suggestions were made by accounting review authorities and a thorough review of the GAAFR concerning "Losses on the sale of capital assets" used in governmental activities. The School District began to report material losses as an expense in the general government function of the "Statement of Activities". As such, we re-stated the Fiscal Year 2004 disposal of personal property as an expense in the general government function.
- (4) Expenses for instruction, student support services, pupil transportation, operation & maintenance of plant services, and interest on long-term debt have progressively increased primarily due to implementing the "No Child Left Behind" requirements and the capital improvement initiative.

Source: The School District of Philadelphia Comprehensive Annual Financial Reports for the Fiscal Years ended 2002 through 2008.

School District of Philadelphia
Table 3
Net (Expenses)/Revenue, General Revenues, and Total Change in Net Assets
For the Fiscal Years 2002 through 2008
(accrual basis of accounting)
(dollars in thousands)

	2002 (1)	2003	2004	2005	2006	2007	2008
Net (Expense)/Revenue							
Governmental Activities	\$ (1,565,387)	\$ (1,562,169)	\$ (1,644,666)	\$ (1,795,687)	\$ (1,812,021)	\$ (1,812,749)	\$ (1,749,922)
Business-type Activities	69	800	(759)	549	(5,496)	(8,183)	(5,035)
Total School District Net (Expense)/Revenue	<u>(1,565,318)</u>	<u>(1,561,369)</u>	<u>(1,645,425)</u>	<u>(1,795,138)</u>	<u>(1,817,517)</u>	<u>(1,820,932)</u>	<u>(1,754,957)</u>
General Revenues/Contributed Capital/Transfers:							
Governmental Activities							
Property Taxes	455,829	503,114	516,385	540,322	540,241	549,519	598,556
Other Taxes	134,728	142,217	134,264	148,411	157,464	168,484	177,618
Grants and Contributions Not Restricted to Specific Programs	94,569	68,145	83,595	81,872	112,958	142,927	133,801
State & Federal Subsidies	796,328	768,988	760,743	783,947	804,829	843,647	870,686
General Obligation Bond Premium (2)	952	-	-	-	-	-	-
Gain on Sale of Capital Assets	-	-	-	222	-	-	-
Transfers	76	76	76	178	178	178	(4,112)
Total Governmental Activities	<u>1,482,482</u>	<u>1,482,540</u>	<u>1,495,063</u>	<u>1,554,952</u>	<u>1,615,670</u>	<u>1,704,755</u>	<u>1,776,549</u>
Business-type Activities							
Contributed Capital	-	-	-	-	-	250	63
Transfers	(76)	(76)	(76)	(178)	(178)	(178)	4,112
Total Business-type Activities	<u>(76)</u>	<u>(76)</u>	<u>(76)</u>	<u>(178)</u>	<u>(178)</u>	<u>72</u>	<u>4,175</u>
Total School District General Revenues/Contributed Capital/Transfers	<u>1,482,406</u>	<u>1,482,464</u>	<u>1,494,987</u>	<u>1,554,774</u>	<u>1,615,492</u>	<u>1,704,827</u>	<u>1,780,724</u>
Changes in Net Assets:							
Governmental Activities	(82,905)	(79,630)	(149,603)	(240,735)	(196,351)	(107,994)	26,627
Business-type Activities	(7)	725	(835)	371	(5,674)	(8,111)	(860)
Total School District Change in Net Assets	<u>\$ (82,912)</u>	<u>\$ (78,905)</u>	<u>\$ (150,438)</u>	<u>\$ (240,364)</u>	<u>\$ (202,025)</u>	<u>\$ (116,105)</u>	<u>\$ 25,767</u>

Notes:

(1) The School District of Philadelphia began reporting accrual information when it implemented GASB Statement No. 34 in Fiscal Year 2002.

(2) During Fiscal Year 2002 the School District reported General Obligation Bond (GOB) premiums as a revenue source along with the general revenues. Further review disclosed that the amortized annual premium amount should reduce the liability (premium) and net assets. Beginning in Fiscal Year 2003, the School District reported the GOB premium as such.

Source: The School District of Philadelphia Comprehensive Annual Financial Reports for the Fiscal Years ended 2002 through 2008.

School District of Philadelphia

Table 4

Fund Balances of Governmental Funds
For the Fiscal Years 1999 through 2008
(modified accrual basis of accounting)
(dollars in thousands)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Fund										
Reserved (1)	\$ 36,253	\$ 44,521	\$ 39,441	\$ 29,479	\$ 19,544	\$ 39,786	\$ 34,262	\$ 5,270	\$ 18,270	\$ 30,218
Unreserved	74	(46,892)	(115,382)	149,228	112,638	3,820	22,277	(71,402)	(69,416)	(73,622)
Total General Fund	\$ 36,327	\$ (2,371)	\$ (75,941)	\$ 178,707	\$ 132,182	\$ 43,606	\$ 56,539	\$ (66,132)	\$ (51,146)	\$ (43,404)
All Other Governmental Funds										
Reserved (2)	\$ 156,744	\$ 171,273	\$ 170,795	\$ 144,402	\$ 114,145	\$ 158,729	\$ 201,961	\$ 246,397	\$ 482,146	\$ 155,721
Unreserved										
Special Revenue Funds (3)	-	-	-	2,397	2,465	2,224	2,254	2,427	2,667	2,814
Permanent Funds (3)	-	-	-	620	568	553	556	640	737	800
Trust Purposes (3)	2,559	3,562	3,716	-	-	-	-	-	-	-
Categorical Funds	-	-	(6,336)	(7,131)	(6,096)	(30,648)	(22,775)	(17,156)	(18,454)	(12,266)
Capital Projects Fund	(28,313)	(74,621)	(54,479)	6,940	(3,256)	651,920	454,687	246,930	28,386	42,550
Debt Service Fund	-	-	-	-	95	-	-	-	-	-
Total All Other Governmental Funds	\$ 130,990	\$ 100,214	\$ 113,696	\$ 147,228	\$ 107,921	\$ 782,778	\$ 636,683	\$ 479,238	\$ 495,482	\$ 189,619

Notes:

- (1) The General Fund reserved balance has fluctuated between Fiscal Year 2002 and Fiscal Year 2006. This change is partially due to fewer contractual commitments at year end, workers' compensation payments and elimination of the Termination/Incentive Compensation reserve. The increases for Fiscal Year 2007 and Fiscal Year 2008 are primarily due to a large increase in encumbrances.
- (2) The All Other Governmental Funds reserved balance for Fiscal Year 2004 through Fiscal Year 2007 have steadily increased due to outstanding contractual commitments for capital projects. During Fiscal Year 2008, there was a \$336.8 million decrease in outstanding contractual commitments for capital projects.
- (3) Prior to the School District of Philadelphia's implementation of GASB Statement No. 34 in Fiscal Year 2002, Special Revenue and Permanent Funds were included under the caption "Trust Purposes".

Source: The School District of Philadelphia Comprehensive Annual Financial Reports for the Fiscal Years ended 1999 through 2008.

School District of Philadelphia
Table 5
Governmental Funds Revenues
For the Fiscal Years 1999 through 2008
(modified accrual basis of accounting)
(dollars in thousands)

REVENUES

Federal Sources

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Grants and Subsidies	\$ 161,718	\$ 189,074	\$ 211,365	\$ 219,272	\$ 260,343	\$ 306,669	\$ 339,280	\$ 335,727	\$ 293,012	\$ 297,128
Total Federal Sources	161,718	189,074	211,365	219,272	260,343	306,669	339,280	335,727	293,012	297,128

State Sources

Grants and Subsidies	854,118	896,360	942,665	974,652	1,062,960	1,099,758	1,201,528	1,256,808	1,357,462	1,438,752
Total State Sources	854,118	896,360	942,665	974,652	1,062,960	1,099,758	1,201,528	1,256,808	1,357,462	1,438,752

Local Sources

Local Taxes										
Real Estate										
Current	375,953	379,063	390,032	401,978	451,067	458,085	486,815	493,147	501,282	547,580
Prior Years	37,462	35,762	37,535	39,188	37,615	55,438	49,459	53,862	49,357	51,814
Payment in Lieu of Taxes	5	8	5	5	5	5	5	5	5	5
Use and Occupancy	82,861	90,549	94,759	93,385	98,862	96,154	99,050	103,762	103,757	108,614
General Business	114	-	-	-	-	-	-	-	-	-
School (Non-Business) Income	17,786	21,458	19,283	16,878	16,515	14,605	17,617	20,013	24,035	26,938
Liquor Sales	22,533	24,991	29,191	28,306	28,650	33,082	33,930	38,241	39,331	41,586
Public Utility Realty	7,532	5,468	2,102	1,145	960	1,055	857	1,096	1,123	1,049
Sale of Tax Liens	-	-	-	-	-	-	-	-	-	-
Total Local Taxes	544,246	557,299	572,907	580,885	633,674	658,424	687,733	710,126	718,890	777,586

Locally Generated Non Tax

Interest and other income	36,523	48,336	42,435	23,155	21,171	25,641	39,939	39,687	56,614	52,173
City Contributions	30,000	-	15,000	60,000	35,000	35,000	35,000	35,000	35,000	37,000
Legal Settlements	4,500	4,500	4,500	4,500	4,500	2,650	2,501	2,819	2,590	2,555
Stadium Agreements	-	-	-	-	-	1,159	1,159	1,159	2,898	3,000
Reimbursements from Other Funds	5,595	5,738	6,234	7,160	7,386	7,668	7,221	6,503	7,462	7,233
Variable Rate Income	-	-	-	-	-	-	11,383	20,001	23,765	20,697
Private Grants and Foundations	12,132	12,725	1,211	-	-	-	-	-	-	-
Total Locally Generated Non Tax	88,750	71,299	69,380	94,815	68,057	72,118	97,203	105,169	128,329	122,658
Total Local Sources	632,997	628,598	642,287	675,700	701,731	730,542	784,936	815,295	847,219	900,244
Total Revenues	\$ 1,648,833	\$ 1,714,032	\$ 1,796,317	\$ 1,869,624	\$ 2,025,034	\$ 2,136,969	\$ 2,325,744	\$ 2,407,830	\$ 2,497,693	\$ 2,636,124

Source: The School District of Philadelphia Comprehensive Annual Financial Reports for the Fiscal Years ended 1999 through 2008.

School District of Philadelphia
Table 6

Governmental Funds Expenditures and Debt Service Ratio
For the Fiscal Years 1999 through 2008
(modified accrual basis of accounting)
(dollars in thousands)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
EXPENDITURES										
Current:										
Instruction	\$ 1,125,399	\$ 1,051,999	\$ 1,150,990	\$ 1,154,888	\$ 1,216,991	\$ 1,322,323	\$ 1,369,961	\$ 1,372,403	\$ 1,322,219	\$ 1,368,042
Student Support Services	112,456	206,559	182,904	183,260	188,932	201,879	221,853	233,336	230,955	226,504
Cluster Support/ Professional Development	49,698	50,573	42,213	107,338	113,717	108,318	111,021	106,691	102,197	82,101
Administrative Support	107,576	83,831	95,319	226,556	233,122	241,579	256,029	261,984	262,181	271,003
Operation & Maintenance of Plant Services	172,911	222,174	233,122	41,667	44,247	76,523	82,228	88,502	87,071	107,666
Pupil Transportation	-	-	-	4,658	279	26,380	15,302	36,822	18,877	31,473
All Other Support Services	9,468	3,024	3,815	24,481	25,562	21,628	20,952	17,994	20,448	22,814
Early Childhood Education	-	-	71,376	95,312	126,061	153,410	184,084	220,930	240,377	269,695
Payments to Charter Schools	-	44,362	-	-	-	-	-	-	-	-
Tax Lien Sale Cost	-	-	-	-	-	-	-	-	-	-
Allocated Costs	-	197	-	-	-	-	-	-	-	-
Debt Service:										
Principal	34,600	36,405	20,197	33,305	34,585	45,000	21,131	37,437	63,122	66,417
Loans	369	369	369	369	369	369	369	215	34	7
Interest	36,290	40,490	55,004	53,476	70,193	74,044	71,023	91,726	99,242	99,625
Principal & Interest - Authority	-	-	-	-	-	22,908	33,615	29,953	33,805	49,062
Insurance Costs	3,483	2,649	2,289	6,675	-	26,593	4,749	1,449	15,235	3,370
Administrative Expenses	-	-	-	-	-	-	2,346	2,820	2,436	2,901
Capital Outlay: (1)										
New Buildings and Additions	29,741	42,394	44,227	60,546	18,175	44,753	100,986	52,702	73,734	147,024
Environmental Management	6,825	6,217	6,175	7,134	8,294	3,355	2,994	3,837	3,824	3,504
Alterations and Equipment	101,917	95,217	98,791	57,745	27,003	79,590	87,304	154,603	226,794	213,146
Major Renovations	-	-	-	-	811	1,317	1,216	297	-	-
Equipment Acquisitions	-	-	-	-	2,694	5,619	5,766	14,509	20,184	10,682
Total Expenditures	\$ 1,790,733	\$ 1,886,460	\$ 2,006,791	\$ 2,057,610	\$ 2,111,135	\$ 2,455,388	\$ 2,592,929	\$ 2,728,210	\$ 2,822,735	\$ 2,975,036
Debt Service as a percentage of noncapital expenditures (2)	4.5%	4.6%	4.2%	4.9%	5.1%	7.3%	5.6%	6.5%	8.6%	8.5%

Notes

(1) The School District launched its comprehensive Capital Improvement Program (CIP) in Fiscal Year 2004. The CIP supports initiatives to make schools more equitable; provide space for reduced class size; enhance academic reform efforts by providing state-of-the-art facilities.

(2) Percentages represent total expenditures less capital outlays divided into debt service expenditures.

Source: The School District of Philadelphia Comprehensive Annual Financial Reports for the Fiscal Years ended 1999 through 2008.

School District of Philadelphia
Table 7
Other Financing Sources and (Uses) and Net Change in Fund Balance
Governmental Funds
For the Fiscal Years 1999 through 2008
(modified accrual basis of accounting)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Excess (Deficiency) of Revenues over Expenditures	\$ (141,898,963)	\$ (172,428,066)	\$ (210,473,660)	\$ (187,984,448)	\$ (86,099,702)	\$ (318,619,908)	\$ (267,184,027)	\$ (320,380,341)	\$ (325,041,866)	\$ (338,912,254)
Other Financing Sources (Uses)										
Debt Issuance (Bond Proceeds)	257,341,766	177,503,257	157,550,371	456,000,000 (1)	-	1,587,760,623 (1)	332,630,000	29,920,000	1,008,348,549	724,300,000
Land Sale Proceeds	-	-	-	-	-	-	27,754,440	-	-	-
Capital Asset Proceeds	-	-	-	-	-	-	221,507	207,071	2,461,045	5,644,893
Swapion Net Proceeds	-	-	-	-	-	16,641,000	-	-	-	-
Basis Swap Proceeds	-	-	-	-	-	-	-	7,235,000	10,740,000	-
Bond Premium	-	-	-	-	-	-	-	2,833,532	62,356,553	-
Bond Discounts	-	-	-	21,132,860 (1)	-	4,884,867 (1)	18,512,125	-	-	-
Bond Defeasement	(103,736,337)	(74,862,819)	-	-	-	(10,513,043) (1)	(256,746,398)	-	(727,979,601)	(681,892,949)
Transfers In	179,506,879	170,516,492	174,889,618	185,163,129	186,486,249	340,421,880	288,138,801	347,924,848	373,071,792	397,861,227
Transfers Out	(179,425,628)	(170,440,754)	(174,813,882)	(185,087,395)	(186,410,518)	(340,346,151)	(287,960,801)	(347,746,807)	(372,893,770)	(405,042,208)
Total Other Financing Sources and (Uses)	153,686,680	102,716,176	157,626,107	477,208,594	75,731	906,859,783	122,549,674	40,373,644	356,104,568	40,870,963
Net Change in Fund Balance	\$ 11,787,717	\$ (69,711,890)	\$ (52,847,553)	\$ 289,224,146	\$ (86,023,971)	\$ 588,239,875	\$ (144,634,353)	\$ (280,006,697)	\$ 31,062,702	\$ (298,041,291)

Note:

(1) Restated bond proceeds reported on Fiscal Year 2002 and Fiscal Year 2004 CAFRs by identifying proceeds, premiums, and original issue discounts for each year. Information initially was not presented in this format.

Source: The School District of Philadelphia's Comprehensive Annual Financial Reports for the Fiscal Years ended 1999 through 2008.

School District of Philadelphia

Table 8

Governmental Funds Revenue By Own-Sources (3)
For the Fiscal Years 1999 through 2008

(modified accrual accounting)
(dollars in millions)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Percentage Change 1999 - 2008
Local Taxes											
Real Estate	\$ 413.4	\$ 414.8	\$ 427.6	\$ 441.2	\$ 488.7	\$ 513.5	\$ 536.3	\$ 547.0	\$ 550.6	\$ 599.4	45.0 %
Use and Occupancy	82.9	90.6	94.7	93.4	98.8	96.2	99.0	103.8	103.8	108.6	31.0
Other	48.0	51.9	50.6	46.3	46.1	48.7	52.4	59.3	64.5	69.6	45.0
Total Taxes	544.3	557.3	572.9	580.9	633.6	658.4	687.7	710.1	718.9	777.6	42.9
Locally Generated Non Tax											
City Contributions	30.0	-	15.0	60.0	35.0	35.0	35.0	35.0	35.0	37.0	23.3
Other	58.7	71.3	54.4	34.8	33.1	37.1	62.2	70.2	93.3	85.6	45.8
Total Local	88.7	71.3	69.4	94.8	68.1	72.1	97.2	105.2	128.3	122.6	38.2
Total Own-Source Revenues (1)	\$ 633.0	\$ 628.6	\$ 642.3	\$ 675.7	\$ 701.7	\$ 730.5	\$ 784.9	\$ 815.3	\$ 847.2	\$ 900.2	42.2 %

Summary of Own-Source
Revenues by Fund:

General (4)	\$ 617.1	\$ 598.5	\$ 621.6	\$ 660.4	\$ 692.0	\$ 712.3	\$ 744.6	\$ 767.9	\$ 790.0	\$ 852.7	38.2 %
Intermediate	0.8	0.9	1.0	0.4	0.3	0.2	0.4	0.7	1.3	1.0	85.7
Categorical	7.5	8.3	7.9	10.1	6.4	6.4	9.7	6.4	6.2	7.0	1.6
Debt Service (1) (4) (6)	1.8	1.6	1.8	1.6	1.7	1.5	12.6	23.1	28.5	23.7	1,195.5
Capital Projects	5.5	18.1	9.7	2.9	1.2	9.9	17.4	16.9	20.8	15.5	179.9
Non-Major (5)	0.3	1.2	0.3	0.3	0.1	0.2	0.2	0.3	0.4	0.3	-
Total Own-Source Revenues	\$ 633.0	\$ 628.6	\$ 642.3	\$ 675.7	\$ 701.7	\$ 730.5	\$ 784.9	\$ 815.3	\$ 847.2	\$ 900.2	42.2 %
Totals Restated on a Constant Dollar Basis: (2)											
1999 as base year	\$ 633.0	\$ 612.7	\$ 605.7	\$ 624.2	\$ 636.8	\$ 635.0	\$ 659.8	\$ 655.9	\$ 671.2	\$ 678.3	7.2 %
2008 as base year	\$ 840.1	\$ 813.2	\$ 803.8	\$ 828.5	\$ 845.2	\$ 842.7	\$ 875.7	\$ 870.5	\$ 890.8	\$ 900.2	7.2 %

Notes:

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

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

(3) The School District's own-source revenues are local taxes and locally generated non tax revenues.

(4) Tax revenues posted as revenue under the Debt Service Fund during Fiscal Year 1999 through Fiscal Year 2004 were reclassified as other financing sources under the Debt Service Fund and Tax Revenue under the General Fund.

(5) Restated Fiscal Year 1999 through Fiscal Year 2001 CAFRs for Fiduciary Fund Types for Expendable Trust Funds. Under GASB Statement No. 34, these funds are considered Non-Major, Special Revenue and Permanent Funds.

(6) New financing derivatives, variable rate and basis swap, were issued during Fiscal Year 2004 through Fiscal Year 2008. As a result, these derivatives increased revenue under the Debt Service Fund

School District of Philadelphia
Table 9
Assessed and Estimated Actual Market Value of Taxable Property
For the Calendar Years 1999 through 2008
(dollars in millions)

Calendar Year of Levy (1)	Certified Assessed Values (2)		Total Taxable Assessed Value of Property	Total Direct Tax Rate (6)	Total Taxable Assessed Value of Property	Certified Assessed Value Ratio (4)	Estimated Actual Taxable Value
	Assessed Value of Property	Less: Tax-Exempt Property (5)					
1999	12,628	3,387	9,241	4.519	9,241	0.3035	30,448
2000	12,864	3,415	9,450	4.519	9,450	0.3032	31,168
2001	13,254	3,515	9,740	4.519	9,740	0.3033	32,113
2002	13,762	3,603	10,159	4.519	10,159	0.3012	33,728
2003	14,326	3,705	10,621	4.790	10,621	0.3002	35,380
2004	14,813	3,867	10,946	4.790	10,946	0.2970	36,855
2005	15,072	4,040	11,032	4.790	11,032	0.2969	37,157
2006	15,803	4,372	11,431	4.790	11,431	0.2924	39,094
2007	16,243	4,628	11,615	4.790	11,615	0.2922	39,750
2008	16,974	4,799	12,175	4.959	12,175	0.2922 (3)	41,667

NOTES:

- (1) Real property tax bills are sent out in November and are payable at a one percent (1%) discount until February 28th, otherwise the face amount is due March 31 without penalty or interest.
- (2) Source: The City of Philadelphia, Department of Finance Statistics via Board of Revision of taxes.
- (3) Source: STEB ratio not available, used Fiscal Year 2007 ratio.
- (4) The State Tax Equalization Board (STEB) receives certified market values from each county assessor. The values represent amounts certified to the STEB. In addition, STEB annually determines for each municipality in the commonwealth a ratio assessed valuation to true value. The ratio is used for the purpose of equalizing certain state aid distributions.
- (5) The adjustment reflects reductions in assessments pursuant to established procedures for review of assessments.

 Bill #1130, approved February 8, 1978, provides relief from real estate taxes on improvements to deteriorated industrial, commercial or other business property for a period of five years, Bill #982, approved July 9, 1990, changed the exemption period from five years to three years.

 Bill #225, approved October 4, 2000, extended the exemption period from three years to ten years.

 Bill #1456A, approved January 28, 1983, provides for a maximum three years tax abatement for owner-occupants of newly constructed residential property. Bill #226, approved September 12, 2000, extended the exemption period from three years to ten years.

 Legislative Act #5020-205 as amended, approved October 11, 1984, provides for a maximum thirty month tax abatement to developers of residential property.

 Bill #274, approved July 1, 1997, provides a maximum ten year tax abatement for conversion of eligible deteriorated commercial or other business property to commercial non-owner occupied residential property.

 Bill #788A, approved December 30, 1998, provides a maximum twelve year tax exemption, abatement or credit of certain taxes within the geographical area designated as the Philadelphia Keystone Opportunity Zone.
- (6) Represents real estate tax rates for the School District of Philadelphia which was obtained from the City of Philadelphia, Finance Department. See Table 10 for details.

School District of Philadelphia
Table 10
Property Tax Rates - All Direct and Overlapping Governments
For the Calendar Years 1999 through 2008
(Per \$100 Assessed Value)

<u>Calendar Year</u>	<u>City of Philadelphia</u>	<u>School District of Philadelphia</u>	<u>Total</u>	
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	
2006	3.474	4.790	8.264	
2007	3.474	4.790	8.264	
2008	3.305	4.959	8.264	

Note:

(1) The City of Philadelphia and the School District of Philadelphia impose a tax on all real estate.

Source: The City of Philadelphia, Department of Finance.

School District of Philadelphia
Table 11
Principal Property Taxpayers
Current Calendar Year and Nine Years Ago
(dollars in millions)

Taxpayer	2008			1999		
	Rank	Assessment Value (1)	Percentage of Total Assessments	Rank	Assessment Value (1)	Percentage of Total Assessments
Franklin Mills Associates	1	\$ 64.4	0.53%	4	\$ 46.4	0.50%
Liberty Property Philadelphia	2	58.1	0.48%		-	-
Two Liberty Place	3	54.4	0.45%	3	49.0	0.53%
Nine Penn Center Associates	4	54.1	0.44%	2	52.0	0.56%
HUB Properties Trust	5	48.0	0.39%		-	-
Bell Atlantic	6	40.6	0.33%	6	43.7	0.47%
PRU 1901 Market LLC	7	35.2	0.29%	8	31.6	0.34%
Maguire/Thomas Partners & Phila. Plaza Assoc.	8	33.9	0.28%	9	31.6	0.34%
Commerce Square Partners	9	33.3	0.27%	10	31.0	0.34%
Philadelphia Shipyard Development Corp.	10	30.3	0.25%		-	-
CSF Partnership		-	-	1	56.6	0.61%
LP Associates		-	-	5	44.8	0.48%
The Philadelphia Market Street (Marriott)		-	-	7	32.1	0.35%
Total of the Ten Largest Real Estate Assessments		<u>\$ 452.3</u>	<u>3.71%</u>		<u>\$ 418.8</u>	<u>4.52%</u>
Total Taxable Assessments		<u>\$ 12,175.2</u>	<u>100.00%</u>		<u>\$ 9,240.9</u>	<u>100.00%</u>

Note:

(1) Represents total taxable assessed value of property. See Table 9 for gross assessed value of property.

Source: Board of Revision of Taxes, The City of Philadelphia.

School District of Philadelphia
Table 12
Real Estate Tax Levies and Collections
For the Years 1999 through 2008

Calendar Year	Calendar Years 1999 through 2008				
	Collected within the				Ratio of Total Tax Collections to Total Tax Levy (c)
	Adjusted Total Tax Levy (a)	Calendar Year of the Tax Levy Current Tax Collections	Percent of Current Taxes Collected	Delinquent Tax Collections	
1999	\$ 414,421,340	\$ 378,390,320	91.31%	\$ 34,362,564	99.6%
2000	421,290,908	375,140,384	89.05%	47,804,562	100.4%
2001	430,266,215	390,669,337	90.80%	34,729,352	98.9%
2002	444,264,098	391,820,496	88.20%	29,344,302	94.8%
2003	488,070,898	473,253,166	96.96%	64,984,233	110.3%
2004	513,175,891	451,656,255	88.01%	70,065,728	101.7%
2005	518,623,526	489,783,416	94.44%	50,244,245	104.1%
2006	536,311,238	497,741,969	92.81%	58,584,136	103.7%
2007	556,355,668	511,116,248	91.87%	67,928,909	104.1%
2008	603,695,735	541,948,209 (b)	89.77%	62,953,237 (b)	100.2%
				\$ 412,752,884	
				422,944,946	
				425,398,689	
				421,164,798	
				538,237,399	
				521,721,983	
				540,027,661	
				556,326,105	
				579,045,157	
				604,901,446	

Notes:

- (a) Represents adjustment to original billings as of the end of the calendar year (December 31st) for current year real estate taxes only.
 (b) Source: The School District of Philadelphia - Accounting System as of December 11, 2008.
 (c) Percentage change represents ratio of all collections to tax levied rather than the portion collected that relates to the year of the tax levy.

Fiscal Year	Fiscal Years 1999 through 2008	
	Prior Year Tax Collections	Total Tax Collections
1999	375,953,332	413,415,680
2000	379,062,773	414,824,455
2001	390,032,292	427,567,217
2002	401,977,746	441,166,201
2003	451,066,708	488,681,960
2004	458,085,281	513,522,961
2005	486,814,775	536,273,974
2006	493,146,748	547,009,385
2007	501,282,361	550,639,571
2008	547,620,741	599,039,302

Source: The School District of Philadelphia - Accounting System fiscal year records as of December 31st.

School District of Philadelphia
Table 13
Ratios of Outstanding Debt by Type
For the Fiscal Years 1999 through 2008
(dollars in thousands)

Fiscal Year	Governmental Activities (1)						Per Capita (4)	
	General Obligation Bonds	Lease Revenue Bonds	Loans Payable	Capital Lease	Total Governmental Activities	Percentage of Personal Income (3)	Actual	In Constant Dollars - 1999 as Base Year (2) (3)
1999	\$ 822,067	\$ -	\$ 2,471	\$ -	\$ 824,538	2.41 %	\$ 540	\$ 540
2000	891,389	-	2,103	-	893,492	2.54	588	573
2001	1,017,780	-	1,734	-	1,019,514	2.74	673	635
2002	1,440,475	-	1,365	-	1,441,840	3.77	962	888
2003	1,405,890	-	997	-	1,406,887	3.49	946	859
2004	1,726,595	588,135	628	3,856	2,319,214	5.54	1,572	1,366
2005	1,805,490	588,130	259	3,125	2,397,004	5.54	1,632	1,372
2006	1,798,724	588,125	44	2,375	2,389,268	5.30	1,636	1,316
2007	1,732,258	906,200	10	1,604	2,640,072	5.56	1,817	1,439
2008	1,712,357	901,025	3	813	2,614,198	5.23	1,803	1,359

Notes:

- (1) Includes all long-term debt instruments, including bonds, loans, and capital leases. Details of the School District's outstanding debt can be found in the notes to the financial statements. The School District's business-type activities did not have any long-term debt instruments. Business-type obligations relate to compensated absences and severance payable only.
- (2) Base Year Consumer Price Index (CPI) data obtained from U.S. Department of Labor, Bureau of Labor Statistics.
- (3) See Table 18 for personal income and population data. These ratios are calculated using personal income and population data for the prior calendar year.
- (4) Per Capita Income values based on population multiplied by Per Capital Personal Income data obtained from U. S. Department of Commerce, Bureau of Economic Analysis.

School District of Philadelphia
Table 14
Ratios of Net General Bonded Debt Outstanding
For the Fiscal Years 1999 through 2008
(dollars in thousands)

Fiscal Year	Net General Bonded Debt Outstanding (1)										Per Capita (\$)	
	General Obligation Bonds	OZAB Bonds	Deficit Bonds (2)	Dauphin County General Authority (DCGA)	State Public School Authority (SPSBA)	Gross General Bonded Debt Outstanding	Amount Available in Debt Service Fund	Net General Bonded Debt Outstanding	Percentage of Personal Income (3)	Percentage of Estimated Actual Taxable Value of Property (6)	Actual	In Constant Dollars - 1999 as Base Year (3) (4)
1999	\$ 822,067	\$ -	\$ -	\$ -	\$ -	\$ 822,067	\$ 37,773	\$ 784,294	2.29 %	2.58 %	\$ 514	\$ 514
2000	891,389	-	-	-	-	891,389	20,964	870,425	2.47	2.80	573	558
2001	994,795	22,985	-	-	-	1,017,780	22,675	995,105	2.68	3.10	657	620
2002	1,117,490	22,985	300,000	-	-	1,440,475	29,588	1,410,887	3.68	4.18	941	869
2003	1,082,910	22,980	300,000	-	-	1,405,890	34,138	1,371,752	3.40	3.88	923	837
2004	1,203,425	22,975	291,195	209,000	588,135	2,314,730	20,318	2,294,412	5.48	6.23	1,555	1,352
2005	1,262,915	42,305	291,280	208,990	588,130	2,393,620	28,048	2,365,572	5.47	6.37	1,611	1,354
2006	1,267,141	40,918	281,685	208,980	588,125	2,386,849	39,960	2,346,889	5.21	6.00	1,607	1,293
2007	1,212,170	39,533	271,585	208,970	906,200	2,638,458	46,895	2,591,563	5.46	6.52	1,783	1,413
2008	1,204,315	38,147	260,935	208,960	901,025	2,613,382	48,741	2,564,641	5.13	6.16	1,769	1,333

Notes:

- (1) Includes all long-term general obligation bonded debt payable. Details of the School District's outstanding debt can be found in the notes to the financial statements. Deficit Bonds and Lease Revenue Bonds are deducted to determine borrowing capacity (debt limit).
- (2) Deficit Bond Series 2002B and the Refunding Bond Series 2005A are included for Fiscal Years 2005 and thereafter.
- (3) See Table 18 for personal income and population data. These ratios are calculated using personal income and population data from the prior calendar year.
- (4) Base Year Consumer Price Index (CPI) data obtained from U.S. Department of Labor, Bureau of Labor Statistics.
- (5) Per Capita Income values based on population multiplied by Per Capita Personal Income data obtained from U.S. Department of Commerce, Bureau of Economic Analysis.
- (6) See Table 9 - Assessed and Estimated Actual Market Value of Taxable Property for "estimated actual taxable values".

School District of Philadelphia
Table 15
Direct and Overlapping Governmental Activities Debt
As of June 30, 2008
(dollars in millions)

<u>Governmental Unit</u>	<u>Debt Outstanding (1)</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Direct and Overlapping Debt (2)</u>
School District of Philadelphia	\$ 2,565.5	100.0%	\$ 2,565.5
City of Philadelphia Direct Debt			4,135.9
Total Direct and Overlapping Debt			<u>\$ 6,701.4</u>

Notes:

- (1) To identify debt outstanding, refer to notes to the financial statements.

The definition of overlapping governments are those that coincide, at least in part with the geographic boundaries of the city. Real property tax is levied on behalf of both the City of Philadelphia and the School District at a combined rate of 8.264 percent of the assessed value of residential and commercial property. The City's share currently is 3.305 percent while the remainder of 4.959 percent is for the School District. The School District meets the requirement of an overlapping government.

This schedule estimates the portion of the outstanding debt of the School District that is borne by the residents and businesses of the City of Philadelphia. This process recognizes that when considering the government's ability to issue and repay long-term debt, the entire debt borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident and therefore responsible for repaying the debt of the School District.

- (2) All long-term obligations of the School District of Philadelphia are overlapping, or 100%.

School District of Philadelphia
Table 16
Legal Debt Margin Information
For the Fiscal Years 1999 through 2008
(dollars in millions)

Legal Debt Margin Calculation for Fiscal Year 2008						
	Assessed value					
Debt Limit (1)						
Non-electoral Debt Capacity (2)						
Non-electoral Debt and Lease Rental Borrowing Capacity (3)						

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Debt Limit: (1)										
Borrowing Base for Non-electoral Debt Capacity (2)	\$ 1,438.2	\$ 1,442.2	\$ 1,480.6	\$ 1,522.3	\$ 1,606.5	\$ 1,688.5	\$ 1,782.7	\$ 1,857.6	\$ 1,943.0	\$ 2,035.8
Less: General Obligation Bonds	822.1	891.3	1,017.8	1,440.5	1,405.9	2,314.7	2,393.6	2,386.8	2,638.5	2,613.4
Less: Lease Rental - SRDBA	-	-	-	-	-	(588.1)	(588.1)	(588.1)	(906.2)	(901.0)
Capital Appreciation Bonds - Non-electoral Debt	(10.7)	(12.4)	(13.3)	-	-	-	-	-	-	-
Electoral Debt	(25.8)	(23.1)	(20.2)	(12.4)	(6.1)	(3.6)	(2.5)	(1.3)	-	-
Non-electoral Debt Outstanding Exclusions	785.6	855.8	984.3	1,428.1	1,399.8	1,723.0	1,803.0	1,797.4	1,732.3	1,712.4
Debt Bonds	-	-	-	(300.0)	(300.0)	(291.2)	(291.3)	(281.7)	(271.6)	(261.0)
Termination Bonds	-	-	-	-	-	-	(70.5)	(70.5)	(69.6)	(67.2)
Stadium Bonds	-	-	-	-	-	-	-	(28.7)	(28.3)	(26.7)
Non-electoral Debt Outstanding, applicable to Debt Limit	785.6	855.8	984.3	1,128.1	1,099.8	1,431.8	1,411.2	1,415.5	1,362.9	1,357.5
Borrowing Base for Non-electoral Debt Capacity (2) (Debt Limit)	\$ 1,438.2	\$ 1,442.2	\$ 1,480.6	\$ 1,522.3	\$ 1,606.5	\$ 1,688.5	\$ 1,782.7	\$ 1,857.6	\$ 1,943.0	\$ 2,035.8
Less: Non-electoral Debt Outstanding applicable to Debt Limit	785.6	855.8	984.3	1,128.1	1,099.8	1,431.8	1,411.2	1,415.5	1,362.9	1,357.5
Non-electoral Debt Capacity (2)	\$ 652.6	\$ 587.4	\$ 496.3	\$ 394.2	\$ 506.7	\$ 256.7	\$ 371.5	\$ 442.1	\$ 580.1	\$ 678.3
Non-electoral Debt Outstanding applicable to Debt Limit as a percentage of Borrowing Base for Non-electoral Debt Capacity (2)	54.6 %	59.3 %	66.5 %	74.1 %	68.7 %	84.8 %	80.8 %	76.2 %	70.1 %	66.7 %
Debt Limit: (1)										
Borrowing Base for Non-electoral Debt and Lease Rental Borrowing Capacity (3)	\$ 2,876.4	\$ 2,886.4	\$ 2,961.2	\$ 3,044.6	\$ 3,201.0	\$ 3,376.9	\$ 3,565.5	\$ 3,715.2	\$ 3,886.1	\$ 4,071.5
Less: General Obligation Bonds	822.1	891.3	1,017.8	1,440.5	1,405.9	2,314.7	2,393.6	2,386.8	2,638.5	2,613.4
Less: Capital Appreciation Bonds - Non-electoral Debt	(10.7)	(12.4)	(13.3)	-	-	-	-	-	-	-
Electoral Debt	(25.8)	(23.1)	(20.2)	(12.4)	(6.1)	(3.6)	(2.5)	(1.3)	-	-
Non-electoral Debt and Lease Rental Outstanding Exclusions	785.6	855.8	984.3	1,428.1	1,399.8	1,723.0	1,803.0	1,797.4	1,732.3	1,712.4
Debt Bonds	-	-	-	(300.0)	(300.0)	(291.2)	(291.3)	(281.7)	(271.6)	(261.0)
Termination Bonds	-	-	-	-	-	-	(70.5)	(70.5)	(69.6)	(67.2)
Stadium Bonds	-	-	-	-	-	-	-	(28.7)	(28.3)	(26.7)
Net Non-electoral Debt and Lease Rental Outstanding	785.6	855.8	984.3	1,128.1	1,099.8	1,431.8	1,411.2	1,415.5	1,362.9	1,357.5
Borrowing Base for Non-electoral Debt and Lease Rental Borrowing Capacity (3)	\$ 2,876.4	\$ 2,886.4	\$ 2,961.2	\$ 3,044.6	\$ 3,201.0	\$ 3,376.9	\$ 3,565.5	\$ 3,715.2	\$ 3,886.1	\$ 4,071.5
Less: Net Non-electoral Debt and Lease Rental Outstanding	785.6	855.8	984.3	1,128.1	1,099.8	1,431.8	1,411.2	1,415.5	1,362.9	1,357.5
Non-electoral Debt and Lease Rental Borrowing Capacity	\$ 2,090.8	\$ 2,030.6	\$ 1,976.9	\$ 1,916.5	\$ 2,101.2	\$ 1,945.1	\$ 2,164.3	\$ 2,300.7	\$ 2,523.2	\$ 2,714.0
Net Non-electoral Debt and Lease Rental Outstanding as a percentage of Borrowing Base for Non-electoral Debt and Lease Rental Borrowing Capacity (3)	27.3 %	29.6 %	33.2 %	37.1 %	34.4 %	59.8 %	56.9 %	53.9 %	58.4 %	55.5 %

Notes:

- (1) The School District of Philadelphia computes two legal debt margin calculations. The first is the Non-electoral Debt Capacity (limit) and the second is the Non-electoral Debt and Lease Rental Borrowing Capacity (limit). Both the debt capacity and borrowing capacity require a borrowing base limit to be computed.
- (2) Debt Capacity represents borrowing base less the amount of outstanding Non-electoral Debt less certain exclusions. It is the maximum allowable debt that does not exceed the average revenue for the three preceding fiscal years.
- (3) Borrowing Capacity represents 20% of the borrowing base (from debt capacity) less Non-electoral debt and lease rental less certain exclusions. It is the maximum amount the District could borrow without exceeding twice the borrowing base amounts.

School District of Philadelphia
Table 17
Ratio of Annual Debt Service
For General Bonded Debt and Authority Payments
To Total Governmental Funds Expenditures Excluding Categorical Funds
For the Fiscal Years 1999 through 2008
(dollars in thousands)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Bonded Debt Principal	\$ 34,600	\$ 36,405	\$ 20,197	\$ 33,305	\$ 34,585	\$ 45,000	\$ 20,410	\$ 36,686	\$ 62,352	\$ 65,626
General Bonded Debt Interest	36,290	40,490	55,004	53,476	70,193	74,044	74,572	91,643	99,178	99,582
Loans	369	369	369	369	369	369	369	215	34	7
State Public School Building Authority (1)	-	-	-	-	-	21,717	29,952	29,953	33,805	49,062
Total Debt Service Expenditures (2)	<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>\$ 125,303</u>	<u>\$ 158,497</u>	<u>\$ 195,369</u>	<u>\$ 214,277</u>
Total General Expenditures Excluding Categorical Funds	<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>	<u>\$ 2,269,236</u>	<u>\$ 2,379,051</u>	<u>\$ 2,520,229</u>
Ratio of Debt Service to Total General Expenditures Excluding Categorical Funds	<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>5.84</u>	<u>6.98</u>	<u>8.21</u>	<u>8.50</u>
Total General Expenditures (2) (3)	<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>	<u>\$ 2,728,210</u>	<u>\$ 2,822,734</u>	<u>\$ 2,975,037</u>
Ratio of Debt Service to Total General Expenditures	<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>4.83</u>	<u>5.81</u>	<u>6.92</u>	<u>7.20</u>

Notes:

(1) Includes both principal and interest payments.

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

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

School District of Philadelphia
Table 18
Demographic and Economic Statistics
For the Calendar Years 1998 through 2007

Calendar Year	City of Philadelphia				Property Values (4)			Bank Deposits (5)	
	Estimated Population (1) (in thousands)	Per Capita Personal Income (2)	Personal Income (dollars in thousands) (2)	Unemployment Rate (2)	Civilian Labor Force (in thousands) (2)	Total Market (dollars in millions) (2)	Original Assessed (dollars in millions) (3)	Commercial Bank Deposits (dollars in millions)	Mutual Savings Bank Deposits (dollars in millions)
1998	1,526	\$ 22,444	\$ 34,248,049	6.2	646.9	\$ 39,062	\$ 9,220	\$ 25,906	\$ 3,326
1999	1,520	23,137	35,169,398	6.1	641.2	39,033	9,273	22,922	4,405
2000	1,514	24,567	37,193,547	5.6	635.1	39,045	9,527	18,531	4,576
2001	1,499	25,539	38,290,004	6.1	636.3	39,462	9,867	21,101	4,640
2002	1,487	27,141	40,353,074	7.4	637.5	40,200	10,300	16,872	9,384
2003	1,475	28,361	41,843,691	7.6	627.5	41,420	10,819	19,719	8,730
2004	1,469	29,435	43,154,553	7.5	623.9	43,005	11,141	19,883	9,636
2005	1,460	30,875	45,334,701	6.7	619.9	44,770	11,283	22,325	13,199
2006	1,453	32,676	47,624,989	6.3	623.6	46,292	11,904	23,376	18,504
2007	1,449	34,499	50,010,851	6.0	614.8	50,759	12,175	26,609	18,150

Notes:

- (1) Data for calendar years 1998 through 2007 obtained from U.S. Department of Commerce, Bureau of Economic Analysis; Estimates base reflects changes to the Census 2000 population resulting from legal boundary updates as of January 1st of the estimates year, other geographic program changes, and Count Question Resolution actions via City of Philadelphia Department of Finance.
- (2) U.S. Department of Commerce, Bureau of Economic Analysis, except for calendar year 2005 data which was obtained from the City of Philadelphia Department of Finance.
- (3) Data provided by the City of Philadelphia Revenue Department. Represents original billings plus tax abatements.
- (4) Source: The City of Philadelphia, Board of Revision of Taxes.
- (5) Source: Federal Deposit Insurance Corporation Summary of Deposits by County for years ending June 30th.

School District of Philadelphia
Table 19
Principal Employers
Current Calendar Year and Nine Years Ago
(Listed Alphabetically)

2008 (1) (2) (4)	1999 (3)
Albert Einstein Medical	Allegheny University of Health Sciences
Children's Hospital of Philadelphia	Albert Einstein Healthcare Network
City of Philadelphia	Bell Atlantic Corporation
Federal Reserve Bank	Children's Hospital of Philadelphia
Internal Revenue Service	CIGNA Corporation
School District of Philadelphia	CoreStates Financial Corporation
Southeastern Pennsylvania Transportation Authority	Frankford Hospital
Temple University	Independence Blue Cross
Thomas Jefferson University Hospitals	Mellon PSFS
United States Postal Service	PNC Bank NA
University of Pennsylvania	Thomas Jefferson University
University of Pennsylvania Hospital	Thomas Jefferson University Hospital Inc.
U.S. Mint	University of Pennsylvania
U.S. District Court	U.S. Airways

Notes:

- (1) Prior to Fiscal Year 2006, statistics for major employers excluded federal, state, and city agencies.
- (2) Information obtained from the City of Philadelphia, Finance Department and website related to "largest employers in the City of Philadelphia, PA".
- (3) Information obtained from The School District of Philadelphia's Comprehensive Annual Financial Report for Fiscal Year 1999 and website related to "largest employers in the City of Philadelphia, PA".
- (4) The data for the number of employees, for each employer, is not available from the City of Philadelphia, Finance Department.

School District of Philadelphia
Table 20
School District Employees by Function
For the Fiscal Years 2000 through 2008

	PROFESSIONAL/NON-PROFESSIONAL EMPLOYEES as of June 15th (1)									Percentage Change 2000 - 2008
	2000	2001	2002	2003	2004	2005	2006	2007	2008	
Instruction:										
<i>Classroom Teachers</i>										
Operating	11,346	11,494	11,180	10,861	11,033	10,347	9,509	8,884	8,648	(23.8) %
Grants	915	953	1,346	1,319	1,146	1,286	1,438	1,612	1,640	79.2
<i>Total Classroom Teachers</i>	12,261	12,447	12,526	12,180	12,179	11,633	10,947	10,496	10,288	(16.1)
<i>Non-Teaching</i>										
Assistant (Asst.) Teachers	465	482	463	444	365	384	239	241	245	(47.3)
Classroom & Instructor Assistants	1,035	990	940	885	778	715	663	672	658	(36.4)
Counselor/Librarians	154	147	123	93	89	83	84	88	69	(55.2)
Psychologists/Therapists	54	48	41	41	39	41	37	38	36	(33.3)
P/T Classroom & Instructor Assistants	2,117	2,035	1,936	1,745	1,356	1,210	1,471	1,197	1,156	(45.4)
Other Paraprofessionals	236	277	270	245	237	203	172	152	146	(38.1)
<i>Total Non-Teaching</i>	4,061	3,979	3,773	3,453	2,864	2,636	2,666	2,388	2,310	(43.1)
Total Instruction	16,322	16,426	16,299	15,633	15,043	14,269	13,613	12,884	12,598	(22.8)
Classroom Support:										
<i>In-school Instruction Leadership & Support</i>										
Principals/Assistant Principals	461	487	501	512	532	522	515	510	478	3.7
Department Heads/Program Mgrs. & Coord.	91	86	77	61	63	59	35	31	34	(62.6)
Secretarial	655	653	634	602	597	580	540	497	495	(24.4)
Other Clerical	66	69	73	83	84	87	80	83	3	(95.5)
<i>Total In-school Instruction Leadership & Support</i>	1,273	1,295	1,285	1,258	1,276	1,248	1,170	1,121	1,010	(20.7)
<i>Professional Development & Training</i>										
Director	-	1	2	3	2	1	3	2	3	300.0
Other Technical Staff	1	-	-	-	-	-	-	-	-	(100.0)
Non-Teaching Professionals	371	323	295	292	418	391	431	350	325	(12.4)
Secretarial	4	2	2	3	4	4	5	4	4	-
<i>Total Professional Development & Training</i>	376	326	299	298	424	396	439	356	332	(11.7)
<i>Student Support Services</i>										
Other Technical Staff	29	35	35	34	30	33	27	31	26	(10.3)
Non-professional supervisory	103	116	117	113	116	114	113	107	94	(8.7)
Counselor/Librarians	383	384	371	366	339	340	347	327	338	(11.7)
Psychologists/Therapists	83	94	104	101	99	100	106	102	97	16.9
Other Paraprofessionals	289	268	150	159	146	167	198	194	146	(49.5)
Bus Drivers/Attendants	1,198	1,171	1,153	1,130	1,129	1,126	1,125	1,127	1,084	(9.5)
Health Providers	338	352	340	344	340	320	310	326	317	(6.2)
Food Service	885	867	873	891	908	902	890	931	810	(8.5)
Other (includes Noon Time Aides)	1,031	1,161	1,402	1,403	1,381	1,458	1,431	1,400	1,429	38.6
<i>Total Student Support Services</i>	4,339	4,448	4,545	4,541	4,488	4,560	4,547	4,545	4,341	0.0
<i>Basic Building Services</i>										
Non-Teaching Assistants	607	595	560	503	471	421	311	248	196	(67.7)
Maintenance	432	454	440	416	400	416	428	410	416	(3.7)
Custodial	2,227	2,315	2,175	2,010	1,868	1,810	1,663	1,583	1,508	(32.3)
Warehouse/Distribution	31	37	33	33	34	33	34	28	21	(32.3)
Security	556	521	492	481	491	554	489	540	540	(2.9)
<i>Total Basic Building Services</i>	3,853	3,922	3,700	3,443	3,264	3,234	2,925	2,809	2,681	(30.4)
Total Classroom Support	9,841	9,991	9,829	9,540	9,452	9,438	9,081	8,831	8,364	(15.0)
Administrative Support										
Executive Management	18	20	14	28	26	27	33	28	26	44.4
AAOs/Regional Administrators	21	21	21	12	11	11	12	12	8	(61.9)
Directors	95	63	54	61	65	65	69	70	64	(32.6)
Asst. Directors/Admin Asst.	122	123	93	75	81	71	61	55	46	(62.3)
Prog. & Mgmt. Supervisors	153	156	102	107	112	126	178	147	154	0.7
Mgmt. Level Technicians	123	124	115	116	128	126	114	152	157	27.6
Other Technical Staff	327	266	292	309	359	350	398	288	273	(16.5)
Non-Professional Supervisory	99	93	123	113	114	118	116	111	90	(9.1)
Secretarial	223	210	179	165	166	165	151	141	102	(54.3)
Other Clerical	204	200	194	185	195	183	182	158	226	10.8
Other (2)	264	100	12	4	3	2	1	-	-	(100.0)
Total Administrative Support	1,649	1,376	1,199	1,175	1,260	1,244	1,315	1,162	1,146	(30.5)
Total School District	27,812	27,793	27,327	26,348	25,755	24,951	24,009	22,877	22,108	(20.5)
Add. Municipal Services (3)	96	100	97	95	95	96	92	93	82	(14.6)
Total School District-Wide	27,908	27,893	27,424	26,443	25,850	25,047	24,101	22,970	22,190	(20.5) %

Notes:

(1) Data represents the School District's active employees, for each fiscal year, in the School District's payroll system as of June 15th.

(2) Represents positions that could not be identified to a specific function between Fiscal Year 2000 and Fiscal Year 2006.

(3) Represents positions paid by the School District on behalf of the City of Philadelphia.

Source: Office of Management and Budget, Finance Office, The School District of Philadelphia - Fiscal Year 2000 to Fiscal Year 2006.

Source: Office of Human Resources Department - Fiscal Year 2007 and Fiscal Year 2008.

School District of Philadelphia
Table 21
Operating Statistics
For the Fiscal Years 1999 through 2008

Fiscal Year	Student Enrollment (1)	Operating Expenditures (dollars in thousands) (2)	Cost per Pupil	Percentage Change of Cost per Pupil Expenditure	Expenses (Actual) (dollars in thousands) (3)	Cost per Pupil Expenses	Percentage Change of Cost per Pupil Expenses	Percentage of Students Receiving Free or Reduced Price Meals (4)	Percentage of Students Using Bus/Cab (5)	Percentage of Students Using Free/ Subsidized Tokens (5)	Teaching Staff (6)	Pupil-Teacher Ratio
1999	208,061	\$ 1,577,202	\$ 7,580	4.87 %	\$ N/A	\$ N/A	N/A %	48.9 %	15.3 %	13.8 %	N/A	N/A
2000	205,121	1,618,045	7,888	4.06	N/A	N/A	N/A	48.0	15.1	14.6	12,261	16.7
2001	201,328	1,708,107	8,484	7.56	N/A	N/A	N/A	48.8	16.6	14.5	12,447	16.2
2002	197,344	1,742,349	8,829	4.07	1,964,025	9,952	N/A	51.5	17.1	15.5	12,526	15.8
2003	193,076	1,822,252	9,438	6.90	2,115,361	10,956	10.09	53.1	18.9	17.6	12,180	15.9
2004	188,397	1,995,652	10,593	12.24	2,306,412	12,242	11.74	55.9	20.6	17.7	12,179	15.5
2005	181,726	2,078,049	11,435	7.95	2,544,669	14,003	14.38	58.4	21.8	18.2	11,633	15.6
2006	175,263	2,118,524	12,088	5.71	2,593,976	14,800	5.70	56.7	22.7	18.4	10,947	16.0
2007	169,697	2,044,739	12,049	(0.32)	2,620,381	15,442	4.34	56.3	22.4	18.0	10,496	16.2
2008	164,742	2,110,375	12,810	6.32	2,609,375	15,839	2.57	56.9	22.3	29.9	10,288	16.0

Notes:

- (1) See Table 22 - Miscellaneous Statistics for details.
 - (2) Represents total expenditures under governmental funds less Debt Service, Capital Projects and Non-Major Funds, as well as charter school payments.
 - (3) Data obtained from GASB Statement No. 34 Statement of Activities.
 - (4) Food Services Administration Support, The School District of Philadelphia
 - (5) Transportation Department - The School District of Philadelphia
 - (6) See Table 20 - School District Employees by Function for details.
- (N/A) Data not available before implementation of GASB Statement No. 34.

School District of Philadelphia
Table 22
Miscellaneous Statistics
For the Fiscal Years 1999 through 2008

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 of Philadelphia operates at present under a five member School Reform Commission. The School Reform Commission exercises all powers and has all the duties of the Board of Education. The Board of Education continues in office performing only 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.

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.

	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006 (3)	Fiscal 2007	Fiscal 2008
Number of Schools (1)										
Elementary	175	175	175	175	175	175	176	177	178	175
Junior/Middle	41	41	42	42	41	42	38	32	30	31
Special	10	10	11	8	10	11	11	17	21	21
Senior	31	31	32	32	33	35	38	30	31	30
Vocational/Technical	4	4	5	5	5	5	7	9	9	9
Total Public Schools	261	261	265	262	264	268	270	265	269	266
Number of Charter Schools (2)	-	25	35	41	46	48	52	54	56	61
Number of Alternative Schools (2)	-	-	-	-	-	-	N/A	13	15	16
Total Schools	261	286	300	303	310	316	322	332	340	343
School Enrollment (2)										
Elementary	107,034	105,044	102,118	99,992	96,786	94,247	91,932	99,157	97,429	93,387
Junior/Middle	33,616	33,632	33,618	31,519	30,042	29,380	25,572	22,455	19,380	19,265
Special (3) (4)	-	-	-	-	-	-	-	8,829	9,208	10,097
Senior (3) (4)	-	-	-	-	-	-	-	35,861	35,329	33,763
Vocational/Technical (3)	-	-	-	-	-	-	-	8,961	8,351	8,230
Special/Senior/Vocational Technical (3)	67,411	66,445	65,592	65,833	66,248	64,770	64,222	-	-	-
Total Public Schools	208,061	205,121	201,328	197,344	193,076	188,397	181,726	175,263	169,697	164,742
Charter Schools	-	8,037	11,396	15,250	18,164	21,695	25,055	26,938	28,220	30,326
Alternative Schools	-	-	-	-	-	-	2,538	5,790	4,399	4,703
Total	208,061	213,158	212,724	212,594	211,240	210,092	209,319	207,991	202,316	199,771
Number of Public High School Graduates (1) (5)	10,644	9,949	9,388	8,559	9,407	10,331	10,800	10,132	9,694	9,884
Number of High School Charter Graduates	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total of High School Graduates	10,644	9,949	9,388	8,559	9,407	10,331	10,800	10,132	9,694	9,884

Notes:

- (1) School District of Philadelphia, Office of Accountability and Assessment- for Fiscal Years 1999 through 2008.
 - (2) School District of Philadelphia, Budget Document - Fiscal Years 1999 through 2005. Data for Fiscal Years 2006 through 2008 was obtained from the Office of Accountability and Assessment, School District of Philadelphia.
 - (3) School District of Philadelphia, Office of Research and Evaluation. Beginning in Fiscal Year 2006, the School District revised the reporting requirements for special, senior, vocational, and technical school enrollment. These types of schools were reported separately.
 - (4) Beginning in Fiscal Year 2008, the School District revised the reporting requirements for Educational Opportunities Program (EOP) which include nine high schools. Of the nine high schools, eight were identified as senior high schools and one as a vocational school. The Educational Opportunities Program is for students who attend designated high schools after core hours, formally called Two-light schools.
 - (5) School District of Philadelphia, Office of Accountability and Assessment, was not able to provide high school graduate data for Fiscal Year 2008 at this time.
- (N/A) Data not available.

School District of Philadelphia
Table 23
Teacher Base Salaries
For the Calendar Years 1999 through 2008

Calendar Year	School District (1) (3)			Percent Change Average Salary		State Average Salary (2) (4)	National Average Salary (5)
	Minimum Salary	Average Salary	Maximum Salary				
1999	\$ 30,138	\$ 47,496	\$ 62,594	NA	%	\$ 48,457	\$ 40,544
2000	31,344	49,372	65,098	3.95		48,322	41,807
2001	32,598	51,606	67,702	4.52		49,529	43,378
2002	33,250	52,336	69,056	1.41		50,600	44,655
2003	34,580	54,055	71,818	3.28		51,425	45,688
2004	35,963	55,977	74,691	3.56		52,640	46,605
2005	37,622	58,187	74,691	3.95		53,281	47,659
2006	37,042	58,689	76,932	0.86		54,043	49,026
2007	38,153	60,361	79,240	2.85		54,977	50,816
2008	39,298	62,524	81,617	3.58		NA	NA

Notes:

NA = Data Not Available

(1) Amounts exclude additional salary steps based on experience or academic credentials, nor fringe benefits such as pension, health insurance, etc.

(2) Averages for State are based on school year which corresponded to ending fiscal years; For example, data for Calendar Year 1999 represent averages for school year 1998/99. etc.,

(3) Obtained from the Human Resources Data Team, School District of Philadelphia

(4) Obtained from the Pennsylvania Department of Education

(5) Obtained from the National Education Association

School District of Philadelphia
Table 24
Capital Asset Information
For the School Year 2007-2008

	<u>Buildings (1)</u>	<u>Range of Buildings Ages</u>	<u>Square Footage</u>	<u>Official Capacity (8)</u>	<u>Percentage of Capacity Used</u>	
<u>Schools</u>						
Elementary	174	0 yrs to 119 yrs	12,129,930	115,740	83.0	%
Middle	26	8 yrs to 114 yrs	3,263,772	31,912	58.4	
Senior	28	0 yrs to 96 yrs	7,143,847	52,985	66.1	
Senior/Elementary (2)	2	44 yrs to 59 yrs	431,113	1,276	90.0	
Special	13	2 yr to 99 yrs	1,542,731	11,734	66.6	
Special/Middle School (3)	4	53 yr to 96 yrs	473,055	868	140.4	
Special/Senior	1	82 yrs	27,186	-	0.0	
Vocational	8	23 yrs to 79 yrs	1,651,851	9,668	86.4	
Vocational/Senior (4)	1	91 yrs	108,000	-	0.0	
Alternative	5	41 yrs to 104 yrs	323,465	3,504	79.5	
<u>Other</u>						
Charter (5)	4	38 yrs to 87 yrs	488,604	1,880		
Elementary- Annex	9	N/A	231,319	1,960		
Little School Houses (6)	11	7 yrs to 11 yrs	253,996	3,175		
Middle- Annex	2	36 yrs to 58 yrs	72,591	506		
Senior-Auto Academy	2	40 yrs	49,070	N/A		
Community Centers (7)	6	N/A	184,396	N/A		
<u>Administration</u>						
Administration	4	N/A	864,858			
<u>Transportation</u>						
Repair Garages	5	N/A	191,133			
School Garages	1	N/A	10,663			
<u>Athletics</u>						
Fields	16	23 yrs to 84 yrs	221,707			
Pools	10	34 yrs to 58 yrs	N/A			
Fields/Pools	1	30 yrs	8,540			

Source: The School District of Philadelphia Records Office of Capital Programs

N/A = Data Not Available

NOTES:

- (1) Only School District owned buildings were identified and recorded
- (2) Two Schools-Lamberton H.S. and Lamberton Elementary School use the same building.
- (3) Two Schools-Masterman H.S. and Masterman Middle School use the same building.
- (4) Two Schools-Kensington H.S. for Creative, Visual & Performing Arts and Kensington H.S. for International Business, Finance & Entrepreneurship use the same building.
- (5) School District buildings being leased to Charter Schools.
- (6) Part of other public schools.
- (7) Used in conjunction with public schools.
- (8) Official Capacity as defined by the State has changed over the 115 years that a school would have been built.
Presently the State uses 25 students per classrooms for official capacity. The capacity enrollment number has varied from 25 to 35 over the years, therefore official capacities of schools have been adjusted accordingly as allowed by the State.



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

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