NEW ISSUE - BOOK-ENTRY-ONLY RATINGS: (See "RATINGS" herein)

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions, interest on the 2015 Bonds will not be includible in gross income of the holders thereof for federal income tax purposes, assuming continuing compliance by the Authority and the School District with the requirements of the Internal Revenue Code of 1986, as amended. Interest on the 2015 Bonds will not be a specific preference item for purposes of computing the federal alternative minimum tax ("AMT"); however, interest on the 2015 Bonds held by certain corporations is included in the computation of "Adjusted Current Earnings", a portion of which is taken into account in determining the AMT imposed on such corporations. Under the laws of the Commonwealth of Pennsylvania, as enacted and construed on the date hereof, the 2015 Bonds are exempt from personal property taxes and interest on the 2015 Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax. See "TAX MATTERS" herein.

$80,000,000
STATE PUBLIC SCHOOL BUILDING AUTHORITY
(Commonwealth of Pennsylvania)
School Lease Revenue Refunding Bonds
(The School District of Philadelphia Project)
Series 2015A

Dated: Date of Delivery **Due: June 1, as Shown on Inside Cover Page**

The School Lease Revenue Refunding Bonds (The School District of Philadelphia Project) Series 2015A (the "2015 Bonds"), will be issued in fully registered form without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2015 Bonds. Purchases of beneficial ownership interests in the 2015 Bonds will be made in book-entry form only in denominations of $5,000 or integral multiples thereof, and beneficial owners will not receive certificates representing their interest in the 2015 Bonds. So long as Cede & Co. is the registered owner, references herein to the registered owners of the 2015 Bonds shall mean Cede & Co., and not the beneficial owners. Interest on the 2015 Bonds will be payable semiannually on each June 1 and December 1, beginning December 1, 2015. The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee") under the Indenture (defined herein) will pay principal of and interest on the 2015 Bonds to DTC, which will remit such principal and interest to its Participants (as defined herein), which will in turn remit such principal and interest to the beneficial owners thereof, as more fully described herein. See "THE 2015 BONDS - Book-Entry-Only System" herein.

The 2015 Bonds will be issued as Additional Bonds under a Trust Indenture dated as of September 1, 2003 (the "Original Indenture") between the State Public School Building Authority (the "Authority") and the Trustee, as previously amended and supplemented and as further supplemented and amended by a Third Supplemental Trust Indenture (the "Third Supplemental Indenture") dated as of April 1, 2015 (the Original Indenture, as so amended and supplemented, the "Indenture") and will be equally and ratably secured with all other Bonds Outstanding under the Indenture by an assignment and pledge by the Authority to the Trustee of payments to be made to the Authority by The School District of Philadelphia (the "School District") pursuant to the provisions of a Sublease Agreement dated as of September 1, 2003, as previously amended and supplemented, and as further amended by a Third Supplemental Sublease Agreement dated as of April 1, 2015 (as so amended and supplemented, the "Sublease") between the Authority, as sublessor, and the School District, as sublessee. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS" herein.

The proceeds of the 2015 Bonds will be used to: (i) advance refund a portion of the Authority's School Lease Revenue Bonds (The School District of Philadelphia Project) Series 2006A; and (ii) pay the costs and expenses of issuing the 2015 Bonds (together, the "2015 Project"). See "INTRODUCTION – Plan of Finance" herein.

The 2015 Bonds are subject to redemption as provided herein. See "THE 2015 BONDS – Redemption Provisions" herein.

The scheduled payment of principal and interest on certain of the 2015 Bonds maturing on June 1 in the years 2021 (Yield 2.190%), 2022 and 2024 (Yield 2.810%) issued in the aggregate principal amount of $20,515,000 as shown on the inside front cover (collectively, the "Insured Bonds") when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by ASSURED GUARANTY MUNICIPAL CORP.

ASSURED GUARANTY MUNICIPAL

THE 2015 BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY. NEITHER THE PRINCIPAL OR REDEMPTION PRICE OF THE 2015 BONDS, NOR THE INTEREST ACCRUING THEREON, SHALL CONSTITUTE A GENERAL INDEBTEDNESS OF THE AUTHORITY OR AN INDEBTEDNESS OF THE COMMONWEALTH OF PENNSYLVANIA (THE "COMMONWEALTH") OR ANY POLITICAL SUBDIVISION THEREOF (EXCEPT THE SCHOOL DISTRICT'S OBLIGATIONS UNDER THE SUBLEASE) WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION WHATSOEVER, OR A CHARGE AGAINST THE GENERAL CREDIT OF THE AUTHORITY OR THE CREDIT OR TAXING POWER OF THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF (EXCEPT THE SCHOOL DISTRICT'S OBLIGATIONS UNDER THE SUBLEASE), OR BE DEEMED TO BE AN OBLIGATION OF THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF (EXCEPT THE SCHOOL DISTRICT'S OBLIGATIONS UNDER THE SUBLEASE). THE AUTHORITY HAS NO TAXING POWER.

The School District has covenanted that it will provide in its budget in each fiscal year and will appropriate from its general revenues in each such fiscal year, the amount of the Base Rental Payments (as defined herein) due under the Sublease for such fiscal year and will duly and punctually pay or cause to be paid such rentals at the dates and places and in the manner stated in the Sublease. The School District has pledged its full faith, credit and taxing power for such budgeting, appropriation and payment. Certain limitations on the taxing power of the School District are described herein.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The 2015 Bonds are offered when, as and if issued to the Underwriters, subject to approval as to legality of issuance by Eckert Seamans Cherin & Mellott, LLC, Philadelphia, Pennsylvania, Bond Counsel. Certain legal matters will be passed upon for the Authority by Hartman Underhill & Brubaker, LLC. Certain legal matters will be passed upon for the School District by the Office of the General Counsel to the School District and for the Underwriters by Cozen O'Connor and Ahmad Zaffarese LLC, both of Philadelphia, Pennsylvania, Co-Underwriters' Counsel. It is expected that the Bonds will be available for delivery in definitive form through DTC in New York, New York on or about April 20, 2015.

Janney Montgomery Scott LLC

BofA Merrill Lynch **Loop Capital Markets** **PNC Capital Markets LLC**

Official Statement dated March 26, 2015

$80,000,000
STATE PUBLIC SCHOOL BUILDING AUTHORITY
(Commonwealth of Pennsylvania)
School Lease Revenue Refunding Bonds
(The School District of Philadelphia Project)
Series 2015A

Due (June 1)	Amount	Interest Rate	Yield	Price	CUSIP† No.
2017	$ 5,000	2.000%	1.050%	101.980	85732GTM2
2018	8,065,000	4.000	1.420	107.830	85732GTC4
2019	8,390,000	5.000	1.750	112.844	85732GTD2
2020	8,805,000	5.000	2.010	114.459	85732GTE0
2021*	4,630,000	5.000	2.190	115.995	85732GTQ3
2021	4,630,000	5.000	2.260	115.561	85732GTF7
2022*	9,710,000	5.000	2.460	116.481	85732GTG5
2023	2,000,000	3.375	2.690	104.961	85732GTN0
2023	8,200,000	5.000	2.690	116.735	85732GTH3
2024*	6,175,000	5.000	2.810	117.497	85732GTP5
2024	4,500,000	5.000	2.860	117.059	85732GTJ9
2025	11,210,000	5.000	3.050	116.857	85732GTK6
2026	3,680,000	5.000	3.150**	115.913**	85732GTL4

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† Registered trademark of American Bankers Association. CUSIP numbers are provided by Standard & Poor's, CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the 2015 Bonds and the Authority, the School District and the Underwriters do not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to change after the issuance of the 2015 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other secondary market enhancement by Bondholders that may be applicable to all or a portion of certain maturities of the 2015 Bonds. The Authority, the School District and the Underwriters have not undertaken responsibility for any CUSIP number changes resulting from the purchase of secondary market enhancement.

* Insured Bonds

** Price/Yield to June 1, 2025 optional call date

STATE PUBLIC SCHOOL BUILDING AUTHORITY
1035 MUMMA ROAD
WORMLEYSBURG, PENNSYLVANIA 17043
TELEPHONE: 717-975-2200

Members of the Authority

Honorable Thomas W. Wolf
Governor of the Commonwealth of Pennsylvania .... President

Honorable Lloyd K. Smucker
Designated by the President Pro Tempore of the Senate .... Vice President

Honorable Andrew E. Dinniman
Designated by the Minority Leader of the Senate .... Vice President

Honorable Mike Turzai
Speaker of the House of Representatives .... Vice President

Honorable Christopher B. Craig
Executive Deputy State Treasurer .... Treasurer

Honorable Curtis M. Topper
Acting Secretary of General Services .... Secretary

Honorable Anthony M. DeLuca
Designated by the Minority Leader of the House of Representatives .... Board Member

Honorable Eugene A. DePasquale
Auditor General .... Board Member

Honorable Pedro A. Rivera
Acting Secretary of Education .... Board Member

EXECUTIVE DIRECTOR
Robert Baccon

COUNSEL TO THE AUTHORITY
(Appointed by the Office of General Counsel)
Hartman Underhill & Brubaker, LLC

TRUSTEE
The Bank of New York Mellon Trust Company, N.A.

BOND COUNSEL
(Appointed by the Office of General Counsel)
Eckert Seamans Cherin & Mellott, LLC

THE SCHOOL DISTRICT OF PHILADELPHIA

440 North Broad Street
Philadelphia, Pennsylvania
Telephone: 215-400-4000
www.philsad.org

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2015 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE ORDER AND PLACEMENT OF MATERIALS IN THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, ARE NOT TO BE DEEMED TO BE A DETERMINATION OF RELEVANCE, MATERIALITY OR IMPORTANCE, AND THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, MUST BE CONSIDERED IN ITS ENTIRETY. THE OFFERING OF THE 2015 BONDS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.

No dealer, broker, salesman or other person has been authorized by the Authority, the School District or the Underwriters to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2015 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the Authority, the School District and other sources which are believed to be reliable, but, as to information from other sources, is not guaranteed as to accuracy or completeness by the Authority, the School District or the Underwriters. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the School District or with respect to other matters set forth herein since the date hereof or the date as of which particular information is given, if earlier.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The Authority has not assisted in the preparation of this Official Statement, except for the statements with respect to the Authority under the sections captioned "INTRODUCTION- The Authority," "THE AUTHORITY" and "ABSENCE OF LITIGATION AFFECTING THE 2015 BONDS" herein and, except for those sections, the Authority is not responsible for any statements made in this Official Statement. Except for the authorization, execution and delivery of documents required to effect the issuance of the 2015 Bonds, the Authority has not otherwise assisted in the public offer, sale or distribution of the 2015 Bonds. Accordingly, except as aforesaid, the Authority assumes no responsibility for the disclosures set forth in this Official Statement.

The School District assumes no responsibility for any of the statements contained under the heading "UNDERWRITING" in the Official Statement, other than the statements contained in the first, third and fourth paragraphs under such heading.

Assure Guaranty Municipal Corp. ("AGM") makes no representation regarding the 2015 Bonds or the advisability of investing in the 2015 Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE" and "Appendix G – Specimen Municipal Bond Insurance Policy".

This Official Statement, including the appendices hereto, speaks only as of the date printed on the cover page hereof, or as otherwise indicated herein. The information contained herein is subject to change. The Underwriters have agreed to deliver this Official Statement to the Municipal Securities Rulemaking Board so that it will be made available through the Electronic Municipal Market Access System ("EMMA"), which is the sole Nationally Recognized Municipal Securities Information Repository.

If and when included in this Official Statement, including the appendices hereto, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," "assumes" and analogous expressions are intended to identify forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties which could affect the revenues and obligations of the School District include, among others, changes in economic conditions, mandates from other governments and various other events, conditions and circumstances, many of which are beyond the control of the School District. Such forward-looking statements speak only as of the date of this Official Statement. The School District disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the School District's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

The 2015 Bonds are not and will not be registered under the Securities Act of 1933, as amended, and the Indenture has not been qualified under the Trust Indenture Act of 1939, as amended, or under any state securities laws, in reliance upon exemptions contained therein. Neither the Securities and Exchange Commission nor any federal, state, municipal or other governmental agency will pass upon the accuracy, completeness or adequacy of this Official Statement. In making an investment decision, investors must rely on their own examination of the 2015 Bonds and the terms of the offering, including the merits and risks involved.

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Official Statement

$80,000,000
STATE PUBLIC SCHOOL BUILDING AUTHORITY
(Commonwealth of Pennsylvania)
SCHOOL LEASE REVENUE REFUNDING BONDS
(The School District of Philadelphia Project)
Series 2015A

INTRODUCTION

General

This Official Statement, which includes the cover page hereof and the Appendices hereto, provides certain information relating to the State Public School Building Authority (the "Authority"), The School District of Philadelphia (the "School District") and the Authority's $80,000,000 aggregate principal amount School Lease Revenue Refunding Bonds (The School District of Philadelphia Project) Series 2015A (the "2015 Bonds"). The 2015 Bonds are being issued pursuant to the State Public School Building Authority Act, P.L. 1217 approved by the General Assembly of the Commonwealth of Pennsylvania on July 5, 1947, as supplemented and amended (the "Act"), and as Additional Bonds pursuant to a Trust Indenture, dated as of September 1, 2003 (the "Original Indenture"), as amended and supplemented by a First Supplemental Trust Indenture, dated as of December 1, 2006 (the "First Supplemental Indenture") and a Second Supplemental Trust Indenture, dated as of November 1, 2012 (the "Second Supplemental Indenture"), and as further amended and supplemented by a Third Supplemental Trust Indenture (the "Third Supplemental Indenture") dated as of April 1, 2015 (the Original Indenture, as so amended and supplemented, the "Indenture"), between the Authority and The Bank of New York Mellon Trust Company, N.A., as successor trustee to J.P. Morgan Trust Company, N.A., as trustee (the "Trustee") to refund the Refunded 2006A Bonds as described herein under the caption "Plan of Finance." The Authority has heretofore issued under the Indenture its $588,140,000 School Lease Revenue Bonds (The School District of Philadelphia Project) Series 2003 (the "2003 Bonds"), of which $43,505,000 aggregate principal amount remains Outstanding, its $862,695,000 School Lease Revenue Bonds (The School District of Philadelphia Project) Series 2006 consisting of $317,125,000 Series 2006A (the "2006A Bonds") of which $273,155,000 aggregate principal amount remains Outstanding and $545,570,000 Series 2006B (the "2006B Bonds," together with the 2006A Bonds, the "2006 Bonds"), of which $545,535,000 aggregate principal amount remains Outstanding, and its $264,995,000 School Lease Revenue Bonds (The School District of Philadelphia Project) Series 2012 (the "2012 Bonds"), of which $260,485,000 aggregate principal amount remains Outstanding.

Unless otherwise defined herein, capitalized terms used throughout this Official Statement shall have the meanings ascribed thereto in the Indenture.

Certain information about the School District is attached hereto as Appendix A. Audited Financial Statements of the School District for Fiscal Year ended June 30, 2014 are attached hereto as Appendix B. Socioeconomic Information about The City of Philadelphia (the "City") is attached hereto as Appendix C. The Summary of Certain Provisions of the Indenture, the Lease and the Sublease is attached hereto as Appendix D. The form of the Continuing Disclosure Agreement is attached hereto as Appendix E and the form of opinion of Bond Counsel is attached hereto as Appendix F. Appendix G contains a specimen of the municipal bond insurance policy to be issued by Assured Guaranty Municipal Corp. with respect to the Insured Bonds (as defined herein). Certain additional information relating to the School District's operations and financial affairs is available on the School District's website (www.philasd.org), but none of such existing or additional information is incorporated herein. See "CONTINUING DISCLOSURE AND ADDITIONAL INFORMATION – Other Information" herein.

This introduction is a brief description of certain matters described in this Official Statement and is qualified by reference to the entire Official Statement, including the appendices hereto. Prospective purchasers of any of the 2015 Bonds should read this Official Statement, including the cover page, inside front cover page, table of contents, tables and appendices, in its entirety.

Background

At the request of the School District, the Authority undertook the financing of a project in 2003 (the "2003 Project") for the use and benefit of the School District which consisted of: (i) the planning, design, construction, furnishing and equipping of certain facilities of the School District and certain other improvements, (ii) the payment of interest during construction, and (iii) the payment of the costs and expenses of issuing and insuring the 2003 Bonds. In order to provide funds for the 2003 Project, the Authority issued the 2003 Bonds pursuant to the Original Indenture.

Pursuant to a Lease Agreement, dated as of September 1, 2003 (the "Original Lease"), between the School District, as lessor and the Authority, as lessee, the School District leased to the Authority certain of its land and facilities (the "Original 2003 Leased Premises") for a rental equal to the proceeds of the 2003 Bonds. Pursuant to a Sublease Agreement, dated as of September 1, 2003 (the "Original Sublease"), between the Authority, as sublessor, and the School District, as sublessee, the Authority leased to the School District the Original 2003 Leased Premises for the Base Rental Payments (as such term is defined in the Original Indenture) and certain other payments to be made by the School District to the Authority in the amounts and at the times set forth therein, which amounts would be sufficient for the payment by the Authority of, among other things, the principal of, redemption price, if any, and interest on the 2003 Bonds.

At the request of the School District, the Authority undertook the financing of a project in 2006 (the "2006 Project") for the use and benefit of the School District which consisted of: (i) financing with the proceeds of the 2006A Bonds: (A) the planning, design, construction, furnishing and equipping of certain facilities of the School District and certain other improvements, (B) the payment of interest accruing on the 2006A Bonds due on June 1, 2007, (C) the reimbursement for the payment of a portion of the interest accruing on the 2006B Bonds due on June 1, 2007, and (D) the reimbursement for the payment of a portion of the interest accruing on the Remaining 2003 Bonds (as hereiafter defined) due on June 1, 2007 (the "2006 Capital Project"); (ii) financing, with the proceeds of the 2006B Bonds, a refunding program to refund in advance certain of its Outstanding 2003 Bonds (the "Refunded 2003 Bonds") (the "2006 Refunding Project"); and (iii) paying the costs of issuing and insuring the 2006A Bonds and the 2006B Bonds from the respective proceeds of each series of 2006 Bonds.

In connection with the 2006 Refunding Project, the Authority released its leasehold interests in certain of the land and improvements constituting the Original 2003 Leased Premises and the School District released its subleased interests in the same land and improvements constituting a portion of the Original 2003 Leased Premises (the portion of the Original 2003 Leased Premises remaining after such release being referred to as the "Updated 2003 Leased Premises"). Further, as a result of the 2006 Refunding Project, there was a reduction in the aggregate principal amount of the 2003 Bonds which remained Outstanding (the "Remaining 2003 Bonds") and the Base Rental Payments with respect to the Updated 2003 Leased Premises was reduced (as reduced the "2003 Base Rental Payments").

In order to provide the funds for the 2006 Project, the Authority issued the 2006 Bonds pursuant to the First Supplemental Trust Indenture, and the Original Indenture. Pursuant to a First Supplemental Lease Agreement, dated as of December 1, 2006 (the "First Supplemental Lease"), between the School District, as lessor and the Authority, as lessee, as such First Supplemental Lease amended and supplemented the Original Lease, the School District leased to the Authority certain of its land and facilities (the "2006A Leased Premises") for rental payments equal to the proceeds of the 2006A Bonds and certain of its other land and facilities (the "2006B Leased Premises" and, together with the 2006A Leased Premises, the "2006 Leased Premises") for rental payments equal to the proceeds of the 2006B Bonds.

Pursuant to a First Supplemental Sublease Agreement, dated as of December 1, 2006 (the "First Supplemental Sublease") between the Authority, as sublessor, and the School District, as sublessee, as such First Supplemental Sublease amended and supplemented the Original Sublease, the Authority leased to the School District the 2006 Leased Premises for 2006 Base Rental Payments (as defined in the First Supplemental Sublease), and certain other payments to be made by the School District to the Authority in the amounts and at the times set forth therein, which amounts would be sufficient for the payment by the Authority of, among other things, the principal of, redemption price, if any, and interest on the 2006 Bonds.

At the request of the School District, the Authority undertook the financing of a project in 2012 (the "2012 Project") for the benefit and use of the School District that consisted of: (i) the acquisition of a leasehold interest in certain real estate, including the buildings, fixtures, improvements, furnishings and equipment thereon in order to provide the School District with funds to pay certain operating expenses of the School District; and (ii) the payment of the costs and expenses of issuing the 2012 Bonds. The proceeds from the 2012 Bonds were used to provide working capital to the School District.

Pursuant to a Second Supplemental Lease Agreement, dated as of November 1, 2012 (the "Second Supplemental Lease") between the School District, as lessor and the Authority, as lessee, the School District leased to the Authority certain of its land and facilities (the "2012 Leased Premises") for rental payments equal to the proceeds of the 2012 Bonds.

Pursuant to a Second Supplemental Sublease Agreement, dated as of November 1, 2012 (the "Second Supplemental Sublease") between the Authority, as sublessor, and the School District, as sublessee, the Authority leased to the School District the 2012 Leased Premises for 2012 Base Rental Payments (as defined in the Second Supplemental Sublease) and certain other payments to be made by the School District to the Authority in the amounts and at the times set forth therein, which amounts would be sufficient for the payment by the Authority of, among other things, the principal of, redemption price, if any, and interest on the 2012 Bonds.

Plan of Finance

At the request of the School District, the Authority has determined to undertake a project consisting of: (i) the advance refunding of a portion of the 2006A Bonds (the "Refunded 2006A Bonds"); and (ii) the payment of the costs and expenses of issuing the 2015 Bonds (the "2015 Project"). The 2006 Bonds remaining Outstanding after the refunding of the Refunded 2006A Bonds upon the issuance of the 2015 Bonds are hereinafter referred to as the "Remaining 2006 Bonds."

As a result of the 2015 Project, there will be a reduction in the aggregate principal amount of the 2006A Bonds which remain Outstanding and the Base Rental Payments with respect to the 2006 Leased Premises will be reduced (as reduced, the "2006 Base Rental Payments").

Pursuant to a Third Supplemental Lease Agreement, dated as of April 1, 2015 (the "Third Supplemental Lease") between the School District, as lessor and the Authority, as lessee, the School District will lease to the Authority certain of its land and facilities (the "2015 Leased Premises," together with the Updated 2003 Leased Premises, the 2006 Leased Premises and the 2012 Leased Premises, the "Leased Premises") for rental payments (the "2015 Rent") equal to the proceeds of the 2015 Bonds (the Third Supplemental Lease Agreement, together with the Original Lease, the First Supplemental Lease and the Second Supplemental Lease, are hereinafter referred to as the "Lease").

Pursuant to a Third Supplemental Sublease Agreement, dated as of April 1, 2015 (the "Third Supplemental Sublease") between the Authority, as sublessor, and the School District, as sublessee, the Authority will lease to the School District the 2015 Leased Premises for 2015 Base Rental Payments (as defined in the Third Supplemental Sublease Agreement) and certain other payments to be made by the School District to the Authority in the amounts and at the times set forth therein, which amounts will be sufficient for the payment by the Authority of, among other things, the principal of, redemption price, if any, and interest on the 2015 Bonds (the Third Supplemental Sublease, together with the Original Sublease, the First Supplemental Sublease and the Second Supplemental Sublease, are hereinafter referred to as the "Sublease" and the 2015 Base Rental Payments, together with the 2003 Base Rental Payments, the 2006 Base Rental Payments and the 2012 Base Rental Payments, are hereinafter referred to as the "Base Rental Payments").

A portion of the proceeds of the 2015 Bonds will be irrevocably deposited in an Escrow Fund maintained by The Bank of New York Mellon Trust Company, N.A., as escrow agent (the "Escrow Agent") pursuant to the terms of an Escrow Deposit Agreement, dated as of April 1, 2015 (the "Escrow Deposit Agreement"), among the Authority, the School District and the Escrow Agent, invested in U.S. Treasury Securities and applied to pay the interest due on the Refunded 2006A Bonds through December 1, 2016 and redeem the remaining outstanding Refunded 2006A Bonds on December 1, 2016, at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date.

Related Financings

Concurrently with the issuance of the 2015 Bonds by the Authority on behalf of the School District, the School District intends to issue $46,770,000 of General Obligation Bonds, Series A of 2015 (the "School District 2015 A Bonds"), $13,505,000 of General Obligation Refunding Bonds, Series B of 2015 (the "School District 2015 B Bonds"), and $44,565,000 of General Obligation Refunding Bonds, Series C of 2015 (Federally Taxable) (the "School District 2015 C Bonds") for the purposes described under "PLAN OF FINANCE" herein. The School District 2015 A Bonds, the School District 2015 B Bonds and the School District 2015 C Bonds (collectively, the "School District 2015 A, B and C Bonds") are being offered under a separate Official Statement by the underwriters named therein, the School District 2015 A Bonds and the School District 2015 C Bonds have been sold pursuant to a single separate bond purchase agreement and the School District 2015 B Bonds have been sold pursuant to a separate bond purchase agreement. The School District 2015 A, B and C Bonds are expected to be issued and delivered on or about April 20, 2015, simultaneously with the delivery of the 2015 Bonds. In addition, the School District also plans to issue its $128,620,000 of General Obligation Refunding Bonds, Series D of 2015 (the "School District 2015 D Bonds", and together with the School District 2015 A, B and C Bonds, the "School District 2015 A, B, C and D Bonds") for the purposes described under "PLAN OF FINANCE" herein. The School District 2015 D Bonds are being offered under a separate Official Statement by the underwriters named therein and have been sold pursuant to a forward delivery bond purchase agreement on the same date as the 2015 Bonds and the School District 2015 A, B and C Bonds. The School District 2015 D Bonds are expected to be issued and delivered on May 5, 2015.

THE ISSUANCE AND DELIVERY OF THE APPLICABLE BONDS UNDER EACH BOND PURCHASE AGREEMENT IS NOT CONTINGENT ON THE ISSUANCE AND DELIVERY OF BONDS UNDER THE OTHER BOND PURCHASE AGREEMENTS.

For a description of the features of the School District's general obligation bonds, including the School District 2015 A, B, C and D Bonds, and the bonds issued by the Authority for the benefit of the School District, including the 2015 Bonds, and the intercept agreement applicable to the 2015 Bonds and other bonds issued by the Authority for the benefit of the School District, see "INTRODUCTION – The Intercept Agreement", "SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS – Withholding of State Appropriations to the School District; Intercept Agreement" and "THE INTERCEPT AGREEMENT" herein and "APPENDIX A – SCHOOL DISTRICT DEBT". For a description of the intercept provisions of the Pennsylvania Public School Code Applicable to the School District 2015 A, B, C and D Bonds, see "APPENDIX A – SCHOOL DISTRICT DEBT".

Continuing Disclosure

In order to assist the Underwriters in complying with the requirements of Rule 15c2-12, as amended ("Rule 15c2-12"), promulgated under the Securities Exchange Act of 1934, as amended, the School District will enter into a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") with the Trustee, in substantially the form of APPENDIX E to this Official Statement. See "CONTINUING DISCLOSURE AND ADDITONAL INFORMATION" herein. Certain information concerning the School District, required or permitted to be filed pursuant to the School District's prior continuing disclosure agreements, is on file with the Electronic Municipal Market Access System ("EMMA") at http://emma.msrb.org.

Description of the 2015 Bonds

The 2015 Bonds will be dated their date of delivery, and will bear interest from such date. Interest on the 2015 Bonds will be payable on each June 1 and December 1, commencing December 1, 2015. The 2015 Bonds will be issued as fully registered bonds in the aggregate principal amount set forth on the inside cover page hereof in denominations of $5,000 or any integral multiple thereof. The principal of the 2015 Bonds will be payable at the corporate office of the Trustee in Philadelphia, Pennsylvania. Interest on the 2015 Bonds will be paid by check mailed by the Trustee to the person in whose names the 2015 Bonds are registered on the 15th day (whether or not it is a business day) of the calendar month immediately preceding such interest payment date; except in the case of any default by the Authority in payment of interest due, interest shall be payable to the persons in whose names the 2015 Bonds are registered on a special record date as determined by the Trustee. See "THE 2015 BONDS" herein. Registered Owners of at least $1,000,000 aggregate principal amount of the 2015 Bonds may elect to receive interest payments by wire transfer if so requested in a written notice provided to the Trustee not less than ten (10) days prior to the relevant interest payment date.

Initially the 2015 Bonds will be available in book-entry form only. See "THE 2015 BONDS" herein.

Security and Source of Payment for the 2015 Bonds

***Special Limited Obligations of the Authority.* The 2015 Bonds are special limited obligations of the Authority and are secured on a parity with the Remaining 2003 Bonds, the Remaining 2006 Bonds, the 2012 Bonds and any Additional Bonds (discussed herein) by a pledge and assignment to the Trustee of all of the revenues of the Authority derived from the Sublease, all of the right, title and interest of the Authority in and to the Sublease, all amounts payable to the Authority by the School District under the Sublease (except the rights of the Authority to receive notices, to indemnification and payment of its fees and expenses thereunder), and all moneys and income and receipts in respect of the Sublease held by the Trustee under the Indenture in the Revenue Fund and the Debt Service Fund (together, the "Pledged Revenues"). Neither the principal or redemption price of the 2015 Bonds, nor the interest accruing thereon, shall constitute a general indebtedness of the Authority or an indebtedness of the the Commonwealth of Pennsylvania (the "Commonwealth") or any political subdivision thereof (except the School District's obligations under the Sublease) within the meaning of any constitutional or statutory provision whatsoever, or a charge against the general credit of the Authority or the credit or taxing power of the Commonwealth or any political subdivision thereof (except the School District's obligations under the Sublease), or be deemed to be an obligation of the Commonwealth or any political subdivision thereof (except the School District's obligations under the Sublease). The Authority has no taxing power.**

The 2015 Bonds are payable from the 2015 Base Rental Payments and certain other payments to be made by the School District to the Authority in the amounts and at the times set forth in the Sublease, which amounts will be sufficient for the payment by the Authority of, among other things, the principal of, redemption price, if any, and interest on the 2015 Bonds.

The Intercept Agreement

Pursuant to the Intercept Agreement dated as of September 1, 2003 (the "Original Intercept Agreement"), as amended by a First Amendment to Intercept Agreement dated as of December 1, 2006 (the "First Amendment to Intercept Agreement") and by a Second Amendment to Intercept Agreement dated as of November 1, 2012 (the "Second Amendment to Intercept Agreement", and as further amended by a Third Amendment to Intercept Agreement dated as of April 1, 2015 (the "Third Amendment to Intercept Agreement" and collectively with the Original Intercept Agreement, the First Amendment to Intercept Agreement and the Second Amendment to Intercept Agreement, the "Intercept Agreement"), among the Authority, the School District and the Treasurer of the Commonwealth of Pennsylvania (the "State Treasurer") and acknowledged by the Trustee and the Pennsylvania Department of Education (the "Department"), the School District has instructed the Department to provide notice to the State Treasurer that the State Treasurer shall withhold from the appropriations of the Commonwealth due to the School District on certain Appropriation Payment Dates set forth in the Intercept Agreement (currently the last Thursday of the month in April and October) of each fiscal year of the School District, commencing in April of 2015, amounts equal to the 2015 Base Rental Payments due from the School District under the Sublease on the next succeeding May 15 or November 15, for payments to be made in connection with the 2015 Bonds, and to pay the same directly to the Trustee, as assignee of the Authority under the Sublease. Payments under the Intercept Agreement shall be credited to the Base Rental Payments due from the School District under the Sublease. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS — Withholding of State Appropriations to the School District; Intercept Agreement" herein.

The Authority

The Authority is a body corporate and politic created in 1947 by the Act. Under the Act, the Authority is constituted a public corporation and governmental instrumentality, having perpetual existence, for the purpose of acquiring, financing, refinancing, constructing, improving, maintaining and operating public school and educational broadcasting facilities, and furnishing and equipping the same for use as part of the public school system of the Commonwealth under the jurisdiction of the Department. Under the Act, the Authority also has for its purpose the acquiring, financing, refinancing, construction, improvement, furnishing, equipping, maintenance and operation of community college buildings.

The School District of Philadelphia

The School District is a separate and independent home rule school district of the first class established by the Philadelphia Home Rule Charter ("Home Rule Charter"). The School District is the only school district of the first class in the Commonwealth. The Home Rule Charter provides that the School District will be governed by a nine-member Board of Education ("Board") appointed by the Mayor ("Mayor") of The City of Philadelphia ("City").

In 1998 and 2001, the Public School Code of 1949, as amended ("School Code"), was amended to include criteria for a determination by the Secretary of Education of the Commonwealth that a school district of the first class is distressed and the effects of such a determination. If the Secretary of Education of the Commonwealth declares a school district of the first class to be distressed, a five-member school reform commission is required to be appointed. Such school reform commission shall exercise the powers and duties of the Board and the powers and duties of the Board shall be suspended. The School District was declared distressed by the Secretary of Education of the Commonwealth effective December 22, 2001, and is currently governed by a school reform commission ("School Reform Commission"). See "APPENDIX A – THE SCHOOL DISTRICT OF PHILADELPHIA –School Reform Commission" herein. Generally, references in this Official Statement to powers and duties of the Board or actions taken by the Board shall mean the School Reform Commission exercising the powers and duties of the Board, unless expressly otherwise stated. The School Reform Commission exercises the powers and duties granted to the Board and the other powers granted to the School Reform Commission under the School Code until the Secretary of Education of the Commonwealth, upon motion of the School Reform Commission, issues a declaration to dissolve the School Reform Commission.

The School District is the largest school district in the Commonwealth, with an estimated Fiscal Year 2015 enrollment as of December 2014 of approximately 206,560 students, including approximately 64,300 charter school students and approximately 3,700 students attending alternative educational programs. The School District has the eighth largest enrollment in the nation and employs approximately 16,100 professional and nonprofessional persons with one central administrative office and eight regional or learning networks. The boundaries of the School District are coterminous with the boundaries of the City. The School District's fiscal year is July 1 to June 30, identical with that of the City and the Commonwealth. The term "Fiscal Year," when followed by a year, refers to the fiscal year ended June 30 of that year. For example, "Fiscal Year 2015" refers to the Fiscal Year commencing on July 1, 2014 and ending June 30, 2015.

See APPENDIX A hereto for a description of the School District and its affairs, including its organization and financial procedures.

PLAN OF FINANCE

The 2015 Bonds are being issued to finance the 2015 Project which consists of: (i) the acquisition of a leasehold interest in certain real estate, including the buildings, fixtures, improvements, furnishings and equipment thereon in order to provide the School District with funds to advance refund $83,485,000 aggregate principal amount of the 2006A Bonds, consisting of all the 2006A Bonds maturing from June 1, 2018 to and including June 1, 2025 and $4,180,000 principal amount of the 2006A Bonds maturing on June 1, 2026 (the "Refunded 2006A Bonds"); and (ii) the payment of the costs and expenses of issuing the 2015 Bonds.

A portion of the proceeds of the 2015 Bonds will be irrevocably deposited in an Escrow Fund maintained by the Escrow Agent pursuant to the terms of the Escrow Deposit Agreement, invested in Open-Market U.S. Treasury Securities, and applied to pay the interest due on the Refunded 2006A Bonds through December 1, 2016 and to redeem the Refunded 2006A Bonds on December 1, 2016, at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date, pursuant to the optional redemption provisions applicable to the Refunded 2006A Bonds. Grant Thornton LLP (the "Verification Agent") will deliver to the Authority and the School District, on or before the date of the delivery of the 2015 Bonds, its report (the "Verification Report") indicating that it has verified the mathematical accuracy of the information provided by the Authority and the School District and their representatives with respect to the refunding requirements of the Refunded 2006A Bonds and the yield on the 2015 Bonds and the Escrow Fund. See "VERIFICATION" herein.

The School District also intends to issue the School District 2015 A, B, C and D Bonds as further described under "INTRODUCTION - Related Financings." The proceeds of the School District 2015 A Bonds will be used to pay (i) the costs of certain capital projects to be undertaken by the School District and (ii) the costs of issuance of the School District 2015 A Bonds. The proceeds of the School District 2015 B Bonds will be used to (i) currently refund the School District's General Obligation Refunding Bonds, Series B of 2005 (the "Refunded 2005B Bonds"), and (ii) pay the costs of issuance of the School District 2015 B Bonds. The proceeds of the School District 2015 C Bonds will be used to (i) currently refund a portion of the School District's General Obligation Bonds, Series C of 2005 (Federally Taxable) (the "Refunded 2005C Bonds) and (ii) pay the costs of issuance of the School District 2015 C Bonds. The proceeds of the School District 2015 D Bonds will be used to (i) currently refund a portion of the School District's General Obligation Refunding Bonds, Series A of 2005 (the "Refunded 2005A Bonds"), and (ii) pay the costs of issuance of the School District 2015 D Bonds. The School District is refunding the Refunded 2005A Bonds, the Refunded 2005B Bonds, the Refunded 2005C Bonds and the Refunded 2006A Bonds (collectively, the "Refunded Bonds") to achieve net present value savings for the School District and is issuing the School District 2015 A Bonds to finance certain capital projects for the School District.

ESTIMATED SOURCES AND USES

The following table sets forth estimated sources and uses of funds in connection with the 2015 Project:

Sources:		
	Par Amount of 2015 Bonds	$80,000,000.00
	Original Issue Premium	11,838,515.80
	Total Sources	$91,838,515.80
Uses:		
	Deposit to Escrow Fund	$91,134,037.38
	Costs of Issuance(1)	704,478.42
	Total Uses	$91,838,515.80

(1) Includes underwriters' discount, legal fees and expenses, financial advisor fees, Trustee's fees, rating agency fees, escrow agent fees, verification agent fees, bond insurance premium, printing and miscellaneous fees and expenses.

THE AUTHORITY

The Authority is a body corporate and politic, constituting a public corporation and a governmental instrumentality of the Commonwealth, created by the Act. The Authority's address is 1035 Mumma Road,Wormleysburg, Pennsylvania 17043.

Under the Act, the Authority consists of the Governor of the Commonwealth, the State Treasurer, the Auditor General, the Secretary of Education, the Secretary of the Department of General Services, the President Pro Tempore of the Senate, the Speaker of the House of Representatives, the Minority Leader of the Senate and the Minority Leader of the House of Representatives. The President Pro Tempore of the Senate, the Speaker of the House of Representatives, the Minority Leader of the Senate and the Minority Leader of the House of Representatives may designate a member of their respective legislative bodies to act as a member of the Authority in his or her stead. The members of the Authority serve without compensation, but are entitled to reimbursement for all necessary expenses incurred in connection with the performance of their duties as members. The powers of the Authority are exercised by a governing body consisting of the members of the Authority acting as a board.

As of June 30, 2014 bonds issued by the Authority were outstanding in the amount of $3,252,973,206. None of the revenues of the Authority with respect to its revenue bonds and notes issued for the benefit of other institutions will be pledged as security for any bonds or notes issued for the benefit of the School District. Further, no revenue bonds and notes issued for the benefit of other institutions will be payable from or secured by the revenues of the Authority or other moneys securing any bonds or notes issued for the benefit of the School District.

The Authority has issued, and may continue to issue, other series of bonds for the purpose of financing other projects, including other educational facilities. None of the revenues of the Authority other than those payable under the Sublease and those held under the Indenture are pledged to the payment of the 2015 Bonds.

The Authority and the Pennsylvania Higher Educational Facilities Authority ("PHEFA," and together with the Authority, the "Authorities") share an executive, fiscal and administrative staff, which currently numbers 12 people, and operate under a joint administrative budget.

The following are key staff members of the Authority who are involved in the administration of the financings and projects:

Robert Baccon, Executive Director

Mr. Baccon has served as an executive with the Authority and PHEFA since 1984. He is a graduate of St. John's University with a bachelor's degree in management, and holds a master's degree in international business from the Columbia University Graduate School of Business. Prior to his present post, Mr. Baccon held financial management positions with multinational U.S. corporations and was Vice President - Finance for a major highway construction contractor.

David Player, Comptroller & Director of Financial Management

Mr. Player serves as the Comptroller & Director of Financial Management of both of the Authorities. He has been with the Authorities since 1999. Prior to his present position, he served as Senior Accountant for both Authorities and as an auditor with the Pennsylvania Department of the Auditor General. Mr. Player is a graduate of the Pennsylvania State University and a Certified Public Accountant.

Beverly M. Nawa, Administrative Officer

Mrs. Nawa has served as the Administrative Officer of both the Authority and PHEFA since August 2004. She is a graduate of Alvernia College with a bachelor's degree in business administration. Prior to her present employment, Mrs. Nawa served as an Audit Senior and an Accounting Systems Analyst with the Pennsylvania Department of the Auditor General.

THE AUTHORITY HAS NOT PREPARED OR ASSISTED IN THE PREPARATION OF THIS OFFICIAL STATEMENT, EXCEPT THE STATEMENTS UNDER THIS SECTION CAPTIONED "THE AUTHORITY" AND UNDER THE HEADINGS "INTRODUCTION – THE AUTHORITY" AND "LITIGATION – THE AUTHORITY", AND, EXCEPT AS AFORESAID, THE AUTHORITY DISCLAIMS RESPONSIBILITY FOR THE DISCLOSURES SET FORTH HEREIN MADE IN CONNECTION WITH THE OFFER, SALE, AND DISTRIBUTION OF THE 2015 BONDS.

THE 2015 BONDS

Description of the 2015 Bonds

The 2015 Bonds shall be dated their date of their delivery, shall mature on the dates and in the amounts set forth on the inside of the front cover hereof and shall be payable as to interest on June 1 and December 1 of each year, commencing December 1, 2015, at the rates set forth on the inside of the front cover hereof. The 2015 Bonds shall be subject to redemption prior to maturity as described below. The record date for the payment of interest on the 2015 Bonds is the fifteenth day (whether or not a business day) of the calendar month immediately prior to the month in which the related interest payment date occurs.

The 2015 Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of DTC. Purchases of the 2015 Bonds will be made in book-entry-only form, in denominations of $5,000 or any integral multiple thereof. Beneficial Owners (defined herein) will not receive certificates representing their interest in the 2015 Bonds purchased. So long as Cede & Co., as nominee of DTC, is the registered owner of the 2015 Bonds, references herein to the registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the 2015 Bonds. See "Book-Entry-Only System" below.

Principal of and interest on the 2015 Bonds will be paid by the Trustee. So long as DTC or its nominee, Cede & Co., is the registered owner of the 2015 Bonds, such payments will be made directly to it as registered owner. Disbursement of such payments to the Direct Participants (as defined below) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners (as defined below) is the responsibility of the Direct Participants and the Indirect Participants (as defined below), as more fully described herein.

Book-Entry-Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2015 Bonds. The 2015 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2015 Bond certificate will be issued in the aggregate principal amount of each maturity of the 2015 Bonds, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U. S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2015 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2015 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2015 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2015 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2015 Bonds, except in the event that use of the book-entry system for the 2015 Bonds is discontinued.

To facilitate subsequent transfers, all 2015 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of 2015 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2015 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2015 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2015 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2015 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of 2015 Bonds may wish to ascertain that the nominee holding the 2015 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2015 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2015 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2015 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, premium, if any, and interest on the 2015 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, the Authority, or the School District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal, premium, if any, and interest on the 2015 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority, the School District or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as a securities depository with respect to the 2015 Bonds at any time by giving reasonable notice to the Authority, the School District or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, 2015 Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, 2015 Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Authority, the Underwriters, the Trustee, or the School District.

THE AUTHORITY, THE SCHOOL DISTRICT, THE UNDERWRITERS AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE 2015 BONDS (1) PAYMENTS OF PRINCIPAL OF, OR INTEREST ON THE 2015 BONDS, (2) CONFIRMATION OF BENEFICIAL OWNERSHIP INTEREST IN THE 2015 BONDS, OR (3) REDEMPTION OR OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE REGISTERED OWNER OF THE 2015 BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SECURITIES AND EXCHANGE COMMISSION, AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH DIRECT PARTICIPANTS ARE ON FILE WITH DTC.

NEITHER THE AUTHORITY, THE SCHOOL DISTRICT, THE UNDERWRITERS NOR THE TRUSTEE SHALL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE FISCAL AGENT AS BEING A BONDHOLDER WITH RESPECT TO: (1) THE 2015 BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF, OR INTEREST ON THE 2015 BONDS; (4) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO BONDHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE 2015

BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER OF THE 2015 BONDS.

So long as Cede & Co. is the registered owner of the 2015 Bonds as nominee of DTC, references herein to the Holders, holders, owners or registered owners of such 2015 Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the 2015 Bonds.

In the event that the Book-Entry Only System is discontinued and the Beneficial Owners become Registered Owners of the 2015 Bonds, the 2015 Bonds will be transferable in accordance with the provisions of the Indenture.

Redemption Provisions

Optional Redemption

The 2015 Bonds maturing on June 1, 2026 are subject to optional redemption prior to maturity by the Authority at the direction of the School District on or after June 1, 2025, in whole at any time, or in part from time to time, in any principal amount designated by the School District and within such maturity as chosen by lot, at a redemption price of 100% of the principal amount thereof, plus accrued interest to the redemption date.

Selection of 2015 Bonds for Redemption

In the event that less than all of any maturity of the 2015 Bonds are to be redeemed, the 2015 Bonds of such maturity shall be selected for redemption by the Trustee by lot. Any partial redemption may be in any order of maturity and any principal amount within the maturity as designated by the School District.

Notice of Redemption

The Trustee shall cause any notice of redemption to be mailed by first class United States mail, postage prepaid, addressed to the registered owners of all 2015 Bonds to be redeemed at the registered addresses appearing in the registration books for the 2015 Bonds. Each such notice shall be given in the name of the Authority and shall (i) be mailed not less than 30 nor more than 45 days prior to the redemption date, (ii) identify the 2015 Bonds to be redeemed (specifying the CUSIP numbers, if any, assigned to the 2015 Bonds), (iii) specify the redemption date and the redemption price, and (iv) state that on the redemption date the 2015 Bonds called for redemption will be redeemable at the designated corporate trust office or corporate trust agency office of the Trustee, that interest will cease to accrue from the redemption date, and that no representation is made as to the accuracy or correctness of the CUSIP numbers printed therein or on the 2015 Bonds. No defect affecting any particular 2015 Bonds, whether in the notice of redemption or mailing thereof (including any failure to mail such notice), shall affect the validity of the redemption proceedings for the redemption of any other 2015 Bonds.

No further interest shall accrue on any 2015 Bond called for redemption after the redemption date if payment of the redemption price has been duly provided for and the owners of such 2015 Bonds shall have no rights except to receive payment of the redemption price and the unpaid interest accrued on such 2015 Bond to the date fixed for redemption.

If at the time of mailing of any notice of redemption the Authority shall not have deposited with the Trustee monies sufficient to redeem all the 2015 Bonds called for redemption, such notice shall state that it is conditional except to receive payment of the redemption price and the unpaid interest accrued on such 2015 Bond to the date fixed for redemption, and subject to the deposit of the redemption monies with the Trustee not later than the opening of business on the redemption date and shall be of no effect unless such monies are so deposited. If such monies are not deposited by such date and time, the Trustee shall promptly notify the owners of all 2015 Bonds called for redemption of such fact.

Transfer, Exchange and Registration of 2015 Bonds

The 2015 Bonds may be transferred upon delivery to the Trustee of the 2015 Bond or 2015 Bonds to be transferred, accompanied by a written instrument of transfer in form and with guarantee of signature satisfactory to the Trustee, duly executed by the registered owner of such 2015 Bond or 2015 Bonds or his duly authorized representative, containing written instructions of transfer. No transfer of any 2015 Bond shall be effective until entered in the registration books for the 2015 Bonds. The 2015 Bonds may be exchanged for 2015 Bonds of the same maturity and of authorized denomination or denominations in the same aggregate principal amount and bearing the same rate of interest. No exchange or transfer shall be required to be made (i) during a period beginning at the opening of business fifteen days prior to the date of mailing of any notice of redemption of 2015 Bonds and ending at the close of business on the day of such mailing, or (ii) of any 2015 Bonds so selected for redemption in whole or in part.

The Authority and the Trustee may deem and consider the registered owner of any 2015 Bond as the absolute owner thereof (whether or not such 2015 Bond shall be overdue) for the purpose of receiving payment of principal and interest, and for all other purposes, and the Authority and the Trustee shall not be affected by any notice to the contrary.

SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS

General

The 2015 Bonds are special limited obligations of the Authority payable solely from the Pledged Revenues under the Indenture. Neither the principal or redemption price of the 2015 Bonds, nor the interest thereon, shall constitute a general indebtedness of the Authority or an indebtedness of the Commonwealth or any political subdivision thereof (except the School District's obligations under the Sublease) within the meaning of any constitutional or statutory provision whatsoever; constitute a charge against the credit of the Authority or the credit or the taxing power of the Commonwealth or of any political subdivision thereof (except the School District's obligations under the Sublease), or be deemed to be an obligation of the Commonwealth or any political subdivision thereof (except the School District's obligations under the Sublease). The Authority has no taxing power.

The Authority has pledged to the Trustee, in the Indenture, a security interest in the Pledged Revenues (which includes the Base Rental Payments payable under the Sublease and amounts on deposit in the Revenue Fund and the Debt Service Fund, but excludes amounts on deposit in the Rebate Fund), and all of the right, title and interest of the Authority in and to the Sublease and all amounts payable to the Authority by the School District under the Sublease (except the rights of the Authority to receive notices, indemnification and payment of its fees and expenses under the Sublease), for the benefit and security of the Owners of the Bonds issued under the Indenture.

Assignment of Sublease Payments from the School District

Pursuant to the Third Supplemental Lease between the School District, as lessor and the Authority, as lessee, the School District will lease the 2015 Leased Premises to the Authority for the 2015 Rent. Pursuant to the Third Supplemental Sublease between the Authority, as sublessor, and the School District, as sublessee, the Authority will sublease to the School District the 2015 Leased Premises for 2015 Base Rental Payments and certain other payments to be made by the School District to the Authority in amounts that will be sufficient for the payment by the Authority of, among other things, the principal of, redemption price, if any, and interest on the 2015 Bonds.

The 2015 Bonds will be secured under the Indenture, on parity with the Remaining 2003 Bonds, Remaining 2006 Bonds, 2012 Bonds and any Additional Bonds issued thereunder, by the assignment and pledge to the Trustee of the payments under the Sublease. Under the Sublease, the School District is obligated to make semi-annual Base Rental Payments on or before May 15 and November 15 of each year, relating to the Remaining 2003 Bonds and Remaining 2006 Bonds and on or before March 15 and September 15 of each year relating to the 2012 Bonds, and pursuant to the Third Supplemental Sublease the School District will be obligated to make semi-annual 2015 Base Rental Payments on or before May 15 and November 15 of each year, relating to the 2015 Bonds. The School District has covenanted in the Sublease and in the resolution of the School Reform Commission with respect to the 2015 Bonds (the "School District Resolution") that it will provide in its budget in each year, and will appropriate from its general revenues in each such year, the amount of the Base Rental Payments due under the Sublease for such year, and will duly and punctually pay or cause to be paid the Base Rental Payments on the Base Rental Payment Dates (as defined in the Third Supplemental Sublease) at the place and in the manner stated in the Sublease, in amounts sufficient to timely pay in full the debt service due on the Remaining 2003 Bonds, the Remaining 2006 Bonds, the 2012 Bonds and the 2015 Bonds, and for such budgeting, appropriation and payment, the School District irrevocably has pledged its full faith, credit and taxing power, within the limits prescribed by law. Appropriations from the Commonwealth due to the School District on the Appropriation Payment Dates (as defined in the Intercept Agreement) (currently the last Thursday of the month in April and October for payments to be made in connection with the 2015 Bonds) of each fiscal year of the School District are paid by the State Treasurer directly to the Trustee, as assignee of the Authority, to provide for the 2015 Base Rental Payments. See "Withholding of State Appropriations to the School District; Intercept Agreement" herein. The School District may levy taxes only upon the authorization of the General Assembly of the Commonwealth (the "General Assembly") or the Council of the City of Philadelphia ("City Council") as described in APPENDIX A – THE SCHOOL DISTRICT OF PHILADELPHIA – Sources of School District Revenue – Local Tax Revenues.

The Authority, at the time of the issuance of the 2015 Bonds, will assign all its right, title and interest in the Third Supplemental Sublease and the payments thereunder (except the right to indemnification, the right to payment of certain fees and expenses, if any, and certain other rights) to the Trustee. The Remaining 2003 Bonds, the Remaining 2006 Bonds, the 2012 Bonds, the 2015 Bonds and any Additional Bonds will be secured by and be payable under the Indenture from the Revenue Fund and Debt Service Fund held by the Trustee and payments made pursuant to the Sublease.

The execution of the Third Supplemental Sublease by the School District constitutes the incurrence of lease rental debt by the School District pursuant to the Local Government Unit Debt Act, 53 Pa.C.S. Chs. 80-82 (the "Debt Act"), and must be approved in advance of issuance by the Pennsylvania Department of Community and Economic Development ("DCED"). This approval will be obtained prior to issuance and delivery of the 2015 Bonds. Certain required approvals of the Department of Education will also be obtained. See APPENDIX A – "SCHOOL DISTRICT DEBT".

Withholding of State Appropriations to the School District; Intercept Agreement

Section 7-785(a) of the School Code provides that in the event the School District fails to pay or to provide for the payment of any rental payment due to the Authority for any period in accordance with the terms of any lease, upon written notice thereof from the Authority, the Secretary of Education shall notify the School District of its obligations and shall withhold out of any Commonwealth appropriation due to the School District an amount equal to the amount of the rental owing by the School District to the Authority and shall pay over the amount so withheld to the Authority in payment of such rental.

Pursuant to the provisions of Section 7-785(b) of the School Code, and in connection with the issuance of the 2003 Bonds, the 2006 Bonds and the 2012 Bonds, the Authority, the School District and the State Treasurer entered into the Original Intercept Agreement, the First Amendment to Intercept Agreement and the Second Amendment to Intercept Agreement, pursuant to which appropriations from the Commonwealth due to the School District on the Appropriation Payment Dates (currently the last Thursday of the month in April and October with respect to the Remaining 2003 Bonds and the Remaining 2006 Bonds and the last Thursday of the month in February and August for the 2012 Bonds) of each fiscal year of the School District are paid by the State Treasurer directly to the Trustee, as assignee of the Authority, to provide for the 2003 Base Rental Payments, 2006 Base Rental Payments and the 2012 Base Rental Payments of the School District due under the Sublease in connection with the 2003 Bonds, 2006 Bonds and 2012 Bonds.

In connection with the issuance of the 2015 Bonds, the Authority, the School District and the State Treasurer will enter into the Third Amendment to Intercept Agreement to provide that on the Appropriation Payment Dates for the 2015 Bonds (currently the last Thursday of the month in April and October) of each fiscal year of the School District, commencing in April 2015, appropriations from the Commonwealth will be paid by the State Treasurer directly to the Trustee to provide for the 2015 Base Rental Payments due on May 15 and November 15 of each year, commencing May 15, 2015. The Base Rental Payments due under the Sublease are paid pursuant to the Intercept Agreement. Notwithstanding the foregoing, the School District remains primarily liable to make rental payments under the Sublease. See "THE INTERCEPT AGREEMENT" herein.

All public school subsidies made by the Commonwealth are subject to appropriation by the General Assembly. Although the Constitution of the Commonwealth provides that "the General Assembly shall provide for the maintenance and support of a thorough and efficient system of public education to serve the needs of the Commonwealth," the General Assembly is not legally obligated to appropriate such subsidies and there can be no assurance that it will do so in the future. The allocation formula pursuant to which the Commonwealth distributes such subsidies to the various school districts throughout the Commonwealth may be amended at any time by the General Assembly. Moreover, the Commonwealth's ability to make such disbursements will be dependent upon its own financial condition. At various times in the past, the enactment of budget and appropriation laws by the Commonwealth has been delayed, resulting in interim borrowing by certain school districts pending the authorization and payment of state aid. Consequently, there can be no assurance that financial support from the Commonwealth for school districts, either for capital projects or education programs in general, will continue at present levels or that moneys will be payable to a school district if indebtedness of such school district is not paid when due. For a discussion of the Commonwealth subsidies, see APPENDIX A – THE SCHOOL DISTRICT OF PHILADELPHIA — Sources of School District Revenue – Commonwealth Subsidies.

For a description of the features of the School District's general obligation bonds, including the School District 2015 A, B, C and D Bonds, and the intercept provisions of the Pennsylvania Public School Code applicable to such bonds, see "APPENDIX A – SCHOOL DISTRICT DEBT".

Debt Act Remedies

The Debt Act prescribes certain remedies in the event of failure of the School District to budget, appropriate or pay the Base Rental Payments. In the event that the School District fails or refuses to make adequate provision in its budget for any fiscal year for the Base Rental Payments under the Sublease, or fails to appropriate or pay the moneys necessary in such year for the payment of the Base Rental Payments, upon a suit by the Trustee, the Court of Common Pleas shall, after hearing held upon such notice to the School District as the Court may direct and upon a finding of such failure and neglect, by order of mandamus require the Treasurer of the School District to make such payment out of the first tax moneys or other available revenues or moneys thereafter received by the Treasurer, subject to any priority on tax moneys established for tax and revenue anticipation notes.

In the event that the School District fails to make a Base Rental Payment when due and such failure continues for 30 days, the Trustee, subject to any prior rights of holders of tax and revenue anticipation notes and the right of the Court of Common Pleas to require the deposit of moneys in any sinking fund by writ of mandamus, shall have the right to recover the amount due in an action brought in the Court of Common Pleas and any such judgment shall have an appropriate priority upon moneys next coming due into the treasury of the School District and may be a judgment upon which funding bonds may be issued under the Debt Act.

Limitation of Remedies

The rights and remedies of holders of the 2015 Bonds are subject to the provisions of Chapter 9 of the Federal Bankruptcy Code ("United States Bankruptcy Code"). In general, Chapter 9 permits, under prescribed circumstances, a political subdivision of a state to commence a voluntary bankruptcy proceeding and to file a plan of adjustment in the repayment of its debts, if such political subdivision is generally not paying its debts as they became due (unless such debts are the subject of a bona fide dispute), or is unable to pay its debts as they became due. Under the United States Bankruptcy Code, an involuntary petition cannot be filed against a political subdivision.

In order to proceed under Chapter 9, state law must specifically authorize the political subdivision to file a petition under the United States Bankruptcy Code. Pennsylvania law prohibits school districts from filing such a petition unless the petition has first been submitted to, and its filing, together with the plan for adjustment of debts, has been approved in writing by DCED. DCED is required to investigate the financial condition of the school district in order to determine whether the presentation of the petition is justified or represents an unjust attempt to evade payment of some of the petitioner's contractual obligations. DCED has the right to require modification of any proposed plan before granting approval of a petition.

The filing of such a petition in bankruptcy operates as an automatic stay of the commencement or the continuation of any judicial or other proceeding against the petitioner, its property or any officer or inhabitant thereof. The petitioner must file a plan for adjustment of the debts, which may include provisions modifying or altering the rights of creditors generally, or any class of them, secured or unsecured. The United States Bankruptcy Code establishes procedures for confirmation of such a plan, and, under certain circumstances, allows confirmation of a plan over the objection of one or more classes of creditors.

The foregoing references to the United States Bankruptcy Code are informational only, and are not to be construed as any indication that the School District expects to request permission from DCED to resort to the provisions of the United States Bankruptcy Code or that if it did, permission would be granted by DCED, or that any proposed plan of adjustment would include a dilution of the sources of payment and security for the 2015 Bonds.

ADDITIONAL BONDS

The 2015 Bonds are Additional Bonds issued on a parity with other Outstanding Bonds under the Indenture. The Authority may issue Additional Bonds on parity with the Remaining 2003 Bonds, the Remaining 2006 Bonds, the 2012 Bonds and the 2015 Bonds, at the request of the School District. In connection with the issuance of Additional Bonds, additional funds may be established under the Indenture for the benefit of such additional series of bonds. In such event, the owners of the 2015 Bonds will have no claims or rights to any such funds.

THE INTERCEPT AGREEMENT

Pursuant to the Intercept Agreement, the School District instructs and directs the Department to provide notice to the State Treasurer that the State Treasurer shall withhold from the Commonwealth appropriations due to the School District on the Appropriation Payment Dates (currently the last Thursday of the month in April and October of each year for payments to be made in connection with the Remaining 2003 Bonds, the Remaining 2006 Bonds and the 2015 Bonds, and the last Thursday of the month in February and August of each year for payments to be made in connection with the 2012 Bonds), the amounts set forth in Exhibit A to the Intercept Agreement, which amounts equal the interest due on the Remaining 2003 Bonds, the Remaining 2006 Bonds, the 2012 Bonds and the 2015 Bonds on the next succeeding interest payment date for such bonds and one-half of the principal next due on the Remaining 2003 Bonds, the Remaining 2006 Bonds, the 2012 Bonds, and the 2015 Bonds (the "Scheduled Amounts"), and to make payment of the Scheduled Amounts directly to the Trustee, as assignee of the Authority under the Sublease.

To the extent that the State Treasurer receives from the Department the appropriate voucher transmittal on or prior to the applicable Appropriation Payment Date, the State Treasurer agrees to pay the Scheduled Amounts from any Commonwealth appropriations due to the School District directly to the Trustee, as assignee of the Authority under the Sublease. Commonwealth appropriations in excess of the Scheduled Amounts shall be paid directly to the School District by the State Treasurer, to the extent the State Treasurer receives the appropriate voucher transmittal from the Department. If on any Appropriation Payment Date, the appropriations from the Commonwealth are insufficient to pay the Scheduled Amounts, and, after notice from the Trustee, the School District fails to transfer the deficiency to the Trustee, the Department shall voucher the unpaid amount from the next appropriation due to the School District and deliver a voucher transmittal for such amount directly to the State Treasurer for payment to the Trustee until any deficiency is cured.

The Authority and the School District direct the Trustee to credit payments made by the State Treasurer pursuant to the terms of the Intercept Agreement to the Base Rental Payments required to be made by the School District under the Sublease and to use the same to pay debt service on the Remaining 2003 Bonds, the Remaining 2006 Bonds, the 2012 Bonds, and the 2015 Bonds in accordance with the terms and provisions of the Indenture. Amounts paid by the State Treasurer directly to the Trustee, as assignee of the Authority, will satisfy the Base Rental Payments required to be paid by the School District under the Sublease on the applicable Base Rental Payment Date. For a description of the intercept provisions of the Pennsylvania Public School Code Applicable to the School District 2015 A, B, C and D Bonds, see "APPENDIX A – SCHOOL DISTRICT DEBT".

Legislation pertaining to charter schools is currently pending in the Pennsylvania legislature. House Bill 530, which passed the Pennsylvania House and has been sent to the Pennsylvania Senate, contains a number of provisions which, if enacted into law, would adversely affect the efficacy of the debt service intercept provisions contained in the Public School Code which apply to school district debt obligations, including the School District's general obligation bonds and bonds issued by the Authority for the benefit of the School District. In addition, these provisions would, if enacted in their present form, adversely affect the School District's cash flow within each fiscal year and impair the ability of the Pennsylvania Department of Education, if it were otherwise willing to do so, to assist the School District with its cash flow needs by making advances of the basic education subsidy. See "APPENDIX A— SCHOOL DISTRICT OPERATIONS—Proposed Legislation".

If House Bill 530 is enacted in its present form, it could adversely affect the ratings on the 2015 Bonds.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the 2015 Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for a portion of the 2015 Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the 2015 Bonds maturing on June 1 in the years 2021 (Yield 2.190%), 2022 and 2024 (Yield 2.810%) issued in the aggregate principal amount of $20,515,000 (collectively, the “Insured Bonds”). The Policy guarantees the schedule payment of principal and interest on the Insured Bonds when due as set forth in the form of the Policy included as an Appendix G to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM’s financial strength is rated “AA” (stable outlook) by Standard and Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”), “AA+” (stable outlook) by Kroll Bond Rating Agency, Inc. (“KBRA”) and “A2” (stable outlook) by Moody’s Investors Service, Inc. (“Moody’s”). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM’s long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On November 13, 2014, KBRA assigned an insurance financial strength rating of “AA+” (stable outlook) to AGM. AGM can give no assurance as to any further ratings action that KBRA may take.

On July 2, 2014, S&P issued a credit rating report in which it affirmed AGM’s financial strength rating of “AA” (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On July 2, 2014, Moody’s issued a rating action report stating that it had affirmed AGM’s insurance financial strength rating of “A2” (stable outlook). In February 2015, Moody’s published a credit opinion under its new financial guarantor ratings methodology maintaining its existing rating and outlook on AGM. AGM can give no assurance as to any further ratings action that Moody’s may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Capitalization of AGM

At December 31, 2014, AGM's policyholders' surplus and contingency reserve were approximately $3,763 million and its net unearned premium reserve was approximately $1,769 million. Such amounts represent the combined surplus, contingency reserve and net unearned premium reserve of AGM, AGM's wholly owned subsidiary Assured Guaranty (Europe) Ltd. and 60.7% of AGM's indirect subsidiary Municipal Assurance Corp.; each amount of surplus, contingency reserve and net unearned premium reserve for each company was determined in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference

Portions of the following document filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof: the Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (filed by AGL with the SEC on February 26, 2015).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Insured Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at http://www.sec.gov, at AGL's website at http://www.assuredguaranty.com, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AGM or one of its affiliates may purchase a portion of the Insured Bonds or any uninsured 2015 Bonds offered under this Official Statement and such purchases may constitute a significant proportion of the 2015 Bonds offered. AGM or such affiliate may hold such Insured Bonds or uninsured 2015 Bonds for investment or may sell or otherwise dispose of such Bonds or uninsured bonds at any time or from time to time.

AGM makes no representation regarding the Insured Bonds or the advisability of investing in the Insured Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE".

SCHOOL DISTRICT DEBT SERVICE REQUIREMENTS[(a)]

The following table sets forth total estimated debt service on the 2015 Bonds, other lease rental debt and the School District's outstanding general obligation bonds as of March 1, 2015.

Fiscal Year	2015 Bonds Principal	2015 Bonds Interest	2015 Bonds Total Debt Service	Lease Rental Debt Service	General Obligation Debt Service[(b)(c)(d)(e)]	Total Debt Service[(d)(e)]
2015	$ -	$ -	$ -	$ 41,774,075	$ 45,047,717	$ 86,821,792
2016	-	4,329,352	4,329,352	67,065,519	194,391,279	265,786,150
2017	5,000	3,886,700	3,891,700	67,072,838	194,012,236	264,976,773
2018	8,065,000	3,886,600	11,951,600	58,766,650	190,405,006	261,123,256
2019	8,390,000	3,564,000	11,954,000	58,765,463	189,029,048	259,748,511
2020	8,805,000	3,144,500	11,949,500	58,762,519	185,930,916	256,642,934
2021	9,260,000	2,704,250	11,964,250	58,766,569	184,898,654	255,629,473
2022	9,710,000	2,241,250	11,951,250	60,915,869	181,073,573	253,940,692
2023	10,200,000	1,755,750	11,955,750	65,800,475	166,795,447	244,551,672
2024	10,675,000	1,278,250	11,953,250	87,684,975	144,039,109	243,677,334
2025	11,210,000	744,500	11,954,500	88,528,225	143,540,308	244,023,033
2026	3,680,000	184,000	3,864,000	97,439,975	142,957,129	244,261,104
2027	-	-	-	102,854,225	131,102,140	233,956,365
2028	-	-	-	107,697,725	126,045,942	233,743,667
2029	-	-	-	108,350,700	122,292,938	230,643,638
2030	-	-	-	108,346,450	121,617,956	229,964,406
2031	-	-	-	133,591,875	92,110,612	225,702,487
2032	-	-	-	167,348,575	44,625,652	211,974,227
2033	-	-	-	145,071,263	44,391,852	189,463,114
2034	-	-	-	20,377,800	118,596,172	138,973,972
2035	-	-	-	20,377,545	40,323,660	60,701,205
2036	-	-	-	18,201,178	40,050,813	58,251,990
2037	-	-	-	-	36,070,589	36,070,589
2038	-	-	-	-	35,772,749	35,772,749
2039	-	-	-	-	33,244,913	33,244,913
2040	-	-	-	-	14,706,879	14,706,879
Total[(e)]	$80,000,000	$27,719,152	$107,719,152	$1,743,560,485	$2,963,073,289	$4,814,352,925

(a) Reflects the refunding of the Refunded Bonds.
(b) Includes Series C of 2009, Series F of 2010, Series G of 2010 and Series H of 2010 at an assumed interest rate of 1.25% per annum.
(c) Includes Qualified Zone Academy Bonds debt service.
(d) Includes gross debt service on the Build America Bonds Series B of 2010 and Qualified School Construction Bonds Series A of 2011.
(e) Totals may not add up due to rounding.

ABSENCE OF LITIGATION AFFECTING THE 2015 BONDS

There is no litigation of any nature now pending or, to the knowledge of the Authority or the School District, threatened restraining or enjoining the issuance, sale, execution or delivery of the 2015 Bonds or in any way contesting or affecting the validity of the 2015 Bonds, the Indenture, the Lease, the Sublease, the Intercept Agreement or any proceedings of the Authority taken in connection with the issuance or sale of the 2015 Bonds, the pledge or application of any moneys or security provided for the payment of the 2015 Bonds, or the existence or powers of the Authority. For a summary of certain legal proceedings affecting the School District, see APPENDIX A – THE SCHOOL DISTRICT OF PHILADELPHIA – Legal Proceedings.

LEGALITY FOR INVESTMENT

Under the Act, the 2015 Bonds are securities in which all officers of the Commonwealth and its political subdivisions and municipal officers and administrative departments, boards and commissions of the Commonwealth, all banks, bankers, savings banks, trust companies, savings and loan associations, investment companies and other persons carrying on a banking business, all insurance companies, insurance associations and other persons carrying on an insurance business, and all administrators, executors, guardians, trustees and other fiduciaries, and all other persons whatsoever who now or may hereafter be authorized to invest in bonds or other obligations of the Commonwealth, may properly and legally invest any funds, including capital, belonging to them or within their control, and the 2015 Bonds are securities which may properly and legally be deposited with, and received by, any Commonwealth or municipal officers or agencies of the Commonwealth for any purpose for which the deposit of bonds or other obligations of the Commonwealth is now or may hereafter be authorized by law.

TAX MATTERS

Federal

Exclusion of Interest From Gross Income. In the opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions, interest on the 2015 Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes assuming continuing compliance by the Authority and the School District with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the 2015 Bonds will not be a specific preference item for purposes of computing the federal alternative minimum tax ("AMT"); however, interest on the 2015 Bonds held by certain corporations is included in the computation of "Adjusted Current Earnings", a portion of which is taken into account in determining the AMT imposed on such corporations.

In rendering its opinion, Bond Counsel has assumed compliance by the Authority with its covenants set forth in the Indenture and the Authority's representations in the Tax Compliance Certificate that are intended to comply with the provisions of the Code relating to actions to be taken by the Authority in respect of the 2015 Bonds, after issuance thereof to the extent necessary to effect or maintain the exclusion from federal gross income of the interest on the 2015 Bonds. Bond Counsel has also assumed compliance by the School District with its covenants set forth in the School District Resolution and the School District's representations in the Tax Compliance Certificate relating to actions to be taken by the School District after issuance of the 2015 Bonds necessary to effect or maintain the exclusion from gross income of the interest on the 2015 Bonds for federal income tax purposes. These respective representations and covenants relate to, *inter alia*, the use of and investment of proceeds of the 2015 Bonds and the covenants of the School District with respect to the School District 2015 A Bonds, 2015 B Bonds and 2015 D Bonds, and rebate to the United States Department of Treasury of specified arbitrage earnings, if any. Failure to comply with such covenants could result in interest on the 2015 Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the 2015 Bonds.

Original Issue Premium. The initial public offering prices of the 2015 Bonds are more than the principal amounts payable on the 2015 Bonds at their respective maturities. Such excess, over the amount payable at maturity of a 2015 Bond is amortizable bond premium, which is not deductible from gross income for federal income tax purposes.

Amortizable bond premium will reduce the owner's tax basis of a 2015 Bond in each year by the amount of amortization for such year, which basis is used to determine, for federal income tax purposes, the amount of gain or loss upon the sale, redemption at maturity or other disposition of a 2015 Bond. Owners of 2015 Bonds should consult their own tax advisors with respect to the calculation of the amount of bond premium which will be treated for federal income tax purposes as having amortized for any taxable year (or portion thereof) of the owner and with respect to other federal, state and local tax consequences of owning and disposing of 2015 Bonds.

Other Federal Tax Matters. Ownership or disposition of the 2015 Bonds may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies and taxpayers who have an initial basis in the 2015 Bonds greater or less than the principal amount thereof, individual recipients of Social Security or Railroad Retirement benefits and taxpayers, including banks, thrift institutions and other financial institutions subject to Section 265 of the Code, who may be deemed to have incurred or continued indebtedness to purchase or to carry the 2015 Bonds.

Bond Counsel is not rendering any opinion regarding any federal tax matters other than those described under the caption "Federal - Exclusion of Interest from Gross Income" and expressly stated in the form of Bond Counsel opinion included as APPENDIX F hereto. Purchasers of the 2015 Bonds should consult their independent tax advisors with regard to all federal and other tax matters.

State

Pennsylvania. In the opinion of Bond Counsel, under the laws of the Commonwealth as presently enacted and construed, the 2015 Bonds are exempt from personal property taxes in the Commonwealth and interest on the 2015 Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax; however, under the laws of the Commonwealth, as enacted and construed on the date hereof, any profits, gains, or income derived from the sale, exchange, or other disposition of the 2015 Bonds will be subject to Pennsylvania taxes and local taxes within the Commonwealth.

Other. The 2015 Bonds and interest thereon may be subject to state and local taxes in jurisdictions other than the Commonwealth of Pennsylvania under applicable state and local tax laws.

Bond Counsel is not rendering any opinion on state tax matters other than those described under the caption "State – *Pennsylvania*" and expressly stated in the form of Bond Counsel opinion included in Appendix F hereto.

Purchasers of the 2015 Bonds should consult their independent tax advisors with regard to all state and local tax matters.

LEGAL MATTERS

The issuance and delivery of the 2015 Bonds are subject to approval as to legality by Eckert Seamans Cherin & Mellott, LLC of Philadelphia, Pennsylvania, Bond Counsel to the Authority. The proposed Form of Opinion of Bond Counsel is included as APPENDIX F to this Official Statement. Certain legal matters will be passed upon for the Authority by Hartman Underhill & Brubaker, LLC, Lancaster, Pennsylvania. Certain legal matters will be passed upon for the School District by the Office of General Counsel of the School District. Certain legal matters will be passed upon for the Underwriters by Cozen O'Connor and Ahmad Zaffarese LLC, both of Philadelphia, Pennsylvania, Co-Counsel to the Underwriters.

FINANCIAL ADVISOR

In connection with the issuance and sale of the 2015 Bonds, the School District has retained the firm of Phoenix Capital Partners, LLP, an independent registered municipal advisor, as its financial advisor. Such financial advisor is not obligated to undertake, and has not undertaken, either to make an independent verification of or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement and the appendices hereto. The financial advisor is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other securities.

CERTAIN RELATIONSHIPS

Eckert Seamans Cherin & Mellott, LLC, Bond Counsel, represents the School District in matters unrelated to the issuance of the 2015 Bonds, including serving as bond counsel on the School District 2015 A, B, C and D Bonds. Ahmad Zaffarese LLC, Co-Underwriters' Counsel, provides certain legal services to the School District regarding matters unrelated to the financing. A member of Cozen O'Connor, Co-Underwriters' Counsel, sits on the Board of Directors of Assured Guaranty, Ltd., the parent of AGM. The Underwriters for the 2015 Bonds are also acting as the underwriters for the School District 2015 A, B, C and D Bonds.

UNDERWRITING

The Bonds are being purchased by the Underwriters listed on the cover page hereof (the "Underwriters") for whom Janney Montgomery Scott LLC is acting as Representative. The Underwriters have agreed to purchase the 2015 Bonds at an aggregate purchase price of $91,526,028.38 (consisting of the par amount of the 2015 Bonds of $80,000,000, plus original issue premium of $11,838,515.80, less underwriters' discount of $312,487.42).

The Underwriters may offer and sell the 2015 Bonds to certain dealers (including dealers depositing the 2015 Bonds into investment trusts) and others at prices lower than such initial public offering prices as are stated on the inside front cover page hereof. The public offering prices may be changed, from time to time, by the Underwriters.

Loop Capital Markets, one of the Underwriters of the 2015 Bonds ("Loop Capital Markets"), has provided the following two sentences for inclusion in this Official Statement.

Loop Capital Markets has entered into distribution agreements (each a "Distribution Agreement") with each of UBS Financial Services Inc ("UBSFS") and Deutsche Bank Securities Inc. (DBS) and Credit Suisse Securities ("CS") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Distribution Agreement, each of UBSFS, DBS and CS will purchase the 2015 Bonds from Loop Capital Markets at the original issue prices less a negotiated portion of the selling concession applicable to any 2015 Bonds that such firm sells.

Neither the Authority nor the School District have been furnished with any documents relating to the Distribution Agreements and neither the Authority nor the School District have entered into any agreement or arrangement with UBSFS, DBS or CS with respect to the offering and sale of the 2015 Bonds.

In connection with the issuance of the 2015 Bonds, the School District suggested to the Underwriters that it consider retaining the law firms of Cozen O'Connor and Ahmad Zaffarese LLC, to serve as Co-Underwriters' Counsel from a list of approved counsel maintained by the School District. The selection of Co-Underwriters' Counsel was made by the independent determination of the Underwriters. The Underwriters are also acting as the underwriters for the School District 2015 A, B, C and D Bonds.

RATINGS

Moody's Investors Service ("Moody's"), Standard & Poor's Rating Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") and Fitch Ratings, Inc. ("Fitch") have assigned their respective municipal bond ratings of "A1" with a Stable outlook, "A+" with a Stable outlook, and "A+" with a Stable outlook, to the 2015 Bonds, based on intercept provisions of the School Code.

Moody's has assigned an underlying rating with respect to the 2015 Bonds, without regard to the intercept provision of the School Code, of "Ba3" with a Negative outlook. Fitch has assigned an underlying rating with respect to the 2015 Bonds, without regard to the intercept provisions of the School Code, of "BB-" with a Negative outlook. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS" herein.

Moody's and S&P have assigned the Insured Bonds ratings of "A2" with a Stable outlook and "AA" with a Stable outlook, respectively, based on the issuance of the Policy.

No application has been made to any other ratings service for a rating on the 2015 Bonds. The School District furnished to Moody's, S&P and Fitch certain materials and information in addition to that provided herein. Generally, rating agencies base their ratings on such information and materials, and on investigations, studies and assumptions. Any explanation of the significance of each of such ratings may only be obtained from the rating agency furnishing the rating. A rating is not a recommendation to buy, sell or hold securities. There is no assurance that any rating will be maintained for any given period of time or that it may not be raised, lowered or withdrawn entirely, if in the rating agency's judgment circumstances so warrant. Any downward change in or withdrawal of such ratings, or any of them, may have an adverse effect on the price at which the 2015 Bonds may be resold.

Any ratings assigned represent only the views of Moody's, S&P and Fitch. Further information is available upon request from:

Moody's Investors Service 7 Trade Center at 250 Greenwich Street New York, NY 10007 (212) 553-0377	Standard & Poor's Ratings Services 55 Water Street New York, NY 10014 (212) 438-1000	Fitch Ratings, Inc. One State Street Plaza New York, NY 10004 (212) 908-0500

Neither the Authority, the School District nor the Underwriters have assumed any responsibility to maintain any particular rating on the 2015 Bonds.

CONTINUING DISCLOSURE AND ADDITIONAL INFORMATION

Continuing Disclosure Undertakings

In order to assist the Underwriters in complying with the requirements of Rule 15c2-12, as amended ("Rule 15c2-12"), promulgated under the Securities Exchange Act of 1934, as amended, the School District will enter into the Continuing Disclosure Agreement relating to the 2015 Bonds with the Trustee, in substantially the form of APPENDIX E to this Official Statement, which should be read in its entirety.

The School District has previously entered into various continuing disclosure agreements relating to bonds issued on its behalf by the Authority and to the School District's general obligation bonds. For continuing disclosure agreements entered into by the School District prior to 2006 (the "Pre-2006 Continuing Disclosure Agreements"), the School District is required to provide its annual financial information within 180 days of the close of each fiscal year of the School District. For the fiscal years ending June 30, 2007 through June 30, 2014, the annual financial information required to be posted within 180 days was not posted with the applicable repository or EMMA by the date required (although such annual financial information was subsequently posted) due to delays in the completion of the audited financial statements and the issuance of the City Controller's audit report on the School District's annual financial statements.

Upon issuance of the 2015 Bonds, the School District will have two Pre-2006 Continuing Disclosure Agreements that require the School District to provide its annual financial information within 180 days of the close of each fiscal year of the School District. All of the School District's other continuing disclosure agreements relating to its general obligation bonds, and bonds issued by the Authority for the benefit of the School District, including the Continuing Disclosure Agreement, require the School District to file its annual financial statements with EMMA within 240 days of the close of each fiscal year of the School District. The School District has previously filed in the past five years, and expects to continue to file, its annual financial information in a timely manner pursuant to such agreements.

Under certain of the continuing disclosure agreements of the School District, event notices with respect to certain bond rating changes related to third-party credit enhancer downgrades, the state intercept program and other ratings (including underlying ratings of the School District) were not filed in a timely manner.

As of the date of this Official Statement, the School District has filed all of its required annual financial information for the last five fiscal years of the School District ended June 30, 2014 and has filed all notices that it is required to file under such continuing disclosure agreements with EMMA, so that all current rating changes are published and available on EMMA.

All of the School District's continuing disclosure agreements provide for a single dissemination agent, currently, The Bank of New York Mellon Trust Company, N.A. The School District is implementing modifications to its continuing disclosure procedures to ensure timely compliance with all of its continuing disclosure obligations, including its financial information filings and notices of any rating changes.

Attention is called to the form of the Continuing Disclosure Agreement, which is attached to this Official Statement as APPENDIX E.

Other Information

Certain additional information relating to the School District is available, from time to time, at the School District at its website (www.philasd.org). Information on the School District's website is not incorporated by reference in this Official Statement and prospective purchasers of 2015 Bonds should rely only on the information contained in this Official Statement. Persons wishing to obtain copies of the School District's Annual Financial Report, and operating or capital budgets should address such requests to: Chief Financial Officer, The School District of Philadelphia, Administration Building, 440 North Broad Street, Philadelphia, Pennsylvania 19130. The School District may charge a fee for costs of reproduction and mailing of any information requested.

Financial Statements

The School District has included its audited financial statements for Fiscal Year 2014 in APPENDIX B.

The School District's financial statements are audited by the City Controller. The City Controller has not participated in the preparation of this Official Statement and has not participated in the preparation of any budget estimates or projections of the School District included in APPENDIX A hereto. Consequently, the City Controller expresses no opinion on any of the data contained in this Official Statement relating to the School District other than the financial statements included in APPENDIX B hereto.

VERIFICATION

Grant Thornton LLP, the Verification Agent, will deliver to the Authority and the School District, on or before the date of the delivery of the 2015 Bonds, its Verification Report indicating that it has verified the mathematical accuracy of the information provided by the Authority and the School District and their representatives with respect to the refunding requirements of the Refunded 2006A Bonds and the yield on the 2015 Bonds and the Escrow Fund. Included within the scope of its engagement will be a verification of: (a) the mathematical accuracy of the computations of the adequacy of the cash and maturing principal of the securities to be placed in the Escrow Fund to meet the scheduled payment of interest on the Refunded 2006A Bonds until redemption or maturity, as applicable, and the payment of the redemption price or principal of the Refunded 2006A Bonds on their respective redemption or maturity dates, as applicable, as described under "PLAN OF FINANCE"; and (b) the mathematical accuracy of the computations supporting the conclusion of Bond Counsel that the 2015 Bonds are not "arbitrage bonds" under the Code and the regulations promulgated thereunder.

The verification performed by the Verification Agent will be based solely upon data, information and documents provided to the Verification Agent by the Authority and the School District and their representatives. The Verification Report will state that the Verification Agent has no obligation to update the Verification Report for events occurring, or data or information coming to its attention, subsequent to the date of the Verification Report.

MISCELLANEOUS

The references herein to the Indenture, the Lease, the Sublease, the Intercept Agreement, the Continuing Disclosure Agreement, the Escrow Deposit Agreement, the Act, the Debt Act, the School Code and other materials are only brief outlines of certain provisions thereof and do not purport to summarize or describe all of the provisions thereof, copies of which will be furnished by the Authority upon request.

The information contained in this Official Statement has been compiled or prepared from official and other sources deemed to be reliable and, although not guaranteed as to completeness or accuracy, is believed to be correct as of this date. Statements involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. All estimates and assumptions of financial and other information are based on information currently available, are believed to be reasonable and are not to be construed as assurances of actual outcomes. All estimates of future performance or events constituting "forward-looking" statements may or may not be realized because of a wide variety of economic and other circumstances.

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The information contained in this Official Statement should not be construed as representing all of the conditions affecting the Authority, the School District or the 2015 Bonds. Neither any advertisement for the 2015 Bonds nor this Official Statement is to be construed as constituting a contract with the purchasers of the 2015 Bonds.

STATE PUBLIC SCHOOL BUILDING AUTHORITY

By /s/Robert Baccon
Robert Baccon
Executive Director

APPROVED:
THE SCHOOL DISTRICT OF PHILADELPHIA

By: /s/Marjorie G. Neff
Marjorie G. Neff
Chair, School Reform Commission

APPENDIX A

THE SCHOOL DISTRICT OF PHILADELPHIA

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THE SCHOOL DISTRICT OF PHILADELPHIA

The School District of Philadelphia ("School District") is a separate and independent home rule district of the first class established by the Philadelphia Home Rule Charter ("Home Rule Charter"). It is the largest school district in the Commonwealth of Pennsylvania ("Commonwealth" or "State") with estimated Fiscal Year 2015 enrollment as of December 2014, of approximately 206,500 students, including approximately 64,300 charter school students and approximately 3,700 students attending alternative educational programs. The School District has the eighth largest enrollment in the nation and employs approximately 16,100 full-time professional and nonprofessional persons with one central administrative office and eight regional or learning networks.

The boundaries of the School District are coterminous with the boundaries of the City of Philadelphia, Pennsylvania ("City"). The School District is an agency of the Commonwealth created to assist in the administration of the General Assembly's duties under the Pennsylvania 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 an agency of the Commonwealth, the School District is governed by both the Public School Code of 1949, as amended ("School Code"), and the Home Rule Charter (to the extent not inconsistent with Section 696 of the School Code) and is subject to the jurisdiction of the Secretary of Education of the Commonwealth of Pennsylvania ("Secretary of Education").

The School District also serves as the agent for Intermediate Unit No. 26 ("IU"), an entity established by the Commonwealth to provide programs in and for special education, special education transportation, non-public school services and related management services. All IU services are performed by the School District pursuant to contracts between it and the IU. The School District's governing body ("Governing Body") also constitutes the Board of Directors of the IU, and the boundaries of the IU are coterminous with those of the School District.

The City was authorized to adopt the Home Rule Charter provisions establishing the School District as a home rule school district by the First Class City Public Education Home Rule Act, approved August 9, 1963, P.L. 643 ("Home Rule Act"). The Home Rule Act expressly limits the powers of the City with respect to the School District 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 with respect to setting maximum tax rates for school purposes as authorized by the General Assembly of the Commonwealth ("General Assembly"). Thus, the School District is a distinct legal entity separate and apart from the City. The Home Rule Act and the Home Rule Charter vest title to all property, real and personal, tangible and intangible, all easements and all evidences of ownership, in whole or in part, in or to the School District.

The Home Rule Charter requires the Governing Body of the School District to levy taxes annually, within the limits and upon the subjects authorized by the General Assembly or the Council of the City of Philadelphia ("City Council"), in amounts sufficient to provide funds for operating expenses, debt service charges and for the costs of any other services incidental to the operation of public schools.

The School District's Fiscal Year is July 1st to June 30th, and is identical with those of the City and the Commonwealth. The term "Fiscal Year" or "FY" when followed by a year, refers to the Fiscal Year ended June 30th of that year. For example, "Fiscal Year 2014" or "FY2014" refers to the Fiscal Year ending June 30, 2014.

Board of Education

Except during a period of distress following a declaration of financial distress by the Secretary of Education, as exists currently and as described under the captions "Current Governance of the School District" and "School Reform Commission," the School District is governed by a Board of Education ("Board"), which consists of nine members appointed by the Mayor of the City ("Mayor") from a list of persons nominated by an Educational Nominating Panel established according to provisions set forth in the Home Rule Charter. The Board is responsible for the administration, management and operation of the School District. Pursuant to the Home Rule Charter: (i) members of the Board are appointed by the Mayor for four-year terms commencing on May 1st of the year a Mayor's term of office began; (ii) members serve no more than three full terms and the balance of an unexpired term; (iii) members serve at the pleasure of the Mayor; and (iv) the Board, the Mayor and City Council are required to meet publicly at least twice during the school year to discuss the administration, management, operations and finances of the School District in order to develop and adopt their activities for the improvement and benefit of plans to coordinate public education in Philadelphia.

Specific duties of the Board include, among other things, formulation of educational policy, the adoption of the annual operating budget, the capital budget and a capital program, the submission of an annual request to the Mayor and City Council for authority to levy certain taxes, and the incurrence of indebtedness of the School District. The Board is to regularly monitor proposed changes within the overall budget framework, including, for example, personnel transactions and contractual commitments.

Current Governance of the School District

In 1998 and 2001, the School Code was revised by the General Assembly to include criteria for a determination by the Secretary of Education that a school district of the first class is distressed and the effects of such a determination. Pursuant to the School Code, if the Secretary of Education declares a school district of the first class to be distressed, the powers and duties of the Board shall be suspended, and a five-member school reform commission shall be appointed which shall thereafter exercise the powers and duties of the Board.

On December 21, 2001, then Governor Mark Schweiker and then Mayor John F. Street announced that they reached an agreement which would establish a partnership between the Commonwealth and the City to address the School District's financial strain and academic needs. The School District was then declared financially distressed by the Secretary of Education, effective December 22, 2001. A school reform commission ("School Reform Commission") was established and members were appointed. The School District is currently governed by the School Reform Commission. The School Code provides that the members of the Board continue to serve during the time the School District is governed by the School Reform Commission, and that the establishment of the School Reform Commission shall not interfere with the regular selection of the members of the Board. During the tenure of the School Reform Commission, the Board will perform those duties, if any, delegated to it by the School Reform Commission. As of the date hereof, the School Reform Commission has not delegated any duties to the Board.

References herein to all powers and duties of the Governing Body or actions taken by the Governing Body shall, unless expressly stated otherwise, following the declaration of financial distress by the Secretary of Education and until rescinded, mean the School Reform Commission, and at all other times shall mean the Board.

School Reform Commission

Powers of the School Reform Commission. During the period of financial distress, all of the powers and duties of the Board granted under the School Code or any other law are suspended and all such powers and duties are vested in the School Reform Commission. The School Reform Commission is responsible for the operation, management, and educational program of the School District, including all financial matters relating to the School District.

In addition to the powers and duties vested in the Board, including the power to levy taxes and incur debt, the School Reform Commission is vested with the following additional powers and duties under the School Code following a declaration of and during a period of distress: (1) to suspend or dismiss the superintendent or any person acting in an equivalent capacity; (2) to appoint such persons and other entities as needed to conduct fiscal and performance audits and other necessary analyses; (3) to enter into agreements with persons and for-profit or nonprofit organizations to operate one or more schools; (4) to approve the establishment of a charter school or the conversion of an existing school to a charter school pursuant and subject to the provisions of the School Code; (5) to suspend or revoke the charter of a school pursuant to the provisions of the School Code; (6) to suspend the requirements of the School Code and the regulations of the State Board of Education (subject to the provisions of the School Code pertaining to charter schools); (7) to employ professional and senior management employees who do not hold state certification, if the School Reform Commission has approved the qualifications of the individual and at a salary established by it; (8) to enter into agreements with persons and for-profit or nonprofit organizations providing educational or other services to or for the School District; (9) notwithstanding any other provisions of the School Code, to close or reconstitute a school, including the reassignment, suspension or dismissal of professional employees; (10) to suspend professional employees without regard for specific provisions of the School Code relating, among other things, to seniority; (11) to appoint managers, administrators and for-profit or nonprofit organizations to oversee the operations of a school or group of schools; (12) to reallocate resources, amend school procedures, develop achievement plans and implement testing or other evaluation procedures for educational purposes; (13) to supervise and direct principals, teachers and administrators; (14) to negotiate any memoranda of understanding under a collective bargaining agreement in existence on April 27, 1998; (15) to negotiate new collective bargaining agreements; (16) to delegate to a person, including an employee of the School District, or a for-profit or nonprofit organization, powers it deems necessary to carry out the purposes of Article VI (School Finances) of the School Code, subject to the supervision and direction of the School Reform Commission; and (17) to employ, contract with or assign persons and for-profit or nonprofit organizations to review the financial and educational programs of school buildings and make recommendations to the School Reform Commission regarding improvements to the financial or educational programs of public schools.

Section 696 of the School Code also vests the School Reform Commission with the powers of a special board of control granted under Section 693 of the School Code. A special board of control has the power to require a board of directors of a school district, within sixty days of the day the special board of control assumes authority, to revise the school district's budget for the purpose of effecting such economies as it deems necessary to improve the school district's financial condition as follows: (1) to cancel or to renegotiate any contract other than teacher contracts to which the board or the school district is a party, if such cancellation or renegotiation of contracts will effect needed economies in the operation of public schools; (2) to increase tax levies in such amounts and at such times as is permitted by the School Code; (3) to appoint a special collector of delinquent taxes for the school district who need not be a resident of the school district and who shall exercise all the rights and perform all the duties imposed by law on tax collectors for school districts (however, the superseded tax collector shall not be entitled to any commissions on the taxes garnished by the special collector of delinquent taxes); (4) to direct the special school auditors of the department or to appoint a competent independent public accountant to audit the accounts of the distressed school district; (5) to dispense with the services of such nonprofessional employees as in its judgment are not actually needed for the economical operation of the school system; and (6) to suspend, in accordance with the provisions of Section 1124 of the School Code, such number of professional and temporary professional employees as may be necessary to maintain a pupil-teacher ratio of not less than twenty-six pupils per teacher for the combined elementary and secondary school enrollments. The use of the powers of the School Reform Commission may be limited. See: SCHOOL DISTRICT LABOR RELATIONS herein for a description of a recent Commonwealth Court decision affecting the use of such powers.

Collective Bargaining Agreements and Labor Relations. Pursuant to Section 696 of the School Code, and during any period that the School District is subject to the School Reform Commission's control, all school employees are prohibited from conducting a strike. Any employee violating this provision will be subject to decertification.

In addition, Section 696 of the School Code provides that no distressed school district shall be required to engage in collective bargaining negotiations or enter into memoranda of understanding or other agreements regarding any of the following issues: (i) contracts with third parties for the provision of goods and services including educational services or the potential impact of such contracts on employees; (ii) decisions related to reductions in force; (iii) staffing patterns and assignments, class schedules, academic calendars, places of instruction, pupil assessments and teacher preparation time; (iv) the use, continuation or expansion of programs designated by the School Reform Commission as a pilot or experimental program; (v) the approval or designation of a school as a charter or magnet school; or (vi) the use of technology to provide instructional or other services.

Section 696 further provides that a collective bargaining agreement for professional employees entered into after the expiration of the agreement in effect on the date of the declaration of distress shall provide for the following: (i) a school day for professional employees that is at least equal to the state average as determined by the Department of Education ("Department") and any extension resulting from this requirement will be used exclusively for student instructional time; (ii) the number of instructional days will be at least equal to the state average number of instructional days; and (iii) the School Reform Commission shall not increase compensation for employees solely to fulfill the preceding requirements concerning length and number of instructional days.

Any provision in a contract in effect on the date of the declaration of distress that is in conflict with the provisions of Section 696 of the School Code shall be discontinued in any new or renewed contract. Except as specifically provided in Section 696, nothing shall eliminate, supersede or preempt any provision of an existing collective bargaining agreement until the actual expiration of the collective bargaining agreement unless otherwise authorized by law. Should a collective bargaining agreement in effect on the date of the declaration of distress expire and a subsequent collective bargaining agreement fail to be ratified, the School Reform Commission will establish a personnel salary schedule to be used until a new collective bargaining agreement is ratified.

The current members of the School Reform Commission are:

Name	**Title**	**Appointment**	**Term Expires**
Marjorie G. Neff	Chair	August 2014 (a)	January 2017
William J. Green	Commissioner	January 2014 (b)	January 2019
Feather O. Houstoun	Commissioner	May 2012 (b)	January 2017
Farah Jimenez	Commissioner	January 2014 (b)	January 2019
Sylvia P. Simms	Commissioner	January 2013 (a)	January 2017

(a) Appointed by the Mayor. .
(b) Appointed by the Governor.

The School Reform Commission has established standing committees: the Finance Committee, chaired by Commissioner Houstoun, the Charter Committee chaired by Commissioner Jimenez, and the Academics Committee chaired by Commissioner Neff.

The following are brief resumes of the members of the School Reform Commission:

William J. Green, *Commissioner*. Mr. Green was appointed to the SRC by Governor Tom Corbett in January, 2014, confirmed by the Senate and took the Oath of Office in February, 2014. Immediately prior to his appointment he served as City Councilman At-Large from 2008-2014. In City Council his work focused on fiscal discipline, government accountability, the application of technology, and improving the quality of life for city residents.

Prior to seeking public office, Bill Green established a successful career in the private sector. Before attending Auburn University, Mr. Green traded options and futures in New York, London, and Amsterdam. He later obtained a law degree from the University of Pennsylvania. In the years since, he has founded several businesses, represented top Fortune 500 companies and start-ups as a corporate lawyer, and served as President of VistaScape Security Systems. He is Special Counsel at the law firm Dilworth Paxson LLP.

Feather O. Houstoun, *Commissioner*. Ms. Houstoun is senior advisor to the Wyncote Foundation. Before joining the Wyncote Foundation, she was president of the William Penn Foundation. Ms. Houstoun has extensive experience and a distinguished career in the public sector where she has worked at every level of government, including serving as Pennsylvania's Secretary of Public Welfare, Treasurer of the State of New Jersey, and chief financial officer of the Southeastern Pennsylvania Transportation Authority. Ms. Houstoun is a regular columnist for Management Insights, a joint publication of Governing Magazine and the Ash Institute of Democratic Governance at Harvard's Kennedy School of Government. Ms. Houstoun was also an executive with AmeriChoice, and a senior visiting scholar at the University of Pennsylvania. Ms. Houstoun is a graduate of the University of Arizona and the University of Texas.

Farah Jimenez, *Commissioner*. Ms. Jimenez is the former President and CEO of the People's Emergency Center ("PEC") - a comprehensive social services agency that serves vulnerable and homeless families throughout West Philadelphia. Established in

1972, PEC operates 240 housing units and five skills-based education centers offering Employment and Training; Parenting and Early Childhood Education; Empowerment and Life Skills; Digital Inclusion and Technology; and Financial Opportunity. Before arriving at PEC, Ms. Jimenez spent 13 years at the helm of Mt. Airy USA, a nonprofit community development corporation that led the transformation of Mt. Airy's Germantown Avenue into a thriving dining and retail destination. Actively engaged in public service, Ms. Jimenez serves on several nonprofit boards and committees. In 2010, Pennsylvania Secretary of Education Ronald Tomalis appointed Ms. Jimenez to his Homeless Children's Education Task Force. A public school graduate, Ms. Jimenez earned her bachelor's degree from the University of Pennsylvania in 1990 and her juris doctorate from the University of Pennsylvania Law School in 1996.

Marjorie G. Neff, *Chair*. Ms. Neff is a career educator with 40 years experience. Most recently she served as the Principal of the Julia R. Masterman School which is a special admissions School District school serving 1200 Philadelphia students in grades 5-12. Prior to Masterman, she was the principal of Samuel Powel Elementary School in West Philadelphia. Powel serves 300 students in grades K-4. Ms. Neff began her career as a middle school teacher at Ada Lewis Middle School in Mt. Airy and later taught learning disabled and emotionally disturbed students at Fulton School in Germantown. She also served as an Instructional Support Teacher, providing instructional and technical support to Title I schools in West Philadelphia. Ms. Neff holds a Superintendent's Letter of Eligibility from St. Joseph's University, and an Elementary Principal's Certification and Special Education Supervisor's Certification from Temple University. She received her master of education degree from Temple and a bachelor of arts degree from Westminster College.

Sylvia P. Simms, *Commissioner*. Ms. Simms has dedicated her life to helping Philadelphia's children through sustained parental advocacy, voicing concerns regarding education equity and volunteer service. In 2009, she founded "PARENT POWER," a family driven organization focused on protecting the rights of young people and eliminating the academic achievement gap in Philadelphia's schools. Presently, Ms. Simms works for the Comcast Corporation and the Urban Affairs Coalition as Outreach Project Coordinator for Broadband Adoption which seeks to expand digital access to underserved communities in Philadelphia. Prior to this position, she served as a bus attendant for students with disabilities for more than 15 years as a School District employee. Ms. Simms has been honored by local community organizations for her long-lasting commitment to Philadelphia's youth and championing for passionate parental involvement at every level. She has sat on the Mayor's Office of Community Service Advisory Board, has represented the School District on the PA State and National Parent Advisory Council and most recently served on the Superintendent Task Force that selected Dr. William R. Hite, Jr. as the Superintendent for Philadelphia's schools.

Senior Management and Administration

CEO/Superintendent of Schools. The Superintendent of Schools ("Superintendent") is the chief executive officer of the School District and is responsible for the administration and operation of the public school system and the supervision of all matters subject to the policies and directions of the Governing Body. The Superintendent identifies goals and develops policies relating to the operation of the School District, submits such policies to the Governing Body with recommendations for their adoption, and coordinates the implementation of immediate and long-range strategies to achieve the objectives of those adopted. The Superintendent is accountable for ensuring fiscal responsibility and the effective and equitable allocation of all School District resources. The Superintendent submits reports showing the financial condition of the School District and the annual School District budget, including periodic updates to the Governing Body. The Superintendent supervises the work of the School District's leadership – Chief Academic Support Officer, Chief Financial Officer, Chief Operating Officer, the Chief Information Officer, Chief Talent Officer and the Chief of Student Support Services. The Superintendent represents the School District before the media, government officials, community organizations and other stakeholders. According to the Home Rule Charter and the School Code, the Superintendent is the Treasurer and Secretary of the Governing Body.

Deputy Superintendent of Schools. The Deputy Superintendent serves as the second line officer to the Superintendent managing the School District's day-to-day operations and providing assistance in the implementation and administration of all School District functions. The Deputy Superintendent oversees and directs the activities of the Chiefs of Academic Support, Student Support Services, Finance, Operations, Information and Talent. The Deputy Superintendent also ensures compliance with and effective implementation of all administrative policies as authorized by the Governing Body.

Chief Academic Support Officer. The Chief Academic Support Officer reports directly to the Superintendent and is responsible for establishing and meeting academic standards, developing instructional resources and constructing best-in-class educational offerings that address the needs of all of the District's students. The Chief Academic Support Officer manages the following offices within the District:, Curriculum, Instruction and Assessment, Special Education, Multilingual Curriculum and Programs, Career and Technical Education, Early Childhood Education, School Scheduling and Organization, and College Readiness.

Chief Financial Officer. The Chief Financial Officer ("CFO") determines, defines and implements procedures and policies for achieving the financial and operational goals, objectives and priorities of the School District. The CFO develops short and long-range strategic plans for School District budgets and fiscal stability and evaluates the efficiency and effectiveness of the School District's financial and operations activities. The CFO is responsible for the preparation and implementation of the School District's operating and categorical budgets and the five-year plan. The CFO also oversees and directs Accounting Services and Audit Coordination, Financial Services and Management and Budget. Together with the Superintendent, the CFO articulates the School District's position on a variety of issues to government officials, community groups and other stakeholders and confers with representatives of corporations, government agencies, legal authorities and the public with regard to the School District's financial services and operations.

General Counsel. The General Counsel reports directly to the School Reform Commission. The General Counsel oversees the Office of General Counsel ("OGC") and is responsible for providing, in an efficient and timely manner, legal advice and representation on litigation (i.e., torts, civil rights, labor and employment and commercial) and transactional matters affecting the School District. The OGC is responsible for providing legal services to the Superintendent, all School District organizational and departmental units, the IU and the School Reform Commission. The General Counsel also serves as Assistant Secretary to the Governing Body.

Certain Officials of the School District

The following sets forth brief resumes of certain officials that represent the current management structure of the School District:

Dr. William R. Hite, Jr. *Superintendent of Schools*. Dr. Hite was named Superintendent by the School Reform Commission on June 29, 2012 and assumed his responsibilities as Superintendent and the Executive Director of the Intermediate Unit, the week of September 17, 2012.

From April 3, 2009, until joining the School District, Dr. Hite was the superintendent of Prince George's County Public Schools ("PGCPS"), Maryland's second largest school system, and the eighteenth largest in the nation with 135,000 students, 200 schools, and a budget of $1.6 billion. Dr. Hite served as interim superintendent from December 2008, and as the deputy superintendent from June 2006. Dr. Hite has led major efforts resulting in increased student achievement, significant improvements in teaching and learning, and school improvement status. This included work on the Intensive Support and Intervention Schools model that provided significant support to schools most in need based on student and school performance indicators, as well as work in partnership with the Institute for Learning at the University of Pittsburgh, which focused on improving the capacity of teachers and administrators to strengthen the teaching and learning process. Most recently, he oversaw a major reorganization of PGCPS's regions into zones to reduce costs and provide greater support to schools, and developed systems that measure central leadership effectiveness against student and school performance. Before joining PGCPS, Dr. Hite served as area assistant superintendent for the Cobb County School District in Atlanta, Georgia. In this role, he supervised 15 high school, middle school and elementary school principals and was responsible for the instructional program for more than 18,000 students. Dr. Hite has also served as director of middle school instruction for the Henrico County Public School System in Richmond, Virginia, and was an urban middle and high school principal.

Dr. Hite holds a master's degree in Educational Leadership from the University of Virginia, and a bachelor's degree and doctorate in Educational Leadership from Virginia Tech University.

Paul Kihn, *Deputy Superintendent*. Mr. Kihn, assumed his responsibilities as Deputy Superintendent during the week of September 17, 2012. Previously, he was a principal in McKinsey & Company, and a member of the global consulting firm's Education Practice, whose specialty includes education systems strategy and transformation, school system and portfolio management, and teacher and school leadership effectiveness, serving federal, state and local public education systems in the United States and abroad. Before joining McKinsey, Mr. Kihn worked in the New York City public school system as an English teacher, and later a middle school administrator. He also taught in Ireland and South Africa. Mr. Kihn has also served as the Education Unit Coordinator for the Center for Alternative Sentencing and Employment Services in New York City, a non-profit organization that served as an alternative to incarceration for at-risk youth. Mr. Kihn has published several books and articles on education and reform efforts which include *Deliverology 101: A Field Guide for Educational Leaders* published in 2010.

Mr. Kihn holds a master of business administration degree in Management and Social Enterprise and a master of education degree in Educational Administration, both from Columbia University, a master of philosophy degree in History of Education from the University of Cape Town and a bachelor of arts degree from Yale University.

Donyall Dickey, *Chief Academic Support Officer*. Mr. Dickey assumed his role as Chief Academic Support Officer on July 1, 2014. Previously, he served the needs of children as a third grade teacher, high school English teacher, and principal in Maryland public schools. After a year in the School District as Assistant Superintendent of the West Philadelphia region, he was promoted to Chief of Academics where he now leads academic programming for the School District.

Mr. Dickey, a native of Houston, Texas, is a graduate of the University of Texas at Austin. He is also a graduate of Loyola University in Maryland where he earned a Masters in School Administration and Supervision, and he expects to graduate in May 2015 from the George Washington University Educational Leadership & Policy doctoral program in Washington, DC.

Matthew E. Stanski, *Chief Financial Officer*. Mr. Stanski has served as Chief Financial Officer since November 2012. Mr. Stanski came to the District from PGCPS where he served as the chief financial executive for four years. He also worked as the school system's budget director and director of fiscal compliance. During his tenure at PGCPS, he implemented new strategies, eliminated operating deficits and corrected audit findings. Under his leadership, the school system received the Distinguished Budget Presentation Award from the Government Finance Officers Association for three consecutive years and special recognition for its performance measures in the fiscal year 2012 budget document. A graduate of Michigan State University, Mr. Stanski holds a bachelor's degree in Political Science and master's degree in Public Policy and Administration.

Michael A. Davis, *General Counsel*. Mr. Davis has served as the General Counsel since July 6, 2010 and brings to this position more than thirty years' experience across a broad spectrum of the profession, including service as Chief Counsel of the Commonwealth of Pennsylvania's Department of Education from 1980 through 1983, and as General Counsel and Vice President for Legal, Human Resources and Compliance for Wordsworth Academy from 2002 through 2009. With facilities in Philadelphia, Fort Washington and Harrisburg, Wordsworth provides behavioral health, child welfare, and special education services for children and adolescents. Mr. Davis was also an associate and later a partner at the Philadelphia law firm of Blank Rome, LLP from 1977 to 1980 and from 1983 to 1988, respectively, specializing in management-labor relations and employment law and litigation. From 1988 through 2002, Mr. Davis held the positions of Senior Counsel, Employment Litigation and later Chief Counsel and Vice President for Legal, Government Affairs and Compliance for Intracorp, a subsidiary of CIGNA Corporation. He has also provided services on a volunteer basis to Nu-Juice Foundation, which offers consulting and program development services to schools, government, community-based organizations and non-profits to enable youth from underserved areas to compete in higher education and in the workplace.

Mr. Davis holds a juris doctor from Harvard University Law School and a bachelor of arts degree from Haverford College.

SCHOOL DISTRICT DEBT

Outstanding Debt

As of February 1, 2015, the School District's outstanding general obligation bond and lease rental indebtedness was in the principal amount of $3,103,194,642. The School District has never defaulted in the payment of debt service on any of its bonds, notes, or lease rental obligations.

Debt Practices

The Local Government Unit Debt Act (the "Debt Act" or the "Act") which governs all debt incurrence by the School District, includes requirements that local governmental units, including the School District, 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 level debt service within a particular classification of debt. For purposes of this requirement, general obligation and lease-rental debt are treated as a single classification.

Tax and Revenue Anticipation Notes

The School District in 28 of the last 30 fiscal years, has issued tax and revenue anticipation notes pursuant to the Debt Act to relieve temporary cyclical cash flow deficiencies. Such tax and revenue anticipation notes are required under the Debt Act to be paid in the fiscal year in which they are issued and are not considered "debt" for purposes of determining the School District's debt limits and borrowing capacity. Due to advances by the Commonwealth of portions of installments of basic education subsidies payable in Fiscal Year 2001 and Fiscal Year 2002, the School District did not issue tax and revenue anticipation notes for those fiscal years. On July 2, 2013 and on July 3, 2014, respectively, the School District issued $150.0 million of Tax and Revenue Anticipation Notes ("2014 Notes") and $300.0 million of Tax and Revenue Anticipation Notes (the "FY2015 Notes"), in direct purchase transactions with financial institutions. The 2014 Notes were paid in full on June 30, 2014. The balance of the School District's cash flow needs for those fiscal years were and are met through advances of the School District's basic education subsidy payments. The FY2015 Notes mature on June 30, 2015.

General Obligation Debt

Fixed Rate. The School District has covenanted to make daily deposits of local tax revenues collected on behalf of the School District by the Department of Revenue of the City to each sinking fund established for each of its outstanding fixed rate general obligation bond issues. The General Obligation and General Obligation Refunding Bonds, Series A, B, C, and D of 2015 to be issued by the School District ("2015 General Obligation Bonds") will have the benefit of the daily deposit covenant. As of February 1, 2015, the aggregate principal amount of fixed rate debt outstanding, including Qualified Zone Academy Bonds and Qualified School Construction Bonds described below, was $1,631,639,643.

Variable Rate. The School District has issued a portion of its debt as variable rate obligations, including the General Obligation Refunding Bonds, Series 2009C Bonds ("2009 C Bonds"), the General Obligation Refunding Bonds, Series F of 2010 ("2010 F Bonds"), Series G of 2010 ("2010G Bonds") and Series H of 2010 ("2010H Bonds"). The 2009C Bonds, the 2010F Bonds, the 2010G Bonds, and the 2010H Bonds were issued by the School District as multi-modal obligations, initially bearing interest in the Weekly Mode. In the Weekly Mode, the 2009C Bonds,the 2010F Bonds, the 2010G Bonds, and the 2010H Bonds bear interest at variable rates, determined weekly on each Wednesday, effective, Thursday. Interest is payable monthly, on the first Business Day of each month. While the 2009C Bonds, the 2010F Bonds, the 2010G Bonds, and the 2010H Bonds are in the Weekly Mode, they are subject to optional and mandatory tender under certain circumstances and payments of principal and interest, and the purchase price of the 2009C, 2010F, 2010G, and 2010H Bonds when tendered for purchase, are enhanced by credit facilities provided by one or more banks or financial institutions. Under the respective credit facilities, such credit facilities are drawn upon to make payment and the School District is required to reimburse the provider of the respective credit facility for the amounts drawn subject to the terms of each reimbursement agreement governing each respective credit facility. As contained in the bond resolution for the 2009C Bonds, the 2010F Bonds, the 2010G Bonds and the 2010H Bonds, the School District is required to deposit monthly into the sinking funds created for the 2009C Bonds, the 2010F Bonds, the 2010G Bonds, and the 2010H Bonds, not later than 15 days prior to the first day of the next succeeding calendar month, the amount necessary to pay the interest due on the 2009C Bonds, the 2010F Bonds, the 2010G Bonds, and the 2010H Bonds through the last day of the next succeeding calendar month (calculated at per annum rates equal to the interest rates then borne by the 2009C Bonds, the 2010F Bonds, the 2010G Bonds, and the 2010H Bonds plus 1.50). Such amount is to be used to reimburse the respective credit facility provider for interest paid from a draw on the credit facility (or to pay the interest on the 2009C Bonds, the 2010F Bonds, the 2010G Bonds, and the 2010H Bonds if a credit facility draw is not honored by a credit facility provider.) The bond resolutions for the 2009C Bonds, the 2010F Bonds, the 2010G Bonds, and the 2010H Bonds also require the School District to deposit into the sinking funds, in equal monthly installments not later than 15 days prior to the next succeeding payment or mandatory redemption date for principal on the 2009C Bonds, the 2010F Bonds, the 2010G Bonds, and the 2010H Bonds, the principal of the 2009C Bonds, the 2010F Bonds, the 2010G Bonds, and the 2010H Bonds maturing or subject to mandatory redemption on the next succeeding principal payment date. Such amount is used to reimburse the respective credit facility provider for a draw on the credit facility for principal (or to pay the principal on the 2009C Bonds, the 2010F Bonds, the 2010G Bonds, and the 2010H Bonds if a credit facility draw is not honored by a credit facility provider.) As of February 1, 2015, the aggregate principal amount of variable rate debt outstanding is $348,875,000. The Debt Policy adopted by the School Reform Commission on February 18, 2009 ("Debt Policy"), limits the amount of unhedged variable rate debt the School District may issue and have outstanding, to 20% of its total outstanding debt. As of February 1, 2015**,** the variable rate debt outstanding equaled 11.2% of the School District's outstanding debt.

The sinking funds established for the 2009C, 2010F, 2010G Bonds, and 2010H Bonds are not entitled to and do not receive daily deposits of local tax revenues.

Qualified Zone Academy Bonds. Qualified Zone Academy Bonds (or "QZABs") are general obligation bonds and are entitled to the benefit of the daily deposit covenant. The Commonwealth receives an allocation each year of the amount of QZABs permitted to be issued within the Commonwealth which it, in turn, grants to local school districts pursuant to an application process. QZABs may be purchased only by qualified purchasers and provide the qualified purchasers with a federal tax credit under the Internal Revenue Code of 1986, as amended. The School District has four outstanding issues of general obligation bonds which are QZABs in the aggregate principal amount of $40,854,617 as of February 1, 2015.

Qualified School Construction Bonds. Qualified School Construction Bonds (or "QSCBs") are general obligation bonds and are entitled to the benefit of the daily deposit covenant. The School District issued $144,625,000 of Federally Taxable Direct Subsidy QSCBs on November 23, 2011 based upon the 2009 QSCB allocation Volume Cap issued by the Secretary of the Treasury. The aggregate principal amount outstanding on the QSCBs is $144,590,000 as of February 1, 2015.

Lease Rental Debt

The School District has also financed a portion of its Capital Improvement Program through the incurrence of lease rental debt under the Debt Act. In August of 2003, the School District incurred $588,140,000 of lease rental debt through the issuance of bonds (the "2003 Bonds") by the Pennsylvania State Public School Building Authority (the "Authority.") The sublease agreement securing payment of the 2003 Bonds is an instrument evidencing such lease rental debt (the "Sublease Agreement.") The School District also entered into an Intercept Agreement (the "Intercept Agreement") with the Treasurer of the Commonwealth ("State Treasurer"), acknowledged by the Pennsylvania Department of Education and the Trustee, in order to provide for Base Rental Payments due under the Sublease Agreement to be made directly to the Trustee from Commonwealth appropriations.

In December 2006, the School District incurred lease rental debt through the issuance of bonds (the "2006 A Bonds" and the "2006 B Bonds" collectively the "2006 Bonds"), by the Authority in two series in the aggregate principal amount of $862,695,000. The Sublease Agreement was amended to continue to secure payment of the 2003 Bonds which were not refunded and to secure payment of the 2006A Bonds and the 2006B Bonds. The 2006A Bonds were issued in the amount of $317,125,000 to finance portions of the School District's Capital Improvement Program. The 2006B Bonds were issued in the amount of $545,570,000 to, *inter alia*, advance refund a portion of the 2003 Bonds. In connection with the issuance of the 2006A Bonds and the 2006B Bonds, the Intercept Agreement was amended to provide for payment of Base Rental Payments to become due under the Sublease Agreement with respect to the 2003 Bonds which were not refunded by the 2006A Bonds and the 2006B Bonds.

In November 2012, the School District incurred lease rental debt through the issuance of bonds (the "2012 Bonds"), by the Authority in the principal amount of $264,995,000 to finance the acquisition of a leasehold interest in certain real estate, including the buildings, fixtures, improvements, furnishings and equipment thereon in order to provide the School District with funds to pay certain operating expenses of the School District. In connection with the issuance of the 2012 Bonds, the Sublease was further supplemented to provide for Base Rental Payments with respect to the 2012 Bonds and the Intercept Agreement amended so that Base Rental Payments to become due under the Sublease Agreement with respect to the 2012 Bonds are made directly to the Trustee from Commonwealth appropriations due to the School District.

As of February 1, 2015, the aggregate principal amount outstanding of lease rental debt is $1,122,680,000.

The proposed Authority's School Lease Revenue Refunding Bonds (The School District of Philadelphia Project), Series 2015A (the "2015 SPSBA Bonds") will constitute lease rental debt being issued to refund a portion of the 2006A Bonds. In connection with the issuance of the 2015 SPSBA Bonds, the Sublease is being amended to reflect the Base Rental Payments to become due under the Sublease with respect to the 2015 SPSBA Bonds and the Intercept Agreement is being amended so that it will provide for the Base Rental Payments with respect to the 2015 SPSBA Bonds. Payments under the Intercept Agreement are made directly to the Trustee by the State Treasurer from Commonwealth appropriations due to the School District.

Letter of Credit Agreements - Variable Rate Bonds

The School District has entered into letter of credit reimbursement agreements relating to the outstanding variable rate bonds of the School District as provided in the following table:

Bond Series	Provider	Agreement	Par Amount	Term
2009 Series C	TD Bank, N.A.	Letter of Credit	$ 49,200,000	January 2, 2017
2010 Series F	Barclays Bank PLC	Letter of Credit	$150,000,000	January 2, 2017
2010 Series G	PNC Bank, N.A.	Letter of Credit	$75,000,000	January 2, 2017
2010 Series H	Royal Bank of Canada	Letter of Credit	$75,000,000	January 2, 2017

Each of the letters of credit was issued by the respective bank pursuant to a reimbursement agreement between the applicable bank and the School District. Under the reimbursement agreement with TD Bank, N.A., unreimbursed drawings on the letter of credit representing liquidity drawings and term loans, assuming no event of default under the reimbursement agreement, are repayable in full by the School District on the earliest of: (i) the third anniversary of the date of the liquidity drawing, (ii) the third anniversary of the termination date of the letter of credit, (iii) the date that the letter of credit is replaced with another letter of credit and (iv) the date that the letter of credit amount is permanently reduced to zero or the letter of credit is otherwise terminated prior to its termination date. Under the reimbursement agreement with Barclays Bank PLC, unreimbursed drawings under the letter of credit representing liquidity drawings, assuming no event of default under the reimbursement agreement, are repayable by the School District on the earliest of: (i) the third anniversary of the dated of the liquidity drawing, (ii) the third anniversary of the termination date of the letter of credit, (iii) the date that the letter of credit is replaced with another letter of credit, (iv) the date the bonds purchased with the liquidity drawing are redeemed, defeased, prepaid or cancelled; (v) the date on which any bonds purchased with funds provided by the letter of credit are remarketed; and (vi) the date on which the bonds are converted to a mode other than a weekly mode. Under the reimbursement agreement with PNC Bank, N.A., unreimbursed drawings on the letter of credit representing liquidity drawings, assuming no event of default under the reimbursement agreement, are repayable by the School District on the earliest of: (i) the third anniversary of the date of the liquidity drawing, (ii) the third anniversary of the termination date of the letter of credit, (iii) the date that the letter of credit is replaced with another letter of credit, (iv) the date the bonds purchased with the liquidity drawing are redeemed, defeased, accelerated prepaid or canceled, (v) the date on which any bonds purchased with funds provided by the letter of credit are remarketed; (vi) the date on which the bonds are converted to a fixed rate mode; and (vii) the sixth (6^{th}) anniversary of the date of issuance of the letter of credit. Under the reimbursement agreement with Royal Bank of Canada, unreimbursed drawings on the letter of credit representing liquidity drawings, assuming no event of default under the reimbursement agreement, are repayable by the School District on the earliest of: (i) the third anniversary of the date of the liquidity drawing, (ii) the third anniversary of the termination date of the letter of credit, (iii) the date that the letter of credit is replaced with another letter of credit, (iv) the date the bonds purchased with the liquidity drawing are redeemed, defeased, accelerated, prepaid or canceled, (v) the date on which any bonds purchased with funds provided by the letter of credit are remarketed; (vi) the date on which the bonds are converted to a fixed rate mode; and (vii) the sixth (6^{th}) anniversary of the date of issuance of the letter of credit. Absent an event of default under the respective reimbursement agreement, unreimbursed liquidity drawings owing to TD Bank, N.A. are repayable in equal semi-annual installments, commencing on the earlier of: (i) ninety (90) days after the date of the related liquidity drawing; or (ii) the termination date of the letter of credit and payable on each six (6) month anniversary thereafter; unreimbursed liquidity drawings owing to Barclays Bank PLC are repayable in six equal semi-annual installments, commencing on the one hundred eightieth day following the date of the related liquidity drawing; unreimbursed liquidity drawings owing to PNC Bank, N.A. are repayable in six equal semi-annual installments, commencing six months after the date of the related liquidity drawing; and unreimbursed liquidity drawings owing to Royal Bank of Canada are repayable in twelve (12) equal quarterly installments, commencing on the earlier of the ninetieth (90^{th}) day after the date of such liquidity drawing or the stated expiration date of the letter of credit; in each case, unless sooner repayable as described above.

Under each reimbursement agreement, drawings on the respective letter of credit for principal and interest are to be reimbursed by the School District on each date of drawing by such bank on the letter of credit. If an event of default (as defined in each respective reimbursement agreement) occurs the respective bank may (except as to bankruptcy or insolvency where the bank shall) (i) declare all amounts due under the respective reimbursement agreement to be immediately due and payable; (ii) notify the Fiscal Agent that an event of default has occurred and direct the Fiscal Agent to (a) call the respective bonds for mandatory tender for purchase or (b) call the respective bonds for mandatory redemption; (iii) exercise any rights or remedies available to the bank as the holder of the respective bonds, and/or (iv) proceed to enforce all other rights and remedies available to the bank under applicable laws.

Interest Rate Management Plan

General. The School District is authorized, under amendments to the Debt Act enacted in September of 2003, to enter into "qualified interest rate management agreements," which term is defined as agreements determined in the judgment of the School District to be designed to manage interest rate risk or interest costs of the School District on any debt which the School District is authorized to incur under the Debt Act. The School District has, heretofore, entered into various swaps of which only the basis swaps, described herein, remain outstanding. Such qualified interest rate management agreements may include swaps, interest rate caps, collars, corridors, ceiling and floor agreements, forward agreements, float agreements and other similar financing arrangements.

The Debt Act requires that, prior to entering a qualified interest rate management agreement, the School District must adopt a written interest rate management plan ("Interest Rate Management Plan") prepared or reviewed by an independent financial advisor, which includes: (i) schedules of all outstanding debt of the School District and all outstanding qualified interest rate management agreements, including outstanding debt service and estimated and maximum periodic scheduled payments of all outstanding qualified interest rate management agreements; (ii) a schedule of all consulting, advisory, brokerage or similar fees paid or payable by the School District in connection with the qualified interest rate management agreement and of all such fees and finder's fees, if any, paid or payable by any other party in connection with qualified interest rate management agreements; (iii) analyses of the interest rate risk, basis risk, termination risk, credit risk, market-access risk, and other risks of entering into such agreements and of the net payments due for all debt outstanding and for all qualified interest rate management agreements; and (iv) the School District's plan to monitor interest rate risk, basis risk, termination risk, credit risk, market-access risk, and other risks. Monitoring requires valuation of the market or termination value of all outstanding qualified interest rate management agreements.

The Interest Rate Management Plan. The School District adopted its Interest Rate Management Plan pursuant to a resolution of the School Reform Commission, authorized on February 2, 2004, and supplemented the Interest Rate Management Plan on March 24, 2004, May 26, 2004, May 25, 2005, October 6, 2005, November 15, 2006, November 21, 2006, April 23, 2008, April 6, 2010, January 3, 2011 and September 2, 2011. The Interest Rate Management Plan, as supplemented, was prepared by the School District's independent financial advisors within the meaning of the Debt Act.

The Interest Rate Management Plan states, in pertinent part, that derivatives are appropriate interest rate management tools that can assist the School District in managing its interest rate risk or interest cost. If and when properly used, these instruments can increase the School District's financial flexibility, provide opportunities for interest rate savings or enhanced investment yields, and help the School District manage its balance sheet through better matching of assets and liabilities. Derivatives may not be used for speculative purposes.

The Interest Rate Management Plan also provides that the School District will only utilize derivatives if it is determined that the proposed transaction will be designed to manage interest rate risk or interest cost to the School District on any debt that the School District is authorized to incur, and:

(1) Optimize capital structure including the schedule of debt service payments and/or fixed versus variable rate allocations;
(2) Achieve appropriate asset/liability match;
(3) Reduce risk, including:
   - Interest rate risk;
   - Tax risk; or
   - Liquidity renewal risk;
(4) Provide greater financial flexibility;
(5) Generate interest rate savings;
(6) Enhance investment yields; or
(7) Manage exposure to changing markets in advance of anticipated bond issuances (through the use of anticipatory hedging instruments).

The Interest Rate Management Plan further provides that the School District will seek to maximize the benefits and minimize the risks of derivative instruments by actively managing its derivative program. The School District engages an independent swap monitoring firm to assist in the monitoring of market conditions. The independent swap monitor provides monthly reports, including the Mark to Market ("MTM") values of any outstanding swaps. Active management shall include:

(a) Early termination;
(b) Shortening or lengthening the term;
(c) Sale or purchase of options; or
(d) Utilization of basis swaps.

The Interest Rate Management Plan requires monitoring reports that include, among other things, the valuation of all outstanding qualified interest rate management agreements to be delivered by the Chief Financial Officer to the School Reform Commission at least quarterly. The reports must include the following:

(i) A description of all outstanding qualified interest rate management agreements, including bond series, type of derivatives, rates paid and received by the School District, total notional amount, forward start dates, average life of each swap agreement, remaining term of each derivative, and option terms;
(ii) Description of all material changes to qualified interest rate management agreements or new qualified interest rate management agreements entered into by the School District since the last report;
(iii) Market value including termination exposure of each of the School District's qualified interest rate management agreements;
(iv) The credit rating of each counterparty and credit enhancer, if any, insuring qualified interest rate management agreement payments;
(v) Information concerning any default by a counterparty, including, but not limited to, the financial impact, if any, to the School District;
(vi) Information concerning any default by the School District to any counterparty, if applicable;
(vii) Summary of qualified interest rate management agreements that were terminated or that have expired and the financial impact there from since the last report;
(viii) For a qualified interest rate management agreement entered into to generate debt service savings, calculation on an annual basis of the actual debt requirements compared to the projected debt service on the swap transaction at the original time of execution. The calculation shall include a determination of the cumulative actual savings (or, if applicable, additional payments made by the School District) compared to the projected or expected savings at the time the swap was executed; and
(ix) The status of any collateral related to any swap transaction including, the type and amount of collateral, the market value of that collateral and the identity of the custodian.

The Debt Policy stipulates that the School District will limit the notional amount of its outstanding swaps to not more than 45.0% of the total outstanding long-term debt. At the present time, the School District's notional amount of outstanding swaps, all of which are the basis swaps described below, totals 16% of its total outstanding debt.

Basis Swaps. By Resolution of the School Reform Commission adopted on November 15, 2006, the School District was authorized to enter into one or more basis swaps related to a portion of the outstanding lease rental debt associated with the 2003 Bonds and any lease rental debt incurred by the School District in connection with the partial refunding of the 2003 Bonds.

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, for the purpose of managing interest costs of the School District, that provide for periodic payments at a floating rate by the School District in exchange for an upfront cash payment and periodic scheduled payments at a floating rate and fixed spread by counterparties on the notional amount of $500 million (the "2006 Basis Swaps"). As of January 30, 2015, the mark to market value for the 2006 Basis Swaps is ($11,476,404).

Security for Qualified Interest Rate Management Agreements. Pursuant to the Debt Act, periodic scheduled payments due from the School District under a qualified interest rate management agreement (other than termination payments) are payable on parity with debt service on the bonds or lease rental debt related to the applicable qualified interest rate management agreement. The School District: (i) has covenanted to budget, appropriate and make such payments from its general revenues; and (ii) has pledged its full faith, credit and taxing power (within the limits prescribed by law) to secure such periodic scheduled payments. Termination payments are subject and subordinate to periodic scheduled payments and are not secured by the foregoing pledge.

The School District purchased swap insurance insuring periodic scheduled payments, but not termination payments, for the 2006 Basis Swaps.

Under the Debt Act, if a school district fails to provide for the payment of periodic scheduled payments under a qualified interest rate management agreement, the school district shall notify the Secretary of Education and the Secretary of Education shall notify the Department of Community and Economic Development. If the Secretary of Education finds that the amount due and payable by the school district has not been paid, the Secretary of Education shall withhold, out of any state appropriation due to the school district, an amount equal to the amount due pursuant to the qualified interest rate management agreement and shall pay over the same so withheld to the party to whom the amount is due under the qualified interest rate management agreement. This provision of the Debt Act is applicable with respect to periodic scheduled payments due from the School District under its qualified interest rate management agreements.

Current Policy. The School District does not presently expect to enter into any further interest rate management agreements.

Borrowing Capacity

THE SCHOOL DISTRICT OF PHILADELPHIA
Borrowing Base and Debt Limit Calculations
As of February 1, 2015

BORROWING BASE		
Gross Revenues: General, Special Revenue and Debt Service Fund for the years ended June 30, 2012, 2013 and 2014		$8,510, 536,301
Less: Statutory exclusions		1,204,028,510
Net Revenues		$7,306,507,791
Borrowing Base (average of net revenues for the years ended June 30, 2012, 2013 and 2014)		$2,435,502,597
DEBT LIMIT		
Electoral Debt Limit		No Limit
Electoral Debt Outstanding		$ 0
Electoral Debt Capacity		No Limit
Non-Electoral Debt Limit (100% of Borrowing Base)		$2,435,502,597
Non Electoral Debt	$1,973,099,649	
Exclusion for Deficit/Term Bond Outstanding	(225,215,000)	
Less: Non-Electoral Debt Outstanding		$1,747,884,649
Non-Electoral Debt Capacity		$ 687,617,948
Non-Electoral and Lease Rental Debt Limit (200% of Borrowing Base)		$4,871,005,194
Non-Electoral Debt Outstanding	$1,747,884,649	
Lease Rental Debt Outstanding	1,122,680,000	
Less: Non-Electoral Debt and Lease Rental Debt Outstanding		$2,870,564,649
Non-Electoral and Lease Rental Borrowing Capacity		$2,000,440,545

CAPITAL IMPROVEMENT PROGRAM

Capital Budget and Capital Improvement Program. The Capital Improvement Program, detailing the School District's plan for the ensuing six years, as well as a capital budget detailing the expenditure requirements of the current fiscal year of the Capital Improvement Program or CIP, must be adopted by the Governing Body not later than the date of the adoption of the Proposed Operating Budget and follows the same procedures related to public hearings, as mandated by the Home Rule Charter. Implementation of the capital budget is contingent upon the receipt of proceeds of debt obligations of the School District or other funds made available for capital improvement purposes. On June 30, 2014, the School District adopted its FY2015 Capital Budget and the Capital Improvement Program which totals approximately $938.2 million. The FY2015 Capital Budget of $166.3 million is partially funded and includes: 38 active construction projects at 22 locations; $89.7 million in life-cycle replacements, such as structural and façade restorations, electrical system upgrades, and roof replacements; and the design of 63 additional projects. The CIP assumes the incurrence of $160 million of School District debt annually beginning in Fiscal Year 2015 through and including Fiscal Year 2020.

Facilities Master Plan. The School District has, since September 2009, maintained a Facilities Master Plan (the "Facilities Plan") relating to the capital needs of the School District's facilities and the School District. The purpose of the Facilities Plan is to identify the capital needs for the facilities of the School District, including but not limited to new construction, major renovations, alterations and improvements to existing facilities, emergency and code compliance requirements and equipment and technology necessary for the operation of the School District. The Plan creates a framework to allow the School District to: 1) standardize grade configuration to improve K-12 academic pathways, and programmatic offerings, and create predictable and manageable transition for students, 2) reduce excess capacity through building closures, co-locations, termination of leases, and closure of annexes; and 3) develop a plan that addresses deferred maintenance and educational adequacy. By action of the School Reform Commission, the governing body of the School District, the Facilities Plan is revised and approved from time to time on no less than an annual basis.

Facility Condition Assessments. As part of a two year operations strategic plan, the Office of Capital Programs has undertaken a new comprehensive facility condition assessment (the last one was completed in 2004). Currently, facility-related information from different School District departments is not consolidated to provide an overall assessment of each school's condition. In 2014, the School District implemented ARCHIBUS as the School District's Facility Management Program. All facility data is stored in ARCHIBUS including the data to be collected from the upcoming facility condition assessment.

The objective of the facility condition assessment is to engage a professional firm to accomplish the following:

- Complete a comprehensive assessment of educational facilities owned and operated by the School District.
- Calculate Facility Condition Index (FCI) Scores for buildings including FCI scores for individual systems.
- Prioritize building systems based on need, observed deficiencies, remaining useful life, and classify each system based on a recommended timeframe for when these systems should be replaced.
- Determine the District's overall outstanding capital needs and a recommended annual capital plan to address deferred maintenance.
- Use data gathered from the FCI to develop a multiyear capital improvement plan beginning in FY 2017.
- Create one central depository of data on critical building systems, life expectancy, and capital investments.

SCHOOL DISTRICT FINANCIAL PROCEDURES

Budgetary Process

The Home Rule Charter requires that the School District adopt an operating budget, a capital budget and a capital improvement program in each fiscal year. The capital budget is prepared as part of a six-year capital improvement program, of which the first year is the applicable budget for the current fiscal year. All proposed expenditures included in the Capital Improvement Program require the School Reform Commission's authorization on a project by project basis.

Operating Budget. The operating budget is comprised of the General Fund, the Intermediate Unit Fund and the Debt Service Fund. In accordance with policies of the Governing Body, the process of developing the operating budget begins in October of each year when program managers receive budget preparation instructions and the Superintendent provides a status report to the Governing Body on the budget for the current fiscal year and multi-year projections before consideration is given to any changes in the current educational program. *See* "CERTAIN FINANCIAL INFORMATION OF THE SCHOOL DISTRICT - Operating Budget Revenues, Obligations and Changes in Fund Balances." In November of each year, program managers receive budget preparation materials and, within the framework of the policies and guidelines developed by the Governing Body and the Superintendent, program administrators develop goals, objectives and priorities that are translated into budget requests referred to as "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 each December. All approved requests are incorporated into the "Proposed Operating Budget." The process and schedule described above are based on a policy adopted by the Board of Education prior to the declaration of distress and are subject to modification by the School Reform Commission.

During the first quarter of the calendar year and in consultation with the Governing Body, the Superintendent provides status reports on the current fiscal year, the ensuing fiscal year and multi-year projections before and after giving consideration to any changes in the current educational program of the School District. The Governing Body then must observe specific timing requirements outlined in the Home Rule Charter as follows:

1. 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);

2. At least thirty days prior to adoption, public hearings must be held (no later than April 30th of each year); and

3. 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.)

Budgets for Categorical Funds, including federal, state and private grants, the uses of which are restricted to the pursuit of specific objectives of the legislative act under which funding is authorized or conditions set forth by the foundation or charitable grantor, are not required to be submitted for adoption.

A lump sum statement of estimated receipts and expenditures for the current fiscal year and the ensuing fiscal year ("Lump Sum Statement") is submitted to the Mayor and the President of City Council on or before March 31st of each year. Since the School District has limited taxing power, City Council must establish the rates and subjects of local taxation for school purposes required to fund the estimated expenditures of the School District after taking into account, under current law, the estimated revenues from the Commonwealth. If total estimated funds from all sources are insufficient to balance the budget, the Governing Body must reduce anticipated expenditures to a level consistent with total available funds, as mandated by the Home Rule Charter. The ensuing balanced budget becomes the adopted financial plan for the School District for the forthcoming fiscal year. Thereupon, budgetary appropriations for all principal administrative units by Object Class of expenditure are finalized.

Basis of Accounting

The accounting policies of the School District conform to generally accepted accounting principles for local governmental units as prescribed by the Governmental Accounting Standards Board ("GASB") and the American Institute of Certified Public Accountants (AICPA) audit and accounting guide or otherwise "Audits of State and Local Governments."

Basis of Reporting

The School District's comprehensive annual financial report is prepared following guidelines recommended by the Government Finance Officers of America ("GFOA.") GFOA has awarded a Certificate of Achievement for Excellence in Financial Reporting ("Certificate") to the School District for its component unit financial reports for each fiscal year beginning in 1984 through 2013. The School District also received the Certificate of Excellence in Financial Reporting from the Association of School Business Officials International for its annual financial reports for each Fiscal Year from 1985 to 2013. The School District expects to file its applications for both certificates for Fiscal Year 2014. A government unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which must conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements in order to be considered for the Certificate. A Certificate is valid for a period of one year only.

Although the School District issues its own annual financial report, it is considered a component unit of the City for financial reporting purposes only and is included in the City's Comprehensive Annual Financial Report. The determination that the School District is a component unit of the City is based on criteria developed by the National Council on Governmental Accounting in its Statement 3, which was adopted by GASB.

Cash Management

As previously mentioned, the Superintendent serves as the Treasurer of the School District. For practical administration of treasury functions, these responsibilities are delegated to the Chief Financial Officer, whose principal subordinate for this purpose is the Deputy Chief Financial Officer, Financial Services.

All moneys of the School District are held separate and apart from the funds of any other entity, including the City. The Deputy Chief Financial Officer, Financial Services accounts for all moneys received and disbursed by the School District and develops twelve-month cash flow forecasts (updated monthly) based on adopted budgets and historical and projected receipts and expenditure data. These forecasts form the basis for cash management activities during the fiscal year, including the forms and sources of funding, temporary cash deficiencies and negotiating the best forms of investment of idle moneys consistent with legal limitations. To facilitate cash management activities and related borrowing/investment programs, the School District established a pooled cash account, as described below.

Pursuant to the School Code and resolutions of the Governing Body ("Investment Resolution"), all School District funds, except sinking funds, shall be invested in United States Treasury bills, in short-term obligations of the United States Government or its agencies or instrumentalities, in obligations of the United States Government or its agencies or instrumentalities backed by the full faith and credit of the United States of America, in certain approved school and local government investment pools, and in savings accounts and time deposits of financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC") which are collateralized in amounts in excess of FDIC insurance in accordance with state law. Neither the School Code nor the Investment Resolution permits the School District to use reverse repurchase agreements or other means to leverage its investment portfolio, nor do they authorize the School District to invest in derivative products. The requirements for investment in United States government securities (including collateralized repurchase agreements for the same) contained in the Investment Resolution conform to the Guidelines for Municipal Investment in U.S. Government Securities issued by the Office of the Auditor General of the Commonwealth. Investment of the School District's sinking funds is governed by both the Debt Act and the resolutions authorizing the issuance of the School District's related bonds.

In 1994, the School District engaged in a comprehensive review of its cash management and short-term investment practices to improve the School District's working capital management and procurement of banking services, and to expand investment options. Since that time, the School District has periodically engaged in supplemental reviews. The Investment Resolution, adopted by the Board of Education in September of 1994, amended in December of 1995, and most recently amended by the School Reform Commission in April of 2004, reflects an investment policy based on the recommendations of the initial and supplemental reviews and amendments to the investment provisions of the School Code. The School District intends to continue this review process and make formal adjustments to these policies as the Governing Body deems appropriate.

<u>Pooled Cash Account</u>. The School District maintains a Pooled Cash Account to facilitate cash management and coordinated borrowing, investment and accounting activities. All funds that can be legally and practically combined are included in the Pooled Cash Account. Proceeds of general obligation bonds issued for capital improvements and interest earnings thereon, however, are deposited in the Capital Projects Fund (which is not included in the Pooled Cash Account.) The basic criteria to properly effect the pooling of cash are: (a) that participating member funds' equities are adequately identified and secured; and (b) that a clear transactional audit trail is provided. Distribution of interest earnings is recorded to the credit of the participating member funds on a selective basis. Receipts from member funds increase their equity in the account and disbursements on behalf of member funds reduce their equity. Temporary deficit balances of member funds may exist, on occasion, but are permitted only if there is a

reasonable assurance that at least an equal amount will be forthcoming shortly from the member's sources of revenue to liquidate the deficit balance.

Financial Control Procedures

The Governing Body is required to adopt an annual operating budget by principal administrative unit and by object class of expenditure. Allocations are made from each principal administrative unit, e.g. Business and Financial Services, to programs which represent a specific function, e.g., Chief Financial Officer, and then to activities which represent sub-functions, e.g., Accounting, Payroll, etc. These allocations are posted to an automated accounting system, which for selected transactions, electronically compare encumbrances or expenditure documents to available funds and rejects those in excess of available funding. Budgetary transactions are updated daily and are available on-line for each activity and to all program managers.

The Office of Management and Budget must review the allotment of personnel and verify the availability of funding. In addition, the Governing Body is required to approve all personnel appointments and purchases of materials, supplies, books and equipment in excess of $25,000. The School Code requires all individual contracts in excess of $100 to receive Governing Body approval; however, the Governing Body delegated limited contracting authority up to $20,000 per activity to principals, area academic officers and cabinet-level positions. The contracts are limited to professional services or the use of facilities and associated costs in support of the instructional program. An Oversight Committee empowered by the Governing Body which is comprised of central administrators meets weekly to review application for and approval of these limited contracts and reports quarterly to the Governing Body.

The Office of Audit Services, the Governing Body's designee to perform, among other things, pre- and post-audit functions and which currently reports directly to the School Reform Commission, reviews payment vouchers for propriety before any checks are issued or released.

The School Reform Commission, by resolution on November 15, 2006 and several subsequent resolutions, adopted and expanded upon certain existing fiscal and budgetary policies to further enhance and strengthen internal and other financial controls and fiscal responsibility within the School District. In addition to enhanced controls, the Chief Financial Officer, and his designees, will continue to monitor expenditures and budget adjustments and report their findings to the Superintendent and the School Reform Commission.

Tax Collection

Pursuant to the School Code and the Home Rule Charter, School District local taxes (except for the cigarette tax described below) are collected by the City's Department of Revenue, subject to the same collection procedures applicable to City taxes. Such taxes collected by the City, but for the benefit of the School District, are wire-transferred on the business day collected by the City, first, to the sinking funds established for each series of fixed rate general obligation bonds issued by the School District to fund deposits currently required, then, to other School District-designated bank accounts. School District local taxes collected by the Department of Revenue, even when held overnight by the City, are at all times the property of the School District.

The School Code requires that the Department of Revenue pay all school taxes when and as collected to or upon the order of the School District and that a duplicate receipt for such taxes be filed with the City Controller, formally recognized as School Auditor. Section 696 of the School Code expressly provides that, during a period of financial distress, all taxes collected on behalf of the School District shall continue to be promptly paid to the Governing Body. The School Code further requires that the Department of Revenue report the amount of school taxes collected on a monthly basis to the Governing Body and the City Controller. A Standard Accounting Procedure of the City, adopted in 1961 and effective since that date requires that such information be furnished to the School District on a daily basis.

School Auditor

The Home Rule Charter requires that the Office of the City Controller of the City of Philadelphia ("Office of the City Controller") performs 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 unmodified opinion that the School District's financial statements, for the Fiscal Year ended June 30, 2014, are fairly presented in conformity with accounting principles generally accepted in the United States. The Independent Auditor's Report is included as Appendix B hereto.

The City Controller has not participated in the preparation of this Appendix A nor in the preparation of the budget or current estimates of the School District set forth herein, nor has the City Controller reported on any financial statements of the School District included herein, other than the financial statements for the Fiscal Year ended June 30, 2014 that are attached hereto as Appendix B. The opinion of the City Controller which is part of the financial statements attached hereto contains the following language: "In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America." *See* Appendix B – Note 1.E *for a full description and the complete opinion.* The City Controller expresses no opinion on any of the data contained in this Appendix A relating to the School District.

Intergovernmental Cooperation

In recognition that schools throughout the Commonwealth of Pennsylvania, including the School District, faced long-term funding challenges which can be better addressed by efforts at many levels of government, on June 9, 2011, the School Reform Commission, the Commonwealth of Pennsylvania, Department of Education ("PDE") and the City entered into a Memorandum of Understanding (the "MOU") under which the School District agreed to regularly provide to PDE and the City certain information as to the finances, programs, facilities and educational priorities of the School District and to meet on an ongoing basis with representatives thereof. The MOU has a stated term of five years.

On October 4, 2011, a second MOU was executed between the parties entitled "Governance Structure and Fiscal Working Group." As part of this supplemental agreement, the Mayor of the City and the Pennsylvania Secretary of Education announced the appointment of Dr. Lori Shorr, currently the Chief Education Officer of the City and the Director of the Office of Public School Family and Child Advocate, as an executive advisor to lend assistance to the School District and its Governing Body. Although the term of the second MOU expired on June 30, 2012, Dr. Shorr continues to provide assistance.

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SOURCES OF SCHOOL DISTRICT REVENUE

In Fiscal Year 2015, the School District's Operating Budget revenue is expected to be derived primarily from three sources: (i) the Commonwealth, which represents approximately 52.8%; (ii) local, which represents approximately 46.7%; and (iii) federal, which represents approximately 0.5%.

Commonwealth Subsidies

The General Assembly is required by the Pennsylvania Constitution to provide for and maintain a system of public education, and for that purpose, makes subsidy payments to school districts located within and throughout the state. Commonwealth education appropriations have been constitutionally mandated since 1874, but are subject to legislative changes in amounts and funding formulae and to annual appropriation. Commonwealth education subsidies are included in the Commonwealth's operating budget each fiscal year. Total Commonwealth education subsidies to the School District increased annually in each Fiscal Year from 1982 to 2011. Fiscal Year 2012 was the first year in over three decades in which education subsidies declined. There have been modest increases in education subsidies in Fiscal Years 2013 through 2015.

The largest component of Commonwealth subsidies is the basic education funding allocation which the School District can use for any costs attendant to the operation of the public school system.

In Fiscal Year 2014, the School District final revenues were $984.0 million from the basic education funding allocation (a 1.02% increase from Fiscal Year 2013). Other Commonwealth revenues included $127.5 million in special education funding (a 0.2% decrease from Fiscal Year 2013) and (ii) $170.1 million in other funding, most of which was a reimbursement for a portion of pension costs. *See* "CERTAIN FINANCIAL INFORMATION OF THE SCHOOL DISTRICT- Operating Budget Revenues, Obligations and Changes in Fund Balances - Fiscal Year 2014 Amended Budget and Fiscal Year 2015 Revised Budget."

Pursuant to federal law, school districts are required to pay the full employer's share of social security taxes directly to the Federal government. The Commonwealth reimburses school districts, on a monthly basis, for a portion of such employer's share. With respect to contributions to the Public School Employee Retirement System ("PSERS") school entities are required to pay 100% of the employer's share of such contributions to PSERS. The Commonwealth makes quarterly payments to school districts to reimburse each for a portion of retirement contributions made.

The School District is also eligible to receive a Commonwealth subsidy for a portion of the debt service on the School District's lease rental and general obligation debt related to capital projects which constitute eligible capital projects. The Commonwealth also subsidizes the IU for special education programs, special education transportation, and non-public school services. Advance funding for special education transportation is partially reimbursed to the Commonwealth in the subsequent fiscal year. The School District annually reports total subsidy revenues net of this reimbursement in order to reflect the net resources actually provided by the Commonwealth to finance operations.

While interest and principal payments for its fixed rate general obligation bonds are made from local tax revenues deposited in the sinking funds under the daily deposit covenant made by the School District, Commonwealth education subsidies due to the School District are required, pursuant to Section 633 of the School Code, to be paid directly to the sinking fund depository for general obligation bonds to meet principal, sinking fund and interest payments on general obligation bonds if the School District fails to deposit in each sinking fund an amount equal to such principal and interest 15 days prior to a scheduled principal, sinking fund or interest payment date. While lease rental debt incurred to the State Public School Building Authority is a general obligation of the School District, pursuant to an Intercept Agreement entered into in accordance with Section 785 of the School Code, Base Rental Payments are paid directly by the State Treasurer from Commonwealth appropriations due to the School District on the fifteenth day of the calendar month immediately preceding each debt service payment for the 2003 Bonds, the 2006A Bonds, the 2006B Bonds, the 2012 Bonds and the 2015 SPSBA Bonds. *See* "THE SCHOOL DISTRICT OF PHILADELPHIA – Debt Practices" herein.

The School District Of Philadelphia
Coverage Ratios Of Net Cash Received From
Commonwealth Subsidies To Debt Service Payments
Fiscal Years 2011-2015 *(a)*
(Dollar Amounts In Thousands)

	Actual				Estimated
	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015
Net Commonwealth Subsidies *(b)*	$1,499,732	$1,260,243	$1,274,757	$1,313,498	$1,327,670
Long-term Debt Service (including State Public School Building Authority)	210,749	164,823	257,084	271,150	273,733
Ratios	7.12	7.65	4.96	4.84	4.85
Long-term and Short-term Debt Service *(c)*	646,141	628,083	761,024	396,944	575,964
Ratios	2.32	2.01	1.68	3.31	2.31
Short-term notes debt service*(d)*	435,392	463,260	503,940	125,794	302,231

(a) Actual data is derived from the School District's Comprehensive Annual Financial Reports. The FY2015 figures reflect the School District's estimate as presented in the Five-Year Plan approved by the SRC on December 18, 2014. See "CERTAIN FINANCIAL INFORMATION OF THE SCHOOL DISTRICT - Operating Budget Revenues, Expenditures and Changes in Fund Balance."
(b) Net Commonwealth subsidies reflect gross revenues expected to be available to the School District less certain cash deductions made by the State for payments to other educational entities, such as private residential rehabilitative institutions or in the case of Fiscal Year 2011, receipt of Accountability Block Grant funds projected for receipt in Fiscal Year 2012, but made available by the State for Fiscal Year 2011.
(c) Includes both principal and interest costs.
(d) Short-term debt service represents interest and principal payments on the School District's annual borrowing in anticipation of the receipt of taxes and other revenues.

Local Tax Revenues

Under the Home Rule Charter, the Governing Body is required to levy taxes, upon subjects and within the limits prescribed by either the General Assembly or City Council, sufficient to provide funds to pay operating expenses, debt service and the costs of any other service incidental to the operation of public schools.

The General Assembly has authorized the School District to levy up to 16.75 mills on taxable real estate in the City without City Council approval. The use of such authorization is limited while the School District is declared distressed. *See* "SOURCES OF SCHOOL DISTRICT REVENUES – Local Tax Revenues – House Bill 1857" herein.

The Governing Body is required to submit to the Mayor and City Council an annual request for authority to levy taxes to balance the School District's operating budget for the ensuing Fiscal Year. After reviewing such a request, City Council has the power to alter the rates or subjects of taxation for school purposes (except for the rate of real estate tax of 16.75 mills authorized by the General Assembly which can be levied by The School District directly, but the use of which is limited. See: SOURCES OF SCHOOL DISTRICT REVENUES – Local Tax Revenues – House Bill 1857" herein); provided however, that during the period the School District is determined to be financially distressed, the School Code requires that the taxes authorized to be levied by the School District on the date of the declaration of distress continue to be authorized and levied and transmitted to the School District. As described herein under the caption: Local Tax Revenues-"Real Estate Tax," the City has reassessed approximately 577,000 parcels of real estate within the City to more nearly approximate the market values thereof. To address the requirement that taxes authorized to be levied by the School District on the date of distress continue to be authorized and levied, notwithstanding any change in methodology in assessments, legislation was enacted by the Pennsylvania General Assembly. *See* "Local Tax Revenues - House Bill 1857" herein. City Council authorized the School District to levy its taxes for Fiscal Year 2015 by ordinance as adopted on June 19, 2014. Neither City Council nor the Mayor has ever failed to authorize taxes for school purposes. The ordinances authorizing the levy of the liquor sales tax and the cigarette tax do not require annual re-enactment and remain in effect. *See* "SOURCES OF SCHOOL DISTRICT REVENUE—Local Tax Revenues—Liquor Sales Tax."

The School District's Governing Body authorized the levy of the following taxes for Fiscal Year 2015 by resolution on June 30, 2014. The following is a brief description of those taxes levied for school purposes:

<u>Real Estate Tax</u>. Prior to June 2010, the Board of Revision of Taxes of the City of Philadelphia ("Board of Revision") appointed real estate assessors who annually assessed all real estate located within City boundaries. The assessors returned assessments for each parcel of real estate to the Board of Revision. The Board of Revision would increase or decrease the property valuations contained in the returns of the assessors in order that such valuations conformed to law. After the Board of Revision gave proper notice of all changes in property assessments and, after it had heard all assessment appeals, it then made assessments and certified the results to the Department of Revenue.

The Mayor of the City announced a moratorium on new property assessments in early January 2010 because of a belief that the data used by the Board of Revision to determine a home's value was unreliable. In the spring of 2010, City Council passed, and the Mayor signed, legislation to replace the Board of Revision with one agency to assess all real property and another agency to handle all assessment appeals proposed to be initially under the supervision of the City's Director of Finance Office. In May 2010, voters approved the legislation and, in June 2010, the Mayor appointed a Chief Assessment Officer to oversee and manage the Office of Property Assessment ("OPA") which formally assumed responsibility for assessments in October 2010. Without amendment to state law, the Pennsylvania Supreme Court ruled that the City did not have the authority to replace the Board of Revision in its capacity as an existing appeals board. The Board of Revision remains in place as the property assessment appeals board while the Office of Property Assessment is responsible for assessments, maintaining the separation of the appeals function from the assessment function.

On June 30, 2012, the Pennsylvania Legislature enacted and on July 5, 2012, the Governor of Pennsylvania signed into law, Senate Bill 1301, 53 Pa.C.S.A. § 8565 (the "Statute"), which provided, <u>inter</u> <u>alia</u>, that for the tax year 2013, assessments of real estate in the City shall be based on assessed values for tax year 2011 and that the Board of Revision of Taxes on appeals shall utilize the predetermined ratio applicable to tax year 2011 (32%). Pursuant to the authorization contained in the Statute, the City, by Ordinance enacted on June 30, 2012, Ordinance Bill No. 120175-AA (the "Ordinance"), among other matters, authorized the School District to impose an annual tax for school district purposes on real estate within the City at the rate of $3.634 on each one hundred dollars of the assessed value of taxable real property returned by the Office of Property Assessment or Board of Revision of Taxes for tax year 2011 (using the predetermined ratio of 32% then in effect), adjusted for subsequent improvements, demolition and destruction, and on June 30, 2012, the School Reform Commission, by Resolution, levied such taxes, the use and occupancy tax and School District real estate taxes authorized directly by the Commonwealth.

The City completed its Actual Valuation Initiative ("AVI") which involved reassessing almost 580,000 properties to more nearly approximate the market values of such properties. Those assessments are used for purposes of assessing taxes which are applicable in Fiscal Year 2014 and thereafter. As this was the City's first city-wide reassessment in decades and the fact that the reassessment substantially increased the total assessed value of real property, OPA received more than 51,000 requests for first level review, the informal review process used to expedite review and resolution of assessment matters prior to seeking a formal appeal through the Board of Revision of Taxes. There have been nearly 24,000 formal appeals to the Board of Revision of Taxes with disposition of approximately 40%. The vast majority of the appeals which have been determined have involved residential properties with relatively minor assessment adjustments. The majority of hearings involving commercial and industrial properties are not expected to be heard until calendar year 2015. Because those appeals comprise the vast majority of the total taxable assessed value appealed City-wide, an estimate of the impact of the appeals on School District local real estate tax revenues cannot be made until a larger percentage of the commercial and industrial appeals are resolved.

House Bill 1857. On October 18, 2012, the Pennsylvania Legislature enacted and on October 24, 2012, the Governor of Pennsylvania signed into law, House Bill 1857 (which was originally introduced as Senate Bill 1303 at the request of the City). House Bill 1857 permits downward adjustments to the School District millage tax rates in the face of higher assessments, which would otherwise be prohibited under current Pennsylvania School Code provisions by providing that (i) for the reassessment year (defined as the year immediately following the year in which the Director of Finance of the City first certifies that the total assessed value of all real property in the City is at full market value) and the two years thereafter, the rate of any tax authorized by the City to be levied for the School District or dedicated to the School District may be adjusted so that the yield on taxes based on assessed values of real estate authorized by the City for the School District, as estimated and certified by the Director of Finance of the City, is equal to an amount equal to or greater than the highest yield of the taxes based on assessed values of real estate authorized by the City to be levied by the School District or dedicated to the School District during any of the three full preceding years prior to the reassessment year; and (ii) in the third and fourth years following the reassessment year, the rate of any tax authorized by the City to be levied for the School District or dedicated to the School District shall be not less than the rate authorized in the immediately preceding year.

House Bill 1857 further provides that in the reassessment year and each year thereafter, in any year in which the School District is subject to a declaration of distress, the School District may only levy taxes on real estate under the 16.75 mills (which the School District may levy directly pursuant to legislative authorization by the General Assembly without further approval of the City), to the extent the estimated yield on all taxes on real estate for the year is less than an amount equal to the yield in the year prior to the reassessment year, increased by an amount equal to the yield in the year prior to the reassessment year, increased by an amount proportional to the increase since the year prior to the reassessment year in total assessed value of real estate in the City. For Fiscal Year 2015, the Director of Finance certified that the yield on taxes based upon assessed value of real estate would be equal to or greater than the highest yield during the three full preceding years prior to the assessment year. As a result, the School District did not levy any of the 16.75 mills of direct authorization from the Commonwealth.

On June 19, 2014 City Council authorized the School District to levy tax of 0.7382% assessed value and on June 30, 2014, the School District authorized the levy.

Assessments are certified on the first Monday of each October, subject to certified revisions, and taxes are levied as of January 1st. If paid by the last day of February, real estate taxes are discounted by 1%. If the tax is paid during the month of March, the gross amount of the tax is due. If the tax is not paid by the last day of March, tax additions of 1.5% per month are added to the tax for each month that the tax remains unpaid through the end of the calendar year. If the tax remains unpaid on January 1st of the succeeding year, a tax addition of 1.5% is added, the tax additions (totaling 15%) which accumulated from the time the tax was due are capitalized and the tax is registered delinquent and subject to lien ("Tax Claim Principal Amount.") Interest is then computed on the Tax Claim Principal Amount at a rate of 0.75% per month or 9% per annum until the real estate tax is fully paid. Commencing in February of the second year, an additional 1% per month penalty is assessed for a maximum of seven months. After the seven month period, no further tax additions are assessed, although interest continues to accrue on the unpaid tax at the delinquent rate of 9% per annum until paid in full. In addition to current collections in any given year, the School District also receives delinquent real estate taxes applicable to prior tax years.

Business Use and Occupancy Tax. City Council authorized the Governing Body of the School District to impose a tax for general public school purposes on the use or occupancy of real estate within the School District for the purpose of conducting any business, trade, occupation, profession, vocation, or any other commercial or industrial activity. This tax for Fiscal Year 2015 is 1.13%. This tax is due monthly.

Non-Business Income Tax. This tax is applied to the non-business income of residents from the ownership, lease, sale or disposition of certain real or personal property, including net income from dividends and interest on securities. The rate of this tax cannot exceed the rate of wage and net profits tax imposed on City residents. For FY 2015, the rate dropped slightly from 3.924% to 3.92%, and is payable by April 15th of the following calendar year.

Public Utility Realty Tax (PURTA). Act 66 of 1970 enacted by the General Assembly provides for distribution to local taxing authorities, on a varying percentage basis, of the amounts of this tax collected by the Commonwealth on realty of various public utilities located throughout the Commonwealth. Amendments to the PURTA Act, enacted on May 5, 1999, changed the base of the tax and the timing of payment of the tax, among other things. The effect of the changes, together with deregulation of utilities in Pennsylvania, has reduced the yield to the School District of this tax.

Liquor Sales Tax. City Council authorized the Governing Body to levy a liquor sales tax effective January 1, 1995, on the retail sale of liquor and malt and brewed beverages at the rate of ten percent of the sales price. This tax is payable monthly on or before the 25th day of the month following collection of the tax by the retail establishment.

1% City Sales Tax. Effective September 28, 1991, the City adopted a 1% sales and use tax (the "City Sales Tax") for City general revenue purposes. The Commonwealth authorized the levy of this tax under the Pennsylvania Intergovernmental Cooperation Authority Act in response to the City's financial crisis. The City Sales Tax is imposed in addition to, and on the same basis as, the Commonwealth's sales and use tax. The City Sales Tax is collected for the City by the Commonwealth Department of Revenue. On October 8, 2009, the General Assembly of the Commonwealth enacted legislation authorizing an increase to 2% (an additional 1%) from the then-current 1% rate through June 30, 2014.

In July 2013, the General Assembly of the Commonwealth enacted legislation authorizing the 1% additional City Sales Tax effective July 1, 2014. The legislation provides that (1) the first $120 million of this tax collected in a fiscal year will be paid directly to the School District by the State Treasurer; (2) for Fiscal Years 2015 through 2018, the next $15 million collected may be applied to payment of debt service on obligations issued by the City for the benefit of the School District; and (3) the remainder will be paid to the City pursuant to Act 205 for application to the Municipal Pension Fund. City Council authorized this sales tax by ordinance which was signed into law by Mayor Nutter on June 12, 2014 and became effective on July 1, 2014.

Cigarette Tax. On September 24, 2014, the Governor of Pennsylvania signed into law House Bill 1177 which authorizes the School District, if authorized by City Ordinance, prior to or after the effective date of House Bill 1177, to impose and assess an excise tax upon the sale or possession of cigarettes within the School District at a rate of 10 cents per cigarette. Any such tax imposed shall expire on June 30, 2019.

Pursuant to an ordinance of the City enacted June 6, 2013 and resolutions of the School District adopted June 27, 2013 and June 30, 2014, the School District has imposed the cigarette tax, effective October 1, 2014.

As required by HB1177, the tax is collected by the Department of Revenue of the Commonwealth of Pennsylvania (the "Department") and is paid by the Department to the State Treasurer (net of the Department's costs of collection) for payment directly to the School District on or before the 10th day of each month.

House Bill 1177 provides that the School District may change the rate of the tax imposed or repeal the tax, in each instance, upon certain prior notice to the Department (20 days for a change; 30 days for a repeal).

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The following table sets forth, for each source of tax revenue, the actual tax revenues collected in Fiscal Years 2011 through 2014 and estimated tax revenues for Fiscal Year 2015:

The School District Of Philadelphia
Local Tax Revenues
Fiscal Years 2011-2015
(Dollar Amounts In Thousands)

	ACTUAL *(a)*				**ESTIMATED** *(b)*	
	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015	
Real Estate Tax	$589,272	$649,394	$653,562	$657,418	$669,368	*(c)*
Business Use and Occupancy Tax	109,273	112,540	132,689	138,080	139,500	*(c)*
Non-Business Income Tax	24,011	27,744	28,105	40,501	39,500	
Public Utility Tax	1,115	1,099	1,049	1,067	1,067	
Liquor Sales Tax	43,892	50,123	54,238	60,527	60,600	
Sales Tax					120,000	
Cigarette Tax					49,000	
Payments in Lieu of Taxes	0	4	4	3	0	
Total Taxes	$767,563	$840,904	$869,646	$897,597	$1,079,035	

(a) Derived from the School District's Comprehensive Annual Financial Reports.
(b) The FY2015 figures reflect the School District's estimates as presented in the 5 Year Plan adopted by the SRC on December 18, 2014.
(c) The estimates for real estate and business use and occupancy taxes for FY2015 are based upon the School District's revised estimates as of December 18, 2014. The School District's estimates for FY2015 were adjusted based on actual FY2014 revenues compared to the City's original estimates and the City's current estimates for FY2015.

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The following table sets forth the School District's Real Estate Tax Levies and Collections for the calendar years 2005-2014:

REAL ESTATE TAX LEVIES AND COLLECTIONS

For the Calendar Years 2005 through 2014

(Dollars in Thousands)

			Collected within the Calendar Year of the Original Tax Levy			Total Collected to Date	
Calendar Year	Tax Levy for the Calendar Year (Original Levy)(a)	Adjusted Total Levied Tax (b)	Amount ($) (c)	Percent of Original Levy (%)	Delinquent Tax Collections (c)	Total Tax Collections	Percentage of Adjusted Tax Levy (%)
2005	$ 540,435	$ 511,194	$ 473,677	87.65%	$ 31,845	$ 505,522	98.89%
2006	570,172	529,044	490,401	86.01%	32,398	522,798	98.82%
2007	556,336	540,724	498,506	89.61%	34,495	533,001	98.57%
2008	583,170	589,439	541,097	92.79%	38,440	579,538	98.32%
2009	605,207	596,223	543,105	89.74%	41,896	585,001	98.12%
2010	608,708	587,537	540,288	88.76%	45,583	585,871	99.72%
2011	612,266	595,725	549,036	89.67%	35,720	584,756	98.16%
2012	655,006	636,956	549,558	83.90%	35,803	585,361	91.90%
2013	659,127	639,960	595,637	90.37%	43,229	638,866	99.83%
2014	737,778	709,718 (d)	598,375 (d)	81.11%	N/A	598,375	84.31%

Notes:

(a) Represents original billings as of the calendar year (December 31st) for current year real estate taxes only.

(b) Represents adjustment to original billings as of the end of the calendar year (December 31st) for current year real estate taxes only. Adjustments include assessment appeals, a 1% discount for payment in full by the end of February, the senior citizen tax freeze, and the tax increment financing (TIF) return of tax paid. For 2014, adjustment include the Longtime Owner Occupants Program (LOOP), since the program was implemented after the initial bills were sent.

(c) Source: City of Philadelphia, Revenue Department Reports-Taxes Collected for Tax Years 2005 through 2013-Gross Principal Only.

(d) Memorandum City of Philadelphia Department of Revenue 2014 Monthly Real Estate Billed/Balance Due dated 01/16/2015 as of December 31, 2014.

N/A = Data Not Available

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The following table sets forth Assessed and Market Value of Taxable Real Estate in the City for the calendar years 2005-2014:

THE SCHOOL DISTRICT OF PHILADELPHIA

ASSESSED AND ESTIMATED ACTUAL MARKET VALUE OF TAXABLE REAL ESTATE

For the Calendar Years 2005 - 2014

(Dollar Amounts in Millions)

	Certified Assessed Values (a)							
Calendar Year of Levy (b)	Total Assessed Value	Tax-Exempt Real Property (c)	Total Taxable Assessed Value	Percentage Increase Over Prior Year	Certified Assessed Value Ratio (d)	Estimated Actual Market Value (e)	Percentage Increase Over Prior Year	Millage For School Purposes
2005	$ 15,072	$ 4,040	$ 11,032	0.79%	0.2969	$ 37,157	0.82%	47.90
2006	$ 15,803	$ 4,372	$ 11,431	3.62%	0.2924	$ 39,094	5.21%	47.90
2007	$ 16,243	$ 4,628	$ 11,615	1.61%	0.2922	$ 39,750	1.68%	47.90
2008	$ 16,974	$ 4,799	$ 12,175	4.82%	0.2886	$ 42,187	6.13%	49.59
2009	$ 17,352	$ 5,146	$ 12,206	0.25%	0.2846	$ 42,887	1.66%	49.59
2010	$ 17,615	$ 5,339	$ 12,276	0.58%	0.2673	$ 45,927	7.09%	49.59
2011	$ 17,940	$ 5,593	$ 12,347	0.58%	0.2805	$ 44,018	-4.16%	49.59
2012	$ 18,022	$ 5,685	$ 12,337	-0.08%	0.2887	$ 42,733	-2.92%	53.09
2013	$ 18,181	$ 5,765	$ 12,416	0.64%	0.2868 (f)	$ 43,291	1.31%	53.09
2014	$ 137,404 (g)	$ 45,481 (h)	$ 91,923	640.36%	1.0000 (i)	$ 91,923	112.34%	7.382

(a) Source: The City of Philadelphia, Department of Finance Statistics via Board of Revision of Taxes (CY2005-2010) and the Office of Property Assessment (CY2011-2014). Beginning in 2014, the Assessed Value Certification Date was moved up to March 31, 2013.

(b) 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.

(c) The adjustment reflects reductions in assessments pursuant to established procedures for review of assessments.

(d) 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.

(e) Represents total taxable assessed value multiplied by the STEB ratio for calendar years 2005 through 2013. In calendar year 2014, the market value represents the actual amounts.

(f) Source: The City of Philadelphia, Department of Finance via The State Tax Equalization Board (STEB).

(g) The Office of Property Assessment (OPA) began the Actual Value Initiative (AVI) program in calendar year 2014. AVI is a program for the assessment of all real property - land and buildings -in Philadelphia at their current market value.

(h) Starting in 2014, the City provided for a $30,000 Homestead Exemption (amount subject to change) to all homeowners. The City granted $5,429 million in homestead exemptions as of March 31, 2014 along with $37,462 million in tax-exempt real property. An additional adjustment after the certification date of March 31, 2013 of $2,590 million was made.

(i) In calendar year 2014, the assessed value was changed to AVI. The ratio for calendar year 2014 represents the actual assessed value.

City Tax Reductions. The Pennsylvania Intergovernmental Cooperation Authority ("PICA"), an instrumentality of the Commonwealth, and the City entered into an Intergovernmental Cooperation Agreement in January of 1992. The Intergovernmental Cooperation Agreement requires the City to submit a five-year financial plan of the City annually to PICA for its approval. The first three five-year financial plans were based on the assumption that tax rate increases would be harmful to the economic health of the City. Beginning in the City's 1996 fiscal year, the City implemented a program of incremental reductions in the City's key taxes, namely the City wage tax and the business privilege tax, as part of an effort to rebuild Philadelphia's economy. The only School District tax affected by these reductions is the Non-Business Income Tax since the rate of this tax cannot be higher than the resident City wage tax. The incremental reductions have not had a material adverse effect on the School District's local tax revenues.

SCHOOL DISTRICT EXPENDITURES

Since the School District is a service-oriented organization, it is labor intensive. For Fiscal Year 2014, approximately 47.9% of its operating budget expenditures involve personnel services and related employee benefits. Charter school payments represent 27.8%; debt service payments represent 10.7%; property, transportation and communication expenses represent 5.0%; payments to other educational entities and alternative programs represent 3.5%; contracted services, materials, supplies, books, instructional aids and equipment represent 2.4%; utilities represent 2.1%;; and other items represent 0.6%.

Personnel services principally encompass costs of instructional staff (teachers), school-based support staff, administrative staff and custodial, maintenance and transportation staff. Staffing patterns and salary costs are largely determined by enrollment levels, collective bargaining agreements, state mandates and policies established by the Governing Body. Related employee benefits consist of a variable contribution and a per capita contribution. Variable employee benefits contributions are determined by gross earning levels and include social security contributions, retirement contributions and wage continuation plans. Per capita contributions principally relate to medical insurance coverage and, although the proportion of employer payments is determined through collective bargaining, costs are also affected by the incidence and magnitude of group claims and inflation.

Contracted services, materials, supplies, books, instructional aids and equipment are principally related to enrollment levels and certain new program initiatives of the Governing Body, including new district-wide curriculum aimed at improving achievement, an educational realignment to focus on middle and high schools, and anti-violence and safe schools programs. Costs are sensitive to general inflation levels.

Utility costs are affected by weather conditions and inflation; however, an aggressive energy conservation program has been successful in reducing utility usage, thereby helping to minimize the magnitude of increases in utility unit prices.

Debt service costs relate to interest and/or principal payments on long-term debt of the School District, which includes outstanding general obligation bonds (fixed rate, variable rate, QZABs and QSCBs) and lease rental debt. Other expenditures include items not easily assignable to previously defined categories, including short-term borrowing costs. Other financing uses include subsidies to the Food Services Fund and the local share of federally-funded programs.

CERTAIN FINANCIAL INFORMATION OF THE SCHOOL DISTRICT

Summary of Operating Results

The table on the following page reflects the revenues, expenditures and changes in the fund balance of the General Fund, Intermediate Unit Fund, and Debt Service Fund (which comprise the Operating Budget) for Fiscal Years 2011 through 2014 and revised estimates for FY 2015. *See* "CERTAIN FINANCIAL INFORMATION OF THE SCHOOL DISTRICT – Operating Budget Revenues, Expenditures and Changes in Fund Balances" and "Five-Year Financial Plan" herein.

	ACTUAL 2011		ACTUAL 2012		ACTUAL 2013		ACTUAL 2014	(a)	REVISED 2015	(a)
REVENUES:	$		$		$		$		$	
Local Sources:										
Total Taxes (including Credits & Adj. to Taxes)	767,563		840,904		869,646		897,597		1,079,035	(b)
Non-tax Revenues (c)	68,707		89,113		104,370		169,902		135,773	
Total Local Sources	836,270		930,017		974,016		1,067,499		1,214,808	
State Subsidies:										
Gross Instruction (Includes Fed. Stimulus)	1,072,035		968,149		968,129		984,007		984,001	
Less: Reimbursement of Prior Year										
I.U. Advances	(43,496)		(42,929)		(44,443)		(49,304)		(47,750)	
Net Instruction	1,028,539		925,220		923,686		934,703		936,251	
Debt Service	7,441		5,223		7,493		14,809		11,636	
School Dist. Special Education	127,544		127,611		127,567		127,544		131,384	
Charter School Reimbursement (d)	109,541		0		0		0		0	
	0		0		0		0		0	
Other (e)	140,616		149,871		163,791		181,096		186,617	
I.U. Advances	85,792		89,599		94,604		101,881		107,581	
Total State Subsidies	1,499,473		1,297,524		1,317,141		1,360,033		1,373,469	
Federal:										
Non-categorical	6,038		5,213		13,414		11,286		11,258	
Total Revenues	2,341,781		2,232,754		2,304,571		2,438,818		2,599,535	
Other Financing Sources (f)	460,910		161,877		303,417		31,667		18,977	
Other Revenues(City & State)	0		0		0		0		0	
Total Revenues & Other Financing Sources	2,802,691		2,394,631		2,607,988		2,470,485		2,618,512	
EXPENDITURES:										
Personal Services:										
Salaries & Wages (g)	986,597		887,614		846,652		768,957		750,263	
Employee Benefits	383,399		424,308		514,746		442,021		489,644	
Subtotal	1,369,996		1,311,922		1,361,398		1,210,978		1,239,907	
Professional/Technical Services	53,334		31,628		36,500		37,457		38,098	
Utilities	60,087		47,728		51,302		51,935		57,759	
Books, Supplies & Equipment	58,668		28,428		30,622		22,795		35,040	
Debt Service (including issuance costs)	276,018	(h)	166,659	(h)	258,957		271,150		276,533	
Non-Public School Services (only direct 3000)	14,696		13,890		13,672		13,672		13,693	
Charter Schools (i)	411,880		532,818		592,580		701,930		727,949	
Property/Transportation/Communication	104,670		109,416		113,286		125,460		124,130	
Payments to Other Ed. Entities & Partners (j)	105,805		88,786		85,467		87,955		92,507	
Other (k)	(172)		(8,255)		4,847		2,681		(4,443)	
Subtotal Expenditures	2,454,982		2,323,020		2,548,631		2,526,013		2,601,173	
Other Financing Uses (l)	370,289		124,771		2,459		2,535		2,518	
Expenditure Reductions(Personnel)										
Total Expenditures & Other Financing Uses	2,825,271		2,447,791		2,551,090		2,528,548		2,603,691	
Excess (Deficiency) Revenues and Proceeds Over (Under) Expenditures and Other Uses	(22,580)		(53,160)		56,898		(58,063)		14,821	
Fund Balance (Deficit) July 1	28,059		30,724		(20,436)		39,462		(14,821)	
Changes in Reserve & Designations	25,245	(m)	2,000		3,000		3,780		0	
Revenue Enhancements / Obligation Reductions TBD	0		0		0		0		0	
Fund Balance (Deficit) June 30 (n)	30,724		(20,436)		39,462		(14,821)		0	

Notes Relating to the Summary of Operating Results

a. The School Reform Commission on June 30, 2014 adopted a Fiscal Year 2015 Budget. On December 18, 2014, the School Reform Commission adopted a revised Fiscal Year 2015 Operating Budget as the base year for the latest Five-Year Financial Plan.

b. Total taxes from local sources reflect the temporary 2009 1% City sales tax increase made permanent in July 2014. Beginning on July 1, 2014, the first $120 million of the 1% City sales tax is paid directly to the School District by the State Treasurer.

c. Fiscal Years 2012 and 2013 reflect increases to the City grant of $10.0 and $20.0 million, respectively, and approximately $5.6 million in additional Parking Authority revenues. Fiscal Year 2014 reflects the one-time City grant of $27 million and the one-time State grant of $45 million received from the City. Fiscal Year 2015 includes the one-time $30 million grant from the City.

d. Fiscal Year 2011 included Charter School reimbursement revenue which was eliminated in subsequent years.

e. Other includes the State's partial reimbursement of the School District's pension contribution, approximately $33.8 million in. Fiscal Year 2011, $43.5 million in Fiscal Year 2012, $59.2 million in Fiscal Year 2013, and $87.5 million in Fiscal Year 2014.

f. Other Financing Sources for Fiscal Year 2011 includes: $434.3 million of proceeds from a restructuring that included a swap termination payment; $6.0 million from the sale of property; and $22.0 million in interfund transfers. Fiscal Year 2012 includes: $123.1 for a debt restructuring; $36.6 for a loan from SEPTA; $3.5 million in interfund transfers; and $0.1 million in the sale of property. Fiscal Year 2013 includes $300 million in deficit financing. Fiscal Year 2014 includes $30.0 million from the sale of property.

g. In Fiscal Year 2012 through Fiscal Year 2015 the reductions are due primarily to layoffs and bargaining concessions. Layoffs and position eliminations were implemented at the end of June 2011 and June 2013. Bargaining concessions were achieved with 32BJ in July 2012 and with CASA in March of 2014. A wage step freeze enacted on September 1, 2013 coupled with attrition further reduced actual salary expenditures in Fiscal Year 2014 and in Fiscal Year 2015. Employee Benefit increases are primarily due to the employer's contribution rate increase for retirement costs mentioned in note (f) above.

h Fiscal Year 2012 includes a $36.6 loan from SEPTA (see note f) and savings of $74.7 million due to issuance of 2011 refunding bonds and lower temporary borrowing and interest costs.

i. Charter expenditure increases are due to certain mandated increases in per pupil costs, the removal of caps on enrollment, an increase of over 22,000 students attending charter schools from Fiscal Year 2011 to Fiscal Year 2015, including approximately 15,000 students from the conversion of School District operated schools to Renaissance charters and the opening of additional cyber charters during the same period. These expenditures do not, however, include costs for transportation of charter students. The Commonwealth budget included a partial reimbursement of prior year's payments for charter schools in Fiscal Year 2011. The Commonwealth eliminated such reimbursements beginning with Fiscal Year 2012.

j. These expenditures are primarily for Philadelphia students who are placed by the courts and City departments of health and human services in facilities located outside the City. Also included in this expenditure category are payments for alternative education schools operated and managed by private contractors.

k. "Other" expenditures include allocated costs, cancellations of encumbrances, lapsed appropriations, unidentified expenditure reductions or categorical revenue enhancements, scholarships and stipends, interest on temporary borrowing and other components of miscellaneous expenses such as losses and judgments.

l. Amounts on this line primarily reflect the defeasance of certain bonds. In Fiscal Year 2011 the defeasance amounted to $434.3 million with the remaining amounts primarily reflecting the School District's local share to fund certain categorical programs. In Fiscal Year 2012, $123.1 million reflects a defeasance with the remaining $2.3 million being local share. In subsequent years, the amounts reflect local share. In Fiscal Year 2011, the amount includes a swap termination payment of $63.0 million offset from the proceeds described in note *(f)*.

m. In Fiscal Year 2011, $23.7 million of Fiscal Stabilization Reserve Funds and $1.5 million of Food Services reserves were released along with the $28.1 million carry forward from Fiscal Year 2010.

n. Includes Unreserved and Undesignated Fund Balance (Deficit) in the General Fund and Reserved Fund Balance in the Debt Service Fund.

Five Year Plan

On December 18, 2014, the School District adopted its most recent Five Year Financial Plan (the "Financial Plan"). The Financial Plan is available at http://philasd.org/budget/site-assets/FY2015---FY2019-Five-Year-Financial-Plan.pdf. The Financial Plan is not incorporated herein by reference and can be amended or modified by the School Reform Commission at any time.

The Financial Plan assumes no increases or decreases in the programs and services provided by the School District during the period covered by the Financial Plan and no additional sources of revenues. However, the Financial Plan projects that in each year of the Financial Plan, the percentage of expenditure growth will exceed the percentage increase in revenue growth, thereby resulting in a cumulative gap between revenues and expenditures projected to grow during the five years covered by the plan and projected to be a cumulative $374 million dollars in FY 2019. In arriving at the assumptions as to expenditure growth, the Financial Plan assumes labor savings over the life of the Plan which may or may not be realized.

The Financial Plan contains forward looking statements which may or may not be achieved and the differences between projected results and actual results may be material. The School District has no independent authority to increase its revenues and its ability to utilize its powers under the School Code to limit expenditures may be limited by court decisions.

No assurance can be given that the School District will be able to continue to provide the programs and services which it currently provides or which are assumed to be provided in the Financial Plan without additional sources of or increases to existing sources of revenues and/or relief from some of its non-discretionary expenditure obligations.

Operating Budget Revenues, Expenditures and Changes in Fund Balances

The School Reform Commission amended the Fiscal Year 2014 Operating Budget on May 29, 2014 and adopted the Fiscal Year 2015 Operating Budget on June 30, 2014. On December 18, 2014, the School Reform Commission amended the Fiscal Year 2015 Operating Budget as the base year of the Five-Year Financial Plan.

Fiscal Year 2011 Adopted Operating Budget. On May 26, 2010, the School Reform Commission adopted the Operating Budget for Fiscal Year 2011 that included anticipated revenues and other financing sources of $2,423.8 million and anticipated expenditures and other financing uses of $2,434.1 million and a positive opening fund balance of $10.2 million, which resulted in projected balanced budget at June 30, 2011. The Adopted Operating Budget for Fiscal Year 2011 was based upon the Governor's originally proposed Fiscal Year 2011 Commonwealth Budget and the City's Adopted Budget for Fiscal Year 2011. The School District's Fiscal Year 2011 Operating Budget assumed the School District would receive a $120.6 million second year installment of Federal State Fiscal Stabilization funding provided to the School District as a component of the Commonwealth's Basic Education Subsidy.

Subsequent Event. On July 6, 2010, the Commonwealth enacted its Fiscal Year 2011 budget which provided approximately $48.9 million less in funding for the School District's Operating Budget than had been anticipated. The primary reductions were $30.7 million in the Basic Education Subsidy and $16.5 million in retirement reimbursements, resulting from a decrease in the Commonwealth's mandated employer contribution rate which then resulted in a related reduction in Commonwealth reimbursements to the School District.

Fiscal Year 2011 Amended Operating Budget. On May 30, 2011, the School Reform Commission amended the Fiscal Year Operating Budget revising revenues and other financing sources to $2,809.8 million and expenditures and other financing uses of $2,863.1 million, resulting in an initial projected negative current year fund balance of $53.3 million. The budget was anticipated to be balanced through the utilization of $23.7 million from the School District's Fiscal Stabilization Reserve Fund, $1.5 million of Food Service Fund reserves, and the $28.1 million in surplus carried forward from Fiscal Year 2010.

Fiscal Year 2011 – Actual. The Fiscal Year 2011 audited financial report dated February 10, 2012, reflected a $30.7 million positive improvement in the projected ending fund balance from the final amended budget adopted on May 30, 2011. The positive change was due to reduced expenditures of $37.8 million primarily attributable to reduced benefit costs offset by a net revenue decline of $7.1 million primarily due to lower collections of delinquent real estate taxes.

Fiscal Year 2012 Budget Preparation. The School District announced in the Spring of 2011, that absent corrective action, it was facing a projected $629.0 million budget gap in Fiscal Year 2012 in both its Operating Budget and Categorical Budget due to the following factors: (1) the anticipated elimination of: (a) $122.0 million of Federal State Fiscal Stabilization Funds provided to the School District through the State; (b) $71.0 million of Federal Education Jobs Funds provided to the School District through the State; and (c) $116.0 million in directly-received Federal Stimulus funds; (2) a net reduction of $100.0 million in State appropriations based on the Governor's proposed Fiscal Year 2012 Commonwealth budget, and (3) the need to replace one-time funds received in Fiscal Year 2011 through a $19.4 million restructuring which lowered 2011 debt service expenses and the release of a reserve of $66.0 million. In addition, the School District anticipated mandated expenditure increases in Fiscal Year 2012 due to: (1) projected mandated charter school increases of $39.0 million based on per pupil cost increases and anticipated enrollment increases; (2) a net increase in expenses for "turnaround school" initiatives of $13.6 million; (3) higher pension payments of $17.0 million due to a forthcoming contribution rate increase from 5.64% to 8.65%; and (4) other mandated increases of $86.0 million due to a variety of factors, including increases by mandated collective bargaining agreements for medical and prescription drug benefits, utilities, and debt service; offset by (5) an increase in the Commonwealth's pension reimbursement to the School District of $21.0 million. To address the $629.0 million budget gap, the School District identified various categories of expenditures to be considered for reduction ("Gap Closing Plan").

Fiscal Year 2012 Adopted Operating Budget. On May 31, 2011, the School Reform Commission adopted the Operating Budget for Fiscal Year 2012 as required by the Home Rule Charter with anticipated revenues and other financing sources of $2,167.6 million and expenditures and other financing uses of $2,169.6 million, resulting in a projected zero ending fund balance on June 30, 2012 after the release of $2.0 million from reserves.

The Fiscal Year 2012 Adopted Operating Budget assumed the following major revisions and reductions to School District revenues including: (1) the complete elimination of $110.3 million in Commonwealth charter school reimbursement; (2) a net loss of $103.0 in Basic Education Subsidies; and (3) $1.3 million in lower local revenues; offset by (4) $24.9 million in increased "Other" Commonwealth revenues primarily due to (a) increased pension reimbursements of $21.0 million and (b) $4.7 million in increased I.U. Advances. Other financing sources of $7.6 million were comprised of $1.6 million from the sale of property and $6.0 million in interfund transfers. Expenditures in the Fiscal Year 2012 Adopted Operating Budget (as compared to Fiscal Year 2011) were adjusted downward as follows: (1) a 50% reduction in central office budgets and central administrative staff for a reduction of $42.5 million; (2) the total elimination of non-mandated school bus service and SEPTA transpass services for a reduction of $80.5 million; (3) $36.2 million in reduced expenditures for books, supplies and equipment; and (4) a $41.7 million reduction comprised of: $37.6 in Alternative Education and $4.1 Education Management Organization (EMO) payments. These reductions in expenditures were offset by anticipated increases of $89.8 million in charter school payments; $10.7 million for professional and technical services; and a $25.0 million increase in projected debt service. The Adopted Budget included additional gap closing expenditure reductions not yet determined by category of $209.2 million. These identified potential gap closing measures included: (a) $75.0 million in collective bargaining concessions; (b) an assumption that 50% of the Commonwealth charter school reimbursement for $57.0 million scheduled for elimination by the Governor would be restored by the Legislature; (c) achievement of $20.0 million in savings from efficiency measures; (d) achievement of $10.0 million in savings through the implementation of school consolidations and property sales based upon the School District's Facilities Master Plan; (e) $8.0 million in anticipated salary savings due to the implementation of an early retirement package, (e) the elimination of $26.5 million in stimulus mandates and set asides no longer necessary; (f) $11.0 million in municipal service costs the School District proposed for transfer to the City, and (g) $1.7 in other miscellaneous items.

Subsequent Events. Both the Commonwealth's budget and the City's budget were adopted subsequent to May 31, 2011 and the adoption by the School District of its Fiscal Year 2012 Operating Budget.

On June 23, 2011, the Mayor signed a City Council Ordinance, which by its terms, raised property taxes by 3.50 mills that was projected to provide an additional $37.3 million in local taxes for schools. Additionally, the City agreed to increase its Grants to the School District by $10.0 million, and an increase in the hourly cost of street parking projected to provide an additional $6.1 million from the Parking Authority, for a total increase in local funding of $53.4 million.

The School District agreed to provide certain services that were eliminated in the Adopted Fiscal Year 2012 Operating Budget, including non-mandated yellow bus service for 19,000 public and non-public school students for $26.5 million, maintenance of lower class sizes in grades K-3 for $16.0 million, continued operation of certain Alternative Education Accelerated Schools for 1,800 students for an increase of $8.2 million and restoration of 270 Bright Futures early childhood slots for $2.7 million.

Following the adoption of the Fiscal Year 2012 Operating Budget, the School District restored full-day Kindergarten by shifting $25.0 million in Title I funds to maintain service that had previously been funded in the Operating Budget but was eliminated; agreed to continue to be responsible for $11.0 million in municipal service costs that the School District had originally proposed to transfer to the City as a part of its Gap Closing Plan; made adjustments to its IDEA, Summer School, and facilities space rental budgets to offset the $11.0 million in municipal service costs; and has restored SEPTA Transpasses to public and non-public school students. The funding for Transpass restoration was covered by incurring unfunded debt of up to $36.6 million to SEPTA, bearing interest at the rate of 2 percent annually commencing July 1, 2012.. The incurrence of the unfunded debt required approval from the Court of Common Pleas, whose approval was received on February 7, 2012.

The Fiscal Year 2012 Budget enacted by the Commonwealth on June 30, 2011 resulted in a net loss of $35.0 million of revenues to the School District. The budget adopted by the Commonwealth provided the School District with only $22.0 million in additional funds from those assumed by the School District, consisting of: Accountability Block Grant funding which it retroactively appropriated to Fiscal Year 2011. This left the School District with a $35.0 million net shortfall based upon the assumptions in its Fiscal Year 2012 Adopted Operating Budget. On August 3, 2011 the School District identified $35.0 million in additional cuts to address the shortfall. The cuts that were identified included: (a) $17.7 million in spending reductions to be achieved by scaling down and restructuring the School District's Promise Academies initiative; (b) $6.5 million by reducing school nurse staffing levels; (c) $2.7 million in targeted Desegregation budget cuts; (d) $1.6 million in additional cuts to Central Office non-personnel budgets; (e) $1.2 million in reduced Central Book Allotments; (e) $1.1 million by eliminating Operating Budget funding for 11 "Response to Intervention" positions, and (f) $4.2 million spread across numerous other budget lines.

Fiscal Year 2012 Mid-Year Changes to Operating Budget. On October 26, 2011, the Chief Financial Officer provided a status update to the School Reform Commission on the Fiscal Year 2012 Budget and the Gap Closing Plan, detailing changes to the School District's financial condition that had occurred since August 3, 2011 and reporting on the status (in addition to the expense cuts in the immediately preceding paragraph) of the School District's Fiscal Year 2012 Gap Closing Plan, the various actions taken to date, and further adjustments to the budget which are required to achieve and maintain balance. As to the Gap Closing Plan, it was reported that: (1) $202.10 million of reductions to Instructional Support Operating Budgets were implemented or restored due to the provision of new local funding; (2) $87.5 million of reductions to Instructional Support Categorical Grant Budgets were completed; (3) $78.9 million of reductions in Operations Support for Schools were completed or offset due to new local funds and the unfunded debt described above; (4) $26.5 million of Stimulus mandates and set asides no longer required were eliminated from the budget; (5) $53.0 million in Central Office Administrative Support reductions were completed; (6) the assumption of municipal services costs of $11.0 million by the City were offset with the replacement cuts described above; and (7) the status of the incomplete $170.0 million of District-wide gap closing measures was as follows: (a) the School District achieved $44.0 million of the $75.0 million it sought in collective bargaining contract concessions; (b) $22.0 million of the $57.0 million in charter school reimbursement relief had been covered through increased State revenues, received and recognized in Fiscal Year 2011; (c) the $20.0 million in anticipated savings from District-wide efficiency initiatives had been reduced to $10.0 million; (d) additional anticipated revenue from property sales related to the implementation of the School District's Facilities Master Plan had been reduced from $10.0 million to $5.0 million in Fiscal Year 2012; and (e) employee separation initiatives did not produce $8.0 million in savings in Fiscal Year 2012 but instead were projected to increase the School District's costs by $23.0 million on a one-time basis, due to significantly higher-than-projected severance and termination costs for terminated employees; (8) other adjustments were made to revenues which included; (a) a $7.9 million decline in overall local revenues; (b) a $13.0 million decline in State revenues based on final allocations from the Department of Education; and (c) $3.0 million in lower Medicaid reimbursements based on Fiscal Year 2011 results; (9) there was a restoration of $5.1 million in previously-planned Information Technology cuts; and (10) increases were made to losses and judgment expenses of $3.5 million. These shortfalls were projected to be offset by positive changes of $109.6 million which included: (1) a $18.2 million positive projected ending fund balance for Fiscal Year 2011; (2) Debt Service savings of $74.7 million due to: (a) $56.7 million in savings from the issuance of the 2011 Refunding Notes; (b) $14.8 million of lower interest payments for variable rate debt; (c) $3.2 million in lower temporary borrowing costs; (3) additional mid-year budget cuts of $16.7 million that included (a) $10.0 million from school budgets, (b) $1.3 million from reduced professional development expenditures and (c) $5.4 million in reductions of psychologists, bilingual counseling assistants, instrumental music costs, among others. Taking into account all the adjustments described above, further actions were still required to be taken to close an estimated remaining shortfall of $21.9 million.

On November 23, 2011, the School Reform Commission established an implementation committee ("Implementation Committee") that was responsible for both ensuring that cuts already committed to were being made, and feasible options were being identified to close the remainder of the Fiscal Year 2012 Budget Gap. The Implementation Committee was also charged with reviewing and approving any new hires, compensation adjustments and contracts until the budget gap is completely closed.

On January 19, 2012, the School Reform Commission appointed a Chief Recovery Officer to assume the responsibilities of the Acting Superintendent, the Chief Financial Officer and the Chief Business Officer and to focus on the challenges facing the School District. The Chair of the SRC Finance Committee, Feather O. Houstoun, presented a budget update reporting that the budget shortfall had reached $715.0 million. During the next few months leading up to the amendment of the Fiscal Year 2012 Operating Budget, an intense effort was established by the School District with daily cabinet sessions to address the shortfall and to re-establish the use of a Five-Year Financial Plan for the School District.

Amended Fiscal Year 2012 Operating Budget. On May 30, 2012, the School Reform Commission amended the Fiscal Year 2012 Operating Budget revising revenues and other financing sources to $2,379.9 million and expenditures and other financing uses of $2,434.3 million. The $715.0 million shortfall identified in January was reduced to $54.5 million through the achievement of 92.4 percent of the Gap Closing measures. After taking into account the $30.7 million positive Fiscal Year 2011 ending balance, the amended Fiscal Year 2012 Operating Budget estimated a negative $21.7 million ending fund balance.

Revenues reflect a net positive change of $55.8 million based on the following: (1) Local revenues increased by $68.3 million primarily due to a $45.6 million increase in real estate revenues and $5.6 million from all other local taxes; (2) an increase of $17.1 million in local non-tax revenues primarily attributable to an increase of $10.1 million in the City Grant; (3) and $6.1 million of increased Parking Authority revenues, offset by a reduction in State revenues of $12.5 million due to lower social security and retirement payments because of reductions in staff. Expenditures reflect a net negative change of $141.6 million attributable to the following: (1) Reinstatement of student transportation costs of $80.9 million; (2) a $20.0 million increase in costs for students placed outside the School District by the courts and City agencies; (3) $19.5 million in higher charter school per pupil payments due to student increases in enrollment in both regular charters, cyber charters and Renaissance charter schools; (4) a $3.3 million increase in books and equipment; and (5) $196.0 million of projected undistributed savings from the original budget adoption that were not realized, offset by (1) $78.4 million in reduced debt service savings attributable to a restructuring; (2) $61.3 million in lower personnel costs covering both salaries, wages and benefits; (3) $20.3 million in reduced costs for contracts; and (4) $17.4 million in utility savings.

Fiscal Year 2012 – Actual. The Fiscal Year 2012 audited financial report dated February 11, 2013, reflected a $1.3 million positive improvement in the projected negative ending fund balance from $21.7 million in the final amended budget adopted on May 31, 2012 to negative $20.4 million in the audited financial report. The positive change was due to increased revenues of $14.8 million primarily attributable to increased local revenues offset by a net expenditure increase of $13.5 million primarily due to increased personnel services costs.

Fiscal Year 2013 Adopted Operating Budget. On May 30, 2012, the School Reform Commission adopted the Fiscal Year 2013 Operating Budget with $2,357.0 million in total revenues and other financing sources and $2,556.3 million in total expenditures and other financing uses. This resulted in a $199.3 million deficiency in revenues over expenditures and when combined with the then projected amended Fiscal Year 2012 negative ending fund balance of $21.7 million and $3.0 million from changes in reserves resulted in a cumulative deficiency of $218.0 million.

The Adopted Fiscal Year 2013 Operating Budget was based on the following revenue changes as compared to the Amended Fiscal Year 2012 Budget: (1) a net positive increase of $75.2 million from Local Sources attributable to (a) $66.9 million in additional revenues from Local Sources that included a $94.5 million increase in real estate millage proposed by the Mayor offset by assessment appeals and STEB appeals of approximately $27.6 million; and (b) $8.3 million more in non-tax revenues primarily due to the sale of unused assets; (2) net increase in State funding of $37.4 million based on the Governor's proposal for block grant funding model for various subsidies and reimbursements, such as transportation, social security and retirement; and (3) $8.3 million in increased Federal debt service subsidies from the issuance of Qualified School Construction Bonds in 2011, offset by a reduction in other financing sources of $143.9 million.

Expenditures for Fiscal Year 2013 compared to amended Fiscal Year 2012 Operating Budget reflected a net increase of $245.1 million due to the following changes: (1) a $22.0 million increase in salaries and wages due to contractual increases; (2) a $48.0 million increase in employee benefits primarily due to the resumption of the one year deferral from payments to the PFT health and welfare fund plus a partial payback of the prior year's payment and increases to health care costs; (3) an increase in debt service of $98.2 million attributable to a one-time savings due to a restructuring that occurred in Fiscal Year 2012 and an increase in total debt service; (4) $44.6 million in additional charter school payments and (4) $9.3 million more in utility costs; and (5) all other changes totaling $9.4 million, offset by $10.3 million in reduced books, supplies and equipment costs and $12.7 million in further miscellaneous savings. Other financing uses were reduced by $123.1 million due to a refinancing in Fiscal Year 2012 that was not anticipated for Fiscal Year 2013.

Fiscal Year 2013 Amended Operating Budget. Both the Commonwealth's budget and the City's budget were adopted subsequent to the May 30, 2012 adoption by the School Reform Commission of its Fiscal Year 2013 Operating Budget. On September 10, 2012, the School Reform Commission amended the Fiscal Year 2013 Operating Budget as the base year of the Fiscal Year 2013-2017 Five-Year Financial Plan.

On June 28, 2012, the Mayor signed a City Council Ordinance, which raised use and occupancy taxes by 8.90 mills and was projected to provide an additional $20 million in local taxes for schools. Additionally, City Council provided additional revenues to the City to increase the Grant to the School District by an additional $20 million, resulting in $54.5 million less revenue from local sources than contained in the Adopted Fiscal Year 2013 Operating Budget. The Commonwealth budget produced a net negative change in Operating Budget revenues of $4.4 million primarily due to the Legislature not approving the block grant funding model thereby producing a negative change in the Net Basic Education Subsidy funding of $163.1 million. This amount was offset by: (1) an increase of $95.0 million for social security, retirement and the state's portion of employee pension costs; (2) $55.3 million in IU transportation advances; and (3) the anticipation of $8.2 million in PlanCon debt service reimbursements previously projected for receipt in Fiscal Year 2012 but later projected to be received in Fiscal Year 2013. The Commonwealth did provide $21.6 million in Accountability Block Grant ("ABG") funds.

The amended Operating Budget for Fiscal Year 2013 reflected a net $40.7 million reduction in expenditures. This reduction in expenditures was primarily attributable to $35.5 million of lower salaries, wages and employee benefits based upon the receipt of the Accountability Block Grant that would partially reduce operating budget expenditures. Other changes included $3.2 million in lower utility costs due to a contract to purchase fuel on the spot market and all other net expenditure reductions of $2.0 million yet to be achieved.

The deficiency of revenues over expenditures was $200.9 million and when combined with a negative Fiscal Year 2012 ending fund balance of $20.4 million and taking into account the changes in reserves of $3.0 million and $300 million of proceeds from the 2012 Bonds resulted in a positive ending fund balance for Fiscal Year 2013 of $74.5 million.

Fiscal Year 2013 – Actual. The Fiscal Year 2013 audited financial report dated February 19, 2014, reflected a $6.8 million positive improvement in the projected ending fund balance from $32.7 million in the final amended budget adopted on May 30, 2013 to $39.5 million in the audited financial report dated February 19, 2014. The positive change was due to reduced expenditures of $13.4 million primarily attributable to lower than budgeted personnel services costs offset by a net revenue decline of $6.6 million primarily due to lower state revenues.

Fiscal Year 2014 Adopted Operating Budget. On May 30, 2013, the School Reform Commission adopted the Operating Budget for Fiscal Year 2014 as required by the Home Rule Charter with anticipated revenues and other financing sources of $2,357.5 million and expenditures and other financing uses of $2,394.2 million, resulting in a projected zero ending fund balance on June 30, 2014 after the release of $4.1 million from reserves. The School District reduced expenditures by $254 million. These savings were achieved by laying off nearly 3,800 employees, realizing facilities savings from 24 closed schools, and reaching a collective bargaining agreement with the Commonwealth Association of School Administrators (CASA) that reduced health care costs and returned principals and assistant principals to a 10-month schedule from a 12-month schedule.

Fiscal Year 2014 Amended Operating Budget. On May 29, 2014, the School Reform Commission amended the Fiscal Year 2014 Operating Budget revising revenues and other financing sources to $2,468.9 million and expenditures and other financing uses of $2,541.3 million. After taking into account the $39.5 million positive Fiscal Year 2013 ending balance and a positive change in reserves of $4.1 million, the amended Fiscal Year 2014 Operating Budget estimated a negative $28.9 million ending fund balance.

Subsequent Events. The School Reform Commission actively sought additional revenues in order to reduce the impact of the position eliminations. . In August 2014, $33 million was derived from the following sources: (1) $16 million in School District personnel savings; (2) $15 million in additional local tax revenues, primarily delinquent taxes; and, (3) $2 million in additional Commonwealth Basic Education funding. In September, another $50 million was pledged by the City of Philadelphia and in November, the Commonwealth provided another $45 million via the City of Philadelphia. In total, the School District received an additional $112 million after the adoption of the Fiscal Year 2014 Budget.

Fiscal Year 2014 – Actual. Since the adoption of the Amended Fiscal Year 2014 Operating Budget, certain changes occurred that modified the ending fund balance from negative $28.9 million to negative $14.8 million for a net positive change in fund balance of $14.1 million. Revenues were slightly higher than budget by $1.6 million, but the composition was different than budgeted with a one-time City contribution of $27.0 million replacing capital asset sales that had been budgeted. Expenditures were $12.7 million below budget due to employee benefit costs that were $19.9 million below budget, primarily due to lower than budgeted termination payments for unused leave time for exiting employees and lower self-insured medical costs; additional savings of $3.4 million were achieved from lower utility costs. These savings were partially offset by $5.1 million in higher special education costs resulting from lower than budgeted Medicaid/ACCESS reimbursements, salary costs that exceeded the budget by $2.4 million, charter payments that exceeded the budget by $2.0 million and $1.1 million lower than budgeted cancellation of prior year encumbrances.

Fiscal Year 2015 Adopted Operating Budget. On June 30, 2014, the School Reform Commission adopted the Operating Budget for Fiscal Year 2015 with anticipated revenues and other financing sources of $2,550.0 million and expenditures and other financing uses of $2,614.2 million, resulting in a projected zero ending fund balance on June 30, 2015, after assuming $93.0 million in Revenue Enhancements/Obligation Reductions To Be Determined.

Revenues increased by $81.1 million from the revenues in the Fiscal Year 2014 Amended Operating Budget due to the following changes: (1) Local Tax Revenues increased by $133.6 million due to the City Council approval of $120.0 million in revenues from the reauthorized 1% City Sales Tax to go to the School District; and an additional $13.6 million from natural growth in Real Estate Tax revenues; (2) Local Non-Tax Revenues decreased by $11.0 million due to the loss of a one-time $45 million City Grant, a $30 million one-time grant from the City of Philadelphia, a projected $6.5 million increase in Parking Authority revenues resulting from increased parking rates and fines and a $2.5 million reduction in Miscellaneous Non-Tax Revenue; (3) State Revenues increased by $617.5 million due to a $21.8 million increase in retirement reimbursements from higher employer contribution rates, a $6.1 million increase in transportation due to natural growth, partially offset by a $9.3 million reduction in Debt Service (PlanCon) from higher than usual amounts in the prior year, and a $1.1 million decrease in all other state revenues; and (4) Other Financing Sources declined by $59.0 million due to a reduction of $61.4 million in combined revenues from building sales and a one-time City contribution of $27 million; this was slightly offset by an addition of $2.8 million to finance capital issues and a $0.4 million reduction in other revenues.

Expenditures increased by $72.9 million from the expenditures in the Fiscal Year 2014 Amended Operating Budget due to the following changes: (1) Employer contributions for Retirement (PSERS) increased by $33 million due to an increase in the required percentage of salaries from 16.93% in Fiscal Year 2014 to 21.40% in Fiscal Year 2015; (2) Per Pupil Payments to Charter Schools increased by $29 million due to a combination of increased per pupil rates for special education students, small increases in enrollment and an increase in the percentage of Charter students in special education, which has a per pupil rate that is nearly three times higher than for regular education students; (3) The School District used $112 million in funding provided after the beginning of Fiscal Year 2014 to rehire 1,679 employees during the fall who had been laid off at the end of Fiscal Year 2013; an additional $16 million was required to fund these positions for the full Fiscal Year 2015; (4) Increases of approximately 8% in self-insured medical care cost $14 million; (5) Debt Service and Temporary Borrowing costs increased by $6 million; and (6) All other costs increased by $6 million. These expenditure increases were partially offset by: (1) The end of one-time funding of $12 million to implement the Facilities Master Plan that closed and reorganized dozens of schools; (2) The end of an agreement providing the Philadelphia Federation of Teachers Health and Welfare Fund $14 million per year for two years, which cost the Operating Funds $11 million; and (3) A new collective bargaining contract with the Commonwealth Association of School Administrators that reduced salary and benefit costs by $8 million.

Subsequent Events. The $120 million in recurring revenues included in the Fiscal Year 2015 Adopted Budget constituting proceeds of the additional 1% City Sales Tax was approved for Fiscal Year 2015 by the City of Philadelphia and the Commonwealth of Pennsylvania. The $93.0 million in Revenue Enhancements/Obligation Reductions To Be Determined were eliminated by the following actions: (1) the adopted Fiscal Year 2015 State budget included a $12.9 million increase in State revenues in the form of a Ready to Learn grant which could be used to relieve the Operating Budget of eligible costs; (2) the Commonwealth enacted House Bill 1177 authorizing a $2 per pack tax for the School District on cigarettes (10 cents per cigarette) sold in Philadelphia in September 2014; the new tax is estimated to yield $49.0 million in Fiscal Year 2015; (3) a $15.0 million increase in revenues from the sale of closed and unnecessary buildings; (4) the School District reduced expenditures by $2.0 million by reducing facility maintenance costs; and (5) the Fiscal Year 2014 Ending Fund Balance improved from a negative $28.9 million at adoption to an actual negative $14.8 million, thus lessening the Fiscal Year 2015 beginning fund deficit impact by $14.1 million.

On October 6, 2014, the School Reform Commission approved changes to the Philadelphia Federation of Teachers (PFT) health benefit package that were designed to save an estimated $43.8 million during Fiscal Year 2015, with the savings going to school budgets. The PFT challenged this action and received a temporary stay of the School District's action. The Five-Year Financial Plan assumed only $9.8 million in Fiscal Year 2015 savings from the changes to the PFT health benefits package and recognized $14.8 million that had already been distributed to school budgets. On January 22, 2015, Commonwealth Court ruled against the School District. The School District has identified savings to offset the $9.8 million.

Amended Fiscal Year 2015 Adopted Budget. On December 18, 2014, the School Reform Commission adopted the Five-Year Financial Plan (the "Financial Plan") with Fiscal Year 2015 as the base year (and amended the FY2015 budget to reflect such fact) with anticipated revenues and other financing sources of $2,618.5 million and expenditures and other financing uses of $2,603.7 million, resulting in a projected zero ending fund balance on June 30, 2015 given the estimated $14.8 million negative fund balance at the end of Fiscal Year 2014.

SCHOOL DISTRICT OPERATIONS

The School District is the eighth largest district in the nation based on enrollment data, with over 206,500 pupils projected in Fiscal Year 2015, including approximately 71,000 students attending both brick and mortar and cyber charter schools, and approximately 3,700 students in alternative schools.

School Organization

The Fiscal Year 2015 organizational structure for the School District includes 218 public schools comprised of the following: 149 elementary schools; 93 K-8 schools; 16 middle schools; and 54 high schools (six of which serve lower grades. Additionally, there are currently 84 charter schools and 24 alternative educational schools and programs.

As part of the School District's efforts to increase academic program offerings at the secondary level, the School District has converted nine middle schools into "smaller" high schools with projected student enrollments between 500 and 1,000 students. An additional nine middle schools have been closed since 2003. Simultaneously with middle school conversions, a number of elementary schools have retained their middle years' population and expanded grade levels each year as they move toward a K-8 grade configuration. Future decisions to expand, convert, or close schools (also referred to as right-sizing) will be guided by the on-going development of academic priorities under the School District's strategic plan and the examination of seat capacity and building utilization in accordance with the School District's Facilities Master Plan.

Enrollment

The School District's Office of Accountability and Assessment, Office of Talent Administration and Office of Management and Budget monitor enrollment trends and prepare enrollment projections for future planning purposes. These projections are based upon actual birth rate numbers from the Philadelphia Department of Vital Statistics and historical enrollment trends for the School District.

Although the number of school age children in Philadelphia has been dropping gradually over the past two decades, certain areas of the City experienced higher enrollment levels than other parts as evidenced by data published in accordance with the 2010 Census. Since 1998, nearly 30% of public school students have exited traditional public schools and have opted to enroll in charter and cyber charter schools. *See* "SCHOOL DISTRICT OPERATIONS – Charter Schools" herein. The School District continues to take steps to alleviate the overcrowding in certain areas of the City by the use of leased facilities, construction of primary grade annexes, and the reconfiguration of various school facilities throughout the City.

The following table sets forth the actual fall enrollment by grade in the School District for the academic school years 2010-11 to 2014-15:

THE SCHOOL DISTRICT OF PHILADELPHIA
Fall Enrollment
2010–11 through 2014-15

Grade	2010-2011	2011-2012	2012-2013	2013-2014	Estimate 2014-2015
K	12,213	12,144	13,119	11,852	11,979
1	13,007	12,950	12,774	12,869	12,761
2	12,480	12,484	12,099	11,764	12,166
3	11,834	12,049	11,778	11,330	11,389
4	11,691	11,678	11,459	11,079	10,935
5	11,237	11,123	10,402	10,264	10,160
6	11,195	10,603	9,938	9,169	8,988
7	10,615	10,338	9,291	8,881	8,617
8	10,531	10,325	9,338	8,672	8,426
9	12,323	11,438	10,313	10,172	9,951
10	11,665	11,218	9,512	9,088	9,101
11	10,366	9,892	8,708	8,394	7,918
12	9,743	9,104	8,018	7,828	7,182
Ungraded	676	744	763	--	--
Subtotal	149,576	146,090	137,512	131,362	129,573
Alternative Education	4,906	3,608	3,631	3,558	3,660
PA Virtual Academy	--	--	--	272	336
Total Public Schools	154,482	149,698	141,143	135,192	133,569
Charters	40,483	45,999	54,491	59,613	64,301
Cyber Charters	3,627	4,864	5,950	6,350	6,619
Non-Philadelphia Charter	191	210	172	146	263
Total Charters	44,301	51,073	60,613	66,109	71,183
Total	198,783	200,771	201,756	201,301	204,752

Sources: Office of Strategic Analytics, Assessment and Intervention; Office of Talent; and Office of Management and Budget.

Curriculum, Instruction and Assessment

In Fiscal Year 2003, the district implemented a three-part Core Curriculum Document, aligned to Pennsylvania state standards, coupled with new instructional materials for Literacy and Mathematics in Pre-kindergarten to grade 9. The three integral components of the Core Curriculum Document included A Year at a Glance, Planning and Scheduling Timeline and the Core Curriculum. In Fiscal Year 2004, continuation of this reform was implemented in Science (grades 7-8), Social Studies (grade 8), and all core high school courses. Fiscal Year 2005 began the implementation of Social Studies (pre-kindergarten to grade 7), Science (pre-kindergarten to grade 6) and English for Speakers of Other Languages (ESOL) for grades pre-kindergarten to grade 5.. The African American History Course was implemented in high schools in Fiscal Year 2006. Since 2006, yearly revisions were made to the district-wide Planning and Scheduling Timelines to reflect changes in instructional practices, instructional days and standardized assessment demands. In addition, subsequent years included the designation of new materials to select schools. In 2010, ESOL curriculum was revised to align to PA English Language Proficiency Standards for grades K-12.

During the 2012-2013 academic year, the School District began a transition to implementing the Pennsylvania (PA) Common Core Standards. Implementation of a new aligned scope and sequence began in English Language Arts and Mathematics for Kindergarten to grade 8, along with English I-IV, Algebra I, Geometry and Algebra II. The School District has continued this effort in Fiscal Year 2014 with revisions to the existing Scope and Sequence and development of an online curriculum engine to include online teacher resources for English Language Arts and Mathematics, benchmark assessments and district-wide instructional practices, thus creating structures and systems to support quality instruction. Educator Effectiveness standards have been designed to provide all stakeholders with quality professional development sessions in support of this transition. Enhancements to the curriculum engine will continue with the addition of History/Social Studies, Science and Technical Subjects in the upcoming years.

RtII and PA-MTSS

Response to Instruction and Intervention ("RtII") is a student support process which is used to improve student achievement using research- based interventions/programs matched to the instructional need and level of the student. The RtII process identifies, addresses, monitors and revisits the needs of students from an academic, attendance and behavior health perspective. In 2012-2013, the School District implemented RtII in all schools K-12 as part of a five year plan to maximize student achievement and to reduce attendance and behavioral health issues.

Beginning with the 2014 school year, the Pennsylvania Department of Education is supporting the transition from RtII to PA's Multi-Tiered System of Supports (PA-MTSS), a comprehensive system of supports that includes standards-aligned, culturally responsive and high quality core instruction, universal screening, data-based decision-making, tiered services and supports, parental engagement, central/building level leadership, and professional development. PA-MTSS is intended to help all students meet with continual academic and behavioral success.

Focus on Early Literacy

The School District is pursuing a comprehensive early literacy strategy at the classroom, school and community levels to address low reading proficiency rates among its youngest students. That work is organized into four major focus areas:

1. Strengthening instruction across the Pre-K to Grade 3 continuum by promoting rigorous curricular standards that are aligned across grade levels, while providing tools and training for teachers that enables them to differentiate and tailor instruction to meet to students' individual learning needs.
2. Increasing the number of three and four-year-olds across Philadelphia who have access to a high quality preschool environment that is rich in literacy instruction and language development.
3. Providing teachers and students with an educational environment that is conducive to learning by meeting students' socio-emotional needs and ensuring schools are safe, clean and engaging.
4. Engaging parents and the larger community to support student literacy outside the classroom, by providing parents with the information to know if their children are falling behind, and encouraging and facilitating school-community partnerships like the READ by 4th Campaign that support children's literacy development outside the traditional school walls.

Standardized Testing

There are two required Pennsylvania State Assessment Examinations administered to students, the Pennsylvania System of School Assessment (PSSA) and the Keystone Examination.

2014 PSSA Results

In 2014, students in grades 3-8 were administered the PSSA in reading, math, science and writing which is given annually throughout the Commonwealth. A summary of the 2013-2014 school year PSSA results is provided below.

From 2013 to 2014, proficiency rates for School District students increased in Science but decreased in Mathematics, Reading, and Writing. [1]

- Mathematics proficiency rates *decreased* by 1.7 percentage points from 46.9% to 45.2%.
- Reading proficiency rates *decreased* by 0.3 percentage points from 42.3% to 42.0%.
- Science proficiency rates *increased* by 0.7 percentage points from 36.6% to 37.2%.
- Writing proficiency rates *decreased* by 0.4 percentage points from 41.5% to 41.2%.

2014 Keystone Examination Results

Keystone Examinations were administered for the first time in the 2012-2013 school year after a pilot administration the previous spring and 2013-2014 represents the second year of testing. Keystone Examinations are end-of-course assessments designed to assess proficiency in the area of Algebra I, Literature, and Biology. They serve two purposes: 1) high school accountability and assessments for federal and state purposes, and 2) high school graduation requirements for students beginning with the class of 2017.

From 2013 to 2014, proficiency rates increased in Biology but decreased in Algebra I and Literature[1].

- Algebra I proficiency rates *decreased* by 1.2 percentage points from 39.8% to 38.6%.

[1] Differentials are calculated using unrounded proficiency rates. For this reason, differentials may not be equivalent to the difference between the rounded percentages presented here.

- Biology proficiency rates *increased* by 5.3 percentage points from 20.3% to 25.6 %.
- Literature proficiency rates *decreased* by 1.9 percentage points from 53.4% to 51.5%.

Special Programs

The School District offers student choices for their high school careers with a variety of special programs through its nationally-renowned magnet high schools and comprehensive high schools. Options for students include programs in advanced academics, business, communications, science, mathematics, urban education, aerospace science, Junior ROTC programming, specialty career academies and career and technical education programs. Additionally, the School District provides opportunities for students in its highly acclaimed special admission schools which offer specialized programs in engineering and science, creative and performing arts, international affairs, agriculture and the International Baccalaureate Diploma program. The School District offers International Baccalaureate ("IB") Diploma programs in selected high schools and a district-wide enrichment model called the Emerging Scholars Program for students in grades K-8. Thirty-six (36) high schools now offer advanced placement courses and IB programs are in five high schools as well as two middle grades schools.

Beginning in 2012, the School District has begun implementing the five-year strategic plan for Career and Technical Education ("CTE") schools, and CTE Programs of Study. A major goal of this plan is to increase CTE enrollment from 5,200 to over 12,000 students. Currently, the School District operates five (5) CTE schools and 125 CTE Programs of Study. CTE programs are also offered in an additional 28 comprehensive and special admission high schools. CTE Programs of Study (POS) incorporate secondary and post-secondary education elements that include rigorous content aligned with challenging academic instruction and relevant career and technical competency attainment to adequately prepare students to succeed in college or university studies, technical training centers, apprenticeships or entry into careers with industry certifications. CTE POS course offerings include agriculture, culinary arts, business, construction, advanced manufacturing, communication, information technology, automotive technology and health technology. Additionally the School District in September 2013 began operating two "All Career Academy High Schools," a highly successful school reform model for urban education. It is planned to add additional All Career Academy High Schools over the next four years.

In addition to the required core academic curriculum courses, schools also offer a range of elective special interest courses, which include courses in world languages, the arts and humanities, leadership programs such as Junior ROTC and a wide range of health and physical education courses. Courses to support those students with learning disabilities are provided for all whom require supports at all grade levels and the district provides a wealth of supports and classes for the district's English Language Learners. All of these courses and programmatic offerings are designed to meet all standards as mandated by the Pennsylvania Department of Education and the Commonwealth's Code for Public Education and in fact exceed the state's minimum graduation requirements for high school students.

Academic Enrichment and Support

The Office of Academic Enrichment and Support provides multiple learning opportunities that ensure a high quality education for every student in the District by: (1) providing a curriculum that is rigorous, standards driven, guided by the individual learning needs, rich cultural heritages, and the diverse perspectives of each student; and (2) providing professional development to teachers and school leaders in the Music, Art, Theater, Dance, Health and Physical Education, Nutrition, World Languages, Library Sciences, and Gifted Education and offering support and guidance to Athletic Directors and Coaches of city sports teams.

- *Art Education*

The School District of Philadelphia offers a rigorous art education program. This program facilitates learning in and through the arts for children in Pre-K through 12 grades. There are 167 Art teachers in service at the School District, some of which service more than one school.

- *Music Education*

The School District of Philadelphia continues its long-standing excellence in music education. This program facilitates learning in and through the music for children in Pre-K through 12 grades. In FY2015, 142 music teachers facilitated music education in District Schools. Many of these split their time between two schools. In addition, 66 Class Instrumental Music Teachers visit 190 schools each week offering small group instruction.

- *Athletics*

The School District of Philadelphia's athletics program strives to maximize success through active participation in sports and to improve access to quality programs for all students. In FY 2015, the School District has 466 varsity coaches, 85 junior varsity coaches and 275 middle grade team sponsors. High School students must maintain PIAA rules related to attendance and grades. In all of the School District programs, there is equity of opportunity for girls and boys.

- *Health, Safety and Physical Education*

The School District focused much of its Health and Physical Education program this year in coordination with the *Get Healthy Philly* initiative to prevent and delay chronic diseases, reduce risk factors, and promote wellness in children and adults. In FY 2015 there are 319 physical education teachers in the School District's schools.

- *Library Sciences*

The School District continues to support its school libraries. While many schools have libraries, few have full time staff. In FY 2015, 13 schools had certified librarians and 4 schools had library instruction media assistants, and 19 schools have other staff or volunteers maintaining collections and book circulation.

- *Nutrition Education*

All School District schools are offered nutrition education. The *Eat Right Now* program is a partnership between five organizations that receive state funding to instill healthy eating habits and knowledge of food groups, and the diversity of fresh vegetables.

- *Gifted Education*

The Gifted Education program is fully site based within schools under the leadership of each School Principal. The School District has over 5,000 gifted students identified within 200 schools.

- *World Languages*

The School District facilitates education in six world languages. This year the School District employed 132 certified teachers who offered guidance and support in Arabic, Latin, Chinese, French, Italian, and Spanish.

Alternative Education

The School District offers 17 Transition (disciplinary) and Accelerated (overage/undercredited) school programs, oversees two placement and support centers, four evening programs for adults, one dual-enrollment program (Gateway to College), and two schools within Juvenile Justice facilities, which are operated either by the School District or by an outside provider.

Charter Schools

The General Assembly enacted legislation, Act No. 1997-22 ("Charter School Law"), on June 19, 1997, to amend the School Code to provide for the establishment of charter schools. Charter schools are independently operated schools that are publically funded. Monthly payments for each student enrolled in an approved charter school are made by the school district of the student's residence based on a formula determined by the Commonwealth. The Charter School Law permits a charter school to apply directly to the Secretary of Education for payment of such monthly payment from state payments otherwise due to the applicable school district after submitting required documentation if such school district fails to make a monthly payment to the charter school.

The School District is the largest charter school authorizer in the Commonwealth with nearly 35% of Philadelphia's students attending a variety of charter schools—brick and mortar charter schools, schools formerly District operated, converted to charter schools called Renaissance Charter Schools, cyber charters, and charter schools located outside of Philadelphia County. The School Reform Commission has the authority to create new charters within Philadelphia's boundaries or expand contractually established enrollment slots to existing charter schools, as well as the authority to deny the renewal of charters. The Pennsylvania Department of Education authorizes cyber charters. *See* "THE SCHOOL DISTRICT OF PHILADELPHIA – School Reform Commission

At the commencement of the 2014-15 school year, there were 86 brick and mortar charter schools in operation in the School District. In December 2014, two charter schools closed permanently.

Renaissance Charter Schools. As part of its strategic plan, the School District has embarked on a reform initiative to identify chronically under-performing district operated schools and transform them into high-achieving schools through conversion into Renaissance Charter Schools and district-run Promise Academies *(see* "Promise Academies" below). Renaissance Charter Schools are run by outside educational or charter management organizations. In the 2014-15 school year, 20 Philadelphia schools are Renaissance Charter Schools. These schools include a mixture of elementary, middle and high schools. The process to transition schools into Renaissance Charter Schools involves working with school communities and parents to recruit and select educational management organizations by initially soliciting a Request for Proposals from providers that have a proven track record of academic improvement and achievement. All Renaissance Charter Schools remain neighborhood schools, and are required to accept and enroll students already attending the school and/or who reside within school catchment areas.

Cyber Charter Schools and Non-Philadelphia Charter Schools. Cyber charters provide instruction through the Internet or other electronic means. Cyber charter schools have, as a part of their mission, the goal to offer students alternative means of achieving academic proficiency. Some students in Philadelphia also choose to attend charter schools operated outside of the Philadelphia. For the 2014-15 school year, it is projected that approximately 6,600 Philadelphia students will be enrolled in 13 cyber charter schools and approximately 300 students in 7 brick and mortar charter schools located outside of the city. The School District's total payments for all charter schools for the 2014-15 fiscal year are projected to be approximately $727.9 million. The costs of transportation for charter school students during the 2014-15 fiscal year are estimated to be approximately $32 million.

The following table shows by year, the number of new charter school openings and total charter schools in operation in the City, exclusive of cyber charter schools:

SCHOOL YEAR	NEW CHARTERS	TOTAL CHARTERS IN OPERATION	SCHOOL YEAR	NEW CHARTERS	TOTAL CHARTERS IN OPERATION
1998-99	9	13	2007-08	5	61
1999-00	12	25	2008-09	2	63
2000-01	9	34	2009-10	6	67*
2001-02	5	39	2010-11	7	74
2002-03	7	46	2011-12	6	80
2003-04	3	48*	2012-13	4	84*
2004-05	4	52	2013-14	3	86
2005-06	3	55	2014-15	0	84*
2006-07	1	56			

* *One existing charter school closed in 2004, two closed in 2009-10, one in 2013, and two in 2014.*

New Charter School Applications. In November of 2014, the Charter Schools Office accepted applications for new charter schools for the first time in seven years. Thirty-Nine (39) applications were received. On February 18, 2015, the School District conditionally approved 5 applications covering a total of 2,684 students, and denied 34 others. House Bill 1177 contains a provision permitting denied applicants in a school district of the first class to appeal the denial of an application to the State Charter Appeal Board also known as the CAB. Decisions of the CAB can be appealed to the Commonwealth court..

Promise Academies. As part of the School District's reform initiatives to increase academic performance, the Promise Academy model was created in 2010-11 as the School District's in-house turnaround approach. Promise Academy schools have additional supports and resources, including an extended day, additional literacy and math coaches, and replacement of at least 50% of the teaching staff. There are four high schools, one middle school, and seven elementary Promise Academies in operation for the 2014-15 school year.

Proposed Legislation

On March 4, 2015, the Pennsylvania House of Representatives passed a bill ("House Bill 530" or "HB530") containing proposed amendments to the provisions of the Public School Code which are applicable to charter schools and the powers and duties of the Pennsylvania Department of Education and school districts with respect to charter schools. HB530 has been sent to the Pennsylvania Senate and referred to the Senate Education Committee. HB530 contains a number of provisions which, if enacted into law, would adversely affect the efficacy of the debt service intercept provisions contained in the Public School Code which apply to school district debt obligations, including the School District's General Obligation Bonds and bonds issued by the State Public School Building Authority for the benefit of the School District. In addition, these provisions would, if enacted in its present form, adversely affect the School District's cash flow within each fiscal year and impair the ability of the Pennsylvania Department of Education ("PDE") to assist the School District's cash flow needs with advances of the basic education subsidy. PDE's assistance with these advances in Fiscal Years 2014 and 2015 has enabled the School District to issue a smaller tax and revenue anticipation note issue, thereby reducing its borrowing costs.

A brief summary of the provisions of the HB530 referred to above follows:

- **No Enrollment Caps.** The bill contains a provision which prohibits agreed upon enrollment caps for charter schools; without any ability to plan and manage charter schools growth. The School District is exposed to uncontrollable increased recurring expense without the recurring resources to pay for it.

- **Direct Payment of Charter School Payments by PDE From School District Appropriations.** The bill requires that charter schools be paid in 12 equal monthly installments by PDE from annual appropriations to school districts. The payments are required by the HB530 to be made by PDE from each periodic payment to school districts consecutively. Since school districts do not receive equal monthly payments of state aid from PDE, this requirement, in the case of the School District, means that more interceptible aid will be paid directly to charters earlier in each fiscal year, reducing the coverage by month of debt service by interceptible aid. In addition, on an annual basis, a substantial portion of state aid interceptible for debt service would be paid directly to charter schools, significantly reducing the annual coverage of debt service by interceptible state aid. The direct payment of state aid to charters would also adversely affect the School District's cash flow in each fiscal year.

- **Charter Payments are Mandatory and Ministerial.** HB530 designates charter school payments as "mandatory and ministerial", a phrase which does not appear in the current Public School Code with respect to any payments by PDE for any purpose, and means that PDE would have no discretion over any aspect of these payments including timing, amount and schedule of state aid payments to be used for charter school payments. Although HB530 recites that charter school payments do not "have priority" over Sections 633 or 785 of the Public School Code or the security provisions of the Act with respect to tax and revenue anticipation notes, were HB530 enacted into law, the ambiguity created by charter payments which are "mandatory and ministerial" and debt service intercepts which are not designated as such by statute, could adversely affect the operation of the debt service intercept provisions of the Public School Code.

- **Debt Service Intercept for Charter School Debt.** Finally, HB530 contains a provision for moneys payable to a charter school to be intercepted for debt service on charter school debt, diverting moneys interceptible for school district debt service to charter school lenders instead.

The School District is strongly opposed to HB530 in its present form and will propose amendments to the bill to modify or delete the provisions described above in order to maintain the effectiveness of the debt service intercept programs and the School District's and PDE's ability to manage the School District's cash flow.

There can be no assurance that House Bill 530 will be enacted in its current form or that if enacted, it will be signed into law by the Governor.

Specialized Services

The School District is the public school system for 28,404 students identified and eligible to receive special education supports and services pursuant to the Individuals with Disabilities Act (IDEA) and the Pennsylvania regulations as of the 2014-2015 school year.

The School District provides special education services to its students in over 200 brick and mortar buildings as well as a virtual academy. Approximately 19,240 students with disabilities are enrolled in School District programs. The educational portfolio also contains and provides a charter school opportunity for parents and students in the form of over 84 authorized Charter schools. There are approximately 9,164 students with disabilities attending charter schools in Philadelphia.

The Office of Specialized Services (OSS) provides operational and programmatic support school in a variety of ways to meet the needs students with disabilities under IDEA. In the broadest sense, OSS provides support that is operational and programmatic. Specifically, OSS provides technological and consultative support to all schools and charter schools in the context of mandated regulatory reporting. In addition, program specific support is provided through the development, opening, staffing, academic materials and equipment purchases for specialized settings. Research validated interventions are provided and training supplied for those staff working with students whose needs require the use of an intervention as part of the educational program.

Technical assistance and consultative service is provided to school teams in the areas of: behavioral support; inclusive practices; transition services; meeting the needs through IEP goals and specially designed instruction specific to the learner with intellectual disability; autism; visual impairment; deafness or hearing impairment; emotional disturbance; traumatic brain injury and learning disability. Evaluation services are provided to students by 110 certified school psychologists who also support building staff responding to struggling learners and those in crisis. Students with fine and/or gross motor deficits receive support through occupational and physical therapy staff who are deployed by OSS as are itinerant vision and hearing therapists and speech therapists. For students with communication challenges, OSS provides assistive technology evaluations and augmentative communication devices along with speech and language support to remediate articulation deficits, stuttering and expressive and receptive communication delays.

The provisions of IDEA allow for students with disabilities to be educated in the public school setting through the age of 21. For many students this provides an opportunity to spend time exploring and preparing for the world of work, vocation, and independent or supported living. An array of "transition" services and supports are provided to school teams for these students and include: itinerant vocational teachers; work opportunities both in school and in the community; travel training and independent living skills.

Some Philadelphia students have needs that require a program response that is more structured and intense. For these students the District provides a placement in a more restrictive setting that may be located in Philadelphia or in a neighboring county. OSS continues to monitor the progress of these students and staff participates in IEP teams and OSS staff revaluates these students consistent with the regulatory requirements.

A large number of students with disabilities require additional learning opportunities beyond the 180-day school calendar. OSS organizes and staffs this additional learning experience referred to as extended school year (ESY) services. OSS identifies school sites, arranges transportation, moves materials and equipment, trains and organizes staff and insures that all materials and equipment is transported to the appropriate locations following the ESY experience.

OSS supports the provision of specialized transportation for students with disabilities by funding additional adult support or an alternative mode of travel if this is needed for the student to be safely transported to and from school.

Parent engagement is a critical component of IDEA and a successful school experience. OSS provides parent training through a parent coordinator and linkages to parent advocacy groups.

No Child Left Behind Waiver

On August 20, 2013, Pennsylvania's No Child Left Behind Waiver Request was approved by U.S. Department of Education thereby eliminating Adequate Yearly Progress (AYP). For all public school buildings across the state, the School Performance Profile (SPP) will be used to provide a building level academic score, based on multiple indicators of academic achievement, including student performance on the Pennsylvania System of School Assessment and Keystone Exams; closing the achievement gap; graduation rate; promotion rate; and attendance rate, etc.

Title I schools will receive a federal designation of "Priority," "Focus," "High Reward" and/or "High Progress."

During the 2014-15 academic year, "Priority" and "Focus" schools will receive technical assistance supervised and provided by the Office of School Improvement and Data Support. Technical assistance represents significant intervention in a school and is specifically designed to remedy the school's persistent inability to make progress towards all students becoming proficient in reading and mathematics. School Improvement Specialists will work with schools in areas of data analysis, utilizing data to improve instruction, monitoring innovations, building capacity, and leading change within the school's environment. The Office of School Improvement also bears the responsibility for ensuring that schools identified as 'Priority" and "Focus" receive technical assistance as they develop, revise, implement or monitor the Comprehensive Plan. The Office of School Improvement District has aligned its technical assistance strategies with the improvement plan developed by each individual school. The continuous support of the technical assistance provider is planned and scheduled to ensure full implementation.

In 2013 the District adopted a new local performance and accountability tool called the School Progress Report (SPR). The SPR looks at schools on multiple dimensions—academic achievement, academic progress, climate, and (for high schools only) college and career readiness—reflecting the richness and complexity of the educational experience. The SPR puts the most emphasis on progress, reflecting SDP's focus on and commitment to ensuring that all of our students are learning.

The District uses the SPR to celebrate schools that are meeting or exceeding a standard of educational excellence for all students. It is also used to learn from principals and teachers who are realizing exceptional success in serving particular student populations or establishing a positive school climate. Lastly, the SPR tool is used to identify schools needing interventions and supports—and also the principals and teachers with innovative, evidence-based approaches for breaking down barriers to student success.

Transportation

The School District provides school bus and cab service to approximately 39,000 students who attend public, charter and non-public schools. In Fiscal Year 2015, an additional 61,000 public, charter and non-public students will receive free student TransPasses for use on the City's mass transit system (SEPTA).

School District policy provides for the provision of free transportation for the following: students who live 1.5 miles or more from school, attend a school that is overcrowded, are in a special education program and/or must cross a hazardous route to attend school. The School District has a combination of 25 percent School District operated routes and 75 percent contractor operated routes.

A number of initiatives are underway that are intended to increase the efficiency of transportation services provided by the School District. A new General Manager and Manager of Vendor Operations has been hired to lead the Department of Transportation Services. The Department is maintaining operations and is implementing operational efficiencies and increasing productivity which are anticipated to reduce the overall cost of student transportation services. Routing software has been acquired that will enable the School District to establish a more efficient route system.

Personnel

The School District employs approximately 16,100 full-time employees funded from and by all sources. The following table enumerates the instructional and non-instructional staff positions budgeted for each of the school years 2009-10 through 2014-15 from the Operating Budget:

THE SCHOOL DISTRICT OF PHILADELPHIA

Personnel Operating Budget

SCHOOL YEAR	INSTRUCTIONAL PROFESSIONAL	NON PROFESSIONAL	NON-INSTRUCTIONAL	TOTAL
2008-09	9,684	1,223	5,263	16,170
2009-10	9,893	1,314	5,358	16,565
2010-11	9,719	1,507	5,103	16,329
2011-12	8,941	1,161	4,197	14,300
2012-13	8,653	1,126	4,164	13,944
2013-14	7,810	1,468	3,770	13,048
2014-15	7,747	1,371	3,717	12,835

Pension Plan

School districts throughout the Commonwealth must participate in the Commonwealth of Pennsylvania's Public School Employees Retirement System ("PSERS"), a state-administered pension program. Under this program, contributions are made by each of three parties—participating employees, local educational entities (school districts, Intermediate Unit and Area Vocational Technical Boards) and the Commonwealth. All of the School District's full time employees salaried over eighty (80) days and hourly employees working more than five hundred (500) hours per year participate in the program. Each party to the program contributes a fixed percentage of an employee's gross earnings. The employees' rate was 5.25 percent for employees hired prior to July 23, 1983, and 6.25 percent for employees hired subsequent to that date. Act 9 of 2001 established a new employee contribution rate of 7.50 percent effective January 1, 2002, for employees electing to participate in the new membership class.

The Commonwealth reimburses the School District 50 percent of the School District's payment retirement cost for employees hired prior to July 1, 1994 and a percentage equal to the greater of 50 percent or the School District's market value/personal income aid ratio for employees hired after June 30, 1994. The School District's market value/personal income aid ratio for Fiscal Year 2014 was 73.73 percent.

In Fiscal Year 2014, the employer rate was 16.93 percent of payroll costs; the employer rate in Fiscal Year 2015 is 21.4 percent.

The School District has no authority over benefits and responsibility or authority for the operation and administration of PSERS nor does it have any related liability except for the annual contribution requirements which include payments for current normal costs plus amortization of the PSERS unfunded liability. *See* the PSERS website at www.psers.state.pa.us for information about the state-administered pension program.

SCHOOL DISTRICT LABOR RELATIONS

The School District engages in collective bargaining with the Philadelphia Federation of Teachers ("PFT"), which represents approximately 11,565 employees; Service Employees International Union Local 32BJ ("Local 32BJ"), formerly the International Brotherhood of Firemen and Oilers, AFL-CIO, Local 1201, which represents approximately 2,120 employees; the School Cafeteria Employees Union, Local 634 ("Local 634"), which represents approximately 1,650 employees; the Commonwealth Association of School Administrators ("CASA"), which represents approximately 425 employees; and the School Police Association of Philadelphia ("SPAP"), which represents approximately 340 employees. Some represented employees are included in more than one bargaining unit. The School District negotiated and settled a three-year collective bargaining agreement with the PFT effective September 1, 2009 through August 31, 2012. This Agreement provided for a three percent across the board increase in wages effective September 1, 2010 and a three percent across the board increase in wages effective January 1, 2012. It also provided for reductions in the School District's contributions to the PFT Health and Welfare Fund, restructured other medical benefits including increasing co-pays, and allowed the School District to self-insure the medical plan. This agreement was extended by the parties until August 31, 2013 at which time it expired. The parties have not entered into an extension. Since prior to its expiration, the parties have engaged in the process of trying to negotiate a successor agreement. As a result of the expiration, all salary increments and increases for additional education have been frozen. The School District has implemented changes to certain terms and conditions, which the PFT has grieved and the School District is contesting. On October 6, 2014, the School Reform Commission adopted a resolution that cancelled the School District's expired contract with the PFT and authorized the School District to impose new economic terms and conditions regarding certain fringe benefits. On October 16, 2014, the PFT filed a Complaint and Petition for Temporary Restraining Order and Preliminary Injunctive Relief in the Court of Common Pleas. On October 20, 2014, the Court entered a preliminary injunction, which was subsequently converted to a permanent injunction. The School District promptly appealed to the Commonwealth Court. The Commonwealth Court issued an Order on October 29, 2014 providing for *en banc* argument on December 10, 2014. On January 22, 2015, the Commonwealth Court issued an Opinion affirming the Order of the

Court of Common Pleas permanently enjoining the School Reform Commission from unilaterally implementing changes or modifications to the benefits of PFT bargaining unit members. On February 23, 2015 the School District filed, with the Pennsylvania Supreme Court, a “Petition for Allowance of Appeal, or in the Alternative, for the Exercise of Exclusive Jurisdiction” asking the Supreme Court to overturn the Commonwealth Court decision. The School District negotiated and settled a three-year collective bargaining agreement with CASA which runs from September 1, 2013 through August 31, 2016. This contract does not include any scheduled across the board salary increases. The parties agreed to reopen negotiations to discuss an across the board increase and modifications to furlough days and medical premium contributions in March 2015. The agreement provides for a new, cost-saving medical plan and requires employees represented by CASA to begin contributing to medical premium costs as follows: 5% of premium upon execution of the agreement, 7% of premium as of July 1, 2014 and 8% of premium as of July 1, 2015. In addition, employees represented by CASA shall be required to pay a $40/pay surcharge if they elect to enroll a spouse in a School District medical plan and the spouse has medical coverage elsewhere. The agreement provides for a reduced work year for principals and assistant principals, resulting in salary reductions. The parties agreed to reduce the Wage Continuation benefit from one (1) year to six (6) months.

The School District negotiated and settled a four-year collective bargaining agreement with SPAP which runs from September 1, 2009 through August 31, 2013, and generally follows the PFT wage pattern. The agreement provides for a three percent across the board increase in wages, effective September 1, 2010, and a three percent across the board increase in wages effective June 30, 2012. The parties agreed to reopen negotiations for wages in the fourth year of the agreement, but no agreement was reached. The parties are currently engaged in negotiations for a successor agreement. The School District did not initially implement the raise scheduled for June 30, 2012, for which the union filed a grievance. An arbitrator upheld the grievance and ordered the School District to pay the raise; the School District complied with the arbitrator’s order on November 8, 2013.

Effective July 23, 2012, the School District and Local 32BJ entered into a three (3) year extension of a 2009-2013 negotiated agreement. The extended agreement will expire on August 31, 2016. The three percent across the board increase scheduled for January 1, 2012, and the two percent across the board increase scheduled for January 1, 2013 were canceled. There will be no wage increases during the term of the agreement. Pay progressions for Local 32BJ members will be frozen until August 1, 2016. Effective August 15, 2012, Local 32BJ members’ wages were reduced either 2% or $5 per week, depending on income level. Effective in Fiscal Year 2014, Local 32BJ members’ wages were reduced between $5 and $45 dollars per week, depending on income level, for the duration of the agreement. The School District made reduced contributions to the Health and Welfare Fund and the 32BJ Health Fund, and made contributions to the Health and Welfare Fund on an altered schedule for Fiscal Year 2012 and Fiscal Year 2013. The School District will suspend contributions to the Shortman Training Fund until August 1, 2016 and suspend payment of the shoe allowance for the term of the agreement. The agreement is expected to provide in excess of $100 million in savings to the School District’s Operating Budget over the term of the agreement.

On April 9, 2011, Local 634 members ratified an agreement with the School District covering the period from October 1, 2009 through September 30, 2013. The agreement provides for across the board increases of three (3) percent effective April 1, 2011; three percent effective May 1, 2012; and two percent effective May 1, 2013. In addition, the District implemented its self-insured health program and there will be no increases in payments to the Local 634 Health and Welfare or Legal plans during the life of the agreement. This agreement has now expired. The parties are in the process of negotiating a successor agreement.

INSURANCE

The School District is self-insured for most of its risks; however, the School District does purchase certain insurance. The types of insurance purchased by the School District include: (i) property and casualty insurance or surety bonds when required by law, leases or other contracts; (ii) property and casualty insurance when categorical funds are available to pay the premiums; (iii) excess property insurance in the amount of $250.0 million per loss; (iv) property insurance for special property, such as computer equipment, boilers and machinery, and fine arts; (v) excess workers’ compensation insurance; (vi) employee dishonesty bonds; and (vii) School Reform Commission members and Chief Officers’ travel accident insurance and other various accidental insurance.

The School District is self-insured for workers’ compensation, unemployment compensation and weekly indemnity (salary continuation during employee illness) coverage which is shared by the School District and covered employees and annually budgets an amount believed to be adequate, based on past experience, to provide for these claims. Actual payments in Fiscal Year 2014 for workers’ compensation totaled $31.0 million. Payments for unemployment compensation and weekly indemnity coverage totaled $14.0 million and weekly indemnity coverage. As of June 30, 2014, there existed a cumulative total potential liability of $114.0 million for workers’ compensation claims and $6.5 million for unemployment compensation claims. The School District does not anticipate a significant increase in any amounts which may have to be paid in FY 2015.

LEGAL PROCEEDINGS

General

The School District receives financial assistance from numerous federal, state and local governmental agencies and other entities in the form of grants or subgrants to conduct a variety of educational programs. Generally, the expenditure of funds from such grants must comply with government regulations or terms and conditions of the grant itself and is subject to audit by grantor agencies. Such audits could lead to requests for reimbursements to grantor agencies for expenditures disallowed under the terms of the grant.

In addition, the School District is a party to various claims, arbitrations and litigation in the ordinary course of business. For Fiscal Year 2014, the amount paid from the Operating Fund for settlements and judgments in personal injury, property damage, and civil rights cases, including plaintiffs' attorneys' fees, labor and employment matters and commercial litigation was approximately $5 million. Estimates for Fiscal Year 2015 indicate that the amount to be paid for losses and judgments will be approximately $4.5 million. Under Pennsylvania law, school districts are immune from liability in tort on account of any injury to persons or damage to property, except for negligent acts by a school district or its employees arising out of the operation of motor vehicles, the care, custody or control of personal property, real property or animals and a dangerous condition of trees, traffic controls, street lighting, utility service facilities, streets and sidewalks. This immunity does not extend to federal civil rights or contract claims. The School District is required to defend and indemnify employees acting within the scope of their offices or official duties. Damages in most personal injury and property damage cases, however, are limited by statute to amounts not to exceed $500,000 in the aggregate arising from the same or a series of causes of action or transactions or occurrences. Claimants must give notice within six months from the date any cause of action arose.

State Education Audits

Administrative Appeals in Pennsylvania Department of Education. The School District received several subsidy withholding requests filed with the Pennsylvania Department of Education ("PDE") by charter schools that have enrolled resident students from the School District. These withholding requests address whether the PDE's Form 363, used to calculate charter school tuition, contains an allowance for improper deductions in the calculation of the regular education expenditure. The issue is whether the form complies with applicable law in that PDE has authorized federal funding to be deducted from the expenditure calculation for purpose of determining amounts to be paid to charter schools. This is an issue in more than 200 subsidy withholding requests submitted to PDE seeking subsidy from many school districts in Pennsylvania.

Because there are more than 200 appeals pending, PDE selected four cases involving Pittsburgh School District and charter schools as example cases on the legal issues involved. PDE had assigned a Hearing Officer to hear these administrative appeals and to make a recommendation to the Secretary of Education. However, prior to the hearing, the dispute between Pittsburgh School District and the charter schools was settled.

It is expected that PDE will select a different representative case to decide the legal question involved. However, no hearing is currently scheduled. The School District of Philadelphia intends to file a Petition to Intervene in the chosen example case, so that the School District's interests can be adequately represented. It is not yet known when that Petition will be filed or if the School District will be permitted to intervene. The direct cases against the School District are stayed pending the outcome of the example case.

The School District intends to vigorously defend its position, both as an intervenor and as a party, if the direct cases against the School District ever move forward. It is the belief of the School District – and of PDE according to PDE's own form and guidance documents – that federal funding is not appropriately included in the calculation of charter school funding due to the nature of the funding itself and the fact that charter schools are equally eligible for the same federal funding as school districts. It is impossible to determine with any degree of certainty, the likelihood of an unfavorable outcome. If, however, the PDE-363 form is invalidated and <u>all</u> charter schools are permitted, going forward, to receive a portion of the School District's federal funding on an annual basis, the cost to the School District could be material.

Federal Grants

U.S. Department of Education Audit The U.S. Department of Education Office of the Inspector General ("OIG") conducted an audit of the School District's controls over Federal expenditures for the period commencing July 1, 2005 through June 30, 2006. A preliminary draft audit report was issued by the OIG in May, 2009. In accordance with applicable audit standards, the School District responded to the draft audit findings in August, 2009, supporting the vast majority of the expenditures questioned. On January 15, 2010, the OIG issued an audit report, assessing the School District's management of federal grant funds during the 2006 fiscal year. The report identified $138.8 million in findings resulting from the audit of controls over federal expenditures, of which $121.1 million were considered inadequately supported and $17.7 million were considered unallowable costs. The report included five findings, the largest of which related to undocumented salary and benefits charged to federal programs in the amount of $123 million.

To date, the U.S. Department of Education ("DOE") has issued two program determination letters (PDLs) related to the 2010 audit report seeking a recovery of funds. The PDLs were issued to the Pennsylvania Department of Education ("PDE") and appeals of both are pending. DOE issued two additional PDLs (four PDLs total) on the remaining findings that required corrective actions, but did not result in monetary exposure. All of the corrective actions have already been implemented as part of the corrective action plan agreed upon with the PDE and DOE.

The first PDL demanded a recovery of $9.9 million and was appealed to the Office of Administrative Law Judge. Of that amount, DOE's counsel stipulated to approximately $2.8 million as barred by the statute of limitations, leaving a balance of $7.2 million. PDE raised two primary arguments against the recovery of the remaining liability: (1) the statute of limitations bars an additional $5.3 million in costs; and (2) equitable offset extinguishes the remaining liability. The administrative law judge (ALJ) issued a decision on February 28, 2014 rejecting these arguments and sustaining the full amount of disputed liabilities. On March 31, 2014, PDE and the School District appealed the initial decision to the Secretary of Education. On May 5, 2014, the Secretary provided notice that a decision will be forthcoming based on his review of the ALJ decision. On December 29, 2014, the Secretary issued a decision affirming the liability in the ALJ decision, although he did not adopt the ALJ's proposed standard for denying equitable offset. A petition for review of the Secretary's final decision was filed in the U.S. Court of Appeals for the Third Circuit on February 17, 2015.

The second PDL demanded a recovery of $2.5 million. That PDL was not timely appealed by PDE. However, the PDL invited the State to present evidence to DOE of the amount barred by the statute of limitations. PDE and the School District have assembled documentation demonstrating the application of the statute of limitations. DOE will then review the documentation and indicate what costs DOE agrees are barred by the statute of limitations. No assurance can be given as to the amount of the liability, if any, of the School District as to the outstanding claims under either PDL.

Litigation

The School District is defending the following lawsuits which allege material damages:

Ronald Chambers v. School District, United States District Court for the Eastern District of Pennsylvania, Civil Action No. 05-2535, is a federal civil rights action brought in May, 2005 by the parents and guardians of a former student who received special education services, alleging that the School District violated the student's civil rights by failing to provide the student with a free appropriate public education. The student has been declared incompetent. The parents seek compensatory damages in the amount of at least $7 million to care for their daughter for the remainder of her life, plus damages for pain and suffering and emotional distress. On November 30, 2007, the District Court granted the School District's motion for summary judgment and dismissed all claims. The parents filed an appeal to the United States Court of Appeals for the Third Circuit. On November 20, 2009, the Court of Appeals affirmed the grant of summary judgment in favor of the School District on the federal civil rights claims, except for the claim for money damages for disability discrimination in violation of Section 504 of the Rehabilitation Act and the Americans with Disabilities Act. These claims were remanded to the lower court for further proceedings.

The School District refiled a Motion for Summary Judgment on the remaining disability discrimination claims. By Opinion and Order dated October 24, 2011, the District Court granted summary judgment in favor the School District and dismissed the remaining claims. The parents filed a second appeal to the Third Circuit. On September 17, 2013, the Third Circuit reversed the District Court's dismissal of the ADA and Section 504 claims. The case was scheduled for jury trial beginning on November 17, 2014. At a settlement conference on November 13, 2014 with a U.S. Magistrate Judge, the parties tentatively agreed to settle this case for the total of $500,000 to be paid by the School District to a special needs trust for the benefit of the former student. The settlement was approved by the School Reform Commission and then by the Court at a hearing on March 11, 2015.

L.R. v. School District & Reginald Littlejohn, United States District Court for the Eastern District of Pennsylvania, Civil Action No. 14-1787, is a federal civil rights action brought by the parent of N.R. On January 14, 2013, Christina Regusters entered W.C. Bryant Elementary School and proceeded directly to N.R.'s classroom. Plaintiff alleges that Littlejohn, a substitute teacher, asked Regusters to produce identification and verification that N.R. was permitted to be released. Regusters failed to provide either the identification or the verification. Plaintiff alleges that Littlejohn failed to follow School District policy and released N.R. into Regusters' custody" without proper verification. Regusters then left the School with N.R. and sexually assaulted her at an undisclosed location. Plaintiff brings claims against the School District, SRC, and Littlejohn for violating "N.R.'s substantive due process right to bodily integrity, under the Fourteenth Amendment to the Constitution of the United States." Christina Regusters was found guilty of kidnapping, assault and various other related charges. The School District's and Mr. Littlejohn's Motion to Dismiss was denied on Nov. 21, 2014. A notice of appeal was filed. The civil action and the appeal have been stayed after Mr. Littlejohn's death, pending the qualifications of his successor.

Josue Ortega v. School District United States District Court for the Eastern District of Pennsylvania, Civil Action No. 13-4717, is a federal civil rights action brought by a former Frankford High School student, alleging excessive force against former Assistant Principal Edward Rouhlac, Principal Reginald Fisher and the School District. Mr. Ortega alleges that November 2, 2012, he was assaulted by Rouhlac during an argument, claiming that Roulhac punched Ortega in the face and slammed him into a file cabinet. Ortega claims that as a result of the alleged assault he suffered a traumatic brain injury. Ortega was diagnosed with a concussion by a neurologist from St. Christopher's Hospital. Edward Rouhlac, who is represented by separate counsel, was removed from his position as Assistant Principal based on a finding of staff misconduct.

This case has been vigorously defended. A Motion to Dismiss the claims against the School District, Principal Reginald Fisher and Superintendent Hite was granted in part. A second amended complaint was filed against the School District and Roulhac only. The Court determined that the School District is not required to indemnify Roulhac for his actions, although the case continues as to all other matters. The objective medical evidence indicates that, while Ortega did suffer a mild concussion, his current complaints of depression, cognitive deficits and related physical ailments are not related to the events of November 2, 2014. The School District's expert neuropsychologist believes that Ortega is feigning his injuries for secondary gain.

Security and Data Technologies v. School District, United States District Court for the Eastern District of Pennsylvania, Civil Action No. 12-2393. Suit was filed on May 2, 2012 by Security and Data Technologies, Inc. ("SDT") against the School District, the School Reform Commission and former Superintendent Dr. Arlene Ackerman, by this business corporation which provides security equipment. SDT alleges that it was contacted by the School District's management in 2010 to obtain an expedited proposal as a prime contractor to install security systems in certain persistently-dangerous schools and that SDT made a proposal to the School District. It is alleged that Dr. Ackerman intervened in the process and rejected the proposal because she perceived that

SDT was a white- or majority-owned business. The School District then awarded a contract to IBS Communications, a certified minority-owned contractor. SDT alleges that its proposal was rejected and that its federal civil rights were violated because of the imputed race of the corporation. SDT contends that the contract was awarded to IBS on the basis of race. The evidence suggests that SDT was not selected as the prime contractor because the former Superintendent mistakenly believed that SDT had overcharged the School District in a prior project. Damages are claimed in the amount of $7.5 million, the approximate amount of the award.

The School District's motion to dismiss was denied. The School District defendants filed a motion for summary judgment, which is pending. The School District parties intend vigorously to defend this action. SDT's current demand is $3,000,000, based on its claim of lost profits of 30% of the estimated value of the entire amount of work that SDT asserts has been awarded to IBS.

Francis Dougherty v. School District, Estate of Arlene Ackerman, Leroy Nunery and Estelle Matthews, United States District Court for the Eastern District of Pennsylvania, Civil Action No. 12-1001. Suit was filed on February 4, 2012, by Francis Dougherty, the former Deputy Chief Financial Officer for Operations of the School District, arising out of the termination of Mr. Dougherty's employment following an investigation by an independent investigator, who determined that there was probable cause to believe that Mr. Dougherty violated the School District's Code of Ethics by sending confidential School District documents to himself and to his personal email accounts. Mr. Dougherty claims that he was terminated in retaliation for the exercise of his First Amendment right and in retaliation for whistle blowing after he reported to *The Philadelphia Inquirer*, the Federal Bureau of Investigation, state representatives and the U.S. Department of Education, his allegation that former Superintendent, Dr. Arlene Ackerman, steered the award of a contract for the purchase and installation of security cameras from a white-owned vendor to a minority-owned vendor. Dougherty seeks front and back pay, pain and suffering, punitive damages from the individual defendants and attorneys' fees.

The case was tried before a jury beginning on March 9, 2015. The jury found that the School District and two of the three individual defendants violated Mr. Dougherty's First Amendment rights. No compensatory damages were awarded against the School District or the individual defendants; nominal damages of $1 each were awarded against the School District and two individual defendants. The Whistleblower claims were rejected by the jury. A hearing is to be held before the Court on economic damages on March 31 and April 1, 2015. No judgment has yet been entered against the School District.

Witherspoon v. School District, Court of Common Pleas of Philadelphia County, August Term 2013, No. 1955. This case arises out of an accident between a School District bus and plaintiff's car at an intersection controlled by a traffic light. Both parties claim that the traffic light was green. Plaintiff's injuries include a concussion associated with traumatic brain injury and orthopedic injuries of the shoulder and clavicle. Plaintiff claims medical bills of $100,488 and wage loss of $102,364. Plaintiff's current demand is $1,500,000. Any verdict in excess of $500,000 will be reduced by the Court to $500,000, pursuant to the Political Subdivision Tort Claims Act.

APPENDIX B

CERTAIN FINANCIAL STATEMENTS OF THE SCHOOL DISTRICT

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SCHOOL DISTRICT OF PHILADELPHIA

CERTAIN FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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THE SCHOOL DISTRICT OF PHILADELPHIA
OFFICE OF THE SUPERINTENDENT

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TELEPHONE (215) 400-4100
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February 13, 2015

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 ("School District" or "District") for the Fiscal Year ended June 30, 2014. 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 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") performs 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 unmodified opinion that the School District's financial statements, for the Fiscal Year ended June 30, 2014, 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 are 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, Grants Development and Compliance 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. Furthermore and as part of the federally mandated "Single Audit" requirement, the Office of the City Controller 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.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

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" or "State") 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." It is by far the largest of the 501 school districts in the Commonwealth employing 17,332 full time employees as of June 15, 2014 and the eighth largest in the United States based on student enrollment data.

As required by GAAP, the financial statements of the School District include those of the primary government and its component unit, the Intermediate Unit No. 26 (the "IU"). The financial statements of the IU have been included in the School District's reporting entity as a blended component unit. The IU is included in the School District's reporting entity because of the significance of the operational relationship with the School District. All IU services are performed by the School District pursuant to contracts between it and the IU.

Although considered a quasi-state agency, the School District directly serves the citizens of the City of Philadelphia, Pennsylvania, the fifth largest city in the United States with a population of over 1.5 million and a land area of approximately 130 square miles. The School District educates 11% of the Commonwealth's 1.8 million public school students. Total enrollment in the School District run schools has declined over the past decade while charter school enrollment significantly increased. Enrollment for the School District is over 202,990 students including 60,512 attending charter school; 6,927 enrolled in cyber schools and Non-Philadelphia (brick and mortar) charter schools; and 3,186 in alternative education programs/schools. The projected enrollment for the School District for 2014-2015 is 206,567. The continuing trend of increased enrollment in charter schools is expected to continue during this period with a projected enrollment of 64,301.

During Fiscal Year 2014 there were 213 schools that the School District operated, as well as 26 alternative education programs/schools (6 schools and 20 programs) and 86 charter schools managed by other entities within the city and that serve Philadelphia's children. In Fiscal Year 2014, about one of every three (33%) public school students in the School District attended charter schools, making the School District a national leader in providing meaningful school choice to parents and students. The Fiscal Year 2014 organizational structure for the School District includes 55 elementary schools; 93 elementary/middle schools; 17 middle schools; and 48 high schools. At the end of the 2012-2013 the School District closed 24 schools due to low occupancy levels and the shift of enrollment to charter schools and by the end of Fiscal Year 2014, 9 of the buildings were sold for proceeds of $32.6 million. About 14% of the School District's buildings are 40 years old or less, 46% are between 41 and 80 years old, 40% are 81 years or older.

The School District provides a comprehensive range of mandated educational services that include general, special, and vocational education at the elementary and secondary levels, as well as related support and transportation services. The School District provided limited 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 and to provide targeted supports and services, schools were assigned to one of eight geographically dispersed Learning Networks.

As an agency of the Commonwealth, the School District is governed by both The Public School Code ("School Code") and the City 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 Chairman, are appointed by the Governor of Pennsylvania while the Mayor of Philadelphia appoints 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 Superintendent reports to the SRC. The Superintendent during the Fiscal Year 2014 reporting period was Dr. William R. Hite, Jr. and the Chief Financial Officer was Matthew E. Stanski.

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 $25,000 and individual contracts for professional services and associated costs in excess of $20,000. 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 included as a budgetary reservation in the governmental funds, except in Categorical Funds, since they do not constitute expenditures or liabilities. However, unencumbered appropriations lapse at year-end.

Major Initiatives

The four anchor goals set by the School Reform Commission and the Superintendent for Fiscal Year 2014 as part of the Strategic Action Plan v2.0 , were: Goal 1) 100 percent of students will graduate, ready for college and career, Goal 2) 100 percent of 8 year olds will read on grade level, Goal 3) 100 percent of schools will have great principals and teachers and, Goal 4) the School District will have 100 percent of the funding we need for great schools and zero deficit. To achieve these four goals, the School District recognized the need to reform both its academic and business functions as well as to place all of its operations on a financially sustainable basis. Six specific strategies were identified to carry out the four goals: Strategy 1) improve student learning; Strategy 2) develop a system of excellent schools; Strategy 3) identify and develop exceptional people; Strategy 4) become a parent and family-centered organization; Strategy 5) become an innovative and accountable organization; and Strategy 6) achieve and sustain financial balance.

The School District continued its efforts to establish a position with our stakeholders and our communities that demonstrated openness to new ideas and a transparency of policy execution that invited broad-based support for the future direction for K-12 education in Philadelphia and encouraged their participation in the solutions.

The major initiatives during this fiscal year were to fully implement the efforts begun to address a projected $304 million shortfall and proceed with the transformation plan set forth in the Strategic Action Plan v2.0. Major initiatives to close the projected Fiscal Year 2014 budget gap were: (a) to determine how best to effect needed economies from operations to close the deficit, (b) to determine how the academic programs might be structured within existing means, and (c) to implement the second year of the Five-Year Financial Plan which provides an operating and financial road map for structural balance. Through a combination of revenue increases, a positive fund balance carry forward from Fiscal Year 2013 of $39.5 million and significant expenditure reductions to schools and operations the School District was able to resolve a portion of the structural deficit and end the year with a negative operating fund balance of $14.8 million as discussed below. However, lack of progress on the teacher’s union negotiations and less than asked for State funding increases left a portion of the structural deficit in place.

The School District requested $304 million in recurring (net) revenues consisting of $120 million from the State, $60 million from the City, $118 million from labor and $6 million from other sources. The School District was only able to secure $99 million in additional revenues consisting of: 1) $47 million from the State of which $45 million was non-recurring, 2) $50 million approved in August 2013 from the City through a combination of $23 million in building sales and $27 million in borrowing, and 3) labor contract savings of $2 million from the Commonwealth Association of School Business Administrators (CASA) Union contract with $0 negotiated savings from the Philadelphia Federation of Teachers (PFT) Union contract which is still in negotiations.

The major Fiscal Year 2014 expenditure reduction and operational efficiency initiatives to reach structural balance included: (a) achieving personnel related savings through the lay-off of 3,800 employees; (b) significant reductions to school-based budgets; $30 million of which was added back in July 2013 through a focus on increasing delinquent tax collections by about $13 million and needed economies from operations and further cuts to central office administration of $17 million which were then redirected to schools.

Budget Structure

The Operating Budget is made up of the General Fund, the Debt Service Fund and the Intermediate Unit Fund. The Fiscal Year 2014 ending Operating Fund Balance of a positive $3.4 million compares to a positive $58.4 million for Fiscal Year 2013. Of the total $3.4 million fund balance for the Operating Fund at June 30, 2014, $18.2 million is encumbered for existing purchase commitments or inventory, leaving a fund balance of negative $14.8 million. The following are the classifications of the Operating Fund balances: In the General Fund, a negative $116.5 million unassigned (consisting of a negative $132.6 million of unassigned offset by $16.1 million of encumbrances), $18.4 million of restricted for self-insurance and, $1.3 million of non-spendable fund balance for inventories, 2) in the Intermediate Unit Fund, a positive $0.8 million of assigned fund balance for encumbrances, and 3) in the Debt Service Fund, a positive $99.4 million is considered restricted for future debt service payments. The Fiscal Year 2014 available fund balance represents a $54.3 million decrease from the Fiscal Year 2013 available Operating Fund balance of a positive $39.5 million to the negative $14.8 million Fiscal Year 2014 balance.

The SRC on May 30, 2013 adopted the fiscal year 2014 operating budget of $2,357.5 million in revenues and other sources and $2,394.2 million in obligations and other uses. On May 31, 2014 the SRC amended the fiscal year 2014 operating budget of $2,468.9 million in revenues and other financing sources and obligations and other financing uses of $2,541.3 million. Under the GASB 54 guidelines the fiscal year 2014 ending operating fund balance available for future operations is an increase of $14.1 million from the amended budget ending fund balance of ($28.9) million. The main reason for this improvement was a $12.5 million budget surplus in obligations coupled with a revenue and other uses budget surplus of $1.6 million. The obligations favorable variance was driven by lower than budgeted costs in various administrative offices, lower than budgeted utility and benefit costs offset by unfavorable variances in charter payments and instructional functions including special education. The revenue surplus was driven by a $55.8 million favorable variances in general fund revenues and sources partially offset by a ($54.2) million unfavorable variances in debt service and IU revenue and sources.

The Capital Improvement Program (CIP) identifies over $935.9 million in facilities' needs through fiscal years 2014 -2020 to improve major infrastructure systems and buildings. The Fiscal Year 2015 Capital Budget reflects two realities: the completion of the final projects under the $1.9 CIP that began in 2003 and a reduction in capital spend that prioritize the funding of deferred maintenance and life cycle replacements rather than new construction that would add to the District's overall capacity. Currently the budget assumes a moratorium on increasing capacity through new construction or additions over the next five years. On June 30, 2014, the School District adopted its 2015 Capital Budget and six-year capital improvement program for Fiscal Years 2015-2020 ("Capital Improvement Program" or "CIP") which collectively totals approximately $938.2 million. The School District amended its capital budget for fiscal year 2014 on June 30, 2014 to total approximately $133.7 million.

The School District continues to pursue ongoing reductions of administrative costs to maximize resources for its primary educational mission. The School District spends about 3% of its operating budget on administrative costs (excluding financings); one of the lowest rates when compared with other large urban public school systems and 97% of the operating budget is spent on capital financing and items directly benefiting the schools. Specifically, 73% is spent on academic and education support services and the remaining 24% 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 the District's financial planning and policy practices coupled with local social and economic factors, such as:

Financial Planning:

These are challenging times for The School District in Philadelphia. Declining revenues combined with State mandated expenditures, increases in expenditures such as payments to charter schools and contractually obligated compensation and benefits combined with an unsustainable cost structure has resulted in the necessity to take extreme measures and make unprecedented program sacrifices to remain fiscally sound. The School District's finances continue to pose challenges as we proceed into the 2014-2015 school year. It is vital that a long-term source of recurring revenues be developed and adequate yearly funding be obtained to provide a quality education to the student demographics which make up our enrollment. The District is seeking a fair State funding formula that better meets the needs of students, particularly those who are economically disadvantaged, and those who are English language learners or have special needs. Currently, more than 80% of the District's students are from economically disadvantaged families and over 18,000 students are receiving special education services. In Fiscal Year 2015 fixed costs are expected to increase by nearly $100 million due to higher pensions and healthcare costs, utility expenses, charter school payments and salaries.

The challenge in Fiscal Year 2015 and beyond, and the intent of the Five-Year Financial Plan, will be to effect permanent and sustainable changes to structures and programs that cover the on-going increases in fixed charges and inflation in the years moving forward. Despite significant progress towards expenditure control, the District is assuming lower than anticipated revenues and higher than anticipated costs in the Five-Year Financial Plan which was adopted in December 2014. These variances will place an even greater burden to achieve structural balance. For Fiscal Year 2015 the District asked the State for $150 million of additional recurring revenues, $195 million from the city (inclusive of $120 million in sales tax), and $95 million of additional, recurring savings from labor. These are resources above and beyond what the

District has already assumed. Of these revenues the District had commitments of $0 from the State, $169 million from the City ($120 million sales tax and $49 million cigarette tax), and $0 savings from labor.

The District has taken and will continue to take the necessary steps to build the foundation upon which teaching and learning can grow which includes: continuing to close low performing and underutilized District schools and Charter schools; becoming a better authorizer of Charter schools; seeking revisions to its contracts; expanding high quality seats; and, establishing baseline expectations for all of its schools.

Many factors are driving the financial challenges the District is facing.

The Local Economy: During the period between 2000 and 2010 the population of the City increased from 1,517,550 to 1,526,006, an increase of 0.6% over the 10 years, ending six decades of population decline. In the three years following the 2010 Census, the City's population grew by an additional 1.8% to 1,553,000 residents according to the 2013 U.S. Census Bureau estimates.

Philadelphia has developed an increasingly diverse economy centered on the healthcare industry, higher education, professional and business services and leisure and hospitality. The City is in the heart of a nine-county metropolitan area with approximately six million residents making it the country's sixth largest. Air, rail, highway, and water routes provide easy access to the area. The City is strategically located on the east coast with easy access to markets, resources, government centers, and transportation. Since 2008, substantial private and public investment aggregating over $8.8 billion has lead to a revitalization of the City. Today, Philadelphia is experiencing a construction boom, with over 33 major projects under construction currently, representing over $3.6 billion in combined public and private investment. Most significantly in January 2014 Comcast Corporation announced a 59-story, $1.2 billion office tower. Higher education and healthcare institutions are currently the most actively engaged in development.

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. Expansion of the Convention Center in 2011 increased the City's appeal as a tourist destination. Over 3.0 million room nights were sold in Center City in 2013, a 3.1% increase over 2012. 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, the Academy of Music, the Pennsylvania Ballet, the Constitution Center, the Kimmel Center, Pennsylvania Academy of Fine Arts, Franklin Institute, Mann Music Center, Opera Company of Philadelphia, the Rodin Museum and the recent addition of the Barnes Foundation 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. In 2011, Travel and Leisure magazine ranked Philadelphia as the number one City for arts and culture in the U.S. In 2013, major attractions in Center City, such as the Liberty Bell Center, Reading Terminal Market, and the Philadelphia Zoo, had over 15.6 million visitors.

Legislation passed by the Pennsylvania General Assembly currently authorizes 15 casinos with both slot machines and table games, including two stand alone licenses. Philadelphia's first casino, Sugarhouse, opened in 2010 and has received approval for expansion to be completed in 2015. The Pennsylvania Gaming Control Board has recently announced the approval for a second casino license in Philadelphia County. Pennsylvania ranks only behind Nevada in terms of total gambling and slot machine revenues.

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. 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.

Philadelphia has the fifth largest college and graduate program enrolled population of 152,500 among major U.S. cities in 2012. The undergraduate and graduate programs at these institutions help provide a well-educated and trained work force to the Philadelphia community.

Philadelphia continues to experience unemployment at a rate higher than the national average. Employment gains in the last latter part of 2013 and in 2014 have resulted in a decline in Philadelphia's unemployment rate. Preliminary data from the Bureau of Labor Statistics shows May 2014's unemployment rate reached 7.7%, a decline of 1.2% since January.

Accounting Pronouncements: Effective for Fiscal Year 2014, the School District has implemented three new Government Accounting Standards Board (GASB) Statements, GASB Numbers (Nos.) 65, 66, and 70.

GASB 65, *Items Previously Reported as Assets and Liabilities,* establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. It primarily reclassified unamortized bond issuance costs (not related to prepayments) as a period expense; changed deferred revenue to deferred inflows of resources - unavailable revenue and unearned revenue; and change refunding losses as an adjustment to gross bond debt as deferred outflows of resources-refunding charges. These change were reflected in the preparation of the School District's comprehensive annual financial statements for Fiscal Year 2014

GASB 66 *Technical Corrections—2012 an amendment of GASB Statements No. 10 and No. 62* improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This change was considered in the preparation of the School District's financial statements for Fiscal Year 2014.

GASB 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees* requires a government that has issued an obligation guaranteed in a non-exchange transaction to report the obligation until legally released as an obligor. This requirement was considered in the preparation of the School District's financial statements for Fiscal Year 2014.

Long-term Debt: As of June 30, 2014, the School District's outstanding principal amount of general obligation bonds and lease rental indebtedness was $3.2 billion.

The SRC adopted a Debt Policy on February 18, 2009. The debt management policies are written guidelines that affect the amount and type of debt issued by the School District, the issuance process, and the management of a debt portfolio. The goal of the debt management policy is to improve the quality of decisions, provide justification for the structure of debt issuance, identify policy goals, and demonstrate a commitment to long-term financial planning, including a multi-year capital plan. Adherence to a debt management policy signals to rating agencies and the capital markets that a government is well managed and can be expected to meet its obligations in a timely manner.

According to the Local Government Unit Debt Act, and as further stated in the Debt Policy, 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.

Almost all outstanding bonds issued prior to 2010 (except for its Qualified Zone Academy Bonds and Qualified School Construction Bonds) were insured and carried among the highest credit ratings in the industry from Standard & Poor's Rating Services, Moody's Investors Service and Fitch IBCA. The School District when issuing bonds, thereafter, has relied on the enhanced security that the State Intercept Program provides. The State intercept ratings are Aa3 with a stable outlook from Moody's, A+ with a stable outlook from Standard & Poor's and AA- with a negative outlook from Fitch. Moody's and Fitch provide underlying ratings for the School District which are Ba2 and BB both with negative outlooks, respectively. Standard & Poor's only provides a rating based upon the State Intercept Program for the School District.

Initiative to Increase Local Tax Collections: Local tax rates for the School District are authorized by the City Council. The City of Philadelphia collects the following current and delinquent taxes for the School District: the Real Estate Tax; the Liquor by the Drink Tax; the School Income Tax; and the Use & Occupancy Tax. These taxes represent about 38.9% of the Fiscal Year 2014 overall revenues. The City has focused its attention on improving the collections of all taxes. There was $26 million more in revenues Fiscal Year 2014 compared to Fiscal Year 2013 in local delinquent tax collections, some of which can be attributed to the City initiative to improve the collection of delinquent taxes.

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 2013. 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 2013. 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 2014.

The 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,

William R. Hite, Jr., Ed.D.
Superintendent and Chief Executive Officer
The School District of Philadelphia

Matthew E. Stanski
Chief Financial Officer
The School District of Philadelphia

Government Finance Officers Association

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, 2013

Executive Director/CEO

Association of School Business Officials International

The Certificate of Excellence in Financial Reporting Award
is presented to

School District of Philadelphia

For Its Comprehensive Annual Financial Report (CAFR)
For the Fiscal Year Ended June 30, 2013

The CAFR has been reviewed and met or exceeded
ASBO International's Certificate of Excellence standards

Terrie S. Simmons, RSBA, CSBO	John D. Musso, CAE, RSBA
President	Executive Director

CITY OF PHILADELPHIA

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ALAN BUTKOVITZ
City Controller

GERALD V. MICCIULLA
Deputy City Controller

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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 (School District), a component unit of the City of Philadelphia, Pennsylvania, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 4.M. to the financial statements, in 2014 the School District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 16 through 32, and the major funds budgetary comparison schedules, the other postemployment life insurance benefits schedule of funding progress, and the related notes to required supplementary information on pages 87 through 92 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit for the year ended June 30, 2014 was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying Other Supplementary Information for the year ended June 30, 2014, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Other Supplementary Information has been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended June 30, 2014, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole for the year ended June 30, 2014.

The other information, including the Introductory Section and the Statistical Section, as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the School District's basic financial statements as of and for the year ended June 30, 2013 (not presented herein), and have issued our report thereon dated February 19, 2014, which contained unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. The 2013 amounts included in the Comparative Schedule by Source of Capital Assets Used in the Operation of Governmental Funds for the year ended June 30, 2013 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2013 financial statements. The 2013 amounts included in the Comparative Schedule by Source of Capital Assets Used in the Operation of Governmental Funds have been subjected to the auditing procedures applied in the audit of the 2013 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2013 amounts included in the Comparative Schedule by Source of Capital Assets Used in the Operation of Governmental Funds are fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2013.

Gerald V. Micciulla

GERALD V. MICCIULLA, CPA
Deputy City Controller
Philadelphia, Pennsylvania
February 13, 2015

SCHOOL DISTRICT OF PHILADELPHIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

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, 2014. The intent of this narrative discussion and analysis is to provide readers with brief explanations of the types of presentations that set forth the School District's basic financial statements, results of operations, long-term debt activity and significant variations from the original adopted and final amended budgets pertaining to certain major funds.

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 position, expenses, revenues and 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 prior financial position, and 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 twelve 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 efficiency.

Several key financial highlights for Fiscal Year 2014 include, but are not limited to, the following:

- Total revenues for the governmental funds were $2.8 billion. A little over 50% of total revenues are received from the State, with PA Basic Education Subsidy (BES) representing about two thirds of the State revenues and subsidies and grants awarded and appropriated by the Pennsylvania State government comprising about one third. About 40% of the District's revenues are from the collection of local taxes and local non-tax sources whose contribution has grown over recent years. The remaining, about 10%, is subsidies and grants awarded and appropriated by the Federal government.

- Total expenditures for the governmental funds were $2.9 billion. Approximately ninety seven percent (97%) of all expenditures were incurred for instructional services, direct student-related costs and expenditures and services directly benefitting students and schools such as transportation, utilities and debt service for school renovations and construction. A significant portion of expenditures are fixed and/or mandated by regulatory and contractual obligations (e.g., benefits per the Collective Bargaining Agreements, mandated pension plan contributions, debt service costs, and charter school transportation and per pupil payments).

- At the end of the current fiscal year, total net position was ($1,662.5) million resulting from an excess of liabilities over assets. Bonds payable and premiums on general obligation bonds and other unfunded liabilities, such as severance and termination pay liabilities, workers compensation and derivative instruments are the primary long-term liabilities impacting this balance. Other liabilities impacting the net position include accounts payable balances, accrued salaries and overpayment of tax revenues.

- The Operating Fund is made up of the General Fund, the Debt Service Fund and the Intermediate Unit Fund. The fiscal year 2014 ending Operating Fund balance is $3.4 million, as restated for GASB 54 which became effective for fiscal year 2011. Of the total $3.4 million fund balance for the Operating Fund at June 30, 2014, $18.2 million is non-spendable or encumbered for existing purchase commitments, leaving an ending budgetary fund balance of ($14.8) million.

- Under bond covenants, the School District is required to set aside with our fiscal agent from daily local revenue receipts amounts sufficient to meet debt service obligations due at future dates. At year end, the sinking funds in our fiscal agent's custody totaled $93.5 million from the School District to pay obligations for the next fiscal year.

Financial results for Fiscal Year 2014, compared to Fiscal Year 2013, are the result of several factors and events; the most significant include, but are not limited to:

- Total revenues for the governmental funds decreased by $9.2 million compared to Fiscal Year 2013. This was the result of a $147.0 million decrease in federal grants and subsidies due to the Stimulus Funds reductions, Department of Labor Grant expiration, Title II reductions, and Federal Sequestration budget reductions. Local revenue increases of $95.0 million were generated mostly from non recurring revenues of $50 million related to building sales and a City borrowing and a one-time State grant which passed through the City of $45.0 million. State grants and subsidies increased by $42.8 million primarily due to pension plan, debt service reimbursements and a net increase for the Basic Education Supplement.

- Total expenditures for the governmental funds decreased by $201.7 million compared to Fiscal Year 2013. These expenditures decreases were caused by decreases of $288.3 million in instructional, student support services, administrative support, pupil transportation costs, operation and maintenance of plant services and early childhood; $37.2 million less in expenditures in the Capital Improvement Plan (CIP); offset by a $111.5 million increase in charter school expenses and a $12.1 million increase in long term debt costs.

- The Debt Service Fund is a separate governmental operating fund established for the accumulation of resources to pay bond principal and interest, and for payment of other associated costs. The variance in the net change in the debt service fund balance was a $12.5 million increase from Fiscal Year 2013 to Fiscal Year 2014. This change reflects: a net increase of sources of financing of $24.7 million primarily due to $19.7 million for increased tax revenues and state subsidies, and an increase in the sale of capital asset proceeds from the sale of buildings of $7.0 million and an operating transfer from the Food Service Fund of $0.1million, a decrease of financing issuance costs of $1.9 million as there were no debt issued. This was also offset by a decrease of $0.2 in interest and other revenue and a net increase of expenditures of $12.2 million resulting from larger authority obligation payments offsetting lower principal, interest and administrative costs

- The Operating Fund balance of $3.4 million as of June 30, 2014 reflects a $55.0 million decrease from the Fiscal Year 2013 balance. This balance, which includes $17.0 million of encumbrances for the General and Intermediate Funds and $1.3 million of General Fund inventories, is primarily the result of several factors: 1) lower revenues and other sources due to a one-time Fiscal Year 2013 deficit financing of $301.9 million only partially made-up in Fiscal Year 2014 with one-time local and State revenues as described above, 2) a significant increase in charter school payments due to higher enrollments and increases in per student payments, and 3) steep reductions in personnel and other costs as a result of ongoing cost-cutting efforts.

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 Position 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 position are detailed in the Statement of Net Position. 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 Position 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 with 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 Position 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 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 Position 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 2014. These two statements report the School District's net position and any changes in net position 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 as compared to the prior fiscal year.

Net Position

Table 1 provides a summary of the School District's net position as of June 30, 2014. A more detailed Statement of Net Position can be found on page 34 of the Basic Financial Statement section:

Net Position
As of June 30, 2014
(Dollars in Millions)
Table 1

	Governmental Activities		Business-Type Activities		Total	
Assets	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Current & Other Assets	$ 472.8	$ 606.8	$ 8.3	$ 0.6	$ 481.1	$ 607.4
Capital Assets	1,808.8	1,911.1	1.7	2.1	1,810.5	1,913.2
Total Assets	$ 2,281.6	$ 2,517.9	$ 10.0	$ 2.7	$ 2,291.6	$ 2,520.6
Deferred Outflows of Resources						
Deferred Charge on Refunding	$ 140.8	$ 154.1	$ -	$ -	$ 140.8	$ 154.1
Liabilities						
Long-Term Liabilities	$ 3,798.4	$ 3,946.1	$ 2.7	$ 2.7	$ 3,801.1	$ 3,948.8
Other Liabilities	286.6	323.9	7.2	2.9	293.8	326.8
Total Liabilities	$ 4,085.0	$ 4,270.0	$ 9.9	$ 5.6	$ 4,094.9	$ 4,275.6
Net Position						
Net Investment in Capital Assets -	$ (314.9)	$ (238.2)	$ 1.7	$ 2.1	$ (313.2)	$ (236.1)
Restricted	118.4	123.2	-	-	118.4	123.2
Unrestricted	$ (1,466.1)	(1,483.0)	$ (1.6)	(5.0)	(1,467.7)	(1,488.0)
Total Net Position	$ (1,662.6)	$ (1,598.0)	$ 0.1	$ (2.9)	$ (1,662.5)	$ (1,600.9)

For the Fiscal Year ending June 30, 2014, the School District's total net position was ($1,662.5) million. This negative net position amount is cumulative and represents the accumulated results of all prior fiscal year operations of which ($1,467.7) million is unrestricted. This balance also reflects a decrease of $61.6 million from Fiscal Year ending June 30, 2013. This decrease was primarily caused by a decrease in capital assets of $102.7 million and a decrease of $126.3 million in cash and investment items, an decrease in deferred charges on debt refunding of $13.3 million, a decrease in employee related liabilities of $65.9 million and an increase in accounts payable and overpayment of taxes and other liabilities of $114.8 million.

Moreover, restricted assets are reported separately to show legal constraints from covenants and enabling legislation when applicable that limit the School District's ability to use those funds to cover daily operations.

Changes in Net Position

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 summarizes the data from that presentation:

Changes in Net Position
Fiscal Year Ended June 30, 2014
(Dollars in Millions)
Table 2

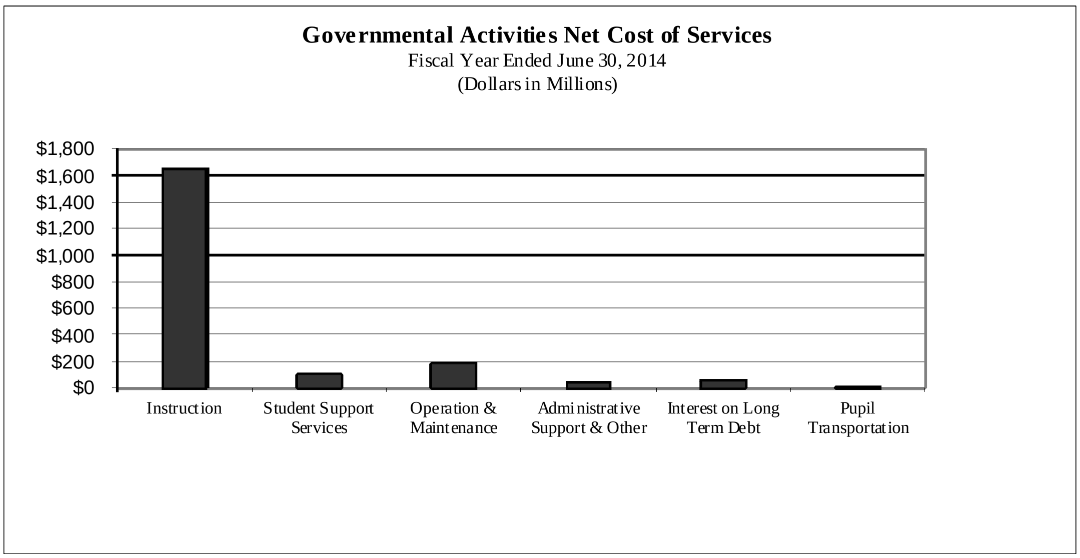
	Governmental Activities		Business-Type Activities	
Revenues	2014	2013	2014	2013
Program Revenues				
Charges for Services	$ 5.6	$ 6.5	$ 1.4	$ 1.6
Operating Grants & Contributions	778.8	865.6	74.0	76.1
Capital Grants & Contributions	-	1.0	-	-
General Revenues				
Property Taxes	661.3	650.6	-	-
Other Taxes	238.0	209.1	-	-
Grants & Contributions Not Restricted	164.5	100.6	-	-
State & Federal Subsidies Not Restricted	912.4	925.8	-	-
Gain on Sale of Capital Assets	21.1	-	-	-
Investment Revenue	0.8	(1.9)	-	-
Total Revenues	$ 2,782.5	$ 2,757.3	$ 75.4	$ 77.7
Expenses				
Instruction	$ 2,149.1	$ 2,189.7	$ -	$ -
Student Support Services	151.1	180.3	-	-
Administrative Support & Other	78.5	118.0	-	-
Interest on Long Term Debt	153.4	153.7	-	-
Pupil Transportation	85.1	82.0	-	-
Operation & Maintenance	200.0	198.8	-	-
Early Childhood Education	0.1	0.2	-	-
Food Service	-	-	72.1	76.1
Total Expenses	$ 2,817.3	$ 2,922.7	$ 72.1	$ 76.1
Excess (Deficiency) before Transfers	$ (34.8)	$ (165.4)	$ 3.3	$ 1.6
Transfers	$ 0.3	$ (0.3)	$ (0.3)	$ (0.2)
Increase/(Decrease) in Net Position	$ (34.5)	$ (165.7)	$ 3.0	$ 1.4
Net Position - Beginning	$ (1,598.0)	$ (1,432.3)	$ (2.9)	$ (4.3)
Prior Period Adjustment	(30.1)	-	-	-
Net Position - Ending	$ (1,662.6)	$ (1,598.0)	$ 0.1	$ (2.9)

Cost of Services by Major Functional Expense Category

Table 3 and the accompanying graph illustrate and highlight the net costs incurred by each of the major activities presented in the School District's Statement of Activities. 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, 2014
(Dollars in Millions)
Table 3

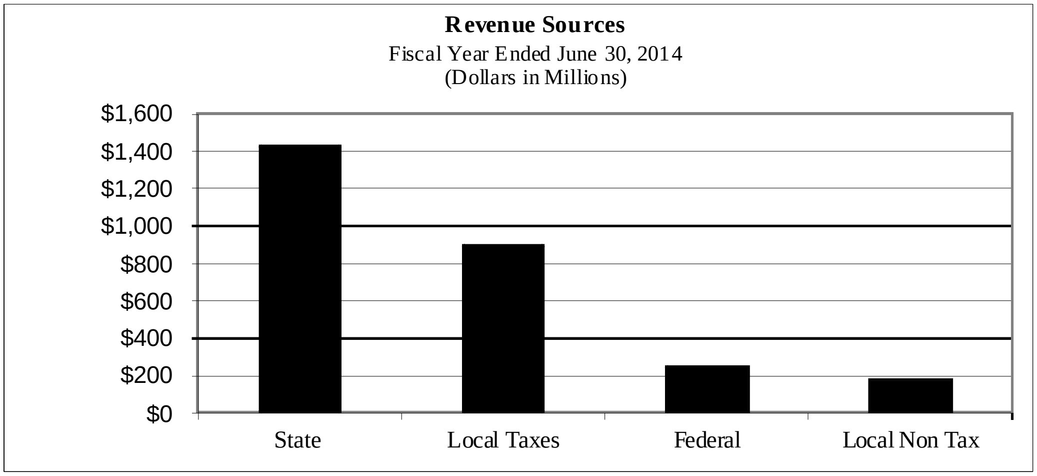
Functional Expense	**Gross Cost of Services**	**Net Cost of Services**
Instruction	$ 2,149.1	$ 1,653.6
Student Support Services	151.1	100.4
Operation & Maintenance	200.0	182.3
Administrative Support & Other	78.5	37.0
Interest on Long Term Debt	153.4	56.1
Pupil Transportation	85.1	3.5
Food Service	72.1	(3.3)
Early Childhood Education	0.1	-
Total Expenses	$ 2,889.4	$ 2,029.6



Major Sources of Revenues

The School District's overall revenues are derived primarily from three sources: (i) state grants and subsidies totaling 51.9%; (ii) local taxes and non-tax revenues totaling 38.9%; and (iii) federal grants and subsidies totaling 9.2%. 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 2014:



As previously illustrated in Table 2, most of the School District's revenues are considered to be general as opposed to program related. Table 4, provides further detail on the School District's primary sources of revenue for the General Fund, Intermediate Unit Fund and Categorical Fund. Total revenues for all Governmental Funds of $2,760.8 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, 2014
(Dollars in Millions)
Table 4

Revenue Source	General Fund	Intermediate Unit Fund	Categorical Funds
Local Taxes	$ 897.6	$ -	$ -
Local Non-Tax	166.9	0.6	6.8
State Grants and Subsidies	1,258.2	101.9	72.4
Federal Grants and Subsidies	11.3	-	241.8
Total Revenue	$ 2,334.0	$ 102.5	$ 321.0

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 that records all financial activity except for those transactions which must be specifically accounted for under the other funds, such as the Debt Service Fund. The General Fund had a negative ending fund balance of $96.8 million on June 30, 2014. For Fiscal Year 2014, there was an excess of revenues over expenditures of $413.7 million, $22.6 million of capital asset proceeds and $492.4 million of net other financing uses which together resulted in a $56.1 million negative impact to the ending fund balance.

Intermediate Unit Fund

The Intermediate Unit Fund is used to account for state appropriations for special education and non-public school programs as well as certain administrative costs. Programs include Autistic Support, Blind or Visually Impaired Support, Deaf or Hearing Impaired Support, Emotional Support, Learning Support and Multiple Disabilities Support while related administrative costs include physical and occupational therapy, special education transportation, health counseling and sign language interpretation. During Fiscal Year 2014, the Intermediate Unit Fund had a $0.2 million net decrease in fund balance which resulted in an ending fund balance of $0.8 million at June 30, 2014.

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 $1.8 million net increase in fund balance which resulted in a negative $4.0 million ending fund balance at June 30, 2014. The primary reason for this increase was that the Fiscal Year 2013 deferred inflows of resources of $5.8 million were received during Fiscal Year 2014. At June 30, 2014, there was $4.0 million still outstanding from grantors and recorded as unavailable revenues and not yet recognized as current revenues under GASB Statement No. 33 guidelines.

Debt Service Fund

The Debt Service Fund is primarily used to account for the School District's accumulation of resources for the payment of debt service and bond issuance costs. During Fiscal Year 2014, the Debt Service Fund reflects a $1.2 million net increase in fund balance to $99.4 million as of June 30, 2014. Debt Service expenditures of $271.1 million were offset by interfund transfers of $262.5 million, revenues of $2.4 million and capital asset sales of $7.4 million.

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 2014, capital outlays resulted in a negative net change of $27.2 million in the capital projects fund which decreased the fund balance as of June 30, 2014 to $76.2 million. New building construction totaling $4.6 million, capital alterations and improvements totaling $20.3 million, environmental management of $3.0 million, equipment acquisitions totaling $2.9 million were offset by $3.6 million for revenues and capital asset sales. .

Enterprise Fund

The Enterprise Fund is used to account for the operation of the Food Service Division. The Enterprise Fund had a positive total net position balance of $0.1 million at the end of Fiscal Year 2014 which reflects a $3.0 million improvement from the previous fiscal year and was used to pay back the long-term loan to the General Fund.

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, as well as page 44 for the Enterprise Fund, and are summarized in Table 5 and Table 6 that immediately follows:

Excess (Deficiency) of Revenues, Other Financing Sources/Uses, and Over (Under) Expenditures for Major and Non-Major Funds
Fiscal Year Ended June 30, 2014
(Dollars in Millions)
Table 5

Fund	Fiscal Year 2014	Fiscal Year 2013
General	$ (56.1)	$ 71.0
Intermediate Unit	(0.2)	(0.4)
Categorical	1.8	3.7
Debt Service	1.2	(11.3)
Capital Projects	(27.2)	(66.3)
Enterprise	3.0	1.4
Non-Major Governmental	-	-
Total Change in Fund Balance	$ (77.5)	$ (1.9)

Total Fund Balances for Major and Non-Major Funds
As of June 30, 2014
(Dollars in Millions)
Table 6

Fund	Fiscal Year 2014	Fiscal Year 2013
General	$ (96.8)	$ (40.8)
Intermediate Unit	0.8	1.0
Categorical	(4.0)	(5.8)
Debt Service	99.4	98.2
Capital Projects	76.2	103.4
Enterprise	0.1	(2.9)
Non-Major Governmental	6.3	6.3
Total Fund Balance	$ 82.0	$ 159.4

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 budget for the current 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 2014, the final budgeted General Fund revenue was $64.8 million higher than the original Fiscal Year 2014 budget adopted in May 2013. This resulted primarily from a $45.0 million one-time state grant received from the City of Philadelphia coupled with a $20.1 million increase in local tax revenue. State revenues also increased by $2.6 million and net all other revenues decreased by $2.9 million.

The anticipated obligations in the final General Fund budget represented an increase of $159.8 million over the original adopted budget. This increase resulted primarily from the following changes in budgets: 1) $121.2 million increase in Instructional and Instructional Support budgets, 2) a $25.6 million increase in charter school budgets and, 3) a $13.0 million increase in all other expenditure budgets.

The anticipated Other Financing Sources/ (Uses) in the final General Fund budget were $68.9 million favorable over the original adopted budget. This is due primarily to a $65.7 million reduction in the General Fund to Debt Service transfer (driven primarily by $50.0 million in additional City revenue initiated after the adoption of the Fiscal Year 2014 budget).

Actual General Fund revenues of $2,334.0 million are $33.0 million higher than those estimated in the final General Fund budget of $2,300.9 million. Actual General Fund obligations totaling $1,923.2 million were $13.6 million lower than estimated in the final budget of $1,936.8 million. Other financing sources/uses of $470.0 million were $46.8 million higher than the final budget and the $13.9 million favorable difference between the final budget and actual beginning fund balance is due to encumbrance and other reserves not available for appropriation.

The actual ending General Fund balance at June 30, 2014 of a negative $96.8 million was $17.1 million favorable from the final budget ending balance of a negative $113.9 million. Of this amount, a net $17.4 million is not available for appropriation because it is reserved for encumbrances and inventory reserves.

Table 7 presents a summary comparison of the General Fund's original and final operating budgets with actual performance. More detail 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, 2014
(Dollars in Millions)
Table 7

	Budget Original	Budget Final	Actual	Variance vs Final Budget
Total Revenues	$ 2,236.1	$ 2,300.9	$ 2,334.0	$ 33.1
Total Obligations	1,777.0	1,936.8	1,923.2	13.6
Total Other Financing Sources/(Uses)	(492.2)	(423.3)	(470.0)	(46.7)
Net Change in Fund Balance	(33.1)	(59.2)	(59.2)	(0.0)
Fund Balance Beginning of Year	(67.4)	(54.7)	(40.8)	13.9
Change in Reserves	-	-	3.2	3.2
Fund Balance End of Year	$ (100.5)	$ (113.9)	$ (96.8)	$ 17.1

During Fiscal Year 2014, the School District incurred a number of variances compared to the final General Fund budget including, but not limited to:

- Revenues had a $33.1 (33.0) million favorable variance due to a $25.8 million favorable variance in Local Non Tax revenue (primarily due to a $27 million increase in the Grant from the City of Philadelphia), a $4.8 million favorable variance in State revenues, a $2.4 million favorable variance Local Taxes.

- Obligations were $13.6 million less than budgeted primarily due to $8.5 million unfavorable variance in Instructional and Instructional Support functions, $1.4 million unfavorable variance in charter schools, offset by an $12.0 million favorable variance in Operating support and a $10.5 million favorable variance in Administrative and other functions.

- Other Financing Sources/ (Uses) were $46.7 million unfavorable from the final budget. Uses of funds were $69.5 million unfavorable to the final budget (driven primarily from a $54.1 million higher than budgeted General Fund to Debt Service fund transfer) offset by general fund sources that were $22.7 million higher than budgeted.

VII. CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of the end of Fiscal Year 2014, the School District had $3,458.7 million invested in capital assets. Over the years, these assets have depreciated by $1,648.3 million leaving a carrying value of $1,810.4 million. This represents a decrease of $102.7 million over the Fiscal Year 2013 ending balance. Table 8 represents Net Capital Assets. Refer to Note 4C, page 68 for additional information.

Net Capital Assets
As of June 30, 2014
(Dollars in Millions)
Table 8

Capital Asset Category	Governmental Activities 2014	Governmental Activities 2013	Business-Type Activities 2014	Business-Type Activities 2013
Land	$ 131.0	$ 132.3	$ -	$ -
Buildings, Improvements & Intangible Assets	1,611.9	1,667.1	-	-
Personal Property	59.1	83.6	1.7	2.1
Construction In Progress	6.7	28.0	-	-
Total Net Book Value	$ 1,808.7	$ 1,911.0	$ 1.7	$ 2.1

<u>Debt Administration</u>

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 Statement of Net Position includes deferred debt issuance costs, deferred refunding charges, bond premiums, bond discounts, and bonds payable which are amortized over the life of the issued or refunded bonds.

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

Long-Term Obligations Outstanding
As of June 30, 2014
(Dollars in Millions)
Table 9

	Governmental Activities		Business-Type Activities	
	2014	**2013**	**2014**	**2013**
Total Bonded Debt	$ 3,287.5	$ 3,260.0	$ -	$ -
Employee Related Obligations	335.3	348.0	2.8	2.7
Due to Other Governments	45.3	45.3	-	-
Other	130.3	138.7	-	4.1
Total Long-Term Obligations Outstanding	$ 3,798.4	$ 3,792.0	$ 2.8	$ 6.8

The Total Long-term Obligations Outstanding for governmental activities increased by $6.4 million. This includes an increase in bonded debt of $27.5 million with a corresponding decrease in employee obligations of $12.7 million. All other long-term obligations decreased by $8.4 million. Refer to Note 4D(2), pages 69-74 for additional information.

VIII. FUTURE CHALLENGES FOR THE SCHOOL DISTRICT

<u>Current Financial Situation</u>

The School District ended Fiscal Year 2014 with a positive operating fund balance of $3.4 million as defined and in accordance with GASB 54. GASB 54 requires reporting to reflect expendable and non-expendable categories and amounts which are considered restricted, committed, assigned or unassigned. The $3.4 million includes $18.2 million of encumbrances and inventories for the General and Intermediate Unit Funds. The ending budgetary operating fund balance is a negative $14.8 million once those items are accounted for. In Fiscal Year 2014 the one-time gap closing measures and discretionary spending cuts made in the previous three fiscal years were no longer available, and therefore, spending reduction options were even more limited. The financial picture was further adversely impacted by the gap between revenues and rising mandated, non-discretionary expenditures, such as increases in PSERS pension contributions, charter school payments, public and non public transportation costs and health care benefits costs. In addition, the reserve budgetary fund balance from fiscal year 2013 of $39.5 million was used as well as non recurring City and State revenues which were explained previously in the Transmittal Letter and in Footnote 1. E. Significant Matters Impacting Operations starting on page 57.

As of December 18, 2014, the School District is projecting a balanced fiscal year ended June 30, 2015 budgetary ending operating fund balance and a budgetary ending operating fund balance for the fiscal year ended June 30, 2016 of a negative $31.0 million. The projected balanced Fiscal Year 2015 operating fund budget was achieved primarily through: the passing of a $2 per pack cigarette tax (but with charter school risks associated with it); authorization by statute for the City to re-impose an extension of the 1% sales tax; one time building sales of $15.0 million; a $12.9 million Ready to Learn State grant; and, a lower fiscal year 2014 operating deficit then originally projected. On the expenditure side, cost saving measures that closed the budget gap was further cuts to operations and services which were not mandated by contracts and statutes.

The School District is in negotiations for new contracts with its largest unions which are anticipated to provide personnel cost savings in future fiscal years. One of the unions has filed numerous grievances and legal proceedings, some related to the suspension of the School Code and the Labor Contract, as well as for other contractual issues.

Impact of No Child Left Behind and Charter Schools

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 2014 supported 86 Charter Schools where any student may apply to attend. Funding Charter Schools, as required by the Pennsylvania Charter School Law, Act 22 of 1997 has had a significant fiscal impact on the School District since its passage.

Charter Schools remain highly dispersed geographically, with the students enrolled in Charter Schools not all coming from the same classroom, grade level or even from the same school or neighborhood. Therefore, given these realities, the School District has been unable to make dollar-for-dollar reductions in cost areas such as the number of principals, custodians and bus drivers it employs overall. Additionally, a not insignificant portion of Charter School students have come from private or parochial schools for which the School District did not provide education previously. The current funding formula is based upon the School District of Philadelphia's expenditures in the previous fiscal year which does not realistically reflect the true costs to Charter Schools to deliver regular education and special education services. Various recent studies have shown that Philadelphia Charter Schools are being overfunded for special education services because Philadelphia's traditional public schools educate the vast majority of students with greater special education needs while the majority of special education students in charter schools have lesser needs, yet it is a flat funding formula which does not take into consideration these differences. The School District's Charter School expenditures increased about $109.3 million over the prior fiscal year. Fiscal Year 2014 was the third year the State did not provide any Charter School reimbursement. At its highest level of reimbursement, the State provided $109.5 million in Fiscal Year 2011. As a result, the impact of Charter Schools to the District's operating budget has increased both due to increases in Charter School costs driven by increased enrollments and per pupil costs and decreases in State Reimbursement.

"NCLB" also mandated 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 2013, 93.9% of the teachers in the School District were considered highly qualified, and 98.9% were considered fully certified. Due to recruitment and retention strategies, on-going professional development, and staffing process improvements, the percentage of highly qualified teachers of core academic subjects was raised to 99.3% in Fiscal Year 2014. However, due to changes in the way teacher data was reported to the Pennsylvania Department of Education and the addition of Pennsylvania Value Added Assessment System (PVASS) data, the percentage of highly qualified teachers decreased to 87.8% in Fiscal Year 2014.

Academic Achievement

The major focus for the district in fiscal year 2014 was to promote a shift in instructional practice in order to improve academic outcomes of all students. This shift was fostered by the demands of the internationally benchmarked Pennsylvania Common Core State Standards. The importance of mastering reading by the end of 3rd grade is widely known and accepted as a key indicator of success in the later grades. Students who fail to reach this critical milestone often falter in the later grades and drop out before earning a high school diploma. In The School District of Philadelphia, 39.9% of our 3rd graders attained proficiency on the Pennsylvania State School Assessment (PSSA) in Reading/English. Moreover, proficiency rates for subgroups such as English Language Learners, African-Americans, and Latinos were 13.5%, 35.5% and 34.8% respectively.

Among other outcomes related to student performance, we saw the following trends:

- Several of our struggling schools led the district in academic gains
- Eighth graders across the district performed better than the previous year.
- 40% of our schools saw increases in PA School Performance Profile (SPP) scores.
- A third of our schools improved their Developmental Reading Assessment (DRA) proficiency over the previous year.
- Based on our average growth index (AGI), there was significant evidence that the district exceeded the State's standard for academic growth in both mathematics and reading.

The Superintendent's Office in collaboration with the Assistant Superintendents launched the yearlong professional learning series in August in anticipation of the upcoming school year to set the pace for summer planning and informed decision-making. The Professional Development Plan was the District's response to the demands of the Common Core

Shifts for English/Language Arts, Mathematics, Social Studies, Science, and the Technical Subjects and was central to the success of the broader plan to improve student outcomes in both the early and secondary grades.

The Professional Development Plan focused on building school leaders' knowledge and practice germane to a finite and manageable set of district-wide instructional practices. This successful initiative was reflective of the District's collaborative attempt to promote a finite set of theory-based instructional practices across content areas and grades. The District's leadership was exposed to eight proven best practices for planning and facilitating quality initial and needs-based re-teaching in Reading/English, Mathematics, Social Studies, Science, and the Technical Subjects with a focus on higher-order thinking, gradual release, general and domain specific vocabulary development, and lesson planning linked to the Common Core Shifts and the Danielson Framework for Teaching. Professional learning germane to each focus area included tools and protocols for effective implementation. Each implementation tool and protocol was made available to school leaders in online, shared folders to efficient access. Assistant Superintendents linked Principal Evaluations to evidence of implementation and student outcomes in Reading/English and Mathematics.

Concurrently the Professional Development Plan focused on building school leaders' knowledge and practice relative to implementation of the Common Core State Standards. This component of the professional learning initiative was reflective of the District's formal intent to ensure that all students had equal access to quality instruction aligned with the rigorous demands of the internationally benchmarked standards. The District's school leaders were strategically exposed to standardized interpretation of the literacy standards and interdisciplinary implications; the complexity of the mathematics standards and their interrelation to build teacher capacity and ultimately conceptual understanding among our students.

There are two required Pennsylvania State Assessment Examinations administered to students, the Pennsylvania System of School Assessment (PSSA) and the Keystone Examination.

<u>2014 PSSA Results</u>

In 2014, students in grades 3 to 8 are currently administered the PSSA in reading, math, science and writing which is given annually throughout the Commonwealth. Science is offered to grades 4 and 8 only and writing to grades 5 and 8 only. A summary of the 2013-2014 school year PSSA results is provided below.

All Students

- From 2013 to 2014, proficiency rates increased in Science but decreased in Mathematics, Reading, and Writing. [1]
  - Mathematics proficiency rates *decreased* by 1.7 percentage points from 46.9% to 45.2%.
  - Reading proficiency rates *decreased* by 0.3 percentage points from 42.3% to 42.0%.
  - Science proficiency rates *increased* by 0.7 percentage points from 36.6% to 37.2%.
  - Writing proficiency rates *decreased* by 0.4 percentage points from 41.5% to 41.2%.

Grade Levels

- Proficiency rates increased in Reading, Science, and Writing for certain grades.
  - In Reading, the proficiency rate *increased* for 4th graders (2.3 percentage points), 7th graders (3.2 percentage points) and 8th graders (3.5 percentage points).
  - In Science, the proficiency rate *increased* for 8th graders by 1.5 percentage points.
  - In Writing, the proficiency rate *increased* for 8th graders by 2.0 percentage points.
- In all other subjects and grade levels, proficiency rates decreased.

Economically Disadvantaged, English Language Learners, and Special Education Students[2]

- In most cases, proficiency rates for these subgroups decreased from 2013 to 2014.
  - Proficiency rates for Special Education students increased in Science by 1.4 percentage points but decreased in all other subjects by the following percentage points: Mathematics by 1.4, Reading by 0.2, and Writing 1.9.
  - Changes in proficiency rates for English Language Learners varied by subject. In Mathematics and Writing they increased by 0.1 and 0.2 percentage points while in Reading and Science they decreased by 1.1 percentage points respectively.

[1] Differentials are calculated using unrounded proficiency rates. For this reason, differentials may not be equivalent to the difference between the rounded percentages presented here.
[2] Students are identified as economically disadvantaged if they qualify for public assistance, qualify for free or reduced-price lunch, or attend universal feeding schools.

  - Proficiency rates for Economically Disadvantaged students increased in Science by 0.4 percentage points but decreased in all other subjects as follows: Mathematics by 2.0, Reading by 0.5, and Writing by 0.4.
- Following historical trends, proficiency rates for these subgroups were lower than those for all students across all subjects.

Race/Ethnicity

- Proficiency rates for Asian students increased in all subjects except for Mathematics which decreased by 0.1 percentage points. The increases by percentage points were: Reading by 0.3 percentage points, Science by 0.1, and Writing by 1.2.
- Proficiency rates for Black/African American students varied by subject. They decreased in Mathematics by 2.5 percentage points, Reading by 0.4, and Writing by 0.7 while Science increased by 0.9 percentage points.
- Proficiency rates for Hispanic/Latino students increased in Science by 0.3 percentage points but decreased in all other subjects as follows: Mathematics by 1.6, Reading by 1.4, and Writing by 0.6 percentage points.
- Proficiency rates for White students decreased in Mathematics by 1.3 percentage points, Science by 1.3, Writing by 1.3 percentage points and increased only in Reading by 0.3 percentage points.

School-Level Proficiency

- Of the 168 schools that administered the PSSA in grades 3-8 in School Year 2012-2013 and School Year 2013-2014:
  - 120 (71.4%) demonstrated a decrease in the percentage of students scoring proficient or advanced in Mathematics and 48 (28.6%) demonstrated an increase.
  - 113 (67.3%) demonstrated a decrease in the percentage of students scoring proficient or advanced in Reading and 55 (32.7%) demonstrated an increase.
- On average, school-level proficiency rates declined by 3.4 percentage points in Mathematics and by 1.7 percentage points in Reading.

<u>2014 Keystone Examination Results</u>

Keystone Examinations were administered for the first time in the 2012-2013 school year after a pilot administration the previous spring and 2013-2014 represents the second year of testing. Keystone Examinations are end-of-course assessments designed to assess proficiency in the area of Algebra I, Literature, and Biology. They serve two purposes: 1) high school accountability and assessments for federal and state purposes, and 2) high school graduation requirements for students beginning with the class of 2017.

District-Level Proficiency

All Students

- From 2013 to 2014, proficiency rates increased in Biology but decreased in Algebra I and Literature[3].
  - Algebra I proficiency rates *decreased* by 1.2 percentage points from 39.8% to 38.6%.
  - Biology proficiency rates *increased* by 5.3 percentage points from 20.3% to 25.6 %.
  - Literature proficiency rates *decreased* by 1.9 percentage points from 53.4% to 51.5%.

Economically Disadvantaged, English Language Learners, and Special Education Students[4]

- Proficiency rates in Algebra I increased for these subgroups from 2013 to 2014.
  - Changes in proficiency rates for Economically Disadvantaged students varied by subject. Proficiency rates *increased* in Algebra I (0.1 percentage points) and Biology (5.7 percentage points) but *decreased* in Literature (0.7 percentage points).
  - Changes in proficiency rates for English Language Learners varied by subject. Proficiency rates *increased* in Algebra I (1.2 percentage points) but *decreased* in Literature (3.7 percentage points) and Biology (0.1 percentage points).

[3] Differentials are calculated using unrounded proficiency rates. For this reason, differentials may not be equivalent to the difference between the rounded percentages presented here.
[4] Students are identified as economically disadvantaged if they qualify for public assistance, qualify for free or reduced-price lunch, or attend universal feeding schools.

  - Proficiency rates for Special Education students increased in all subjects: Algebra I by 0.4 percentage points, Biology by 1.0 and Literature by 0.7.
- Following historical trends, proficiency rates for these subgroups were lower than those for all students across all subjects.

Race/Ethnicity

- Proficiency rates for Asian students increased in Algebra I by 0.6 percentage points, Biology by 0.9 percentage points and decreased by 0.3 percentage points for Literature.
- Proficiency rates for Hispanic/Latino students increased in Biology by 3.0 percentage points but decreased in Algebra I by 2.1 percentage points and Literature by 5.0 percentage points.
- For Black/African American and White students, changes in proficiency rates varied by subject.
  - For Black/African American students, proficiency rates *increased* in Biology (5.1 percentage points) but *decreased* in Algebra I (0.9 percentage points, and Literature (1.0 percentage points).
  - For White students, proficiency rates *increased* in Biology (5.6 percentage points) but *decreased* in Algebra I (1.6 percentage points) and Literature (2.4 percentage points).

School-Level Proficiency

- Of the 44 schools that administered the Keystone Exams in grade 11 in School Year 2012-2013 and School Year 2013-2014
  - 26 (59.1%) demonstrated a *decrease* in the percentage of students scoring proficient or advanced in Algebra I, 17 (38.6%) demonstrated an *increase* and 1 (2.3%) demonstrated no change.
  - 27 (61.4%) demonstrated a *decrease* in the percentage of students scoring proficient or advanced in Literature, 16 (36.4%) demonstrated an *increase* and 1 (2.3%) demonstrated no change.
  - 10 (22.7%) demonstrated a *decrease* in the percentage of students scoring proficient or advanced in Biology, and 34 (77.3%) demonstrated an *increase*.
- On average, school-level proficiency rates decreased by 1.2 percentage points in Algebra I and in Literature and increased by 5.6 percentage points in Biology.

Climate and Safety

"NCLB" also 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, on school premises and on the highway (to and from School). The number of all District violent incidents decreased by 10.0% from Fiscal Year 2013 to Fiscal Year 2014.

There has been significant focus and much improvement to school safety over the past several years and in particular in Fiscal Year 2014. Much of this improvement has been due to an emphasis on school safety team meetings and stronger collaboration between SDP offices and the Philadelphia Police Department. The District also maintains a "focus schools list" that provided direct safety supports to the neediest schools.

The School District has been making progress in improving school safety since Fiscal Year 2004 when twenty-seven (27) schools were labeled "Persistently Dangerous" (PDS) based on serious incidents from the previous two years data. The two Philadelphia schools designated Persistently Dangerous in Fiscal Year 2014 have made significant progress over the past two years and they are no longer designated as PDS. The School District continues to emphasize reporting all incidents while focusing on improving the quality of school based interventions.

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. The District is currently implementing, with the assistance of grant funding, evidenced-based school climate initiatives in several elementary and high schools and expects to grow these initiatives in the next few years. The Student Code of Conduct is designed to help create an environment that is more conducive to learning. The due process and transition hearing protocols set in place are executed swiftly and with fidelity by independent hearing officers to ensure the safety of the school environment as well as the safety and well being of the disruptive student to be moved to a setting that will assist them and address the serious violation of the Code of Student Conduct. This process is overseen by the Office of Student Rights and Responsibilities. All of the contracted provider transition schools in the SDP Alternative Education Division, have a School District Transition Liaison that is responsible for insuring the transition process is executed with fidelity and the students are afforded the academic and behavioral support needed while attending the alternative school program before returning to the comprehensive school setting or other academic options to graduate.

Since students cannot learn if they exhibit inconsistent behaviors or truancy, or if they have barriers to learning due to social and emotional challenges, the School District, under Alternative Education, provides resources for the students through the alternative models of Educational Options Program (EOP), Transition Schools, or Accelerated/Multiple Pathways to Graduation programs. These schools and opportunities provide support, intervention and strategies for students and parents to keep students in school and responsible for their actions in addition to providing for education at grade and age appropriate levels with a goal of graduation. Students can be referred to Alternative Education programs through self-referrals, transfers, and the response to intervention process for a change in placement. In addition, the Re-Engagement Center also provides the support and resource for admission to these programs for students that have been disconnected or disengaged from the educational setting in Philadelphia. Transition schools offer the programs that support promotion and graduation with a personalized learning plan model integrated with the core curriculum for academics and the accelerated school model provides the same with an enhanced pace of study that supports a student that is overage/under credited to graduate within three years with a high school diploma.

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"), is a modified transition program that is a collaboration with the Office of Juvenile Probation and the Department of Human Services that assesses and evaluates students before they return to school. Additionally, the procedures for students to return to the regular education setting after attending an alternative school have been enhanced with School District of Philadelphia staff designated to support the parent, student, and regular education school program to ensure the successful transition of the student and increase positive behavior and attendance upon the student's return.

Capital Improvement Program

The School District's Capital Improvement Program ("CIP") supports the School District's initiative to equitably 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, healthful, learning environment. The original CIP addressed the need for new construction, renovations and repairs and was assessed a total of $1.9 billion from Fiscal Year 2003 to Fiscal Year 2012. The Office of Capital Programs has overseen or is currently overseeing the design and construction of eight (8) new neighborhood high schools, eight (8) new smaller high schools and five (5) new neighborhood elementary schools; thirteen (13) middle school conversions; 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, roof and window replacements, and substantial renovations to existing school buildings. The current CIP covers $938.2 million from Fiscal Year 2015 to Fiscal Year 2020 and is updated every year with the planned annual expenditure levels dependent 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 Matthew E. Stanski, Chief Financial Officer or Marcy F. Blender, CPA, Comptroller, at 440 North Broad Street, Philadelphia, PA 19130.

School District of Philadelphia
Statement of Net Position
June 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash & Cash Equivalents	$ 184,961	$ 10,902	$ 195,863
Cash and Investments with Fiscal Agent	99,274,605	-	99,274,605
Equity In Pooled Cash and Investments	27,491,545	-	27,491,545
Taxes Receivable (Net)	175,651,002	-	175,651,002
Due from Other Governments	52,766,406	5,909,961	58,676,367
Accounts Receivable (Net of Allowance)	8,127,404	3,204,887	11,332,291
Accrued Interest Receivable	600,678	-	600,678
Internal Balances	2,594,547	(2,594,547)	-
Inventory	1,285,461	1,764,204	3,049,665
Prepaid Bond Insurance Premium Costs	7,831,686	-	7,831,686
Restricted Assets:			
Cash and Cash Equivalents	78,426,117	-	78,426,117
Cash and Investments Held by Trustee	238,034	-	238,034
Funds on Deposit	18,375,000	-	18,375,000
Capital Assets:			
Land	130,922,021	-	130,922,021
Buildings and Improvements	3,026,434,637	-	3,026,434,637
Personal Property	230,420,934	15,732,384	246,153,318
Construction in Progress	6,725,704	-	6,725,704
Intangibles	48,629,076	-	48,629,076
Accumulated Depreciation	(1,634,333,998)	(13,993,603)	(1,648,327,601)
Total Assets	2,281,645,820	10,034,188	2,291,680,008
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge on Refunding	140,846,087	-	140,846,087
LIABILITIES			
Accounts Payable	92,760,322	6,367,342	99,127,664
Overpayment of Taxes	16,760,982	-	16,760,982
Accrued Salaries and Benefits Payable	60,929,532	749,492	61,679,024
Termination Compensation Payable	23,758,223	137,660	23,895,883
Severance Payable	6,620,865	-	6,620,865
Other Liabilities	121,187	-	121,187
Payable to External Parties	14,656,093	-	14,656,093
Derivative Instrument - Swap Liability	23,113,539	-	23,113,539
Unearned Revenue	12,447,134	-	12,447,134
Due to Other Governments	3,289,530	-	3,289,530
Bond Interest Payable	32,232,819	-	32,232,819
Non-Current Liabilities			
Due within one year	274,701,285	-	274,701,285
Due in more than one year	3,523,671,068	2,660,664	3,526,331,732
Total Liabilities	4,085,062,579	9,915,158	4,094,977,737
NET POSITION			
Net Investment in Capital Assets	(314,889,535)	1,738,781	(313,150,754)
Restricted for:			
Medical Self-Insurance	18,375,000	-	18,375,000
Debt Service	93,491,234	-	93,491,234
Special Revenue Funds & Permanent Funds			
Expendable - Student Health	3,427,773	-	3,427,773
Non-Expendable - Scholarships	2,865,760	-	2,865,760
Arbitrage Rebate Payable	265,706	-	265,706
Unrestricted (Deficit)	(1,466,106,610)	(1,619,751)	(1,467,726,361)
Total Net Position	$ (1,662,570,672)	$ 119,030	$ (1,662,451,642)

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, 2014

			Program Revenues			Net (Expense) Revenue and Changes in Net Position		
Functions/Programs	Expenses	Indirect Expense Allocation	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities								
Instruction	$ 2,149,121,999	$ -	$ 820,181	$ 494,732,272	$ -	$ (1,653,569,546)	$ -	$ (1,653,569,546)
Student Support Services	151,133,843	-	-	50,715,085	-	(100,418,758)	-	(100,418,758)
Administrative Support	103,666,314	-	4,512,315	39,088,737	-	(60,065,262)	-	(60,065,262)
Operation & Maintenance of Plant Services	200,838,933	(817,628)	225,045	17,448,976	-	(182,347,284)	-	(182,347,284)
Pupil Transportation	85,102,246	-	-	81,562,514	-	(3,539,732)	-	(3,539,732)
All Other Support Services	(25,223,580)	-	-	(2,179,186)	-	23,044,394	-	23,044,394
Early Childhood Education	137,625	-	-	137,625	-	-	-	-
Interest on Long-Term Debt	153,380,712	-	-	97,260,175	-	(56,120,537)	-	(56,120,537)
Total Governmental Activities	2,818,158,092	(817,628)	5,557,541	778,766,198	-	(2,033,016,725)	-	(2,033,016,725)
Business-Type Activities:								
Food Service	71,340,178	817,628	1,408,509	74,038,754	-	-	3,289,457	3,289,457
Total Business-Type Activities	71,340,178	817,628	1,408,509	74,038,754	-	-	3,289,457	3,289,457
Total	$ 2,889,498,270	$ -	$ 6,966,050	$ 852,804,952	$ -	$ (2,033,016,725)	$ 3,289,457	$ (2,029,727,268)

	Governmental Activities	Business-type Activities	Total
General Revenues/Gain/(Loss)/Investment Revenue/Transfers:			
Property Taxes	$ 661,262,818	$ -	$ 661,262,818
Use & Occupancy Taxes	137,677,100	-	137,677,100
Liquor Taxes	62,105,157	-	62,105,157
School (Non-Business) Income Taxes	37,274,316	-	37,274,316
Public Utility / PILOT Taxes	1,070,893	-	1,070,893
Grants and Contributions Not Restricted to Specific Programs	164,523,806	-	164,523,806
State & Federal Subsidies Not Restricted to Specific Programs	912,421,435	-	912,421,435
Gain/(Loss) on Sale of Capital Assets	21,115,975	-	21,115,975
Transfers	289,457	(289,457)	-
Investment Revenue	837,598	-	837,598
Total General Revenues and Transfers	$ 1,998,578,555	$ (289,457)	$ 1,998,289,098
Change in Net Position	(34,438,170)	3,000,000	(31,438,170)
Net Position - As of July 1, 2013	(1,598,063,255)	(2,880,970)	(1,600,944,225)
Prior Period Adjustments	(30,069,247)	-	(30,069,247)
Net Position - As of June 30, 2014	$ (1,662,570,672)	$ 119,030	$ (1,662,451,642)

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

School District of Philadelphia
Balance Sheet
Governmental Funds
June 30, 2014

	General Fund	Intermediate Unit Fund	Categorical Funds
ASSETS			
Cash & Cash Equivalents	$ 184,961	$ -	$ -
Cash and Investments with Fiscal Agent	-	-	-
Equity in Pooled Cash and Investments	-	13,683,999	7,045,219
Cash and Investments Held by Trustee	-	-	-
Funds on Deposit	18,375,000	-	-
Taxes Receivable (Net)	175,651,002	-	-
Due from Other Funds	2,594,547	-	-
Due from Other Governments	16,017,014	6,604,461	29,360,966
Accounts Receivable (Net)	9,079,957	420,766	-
Accrued Interest Receivable	-	-	-
Inventory	1,256,884	-	-
Total Assets	$ 223,159,365	$ 20,709,226	$ 36,406,185
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES			
Liabilities:			
Accounts Payable	$ 63,454,734	$ 12,019,217	$ 14,641,762
Overpayment of Taxes	16,760,982	-	-
Accrued Salaries and Benefits Payable	45,703,750	7,856,643	7,111,876
Termination Compensation Payable	23,758,223	-	-
Severance Payable	6,620,865	-	-
Unearned Revenue	-	-	12,447,134
Due to Other Funds	14,314,109	-	-
Due to Other Governments	1,014,459	19,274	2,205,413
Other Liabilities	13,633	-	-
Total Liabilities	171,640,755	19,895,134	36,406,185
Deferred Inflows of Resources:			
Unavailable Tax and Accounts Receivable Revenue	$ 148,338,556	$ -	$ -
Unavailable Grant Revenue	-	-	4,020,528
Total Deferred Inflows of Resources	148,338,556	-	4,020,528
Fund Balances:			
Nonspendable:			
Inventories	1,256,884	-	-
Permanent Fund Principal	-	-	-
Restricted:			
Medical Self-Insurance	18,375,000	-	-
Retirement of Long Term Debt	-	-	-
Debt Service Interest	-	-	-
Arbitrage Rebate Payable	-	-	-
Trust Purposes	-	-	-
Capital Purposes	-	-	-
Assigned:			
Special Education	-	814,092	-
Defeasance	-	-	-
Future Capital Projects Programs	-	-	-
Unassigned:	(116,451,830)	-	(4,020,528)
Total Fund Balances	(96,819,946)	814,092	(4,020,528)
Total Liabilities and Fund Balances	$ 223,159,365	$ 20,709,226	$ 36,406,185

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
	$ -	$ 78,426,117	$ -	$ 78,611,078
	99,274,605	-	-	99,274,605
	-	351,697	6,300,118	27,381,033
	-	238,034	-	238,034
	-	-	-	18,375,000
	-	-	-	175,651,002
	-	-	-	2,594,547
	-	773,846	-	52,756,287
	-	-	-	9,500,723
	600,678	-	-	600,678
	-	-	-	1,256,884
	$ 99,875,283	$ 79,789,694	$ 6,300,118	$ 466,239,871
	$ -	$ 2,612,474	$ 6,585	$ 92,734,772
	-	-	-	16,760,982
	-	237,107	-	60,909,376
	-	-	-	23,758,223
	-	-	-	6,620,865
	-	-	-	12,447,134
	341,984	-	-	14,656,093
	-	50,384	-	3,289,530
	107,554	-	-	121,187
	449,538	2,899,965	6,585	231,298,162
	$ -	$ -	$ -	$ 148,338,556
	-	659,155	-	4,679,683
	-	659,155	-	153,018,239
	-	-	-	1,256,884
	-	-	1,365,405	1,365,405
	-	-	-	18,375,000
	65,169,807	-	-	65,169,807
	28,321,427	-	-	28,321,427
	-	265,706	-	265,706
	-	-	4,928,128	4,928,128
	-	73,364,043	-	73,364,043
	-	-	-	814,092
	5,934,511	-	-	5,934,511
	-	2,600,825	-	2,600,825
	-	-	-	(120,472,358)
	99,425,745	76,230,574	6,293,533	81,923,470
	$ 99,875,283	$ 79,789,694	$ 6,300,118	$ 466,239,871

School District of Philadelphia
Reconciliation of the Balance Sheet for Governmental Funds
To the Statement of Net Position
June 30, 2014

Fund Balance - Total Governmental Funds (page B-34)	$	81,923,470
Amounts reported for governmental activites in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		1,808,761,927
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the governmental funds.		151,644,870
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.		(3,822,633,487)
Derivative instruments, are not due and payable in the current period, and therefore are not reported as liabilities in the governmental funds.		(23,113,539)
Deferred outflows of resources, including deferred refunding charges, are not reported in the governmental funds.		140,846,087
Net position of governmental activities (page B-31)	$	(1,662,570,672)

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

School District of Philadelphia
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For The Year Ended June 30, 2014

	General Fund	Intermediate Unit Fund	Categorical Funds
REVENUES			
Local Taxes	$ 897,596,570	$ -	$ -
Locally Generated Non Tax	166,929,950	582,325	6,778,366
State Grants and Subsidies	1,258,151,837	101,881,034	72,365,707
Federal Grants and Subsidies	11,286,321	-	241,777,243
Total Revenues	2,333,964,678	102,463,359	320,921,316
EXPENDITURES			
Current:			
Instruction	878,223,203	229,582,035	238,286,117
Student Support Services	23,165,614	92,479,208	36,196,590
Administrative Support	57,167,695	9,555,275	33,411,078
Operation & Maintenance of Plant Services	200,342,429	-	401,237
Pupil Transportation	85,520,002	-	-
All Other Support Services	(25,449,466)	-	-
Early Childhood Education	-	-	137,625
Payments to Charter Schools	701,273,623	-	11,238,422
Debt Service:			
Principal	-	-	-
Interest	-	-	-
Principal & Interest - Authority	-	-	-
Administrative Expenditures	-	-	-
Capital Outlay:			
New Buildings and Additions	-	-	-
Environmental Management	-	-	-
Alterations and Improvements	-	-	-
Equipment Acquistions	-	-	-
Total Expenditures	1,920,243,100	331,616,518	319,671,069
Excess (Deficiency) of Revenues over Expenditures	413,721,578	(229,153,159)	1,250,247
OTHER FINANCING SOURCES (USES)			
Transfers In	1,417,351	228,999,479	1,961,673
Transfers Out	(493,824,415)	-	(1,417,351)
Capital Asset Proceeds	22,581,503	-	-
Total Other Financing Sources and (Uses)	(469,825,561)	228,999,479	544,322
Net Change in Fund Balances	(56,103,983)	(153,680)	1,794,569
Fund Balances, July 1, 2013	(40,788,429)	967,772	(5,815,097)
Change in Inventory Reserve	72,466	-	-
Fund Balances, June 30, 2014	$ (96,819,946)	$ 814,092	$ (4,020,528)

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
$ -	$ -	$ -	$ 897,596,570
2,389,482	346,366	63,856	177,090,345
-	641,694	-	1,433,040,272
-	-	-	253,063,564
2,389,482	988,060	63,856	2,760,790,751
-	-	52,937	1,346,144,292
-	-	-	151,841,412
-	-	-	100,134,048
-	-	-	200,743,666
-	-	-	85,520,002
-	-	-	(25,449,466)
-	-	-	137,625
-	-	-	712,512,045
106,059,250	-	-	106,059,250
91,113,719	-	-	91,113,719
71,346,198	-	-	71,346,198
2,630,637	-	-	2,630,637
-	4,648,171	-	4,648,171
-	2,973,389	-	2,973,389
-	20,251,881	-	20,251,881
-	2,892,284	-	2,892,284
271,149,804	30,765,725	52,937	2,873,499,153
(268,760,322)	(29,777,665)	10,919	(112,708,402)
262,579,296	-	-	494,957,799
-	-	-	(495,241,766)
7,379,271	2,605,093	-	32,565,867
269,958,567	2,605,093	-	32,281,900
1,198,245	(27,172,572)	10,919	(80,426,502)
98,227,500	103,403,146	6,282,614	162,277,506
-	-	-	72,466
$ 99,425,745	$ 76,230,574	$ 6,293,533	$ 81,923,470

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, 2014

Amounts reported for governmental activities in the Statement of Activities (page B-32) are different because:

Net change in fund balances - total governmental funds (page B-37)	$	(80,426,502)
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.		(81,554,715)
Non capitalized purchases that exceed capital outlays.		1,462,847
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.		(12,753,693)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.		81,945
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount by which proceeds exceeded repayments.		117,439,250
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.		21,387,330
The net revenue (loss) of certain activities of the Internal Service Fund is reported with governmental activities.		(648,056)
Transfers In to the Internal Service Fund is reported with the governmental activities.		573,424
Change in net position of governmental activities (page B-32)	$	(34,438,170)

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

School District of Philadelphia
Statement of Net Position
Proprietary Funds
June 30, 2014

	Enterprise Fund Food Service	Internal Service Fund Print Shop
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 10,902	$ -
Equity in Pooled Cash and Investments	-	110,512
Due From Other Governments	5,909,961	10,119
Other Receivables	3,204,887	50
Inventories	1,764,204	28,577
Total Current Assets	10,889,954	149,258
Noncurrent Assets:		
Machinery & Equipment	15,732,384	613,530
Accumulated Depreciation	(13,993,603)	(577,083)
Total Noncurrent Assets	1,738,781	36,447
Total Assets	$ 12,628,735	$ 185,705
LIABILITIES		
Current Liabilities:		
Accounts Payable	$ 6,367,342	$ 25,550
Accrued Salaries and Benefits Payable	749,492	20,156
Termination Compensation Payable	137,660	-
Due to Other Funds	2,594,547	-
Total Current Liabilities	9,849,041	45,706
Noncurrent Liabilities:		
Termination Compensation Payable	1,915,035	139,999
Severance Payable	745,629	-
Total Noncurrent Liabilities	2,660,664	139,999
Total Liabilities	12,509,705	185,705
NET POSITION		
Net Investment in Capital Assets	1,738,781	36,447
Unrestricted	(1,619,751)	(36,447)
Total Net Position	119,030	-
Total Liabilities and Net Position	$ 12,628,735	$ 185,705

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 Position
Proprietary Funds
For the Year Ended June 30, 2014

	Enterprise Fund Food Service	Internal Service Fund Print Shop
Operating Revenues:		
Food Service Revenue	$ 1,408,509	$ -
Sale of Printing Services	-	523,665
Total Operating Revenues	1,408,509	523,665
Operating Expenses:		
Salaries	15,322,575	442,886
Employee Benefits	13,406,878	296,529
Other Purchased Service - Food	40,390,369	-
Other Purchased Service - Supplies	652,333	-
Depreciation	387,279	8,119
Other Operating Expenses	1,998,372	424,187
Total Operating Expenses	72,157,806	1,171,721
Operating Gain/(Loss)	(70,749,297)	(648,056)
Non-Operating Revenues/(Expenses):		
Federal and State Grants	74,038,754	54,479
Gain on Sale of Capital Assets	-	20,153
Income (loss) Before Contributions and Transfers	3,289,457	(573,424)
Transfers In	-	573,424
Transfers In/(Out)	(289,457)	-
Change in Net Position	3,000,000	-
Total Net Position July 1, 2013	(2,880,970)	-
Total Net Position June 30, 2014	$ 119,030	$ -

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, 2014

	Enterprise Fund Food Service		Internal Service Fund Print Shop	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Users	$	1,408,509	$	523,665
Cash Payments to Employees for Services		(29,271,257)		(754,034)
Cash Payments to Suppliers for Goods and Services		(31,400,540)		-
Cash Payments for Other Operating Expenses		(1,998,372)		(444,141)
Net Cash (Used)/Provided by Operating Activities		(61,261,660)		(674,510)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Payments to/Advances from Other Funds		(8,527,910)		-
State Sources		5,110,579		37,490
Federal Sources		64,965,234		16,988
Transfers In/(Out)		(289,457)		573,424
Net Cash Provided by Non-Capital Financing Activities		61,258,446		627,902
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Facilities Acquisition, Construction, Improvements		(10,296)		-
Gain on disposal of Assets		6,019		7,454
Net Cash Used by Capital and Related Financing Activities		(4,277)		7,454
Net (Decrease)/Increase in Cash and Cash Equivalents		(7,491)		(39,154)
Cash and Cash Equivalents July 1, 2013		18,393		149,666
Cash and Cash Equivalents June 30, 2014	$	10,902	$	110,512
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:				
Operating (Loss)	$	(70,749,297)	$	(648,056)
Adjustments to Reconcile Operating Income/(Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation		387,279		8,119
Donated Food Commodities		4,446,288		-
(Increase)/Decrease in Accounts Receivable		(204,887)		16,521
(Increase)/Decrease in Inventories		510,618		(912)
(Increase) in Other Current Assets		-		(50)
Increase/(Decrease) in Accounts Payable		4,890,143		(35,513)
(Decrease) in Accrued Salaries and Benefits Payable		(519,867)		(14,564)
Increase/(Decrease) in Termination Compensation Payable		45,111		(55)
(Decrease) in Severance Payable		(67,048)		-
Total Adjustments		9,487,637		(26,454)
Net Cash Used by Operating Activities	$	(61,261,660)	$	(674,510)
Non cash items:				
Federal and State Grant revenue not yet received	$	5,909,961	$	10,119
Donated Commodities		4,446,288		-

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

School District of Philadelphia
Statement of Net Position
Fiduciary Funds
June 30, 2014

	Private - Purpose Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	$ -	$ 5,195,485
Equity in Pooled Cash and Investments	748,875	64,570,113
Investments	200,013	-
Accounts Receivable	59	1,371,152
Due From Other Funds	-	14,656,092
Total Assets	948,947	85,792,842
LIABILITIES		
Payroll Deductions and Withholdings	-	79,480,460
Due to Student Activities	-	5,195,485
Other Liabilities	-	1,116,897
Total Liabilities	-	85,792,842
NET POSITION		
Held in Trust for Various Purposes	$ 948,947	$ -

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

School District of Philadelphia
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2014

		Private Purpose Trust Funds
ADDITIONS		
Gifts and Contributions	$	123,338
Interest Received		1,333
Total Additions		124,671
DEDUCTIONS		
Scholarships Awarded		-
Total Deductions		-
Change in Net Position		124,671
Net Position July 1, 2013		824,276
Net Position June 30, 2014	$	948,947

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

SCHOOL DISTRICT OF PHILADELPHIA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014, 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 2014, the School District served over 202,990 students, including those in Charter and Alternative Schools, as well as employed over 17,300 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.

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 organizational structure at June 30, 2014 included a Superintendent/CEO, Deputy Superintendent, General Counsel, Chief School Police Officer, Chief Financial Officer, Chief Academic Supports Officer, Chief Student Support Services Officer, Chief of Schools Officer (vacant), Chief of Talent Officer, Chief of School Operations Officer, Chief of Information Technology Officer, Chief of Family and External Relations Officer, Government Relations Officer, Strategic Partnerships Officer, Inspector General, Internal Audit Director (vacant) and a Charter School Office. Internal Audit and the Inspector General report to the School Reform Commission (SRC). The General Counsel and Charter School Office have a dual reporting relationship to the SRC and the Superintendent/CEO. The Chief School Police Officer, Deputy Superintendent, Strategic Partnerships Officer and Government Relations Officer directly report to the Superintendent/CEO. All others report through the Deputy Superintendent to the Superintendent/CEO.

The Superintendent/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 Superintendent/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 Superintendent/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"); a separate entity established by the Commonwealth to provide special education, special education transportation, and non-public school 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. The relationship between the School District and the IU was re-evaluated during fiscal year 2011 and as a result the IU is reported as a blended component unit in accordance with GASB Statement No. 14 "The Financial Reporting Entity", as amended.

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 have used a financial reporting model substantially different from the one used to prepare private-sector financial reports. As such, GASB Statement No. 34 establishes requirements and a reporting model for the annual financial reports of state and local governments. This statement was specifically developed to make annual reports easier to understand and more useful to other people who use governmental financial information to make decisions.

The financial reporting model includes a requirement that the financial statements are accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of Management's Discussion and Analysis ("MD&A"). This analysis is similar to the analysis that private sector entities provide in their annual reports and is Required Supplementary Information (the "RSI"). The basic financial statements include both district-wide (based on the School District as a whole) and fund financial statements. District-wide and fund financial statements categorize primary activities as either governmental or business-type. Required supplementary information other than MD&A, including the required budgetary comparison information, are presented immediately following the notes to the financial statements.

Management's Discussion & Analysis – MD&A discusses the current-year results in comparison with the prior year, with emphasis on the current year. The MD&A is a fact-based analysis discussing the positive and negative aspects of the comparison with the prior year. It uses charts, graphs, and tables to enhance the understandability of the information. The MD&A analyzes overall financial position and results of operations to assist users in assessing whether financial position has improved or deteriorated as a result of the year's operations. It presents the information needed to support this analysis of financial position and results of operations required.

More specifically, the MD&A analyzes: (1) the balances and transactions of individual funds; and (2) any significant variations between original and final budget amounts and between final budget amounts and actual results for the general fund. The MD&A also describes: (1) any significant capital asset and long-term debt activity that occurred during the year, including a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services; and (2) any currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (net position) or results of operations (revenues, expenses, and other changes in net position).

District-Wide Financial Statements – The District-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) are 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, deferred outflows of resources, long-term liabilities, and deferred inflows of resources as amended by GASB Statement #63-Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.

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.

Statement of Net Position – The Statement of Net Position 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 Position and reports depreciation expense – the cost of "using up" capital assets – in the Statement of Activities. The net position of the School District is presented in three categories: 1) investment in capital assets, net of related debt; 2) restricted; and 3) unrestricted. In the district-wide Statement of Net Position, 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 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. 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. The School District allocates indirect expenses to their applicable functions.

Fund Financial Statements - Separate financial statements are provided for governmental 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. 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 - the principal operating fund of the School District; accounts for and reports all financial resources not accounted for and reported in another fund.

- (b) Special Revenue Funds – these funds account for and report the proceeds of specific revenue sources that are legally restricted or committed to expenditures for specified purposes other than debt service or capital projects. Special Revenue funds include:

  - (i) Intermediate Unit Fund - used to account for State appropriations for special education and non-public school services, a blended component unit of the School District;

  - (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 - used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

- (d) Capital Projects Fund - used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

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

(2) Proprietary Fund Types - These are 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, 2014, the School District administered the Payroll Liabilities, Student Activities and Unclaimed Monies Funds.

During the course of operations the School District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between funds included in governmental activities (governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column on the Statement of Net Position. Similarly, balances between the funds included in business-type activities (enterprise fund) are eliminated so that only the net amount is included as internal balances in the business-type activities column of the Statement of Net Position.

The School District reports the General Fund, Intermediate Unit Fund (a blended component unit), Categorical Funds, Debt Service Fund, Capital Projects Fund and Enterprise Fund as its major funds.

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

The accounting and financial reporting treatment of transactions or events is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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 report only assets and liabilities and therefore do not have a measurement focus. Agency Funds, however, use 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 (gross instruction, special education and transportation, retirement and social security reimbursement etc.), local taxes (real estate, school income, use and occupancy, liquor sales etc.), federal & state grants and non-tax revenues (City contributions, Parking contributions etc.)

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 Position.

However, private sector standards of accounting and financial reporting issued prior to December 1, 1989, were incorporated through GASB Statement No. 62- Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The School District has implemented this statement and prepared both the district-wide and proprietary fund financial statements in accordance.

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 Position 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/or the Commonwealth of Pennsylvania, and/or collateralized repurchase agreements.

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

(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 is based on a calendar year basis. Beginning July 2013 through December 2013, the tax rate was 53.09 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 36.34 mills are levied pursuant to legislative authorization and approval by ordinance of the City Council. Starting in January of 2014, the tax rate was 7.382 mills. In calendar year 2014 the City of Philadelphia implemented full assessed value (AVI) which accounts for the decrease in the millage.

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

This refers to amounts due from Federal, State, City and Grantors for entitlements, subsidies, taxes, and grants. It represents primarily receivables for (1) retirement and FICA revenue recognized for current year expenditures and (2) grant revenues are recognized when all the applicable eligibility requirements are met and the resources are available.

(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 $1.3 million. Included are expendable supplies of $1.0 million held for consumption by the Maintenance and Transportation Departments and Warehouse furniture and forms of $0.3 million. The cost is recorded as an expenditure at the time expendable inventories are purchased and as an expense at the time the warehouse inventories are issued. In Fiscal Year 2014 the District began to report non expendable inventory along with the expendable supplies as an offset to the nonspendable fund balance reserve, which indicates that, although they are a component of net current position, they do not constitute available resources.

Enterprise Fund (or Food Service) inventories include $1.5 million donated by the Federal Government which is valued at cost or estimated value. All other food or supply inventories are valued at last unit cost in accordance with the recommendations of the Food and Nutrition Service of the Department of Agriculture and will be expensed when used.

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

(6) Artwork

Collections of art and historical treasures (artwork) meet the definition of a capital asset and normally should be reported in the financial statements at lower of cost or market value at the time of donation. Due to the lack of historical records to establish a proper carrying value, and the immateriality of the previously reported value of $8.1 million (0.3 percent of total assets for Governmental Activities), the artwork asset values were removed from the financial statements as a prior period adjustment beginning in Fiscal Year 2014.

(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.

GASB Statement 51 requires the capitalization of intangible assets. The most common circumstances in which GASBS 51 applies to the School District is in cases involving computer software. The School District capitalizes internally generated software applications and modifications to existing internally generated software applications as well as purchased software and modifications.

Land and Construction in Progress are not depreciated. Property, plant and equipment of the School District are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	50
Building improvements	10-30
Equipment	5-20
Vehicles	8-10
Office equipment	10
Computer equipment	5
Intangibles	10

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 Position.

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.

With regards to sale of School District real property, on August 15, 2013, School Reform Commission ("SRC") suspended that portion of Section 707(3) of the Public School Code (the "School Code") requiring court approval of any private sale and the portion of Section 7-709 of the School Code which provides that the School District may lease unused and unnecessary lands and buildings for any lawful purpose, other than educational use, by suspending the limitations on leasing for educational use.

Since only Section 707(3) of the School Code had been suspended, the remaining provisions of Section 707, including the provision which requires the School District to use the proceeds from the sale of property only for the payment of debt service or for capital projects remained in effect.

By suspending portions of the School Code The District is allowed to use sales proceeds for operating purposes after all callable bonds on the property are defeased, the funds are set aside for capital purposes in an amount equal to the non-callable bonds, and transaction costs are paid.

(8) Unearned Revenues

Unearned revenues represent monies received in advance of being earned. The School District has one fund that has unearned revenue reported on the Balance Sheet, Governmental Funds. In Categorical Funds, unearned revenue represents grant funds received prior to expenditure and prior to meeting all eligibility requirements. As of June 30, 2014, the Categorical Funds reported unearned revenue of $12.4 million.

(9) Insurance

For many years, medical benefits for nearly all of the School District's represented and unrepresented employees were procured through a fully-insured medical contract. In Fiscal Year 2010, the fully-insured premium payments increased by over 10% and the prevailing sentiment predicted continued excessively high increases. The unions agreed to a conversion to a self-funded, self-insured plan to be implemented in Fiscal Year 2011. The District's actuary concluded that, if implemented well, self-funded self-insured plan would mitigate the level of annual increases the District would experience in medical costs. The School District's experience during Fiscal Year 2012, 2013 and 2014 support the actuarial conclusion that we are managing these costs better.

The School District is also 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 per occurrence with a limit of $25.0 million. 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 $1.0 million and a limit of $250.0 million per occurrence with certain sub-limits as specified in the policy terms. Certain insurance coverage's, including employee performance bonds, student accident and employee dishonesty bonds, are also procured regularly. Medical self-insured benefits, 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 some covered employees.

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 Position.

(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 Position if they have matured (i.e. unused reimbursable leave). A liability for these amounts is reported in the governmental funds for employees who have resigned or retired as of June 30th. 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 Position. Bond premiums and discounts, prepaid bond insurance premium costs and refunding charges 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 while prepaid bond insurance premium costs are reported as assets and deferred refunding charges are reported as deferred outflows of resources on the Statement of Net Position.

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 other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(12) Deferred Outflows and Inflows of Resources

The Balance Sheet Governmental Funds reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District only has one item that qualifies for reporting in this category. It is deferred refunding charges, which is only reported in the government–wide statement, Statement of Net Position. Deferred refunding charges results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt as a deduction against the related outstanding long-term debt.

In addition, to liabilities, the Balance Sheet, Governmental Funds, report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. As such, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from two major sources: taxes and categorical grants.

In the General Fund, deferred inflows of resources 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 and Capital Projects Funds, deferred inflows of resources represents grant funds which were earned but for which resources are not considered to be available. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

(13) Fund Equity

In accordance with GASB Statement No. 54, *"Fund Balance Reporting and Governmental Fund Type Definitions"*, in the fund financial statements, governmental funds report non-spendable, restricted, committed, assigned, and unassigned fund balance amounts.

(a) Nonspendable Fund Balance: The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale.

(b) Restricted Fund Balance: The restricted fund balance classification includes amounts when constraints placed on the use of resources are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) Imposed by law through constitutional provisions or enabling legislation.

(c) Committed Fund Balance: The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of a resolution of the School Reform Commission (SRC). Those committed amounts cannot be used for any other purpose unless the SRC removes or changes the specified use by resolution. Committed fund balance also should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

(d) Assigned Fund Balance: The assigned fund balance classification includes amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed, except for stabilization arrangements. Currently only the SRC itself can assign fund balance. If the SRC delegates the authority it can only be done through a resolution and may be delegated to (a) a budget committee, (b) finance committee, or (c) a specific School District official.

(e) Unassigned Fund Balance: The unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

To the extent that funds are available for expenditure in both the restricted and the other fund balance categories, except for the nonspendable category, funds shall be expended first from restricted amounts and then from the other fund balance categories amounts excluding nonspendable. To the extent that funds are available for expenditure in other categories except for the nonspendable fund balance, the order of use shall be 1) committed balances, 2) assigned amounts 3) unassigned amounts.

(14) Restricted Assets

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

Restricted amounts reported as cash, cash equivalents, investments and funds on deposit represent bond proceeds set-aside for capital project purposes and working capital associated with employee healthcare self-insurance.

(15) Comparative Data

Comparative data from Fiscal Year 2013 is provided as a key element of the MD&A section of this report to better enhances the analysis and comprehension of financial data of the current fiscal period.

E. Significant Matters Impacting Operations

The School District's financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. During the Fiscal Year ended June 30, 2014, the School District continued to experience a number of negative trends that deeply impacted District operations. These trends included: (1) a negative operating fund balance of $14.8 million which would have been even more severe if not achieved through a positive fund balance carry-over from the previous fiscal year, one-time actions, staff lay-offs, significant cuts to school and administrative operations, non-recurring savings and cost deferrals for three consecutive years; (2) significantly declining federal revenues offset by moderate increases in State operating revenues related to one-time grant revenues of $45 million and increases in the State's employer portion for pension costs, and moderate local non recurring revenue increases from building sales and city borrowing; and (3) mandated and non-discretionary cost increases including: (a) benefit costs due to existing collective bargaining agreements, (b) increased charter school per pupil payments, (c) debt service payments, (d) public and non-public transportation costs, and (e) increases in the School District's employer portion of pension costs.

Fiscal Year 2014 reflects a fourth consecutive year of a negative ending General Fund balance. The negative General Fund balances for June 30, 2011, June 30, 2012, June 30 2013 and June 30, 2014 were a negative $43.4 million, a negative $111.6 million, a negative $40.8 million and a negative $96.8 million, respectively. However, when the School District's operating funds

(General Fund, Intermediate Unit Fund, and Debt Service Fund), are combined (as they form the School District's Operating Budget) the School District experienced at June 30, 2011, June 30, 2012, June 30, 2013, and June 30, 2014 an operating funds surplus of $30.8 million, a negative operating funds balance of $20.5 million, a positive operating funds balance of $39.5 million and a positive operating fund balance of $3.4 million, respectively. The combined operating funds surplus at June 30, 2014 includes a negative General Fund balance of $96.8 million, a positive Debt Service Fund balance of $99.4 million which is appropriated and restricted to pay for debt service costs in Fiscal Year 2015 and a positive Intermediate Fund Balance of $0.8 million.

Due to a significant budget gap projected for Fiscal Year 2014 based on the trends discussed above, the School District at the end of the previous fiscal year completed a Facilities Master Plan (FMP) to close 24 schools in order to right size the District building capacity and sell the unused buildings to generate additional one-time revenues and laid-off 3,800 employees. However, because asked for funding to structurally balance the budget was not fully obtained from the State and no negotiated labor savings were achieved from the largest union, despite all the drastic measures described above, the District ended the fiscal year with an operating fund budget deficit of $14.8 million.

Facing the potential for an operating budget shortfall for Fiscal Year 2015 projected at $216 million to just maintain the status quo and the need to adopt a balanced budget, the District asked for additional revenues from the State and the City and asked the labor unions to negotiate contract savings. Of the $216 million needed, $120 million in 1% sales tax revenues were assumed leaving a $96 million gap. Additional severe measures were taken for Fiscal Year 2015, including further cuts to educational programs and more cuts to administrative functions including transportation services and facilities cleaning and maintenance. The projected budget gap was caused primarily by the following factors: (1) the inability to obtain needed additional recurring revenues from the Commonwealth and the City; (2) failure to achieve concessions from the District's largest labor union due to ongoing negotiations; and (3) continued increases in mandated and non-discretionary costs including District enrollment shifting to charter schools. The School District adopted a balanced Fiscal Year 2015 budget on June 30, 2014.

The School District prepared a new Five-Year Financial Plan 2015-2019 which includes an updated Fiscal Year 2015 operating fund budget as of December 18, 2014 which reflects a balanced operating fund budget consisting of a Fiscal Year 2015 surplus of $14.8 million which will be used to cover the Fiscal Year 2014 deficit of the same amount. The current estimate for the Fiscal Year 2015 Operating Budget includes the following revenue items which were not included in the adopted Fiscal Year 2015 Operating Budget: 1) $49 million in additional City funding for a Philadelphia cigarette tax; and, 2) $15 million in building sales. These additional revenues were primarily used to restore essential services to schools. Additionally the District's deficit for Fiscal Year 2014 improved from an estimated negative $28 million at the time of adoption to an actual $14.8 million, thus lessening the Fiscal Year 2015 beginning fund deficit impact.

The adopted Fiscal Year 2015 State budget included a $12.9 million increase in State revenues in the form of a Ready to Learn grant. In addition, a request for the District to receive $120 million in recurring revenues from the authorization by statute for the City to re-impose an extension of the 1% Sales Tax was approved for Fiscal Year 2015 as well as a $2 per pack cigarette tax was approved in September 2014 but with charter school authorization risks associated with it.

The new Five-Year Financial Plan also contains a projection for the Fiscal Year 2016 Operating Budget. The projected Fiscal Year 2016 Operating Budget has estimated revenues of $2,662 million and estimated expenditures of $2,631 million with a budgetary gap of $31 million. This reflects the loss of $45 million in one-time State revenues from Fiscal Year 2015 to Fiscal Year 2016. The largest expenditure increases will come from charter schools, PSERS contributions and debt service. To close the gap the District will need to have new revenues of $30 million and if the revenues are not provided the District will seek additional expenditure savings to close the gap and achieve a balanced Fiscal Year 2016 budget as required by the Philadelphia Home Rule Charter and take every measure available to ensure spending is not beyond available resources.

The Commonwealth has announced and began to review the potential of developing a more equitable funding formula tied to actual student enrollments, as well as, students in poverty and English Language Learners (ELL) which could potentially benefit future years. The District will work closely with the Commonwealth and the City, as well as private outside funding sources, to seek additional revenues for Fiscal Year 2016 and thereafter. The District continues to work with the Commonwealth on addressing the over enrollment caps of charter schools and looks to expand the District's Philadelphia Virtual Academy to offset the growing cost of cyber charter schools. In addition, the District supports a more equitable formula for funding charter schools in Pennsylvania which reflects actual costs for special education services and will benefit the District.

The District is currently in contract negotiations and legal proceedings with its major union to change work rules and contract terms to contribute towards future savings.

During the course of each fiscal year, the School District monitors its cash flow on a monthly basis and compares it to the cash flow assumptions primarily based on the adopted operating budget. Such cash flow projections estimate that sufficient cash will be available for the School District to continue operations and meet its expenses in a timely manner through the remainder of Fiscal Year 2015; in particular, to pay salaries and debt service when due. For Fiscal Year 2016 the School District will continue to closely monitor the cash flow to ensure continued operations.

As referred to elsewhere in the Notes to the Financial Statements, the School District is a political subdivision of the Commonwealth carrying out a constitutionally mandated function for which the Commonwealth must provide funding. In addition to annually recurring State funding, the School District levies taxes pursuant to City Council authorization and direct authorization of the General Assembly. In addition, Section 696 of the Pennsylvania Public School Code of 1949, as amended (the "School Code"), requires the City to authorize all School Taxes in each fiscal year to yield an amount at least equal to the highest amount in the three preceding fiscal years and to maintain all other payments and grants to the School District at the same level each fiscal year. Accordingly, the School District has assurance of annual recurring revenue.

The School Reform Commission, the governing body of the School District, is prepared to exercise its statutory powers to maximize the revenues available to the School District.

If the School District is unable to adequately reduce spending and/or obtain additional funding, it may be unable to pay certain obligations, other than payroll and debt service, timely. There can be no assurance that the School District will be successful in accomplishing its cost saving plans or in obtaining additional revenues.

On January 22, 2015, the Commonwealth Court of Pennsylvania affirmed the decision of the Court of Common Pleas of Philadelphia County, which permanently enjoined the School District from taking any unilateral action to implement changes or modifications to the benefits of bargaining unit employees represented by the Philadelphia Federation of Teachers injunction. The School District intends to petition the Pennsylvania Supreme Court to allow an appeal; the deadline to file a petition is February 20, 2015. This decision, if not reversed on appeal, will eliminate a projected savings in labor costs for Fiscal Year 2015-2016 of $49.1 million and additional projected savings in future years.

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 Position**

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position - governmental activities* as reported in the district-wide Statement of Net Position. 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 Position includes capital assets among the assets of the School District as a whole.

Cost of Capital Assets	$	3,442,518,842
Accumulated Depreciation		(1,633,756,915)
Net Cost of Capital Assets	$	1,808,761,927

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 inflows of resources in the governmental funds and are not included in fund balance. Also, deferred outflows from derivative instruments are not reported as assets in the governmental funds.

Taxes Receivable	$	144,865,187
Grants & Subsidies		4,679,683
SEPTA Administrative Fee		2,100,000
Total Adjustment of Other Assets	$	151,644,870

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 as liabilities in the governmental funds." The details of the ($3,822,633,487) difference are as follows:

Bonds Payable	$	(3,177,578,899)
Deduct: Discount on Bonds Payable		9,244,113
Add: Premium on Bonds Payable		(119,203,203)
Deduct: Prepaid Bond Insurance Premium Cost		7,831,686
Bond Interest Payable		(32,232,819)
Funds Due to Other Governments		(45,278,566)
Workers' Compensation Payable		(113,977,076)
Unemployment Compensation Payable		(6,345,350)
Compensated Absences Payable		(200,249,478)
Severance Payable		(124,734,157)
Claims and Judgments Payable		(5,565,881)
Arbitrage Rebate Payable		(265,706)
DHS Payable		(2,500,000)
OPEB Payable		(810,905)
NSF Payable		(1,602,246)
Incurred But Not Reported IBNR Payable		(9,365,000)
Net adjustment to reduce fund balance - total governmental funds - to arrive at net position governmental activities.	$	(3,822,633,487)

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 position 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 ($81,554,715) difference are as follows:

Capital outlay	$	30,765,725
Depreciation expense		(112,320,440)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities.	$	(81,554,715)

Another element of that reconciliation states that "The net effect of miscellaneous transactions involving capital asset disposals and sales is an increase to net position." 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 ($12,753,693) difference are as follows:

Gain on Sale of Capital Assets	$	21,115,975
Gain on Donated Capital Assets		624,166
Loss on Disposal of Capital Assets		(1,927,967)
Proceeds from Sale of Capital Assets		(32,565,867)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities.	$	(12,753,693)

Another element of that reconciliation states that "Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds." The details of this $81,945 difference are as follows:

Deferred Inflows of Resources-Unavailable Tax Revenue	$	1,793,714
Deferred Inflows of Resources-Unavailable Grant Revenue		(1,898,569)
Derivative Investment Revenue		837,598
Adjustment Operating Grants and Contributions		(700,000)
Miscellaneous Revenue		49,202
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities.	$	81,945

Another element of the reconciliation states that "Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount by which proceeds exceeded repayments." The details of this ($117,439,250) difference are as follows:

Principal Repayment on Bonds	$	106,059,250
Principal Repayment on Authority Obligations		11,380,000
Net effect of differences in the treatment of long-term debt	$	117,439,250

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 $21,387,330 difference are as follows:

Change in Compensated Absences Payable	$	2,970,820
Change in Severance Payable		6,922,812
Change in Workers' Compensation Payable		8,959,598
Change in Unemployment Compensation Payable		(2,357,363)
Change in Claims and Judgments Payable		12,301
Change in Arbitrage Rebate Payable		(204)
Change in Net Accrued Bond Interest		329,842
Change in DHS Payable		1,000,000
Change in OPEB Payable		(422,476)
Change in NSF Payable		840,000
Change in IBNR Payable		3,132,000
Net adjustment to increase/(decrease) net changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities.	$	21,387,330

3. *STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY*

A. <u>Budgetary Information</u>

(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 the fall of each fiscal year, the CEO provides a status report to the Governing Body on the budget for the current Fiscal Year. Multi-year projections are also developed during the normal budget preparation process 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. All such requests are 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;

(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 7.382 mills of real estate taxes adopted June 27, 2013 under the Ordinance of the Council of the City of Philadelphia.

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.

The development of the capital budget and program is the principal responsibility of the Office of Capital Programs 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.

B. Fund Equity/Net Position

The operating funds, which consist of the General Fund, Intermediate Unit Fund and Debt Service Fund, experienced a fund balance of $3.4 million. This amount is comprised of a General Fund negative fund balance of $96.8 million, which is offset by $99.4 million in the Debt Service Fund and $0.8 million in the Intermediate Unit Fund.

Categorical Funds experienced a negative fund balance of $4.0 million. The deficit in the Categorical Funds is due to GASB Statement No. 33 provisions which require that grant revenue can only be recognized when collected during the fiscal year or collected soon after the end of the fiscal year to be available to pay the liabilities of the current fiscal period.

The Enterprise Fund had negative net position of $0.1 million.

4. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS

A. Cash and Investments

(1) General Information

The School District's cash and investments, including $69.8 million held in agency funds, at June 30, 2014 are summarized as follows:

Cash and Cash Equivalents	$	83,817,465
Cash and Investments with Fiscal Agent		99,274,605
Equity in Pooled Cash and Investments		92,810,533
Cash and Investments Held by Trustee		238,034
Investments		200,013
Total Cash and Investments	$	276,340,650

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 District 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) Cash Management Practices

The average yield on all maturing investments during Fiscal Year 2014 was approximately 0.29% and total interest income was $1.2 million. This was a $ 0.8 million adjusted decrease in total income over Fiscal Year 2013 primarily due to continuation of lower average interest rates.

(3) Investments

As of June 30, 2014, the School District had the following investments:

Investment Type	Fair Value	Weighted Average Maturity in Years
Repurchase Agreements	$ 93,232,523	.003
Discounted Notes	12,611,160	.663
U.S. Treasury Bills	5,403,620	.257

(a) *Interest Rate Risk* – The School District minimizes the affect that changes in interest rates have on the fair value of investments by investing in obligations of the United States Treasury and Commonwealth and/or collateralized repurchase agreements. Repurchase agreements for sinking funds and consolidated cash, and capital fund investments, as of June 30, 2014 mature in three (3) days. 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. U.S. Treasury Bills relating to forward purchase agreements purchased by the School District for sinking fund deposits mature in three months.

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

Investment	Name	Moody's	S& P	Fitch
Discounted Notes under Forward Purchase Agreement	Federal Home Loan Mortgage Corporation (FHLMC)	Aaa	AA+	AAA

(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 Corporation (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.

(4) Investment Derivative Instruments

(a) *Issued and Adopted Accounting Principles*: In June 2008, the GASB issued Statement 53, Accounting and Financial Reporting for Derivative Instruments (GASB 53). GASB 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. All derivatives are to be reported on the statement of net position at fair value. For swaps deemed to be investment instruments under GASB 53, such as the School District's basis swaps, the changes in fair value are reported in the statement of activities as investment revenue or expense.

(b) *Objective, Terms, Fair Value and Accounting of Derivative Instruments*: The School District engaged an independent pricing service with no vested interest in the interest rate swap transactions to perform the valuations, and evaluation of the swaps for compliance with GASB 53. Fair value takes 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.

The swaps where the School District pays and receives floating rates--basis swaps--are deemed investment instruments under GASB 53 and are accounted for as investment instruments.

The table below displays the objectives, terms, and fair values of the School District's derivative instruments outstanding as of June 30, 2014 along with the counterparties and their credit ratings.

Associated Bonds	Initial Notional	Current Notional	Effective Date	Maturity Date	Rate Paid	Rate Received	Fair Value	Bank Counterparty	Counterparty Ratings
Series 2003 School Lease Revenue Bonds	$150,000,000	$150,000,000	11/30/06	5/15/2033	SIFMA Swap Index	67% of USD-LIBOR + 0.2788%	($6,934,062)	Wells Fargo Bank N.A.	Aa3/AA-/AA-
Series 2003 School Lease Revenue Bonds	$350,000,000	$350,000,000	11/30/06	5/15/2033	SIFMA Swap Index	67% of USD-LIBOR + 0.2788%	($16,179,477)	JPMorgan Chase Bank, N.A.	Aa3/A+/A+
							($23,113,539)		

Basis risk / Interest rate risk. The primary objective of the basis swaps was for the School District to reduce interest cost from the expected benefit resulting from short term tax-exempt rates reflecting prevailing income tax rates throughout the life of the swap. The School District receives a percentage of 1-Month LIBOR plus a spread of 0.2788% and pays the SIFMA tax-exempt rate, with the expectation of a 0.2788% net benefit over the life of the swap as long as tax rates remain the same. The historical average ratio of 1-Month LIBOR (short-term taxable rates) versus SIFMA Swap Rates (short-term tax-exempt rates), a direct function of income tax rates, is approximately 67%. Therefore, there needs to be a spread payable to the School District in exchange for 67% of LIBOR over the long term and this is the value of the benefit, the risk being tax rates change over the life of the basis swap. This additional receipt of 0.2788% to the School District is the expected benefit and reduction to interest cost on the associated bonds for the life of the basis swap transaction. From the date of execution of the two basis swaps through June 30, 2014, the net benefit to the School District has been $11,417,796.

The value of such a swap is determined by the prevailing level of taxable interest rates received versus the level of tax-exempt interest rates paid.

Credit risk. This is the risk that the counterparty fails to perform according to its contractual obligations. The appropriate measurement of this risk at the reporting date is the total fair value of swaps netting, or aggregating under a contract between the School District and each counterparty. The School District would be exposed to credit risk on derivative instruments under a netting agreement that would total to an asset position. As of June 30, 2014, the School District has no credit risk exposure on the two basis swap contracts because the swaps under each netting agreement with each counterparty have negative fair values, meaning the counterparties are exposed to the School District in the amount of the derivatives' fair values. However, should interest rates change and the fair values of the basis swaps become positive, the School District would be exposed to credit risk.

The basis swap agreements contain varying collateral agreements with the counterparties. The basis swaps require collateralization of the fair value of the basis swap should the counterparty's credit rating fall below the applicable thresholds.

Termination risk. Only the School District may terminate the two exiting basis swaps if the counterparty fails to perform under the terms of the respective contracts. If at the time of termination the swaps have a negative fair value, the School District would be liable to the counterparty for a payment equal to the basis swap’s fair value.

B. Receivables

(1) Net Receivables

Receivables for the School District’s individual Major and Non-Major, Enterprise Fund 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)

	General	Debt Service	Intermediate Unit	Enterprise	Fiduciary	Total
Receivables						
Interest	$ -	$ 600.7	$ -	$ -	$ -	$ 600.7
Taxes	279,035.6	-	-	-	-	279,035.6
Accounts (net)	9,080.0	-	420.8	3,204.9	1,371.2	14,076.9
Gross Receivables	288,115.6	600.7	420.8	3,204.9	1,371.2	293,713.2
Less: Allowances for Uncollectible						
Taxes	103,384.6	-	-	-	-	103,384.6
Total Allowance	103,384.6	-	-	-	-	103,384.6
Net Total Receivables	$ 184,731.0	$ 600.7	$ 420.8	$ 3,204.9	$ 1,371.2	$ 190,328.6

(2) Taxes Receivable

The totals reported for taxes receivable on the Statement of Net Position, 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, 2014 equaled $175.6 million as follows:

(Dollars in Millions)

	Taxes Receivable	Estimated Uncollectible	Estimated Collectible
Real Estate Taxes			
Current	$ 89.5	$ 8.6	$ 80.9
Prior	135.1	56.4	78.7
Total Real Estate Taxes	224.6	65.0	159.6
Self Assessed Taxes			
Use and Occupancy	16.5	12.7	3.8
School Income Tax	14.9	11.2	3.7
Liquor Sales Tax	23.0	14.5	8.5
Total Self Assessed Taxes	54.4	38.4	16.0
Total Taxes Receivable	$ 279.0	$ 103.4	$ 175.6

During July and August 2014, $18.3 million in real estate taxes receivable and $12.5 million in self-assessed taxes receivable were collected. Those amounts were accrued and included in Fiscal Year 2014 revenues.

(3) Due From Other Governments

Due From Other Governments as of the year end for the School District's individual Major and Non-Major, Internal Service and Enterprise Funds in the aggregate are as follows:

(Dollars in Thousands)

	General	Intermediate Unit	Categorical	Capital Projects	Internal Service	Enterprise	Total
Due From Other Governments:							
Federal	$ -	$ -	$ -	$ -	$ -	$ 5,314.2	$ 5,314.2
State	16,478.7	6,604.5	3,078.6	114.7	10.1	595.8	26,882.4
City	(461.7)	-	-	-	-	-	(461.7)
Grantors	-	-	26,282.4	659.1	-	-	26,941.5
Total Due From Other Governments	$ 16,017.0	$ 6,604.5	$ 29,361.0	$ 773.8	$ 10.1	$ 5,910.0	$ 58,676.4

Amounts due from other governments under the General Fund, Intermediate Unit Fund, and Internal Service Fund primarily include $19.8 million for retirement and FICA reimbursements from the Commonwealth of Pennsylvania and $3.3 million for transportation and special education reimbursements from other miscellaneous governments.

Amounts due from other governments under the Categorical Funds and Capital Projects Funds include $26.9 million grant revenues which are recognized when all the applicable eligibility requirements are met and the resources are available to pay the current expenditures (or the excess of grant expenditures over funds collected) and $3.2 million for FICA reimbursements from the Commonwealth of Pennsylvania.

The amount due from other governments under the Enterprise Funds includes $5.3 million reimbursements from Federal government for the breakfast, lunch, fruit, Child and Adult Care Food Programs, and, $0.6 million for retirement and breakfast and lunch programs reimbursements from the Commonwealth of Pennsylvania.

(4) Deferred Outflows of Resources and Deferred Inflows of Resources

(a) Deferred Outflows of Resources: Represent consumption of net position that applies to a future period(s) and will not be recognized as an expenditure/expense until that time. On the full accrual basis of accounting, the School District has one item that qualifies for reporting in this category. Deferred refunding results from the difference of debt and its reacquisition price. This item valued at $140.8 million has been reported as deferred outflows on the Statement of Net Position under Governmental Activities as of June 30, 2014.

GOB Series	Refunding Charges	Swap Termination Refunding Charges	Total Amount as of June 30, 2014
2005A	5,418,374		5,418,374
2005B	410,007		410,007
2006B	26,980,419		26,980,419
2007A	4,980,939		4,980,939
2008D	870,130		870,130
2009B	225,965		225,965
2009C	515,976		515,976
2010C	15,068,019		15,068,019
2010C	-	14,869,146	14,869,146
2010D	151,108		151,108
2010E	3,231,683		3,231,683
2010E	-	46,944,444	46,944,444
2010F	9,669,304		9,669,304
2010G	4,805,928		4,805,928
2010H	4,805,928		4,805,928
2011C	1,829,001		1,829,001
2011D	69,716		69,716
	79,032,497	61,813,590	140,846,087

(b) Deferred Inflows of Resources: Represent an acquisition of net position that applies to future period(s) and will not be reported in the District-Wide Statements. They are reported as unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. On the modified accrual statements, the School District has three items that are reported in the Governmental Balance Sheet as deferred inflows as of June 30, 2014. They are as follows:

	General Fund	Categorical Funds	Capital Projects Funds	Total
Unavailable taxes revenue	$ 144,865,187	$ -	$ -	$ 144,865,187
Unavailable accounts receivable revenue	3,473,369	-	-	3,473,369
Unavailable grant revenue	-	4,020,528	659,155	4,679,683
	$ 148,338,556	$ 4,020,528	$ 659,155	$ 153,018,239

C. Capital Assets

Capital Assets activity for the fiscal year ended June 30, 2014 are summarized as follows:

(Dollars in Millions)

	Balance July 1,2013	Additions	Deletions	Transfers	Balance June 30,2014
Governmental Activities:					
Capital Assets - Not Depreciated					
Land	$ 132.4	$ -	$ (1.4)	$ -	$ 131.0
(1) Construction in Progress	26.5	3.6	-	(23.4)	6.7
(2) Artwork	-	-	-	-	-
Total Capital Assets - Not Depreciated	$ 158.9	$ 3.6	$ (1.4)	$ (23.4)	$ 137.7
Capital Assets - Depreciated					
Buildings	$ 1,797.5	$ 3.7	$ (20.0)	$ 1.6	$ 1,782.8
Improvements	1,229.9	14.2	(22.3)	21.8	1,243.6
Intangible Assets	46.1	2.6	-	-	48.7
(3) Personal Property	240.3	8.9	(18.9)	-	230.3
Total Capital Assets - Depreciated	$ 3,313.8	$ 29.4	$ (61.2)	$ 23.4	$ 3,305.4
Less Accumulated Depreciation					
Buildings	$ (641.9)	$ (32.1)	$ 17.6	$ -	$ (656.4)
Improvements	(727.9)	(54.7)	14.7	-	(767.9)
Intangible Assets	(36.6)	(2.3)	-	-	(38.9)
Personal Property	(164.8)	(23.4)	17.0	-	(171.2)
Total Accumulated Depreciation	$ (1,571.2)	$ (112.5)	$ 49.3	$ -	$ (1,634.4)
Net Capital Assets Depreciated	$ 1,742.6	$ (83.1)	$ (11.9)	$ 23.4	$ 1,671.0
Governmental Activities - Net Capital Assets	$ 1,901.5	$ (79.5)	$ (13.3)	$ -	$ 1,808.7
Business-Type Activities:					
Capital Assets - Depreciated					
Machinery and Equipment	$ 16.5	$ -	$ (0.8)	$ -	$ 15.7
Less Accumulated Depreciation	(14.4)	(0.4)	0.8	-	(14.0)
Business-Type Activities - Net Capital Assets	$ 2.1	$ (0.4)	$ -	$ -	$ 1.7

(1) The beginning balance for WIP was adjusted to reflect a $1.4 prior period adjustment to remove items not deemed capitalizable.

(2) The beginning balance for Artwork was adjusted to reflect an $8.1 prior period adjustment to remove the replacement value of artwork. The determination has been made that the District's Artwork will no longer be reported on the financial statements for the following reasons:

a. The historical cost/value of the District's artwork cannot be determined and replacement value is inappropriate for use as the carrying value.
b. The replacement value of artwork is accounts for 0.3% of total assets for Government Activities and is deemed immaterial.
c. Per GASB 34, Par. 27, the District's artwork is considered a collection and therefore should not be reported on the financial statements.

(3) The value, as well as depreciation, of Print Shop assets have been consolidated in the Personal Property line item and will no longer be shown separately.

Depreciation expense was charged to the following activities as follows:

Governmental Activities:	(Dollars in Millions)
Instruction	$ 101.9
Student Support Services	4.3
Administrative Support	5.4
Operation & Maintenance of Plant Services	0.7
All Other Support Services	0.2
Total Depreciation Expense	$ 112.5

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 $125.0 million of Tax and Revenue Anticipation Notes (TRANS) on July 2, 2013 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, 2014. Changes in short-term obligations payable during Fiscal Year 2014 were as follows:

	(Dollars in Millions)			
	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Governmental Activities:				
Tax and Revenue Anticipation Note				
(Series A of 2013-2014)	$ -	$ 125.0	$ (125.0)	$ -
Total	$ -	$ 125.0	$ (125.0)	$ -

(2) Long-Term Obligations

Changes in long-term obligations payable during Fiscal Year 2014 were as follows:

(Dollars in Millions)

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Due Within One Year
Governmental Activities:					
General Obligation Bonds/Lease Rental Debt	$ 3,295.0	$ -	$ (117.4)	$ 3,177.6	$ 119.0
Bond Premium	128.9	-	(9.7)	119.2	9.7
Bond Discount	(9.8)	-	0.5	(9.3)	(0.5)
Total Bonded Debt (A)	$ 3,414.1	$ -	$ (126.6)	$ 3,287.5	$ 128.2
Termination Compensation Payable	$ 203.4	$ 7.5	$ (10.5)	$ 200.4	$ 35.6
Severance Payable	131.7	1.3	(8.3)	124.7	17.3
Due to Other Governments					
- Deferred Reimbursement	45.3	-	-	45.3	45.3
Other Liabilities	132.5	40.8	(47.4)	125.9	36.4
Incurred But Not Reported (IBNR) Payable	12.5	-	(3.1)	9.4	9.4
Arbitrage Liability	0.3	-	-	0.3	0.3
DHS Liability	3.5	-	(1.0)	2.5	1.5
OPEB Liability	0.4	0.4	-	0.8	-
NFS Federal Liability	2.4	-	(0.8)	1.6	0.7
Governmental Activity - Long-Term Liabilities	$ 3,946.1	$ 50.0	$ (197.7)	$ 3,798.4	$ 274.7
Business-Type Activities:					
Termination Compensation Payable	$ 1.9	$ 0.3	$ (0.1)	$ 2.1	$ 0.1
Severance Payable	0.8	0.3	(0.4)	0.7	0.1
Interfund Loan	4.1	-	(4.1)	-	-
Other Liabilities	-	-	-	-	-
Business-Type Activities - Long-Term Liabilities	$ 6.8	$ 0.6	$ (4.6)	$ 2.8	$ 0.2

(A) The beginning balance of General Obligation Bonds changed due to the implementation of GASB Statement No. 65 which reclassified bond refunding losses as deferred outflows of resources.

Termination (compensated absences), severance, unemployment, claims & judgments and workers' compensation liabilities are accrued to the governmental funds to which the individual is charged and then liquidated by the General Fund. In addition, DHS, OPEB and Arbitrage liabilities are fully liquidated by the General Fund.

(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, and to provide level debt service payments for the District.

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

General obligation bonds and lease obligations at June 30, 2014 by bond issue are summarized as follows:

(Dollars in Thousands)

Issue[1]	Interest Rates	Maturity Year Ending 30-Jun	Original Principal Issued	Principal Outstanding	Interest	Total
2003 - B	5.500 [3]	2028	588,140	43,505	33,498	77,003
2004 - D	5.000	2015	100,000	8,700	435	9,135
2004 - E	QZABS [2]	2019	19,335	6,905	-	6,905
2005 - A	5.000	2023	198,140	178,575	42,395	220,970
2005 - B	5.000	2017	43,415	20,455	2,080	22,535
2005 - C	4.6600 - 5.310	2026	71,740	50,740	17,527	68,267
2005 - D	5.000 - 5.500	2021	29,920	16,470	3,805	20,275
2006 - A	4.450 - 5.000 [3]	2036	317,125	275,330	175,146	450,476
2006 - B	3.625 - 5.000 [3]	2033	545,570	545,535	415,816	961,351
2007 - A	4.000 - 5.000	2034	146,530	146,465	114,629	261,094
2007 - C	QZABS [2]	2023	13,510	8,106	-	8,106
2007 - D	QZABS [2]	2023	28,160	28,130	2,992	31,122
2008 - E	4.000 - 6.000	2039	282,365	263,740	235,328	499,068
2008 - F	4.000 - 5.250	2028	114,215	114,190	39,966	154,156
2009 - B	4.000 - 5.000	2019	30,710	28,545	4,270	32,815
2009 - C	Variable Rate [4]	2026	49,200	49,200	5,628 [5]	54,828
2010 - A	5.000	2016	27,820	10,680	807	11,487
2010 - B	4.735 - 6.765	2040	221,485	221,485	240,855 [6]	462,340
2010 - C	2.500 - 5.000	2022	300,045	208,360	42,831	251,191
2010 - D	3.125 - 5.000	2023	49,365	49,365	14,118	63,483
2010 - E	4.000 - 5.250	2025	125,880	116,980	46,467	163,447
2010 – F	Variable Rate [4]	2031	150,000	150,000	25,106 [5]	175,106
2010 - G	Variable Rate [4]	2031	150,000	150,000	25,106 [5]	175,106
2011 - A	5.995	2031	144,625	144,625	143,059 [7]	287,684
2011 - B	2.000 - 5.000	2022	16,970	14,075	1,731	15,806
2011 - C	5.000	2022	41,185	30,965	6,598	37,563
2011 - D	3.000 - 5.000	2022	16,330	14,780	2,377	17,157
2012 - A	2.000	2017	35,313	21,188	847 [8]	22,035
2012 - B	5.000 [3]	2032	264,995	260,485	140,617	401,102
			4,122,088	3,177,579	1,784,034	4,961,613

(1) All debt has been issued for Capital purposes, except for issues for 2005-A, 2005-C, 2009-A, 2012-A and 2012-B.

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

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

(4) Maximum interest rate on the Series C of 2009 and Series F & G of 2010 is 12%. If the Bonds became Bank Bonds and are held by the Creditor Provider the maximum is 24%. However, in no event shall such rates exceed the highest rates allowed by the Commonwealth of Pennsylvania. Currently, the Series C, F & G bonds are secured by letters of credit which expires January 3, 2017. All variable rate bonds are trading at or below SIFMA. For LOC administrative purposes, Series G Bonds of 2010 was divided into Series G & H of 2010.

(5) The School District budgets its variable rate debt at 1.25%.

(6) Bonds issued as ARRA Federal Taxable Build American Bonds receive a cash subsidy from United States Treasury equal to 35% of interest payable. In Fiscal Year 2014, this subsidy was reduced by $0.4 million due to the Federal Budget Sequestration.

(7) Bonds issued as ARRA Qualified School Construction Bonds receive a cash subsidy from United States Treasury that is set at the time of the sale. The School District will receive a 4.87% subsidy on bonds that were issued at a 5.995% interest rate. In Fiscal Year 2014, this subsidy was reduced by $0.6 million due to the Federal Budget Sequestration.

(8) The School District issued a note to SEPTA in the aggregate principal amount of $35.3 million to be paid in five equal payments with interest for Transpasses in fiscal year 2012. Total debt service will be reduced by $3.5 million administrative fee adjustment.

Debt service to maturity on general obligation bonds at June 30, 2014 is summarized as follows: (Excludes debt issued through the State Public School Building Authority)

Governmental Activities
(Dollars in Thousands)

Year Ending June 30	Principal	Interest [1]	Total
2015	$ 102,499	$ 91,527	$ 194,026
2016	108,664	86,861	195,525
2017	111,944	82,130	194,074
2018	112,897	77,097	189,994
2019	116,442	72,176	188,618
2020-2024	574,953	283,991	858,944
2025-2029	462,040	188,184	650,224
2030-2034	299,400	104,411	403,811
2035-2039	149,555	31,610	181,165
2040	14,330	969	15,299
Total	$ 2,052,724	$ 1,018,956	$ 3,071,680

[1] Maximum interest rate on the Series C of 2009 and Series F & G of 2010 is 12%. If the Bonds became Bank Bonds and are held by the Creditor Provider the maximum is 24%. However, in no event shall such rates exceed the highest rates allowed by the Commonwealth of Pennsylvania. Currently, the Series C, F & G bonds are secured by letters of credit which expire on January 3, 2017. Currently, all variable rate bonds are trading at or below SIFMA.

Debt service to maturity on debt issued through the State Public School Building Authority at June 30, 2014 is summarized as follows:

Governmental Activities
(Dollars in Thousands)

Year Ending June 30	Interest Rates	Principal	Interest	Total
2015	3.625-5.000	$ 16,475	$ 54,870	$ 71,345
2016	3.625-5.000	17,255	54,083	71,338
2017	3.750-5.000	18,125	53,220	71,345
2018	3.750-5.000	19,030	52,314	71,344
2019	3.875-5.000	19,980	51,362	71,342
2020 – 2024	4.000-5.000	154,560	240,258	394,818
2025 – 2029	5.000-5.500	340,550	181,677	522,227
2030 – 2034	4.450-5.000	500,530	74,695	575,225
2035 – 2036	4.450-4.500	38,350	2,599	40,949
Total		$ 1,124,855	$ 765,078	$ 1,889,933

(ii) *Sinking Fund Covenants*

- Fixed Rate General Obligation Bonds: The School District has covenanted that the City will, on each business day, irrevocably deposit with the paying agent for the bonds, from local tax revenues collected that day, for payment into a sinking fund, approximately equal daily installments which, together with other available resources in the sinking fund amounts sufficient to accumulate the sum required to pay the next principal or redemption price and the amount required to pay the next interest payment. Such debt service resources are required to be accumulated in full by this method by the 15th day prior to each specified payment date. These covenants were established to enhance the credit underlying the School District's general obligation bonds and to assure timely payment of debt service.

- Variable Rate General Obligation Bonds: The School District has covenanted that it will irrevocably deposit monthly, with the paying agent for these bonds, fifteen days prior to the next payment date, from any revenues available that day into the sinking funds, an amount which, together with other available resources in the sinking fund that will be sufficient to pay the next monthly variable rate interest payment and in years when principal payments are due, an amount equal to 1/12 of the next principal payment. These covenants were established to enhance the credit underlying the School District's variable rate bonds and to assure timely payment of debt service. The Debt Policy places limits on the portion of the School District's debt portfolio that can be in the variable rate mode.

- Lease Rental Debt: The School District has entered into an intercept agreement with the Treasurer of the Commonwealth of Pennsylvania who will irrevocably deposit semi-annually, with the paying agent for these bonds, from any Commonwealth revenues due the School District into a sinking fund, an amount equal to the Base Rental payments due under the sublease on or prior to each Base Rental payment. These payments are due on or prior to the fifteenth (15^{th}) day of the calendar month immediately preceding each debt service date for the State Public School Building Authority bonds. These covenants were established to enhance the credit underlying the School District's Lease Rental Debt and to assure timely payment of debt service.

- Interest Rate Management Agreements: Pursuant to the Debt Act, periodic scheduled payments due from the School District under a qualified interest rate management agreement are payable on a parity with debt service on the bonds related to the applicable qualified interest rate management agreement. The School District has covenanted to budget, appropriate and pay such periodic scheduled payments from its general revenues, and has pledged its full faith and credit and taxing power (within the limits prescribed by law) to secure such payments. Termination payments are subject and subordinate to periodic scheduled payments and are not secured by the foregoing pledge.

(b) Derivative Instruments

Summary

The School District adopted, in Fiscal Year 2010, the provisions of Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2014, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2014 financial statements are as follows (amounts in thousands; debit (credit)):

	Change in Fair Value		Fair Value at June 30, 2014		
	Classification	Amount	Classification	Amount	Notional
Governmental Activities					
Investment derivatives:					
Pays-variable interest rate swaps	Investment revenue	$ 837	Investment	$ (23,114)	$ 500,000
				$ (23,114)	

As of June 30, 2014, the School District determined that the pay variable interest rate swaps listed as investment derivatives do not meet the criteria for effectiveness as a hedging instrument. It is therefore reported within the investment revenue classification.

(c) Defeasements

As of June 30, 2014, $17.9 million of bonds outstanding are considered to be partially defeased and the liability has been removed from long-term liabilities. This includes:

(i) The QZAB bond Series 2004E of $19.3 million, issued September 2004, and due September 1, 2018 which 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, 2014, $12.4 million is considered partially defeased in substance for accounting and financial reporting purposes.

(ii) The QZABs bond Series 2007C and 2007D of $13.5 and $28.2 million, respectively, were issued December 28, 2008, and due December 28, 2022 which are considered partially defeased in substance for accounting and financial reporting purposes. The School District irrevocably places $0.9 million in trust with its fiscal agent each December 15th for Series 2007C. 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, 2014, $5.4 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 e.g., self-liquidating debt, subsidized debt and debt issued to fund an unfunded actuarial accrued liability. As of June 30, 2014, the non-electoral and lease rental borrowing capacity or debt limit for the School District was $1,698.8 million.

(e) Arbitrage

Federal arbitrage regulations are applicable to any issuer of tax-exempt bonds. It is necessary to rebate arbitrage earnings when the investment earnings on the bond proceeds from the sale of tax-exempt securities exceed the bond yield paid to investors. As of June 30, 2014, the arbitrage rebate calculation indicates a liability totaling $265,706 related to the Series A and B Bonds of 2006 issued through the State Public School Building Authority. The School District will continue to perform an annual audit rebate calculation until all funds have been expended. The actual amount payable may be less than the amount recorded as a liability as of June 30, 2014.

The School District has reserved $265,706 under the fund balance of the Capital Projects Fund. In addition, a contingent liability for this amount has been accounted for in the governmental activities column of the government-wide statement of net position.

(3) Leases

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, 2014 amounted to $7,116,693. Future minimum lease payments for these leases are as follows:

Fiscal Year Ending June 30	Lease Payments (Dollars in Millions)
2015	$ 3.4
2016	2.5
Total	$ 5.9

(4) General Obligation Bonds/Lease Rental Payable

The ending balance for bonded debt was $3,177.6 million with net adjustment for bond premiums and discounts of $109.9 million. As of June 30, 2014, the total bonded debt was $3,287.5 million. See note 1D (11) which describes the District's accounting practices for long-term obligations.

(5) Termination Compensation Payable

Termination pay consists of accumulated leave not expected to be paid with available resources. It includes accumulated liabilities for unused personal illness, personal leave, and vacation balances that are payable upon termination. See note 1. D (10), Compensated Absences, for the School District's leave policies.

(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 agreement created a severance liability to all ten (10) month employees that will be paid upon termination or retirement. Estimated severance payable, based on current salaries at June 30, 2014, was $124.7 million under the governmental activities. July and August 2014 salaries for ten (10) month employees who had not terminated were budgeted and will be paid for from Fiscal Year 2015 appropriations.

(7) Incurred But Not Reported (IBNR) Payable

Beginning in fiscal year 2011, the School District of Philadelphia revised its method of providing health care insurance to its employees. The revision involves a change from premium-based coverage to a self-insurance program. As part of this program, the District has contracted with an administrator to provide the claims review and payment function and with an insurance consultant for the program advisory services. Through the self-insurance program, the District will gain greater oversight and control over its fringe benefits costs.

An actuary estimated the Incurred But Not Reported (IBNR) liability for the School District of Philadelphia's self-insured Medical and Prescription Drug plans as of June 30, 2014. The IBNR is technically a subset of the total unpaid claims liability, which also includes claims incurred and reported to the administrator but awaiting processing and incurred and processed but not yet paid. As of June 30, 2014, the Incurred But Not Reported Payable amounted to $9.4 million.

(8) Department of Human Services (DHS) Liability

The City of Philadelphia, Department of Human Services (DHS) paid the costs for Philadelphia children receiving educational services at various residential treatment programs during fiscal years 2009 and 2010. The School District and DHS agreed these costs were the responsibility of the School District. DHS requested reimbursement from the School District for these costs. On December 21, 2011, the School District and DHS entered into a structured settlement whereby the School District agreed to a payment plan to pay $4.0 million to DHS over a four year period. As of June 30, 2014, the DHS liability was $2.5 million.

(9) Other Post Employment Benefits (OPEB)

The School District provides up to $2,000 of life insurance coverage for retired and disabled employees. 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. As of June 30, 2014, the District had an OPEB obligation of $810,906. See Note 4J Other Post Employment Life Insurance Benefits for details.

(10) Due to Other Governments

Deferred Reimbursement – The Commonwealth of Pennsylvania has agreed to continue to defer amounts due from prior years totaling $45.3 million for reimbursement of advanced funds provided for Special Education transportation costs.

(11) National Science Foundation ("NSF") Liability

An audit by the National Science Foundation's ("NSF") Office of Inspector General ("OIG") of two NSF grant awards covering the period from July 1, 1999 through August 31, 2005 questioned $3,346,652 in costs incurred under the two awards. On April 14, 2009, NSF issued its decision eliminating $834,406 from the recommended disallowance, leaving $2,512,246 that NSF sought to recover. On November 30, 2012, NSF sent a letter demanding payment in the amount of $2,512,246. On April 9, 2013, NSF and the School District agreed to a thirty-five month repayment plan for the $ 2,512,246 with the first payment of $70,000 due June 30, 2013. As of June 30, 2014, the remaining NSF liability was $1.6 million.

(12) Other Liabilities

Other liabilities consist of $114.0 million for Workers' Compensation, $6.3 million for Unemployment Compensation Claims and $5.6 million for Claims & Judgments.

E. Interfund Receivables, Payables and Transfers

(1) The composition of Interfund balances as of June 30, 2014 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Enterprise Fund	$ 2,594,547

Payroll Liabilities Fund	General Fund	14,314,109
Payroll Liabilities Fund	Debt Service Fund	341,984

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 $2,594,547 under the Enterprise Fund represents a reclassification of a negative equity in pooled cash and investments. This amount was reclassified as an internal balance on the District-wide financial statements.

The balance of $14,314,109 payable under the General Fund primarily represents accrued fringe benefits payable in the final payroll for Fiscal Year 2014. The payable was satisfied on July 3, 2014.

The balance of $341,984 under the Debt Service Fund represents a reclassification of a negative equity in pooled cash and investments.

(2) Interfund transfers at June 30, 2014 were as follows:

Interfund Transfers Out

Interfund Transfers In	General Fund	Categorical Funds	Enterprise Fund	Total
General	$ -	$ 1,417,351	$ -	$ 1,417,351
Intermediate Unit	228,999,479	-	-	228,999,479
Categorical	1,961,673	-	-	1,961,673
Debt Service	262,289,839	-	289,457	262,579,296
Print Shop	573,424	-	-	573,424
Total	$ 493,824,415	$ 1,417,351	$ 289,457	$ 495,531,223

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 2014 allocations of cafeteria renovations.

F. Commitments

(1) Capital Projects Fund Construction and Equipment Purchase Commitments

The School District's outstanding contractual commitments at June 30, 2014 are summarized as follows:

New Construction and Land	$ 4,156,528
Environmental Management	649,722
Alterations and Improvements	19,652,999
Equipment Acquisition	64,686
Total	$ 24,523,935

(2) Operating Fund Services and Supplies Commitments

Outstanding contractual commitments in the School District's operating funds at June 30, 2014 are as follows:

	General Fund	Intermediate Unit Fund
Services and Supplies	$ 16,169,973	$ 814,092

(3) Categorical Fund Commitments

Categorical Funds encumbrances totaled $5.0 million at June 30, 2014.

G. Affiliated Organizations

The Philadelphia Education Fund, Philadelphia Academies, Inc., Foundations, Inc., Aspira, Inc., Cora Services, Inc., Elwyn, Inc., Philadelphia Youth Network, Inc., Education Works, Inc., International Education and Community Initiatives-One Bright Ray, Inc., Catapult Learning, LLC and Philadelphia's Children First Fund are nonprofit corporations and are funded by grants, contributions and approximately $28.7 million in contract revenue from the School District during Fiscal Year 2014. 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. <u>Intermediate Unit</u>

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. <u>Litigation and Contingencies</u>

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 three hundred sixty-eighty (368) various claims against the School District, by or on behalf of students, which aggregate to a total potential liability of $4.3 million.

Of those, three hundred fifty (350) 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, two hundred and ten (210) unfavorable outcomes are deemed probable and one hundred and five (105) are considered reasonably possible, in the aggregate of $1.5 million and $0.4 million respectively.

There are six (6) 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 of approximately $1.3 million and $0.4 million respectively.

There are twelve (12) suits in federal court by parents of special education students for reimbursement for attorneys' fees and costs in administrative proceedings and appeals to court in which the parents were prevailing parties. In the opinion of the General Counsel of the School District, unfavorable outcomes are deemed probable in the aggregate amounts of approximately $0.4 million.

(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 $24.7 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 $0.3 million and $9.0 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 $2.1 million and $1.5 million, respectively, arising from personal injury and property damage claims and lawsuits.

(3) ***Education Audits*** - In the early 1990s, the School District received basic education subsidies from the Commonwealth of Pennsylvania based primarily on student enrollment. In July of 1995, the Department of Education notified the School District that an audit conducted by the Auditor General for fiscal years ending in 1991, 1992 and 1993 indicated over-reporting of student enrollment in fiscal year 1991, the year established by the Commonwealth as the base year calculation for all subsidies through fiscal year 1999. Consequently, a claim for reimbursement due was initially estimated at approximately $40 million through fiscal year 1999, and subsequently reduced by half, to approximately $20 million, as a result of additional reviews of School District documentation. In May 1999, the School District appealed the adverse determination to the Secretary of Education, as provided by law. The Secretary was to appoint a hearing officer to consider the matter further. During the pendency of the dispute over the adequacy of documentation to support 1991 student enrollment figures, an audit of reported enrollment in school years 1994-95 through 1996-97 was also undertaken. The Department of Education asserted a claim for an additional $20 million

for the alleged over-reporting of enrollment during those periods. The School District has denied this additional claim and has produced supporting documentation to the Secretary of Education. As part of an agreement with the School District, the Commonwealth postponed all potential collection actions in this category while both matters remain pending. Discussions with Commonwealth representatives regarding relief from this potential liability are ongoing. Because no final determination of forgiveness has been made, however, there remains a possible loss in this category in the amount of $40 million.

(4) ***Federal Audit*** – The U.S. Department of Education Office of the Inspector General ("OIG") conducted an audit of the School District's controls over Federal expenditures for the period commencing July 1, 2005 through June 30, 2006. A preliminary draft audit report was issued by the OIG in May, 2009. In accordance with applicable audit standards, the School District responded to the draft audit findings in August, 2009, supporting the vast majority of the expenditures questioned. On January 15, 2010, the OIG issued an audit report, assessing the School District's management of federal grant funds during the 2006 fiscal year. The report identified $138.8 million in findings resulting from the audit of controls over federal expenditures, of which $121.1 million were considered inadequately supported and $17.7 million were considered unallowable costs. The report included five findings, the largest of which related to undocumented salary and benefits charged to federal programs in the amount of $123 million.

As of June 30, 2014 and continuing until January 30, 2015, in the opinion of outside counsel, the School District has potential material liability related to the OIG audit issued in January 2010. The OIG issued an audit report to the School District assessing the School District's management of federal grant funds during the 2006 fiscal year.

To date, the U.S. Department of Education ("DOE") has issued two program determination letters (PDLs) related to the 2010 audit report seeking a recovery of funds. The PDLs were issued to the Pennsylvania Department of Education ("PDE") and appeals of both are pending. DOE issued two additional PDLs on the remaining findings that required corrective actions, but did not result in monetary exposure. All of the corrective actions have already been implemented as part of the corrective action plan agreed upon with the PDE and DOE.

The first PDL demanded a recovery of $9.9 million and was appealed to the Office of Administrative Law Judge. Of that amount, DOE's counsel stipulated to approximately $2.8 million as barred by the statute of limitations, leaving a balance of $7.2 million. PDE raised two primary arguments against the recovery of the remaining liability: (1) the statute of limitations bars an additional $5.3 million in costs; and (2) equitable offset extinguishes the remaining liability. The administrative law judge (ALJ) issued a decision on February 28, 2014 rejecting these arguments and sustaining the full amount of disputed liabilities. On March 31, 2014, PDE and the School District appealed the initial decision to the Secretary. On May 5, 2014, the Secretary provided notice that a decision will be forthcoming based on his review of the ALJ decision. On December 29, 2014, the Secretary issued a decision affirming the liability in the ALJ decision, although he did not adopt the ALJ's proposed standard for denying equitable offset. The Secretary's final decision may be appealed to the U.S. Court of Appeals for the Third Circuit by February 27, 2015. In the opinion of the School District, the liability for $7.2 million is reasonably possible.

The second PDL demanded a recovery of $2.5 million. That PDL was not timely appealed by PDE. However, the PDL invited the State to present evidence to DOE of the amount barred by the statute of limitations. PDE and the School District have assembled documentation demonstrating the application of the statute of limitations. DOE will then review the documentation and indicate what costs DOE agrees are barred by the statute of limitations.

With regard to the March PDL, the case involves new and novel interpretations of law so it is not possible to predict with any reliability the likelihood of a recovery in the amount of $7.2 million. Although DOE has applied a differing statute of limitations analysis, the September PDL liability arguably falls within the standard statute of limitations defense as well as the DOE's new analysis; therefore in the opinion of the School District, the recovery by the DOE in the amount of $2.5 million is remote. Because of the long appeal process, no assurance can be given by outside counsel at this time as to the final resolution of the OIG audit findings, or 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. Of the $9.7 remaining exposure from the $138.8 million of findings, the School District is optimistic that the liability included on the PDLs will be reduced based on the application of the statute of limitations and equitable offset.

(5) ***The School District of Philadelphia 403(b) Plan and 457(b) Deferred Compensation Plan***

Pursuant to resolutions approved by the School Reform Commission, the School District implemented The School District of Philadelphia 403(b) Plan ("403(b) Plan") and The School District of Philadelphia 457(b) Deferred Compensation Plan (the "457(b) Plan")(collectively, the 403(b) Plan and the 457(b) Plan shall be known as the "Plans") in fiscal years 2005 and 2006. The School District obtained advice from outside legal counsel on the creation of the 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, after withholding all applicable payroll taxes, (i) would pay termination pay owed to a resigning or retiring employee in cash or, (ii) 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 or resigning during or after the calendar year in which they attain age 55, after July 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. Based on the advice of legal 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 FICA taxes from its termination payments made to the 457(b) Plan. Employer contributions to the 457(b) Plan 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. Outside legal counsel advised on the arrangement and has provided an opinion as to its proper tax treatment. By letter dated October 16, 2012, the IRS stated that the School District is following the School District's revised policy concerning the treatment of termination pay under the 403(b) Plan, and thus no federal employment tax liability exists. By letter dated November 18, 2013, the Department of Revenue of the City of Philadelphia determined that the contributions of termination pay to the 403(b) Plan are employer contributions, and, as such, are not subject to City Wage Taxes at the time of contribution, and the School District is not required to withhold City Wage Tax from such contributions. The School District management believes that if it were finally determined that any liability for State taxes (including interest and penalties) relating to these plans existed at June 30, 2014, such liability would not be material to the School District's financial position or results of operations for the fiscal year ended June 30, 2014.

(6) ***<u>Administrative Appeals in Pennsylvania Department of Education</u>***

The School District received several subsidy withholding requests filed with the Pennsylvania Department of Education ("PDE") by charter schools that have enrolled resident students from the School District. These withholding requests address whether the PDE's Form 363, used to calculate charter school tuition, contains an allowance for improper deductions in the calculation of the regular education expenditure. The issue is whether the form itself is flawed in that PDE has authorized federal funding to be deducted from the expenditure calculation in violation of the law. This is an issue in more than 200 subsidy withholding requests submitted to PDE seeking subsidy from many school districts in Pennsylvania.

Because there are more than 200 appeals pending, PDE selected four cases involving Pittsburgh School District and charter schools as example cases on the legal issues involved. PDE had assigned a Hearing Officer to hear these administrative appeals and to make a recommendation to the Secretary of Education. However, prior to the hearing, the dispute between Pittsburgh School District and the charter schools was settled.

It is expected that PDE will select a different representative case to decide the legal question involved. However, no hearing is currently scheduled. The School District of Philadelphia intends to file a Petition to Intervene in the chosen example case, so that the School District's interests can be adequately represented. It is not yet known when that Petition will be filed or if the School District will be permitted to intervene. The direct cases against the School District are stayed pending the outcome of the example case.

The School District intends to vigorously defend its position, both as an intervenor and as a party, if the direct cases against the School District ever move forward. It is the belief of the School District – and of PDE according to PDE's own form and guidance documents – that federal funding is not appropriately included in the calculation of charter school funding due to the nature of the funding itself and the fact that charter schools are equally eligible for the same federal funding as school districts. Although it is impossible to determine with any degree of certainty, based upon our evaluation of the legal claims, in the opinion of the School District's outside counsel, the likelihood of an unfavorable outcome is reasonably possible in the amount of approximately $5.7 million for the pending withholding requests of which we are aware, assuming that the charter schools successfully argue that they are entitled to a portion of the School District's federal funding. The exposure if the PDE-363 form is invalidated and all charter schools are permitted, going forward, to receive a portion of the School District's federal funding on an annual basis, is estimated to be upwards of $100 million each year.

(7) ***<u>Appeals Related to the State Tax Equalization Board Assessment of Real Estate</u>***

In July 2011, the State Tax Equalization Board (STEB) published a Common Level Ratio (CLR) of 18.1% for Philadelphia for the tax year 2012--significantly lower than the City's Established Predetermined Ratio (EPR) of 32.0% used to calculate assessed values for real estate tax purposes. If the CLR varies from the EPR by more than 15.0% (i.e., if it is not between 27.2% and 36.8%), then in any assessment appeals, the Board of Revision of Taxes (BRT) is directed by statute to calculate the assessed value using the CLR rather than the EPR. In April 2012, in response to informal objections filed by the City and The School District of Philadelphia (School District), STEB raised the CLR to 25.2%--a percentage that is not enough to avoid the use of CLR in calculating assessed value for real estate tax purposes, but it effectively halves the City's potential losses. The appeal period from STEB's increase to the CLR passed without any appeal being filed, therefore the 25.2% is now final.

For tax year 2012, about 2,000 taxpayers with property collectively valued at about $2 billion filed assessment appeals with the BRT. The School District filed cross-appeals, seeking higher market values in all of those cases. Roughly 1,500 of those cases have now been resolved at a total estimated cost to the School District of $3.8 million. The City believes that a prudent yet reasonable (as opposed to worst case) estimate if the City were to lose the remaining 500 cases, the loss to the City and the School District combined would be approximately $7.3 million and therefore the loss to the School District would be approximately $4.0 million.

New state legislation (Act 131) mandates that 2013 real estate taxes will be based on 2011 assessed values (with adjustments for subsequent demolitions and improvements) and will not be subject to adjustment for the common level ratio, therefore this issue should not resurface next year. That same state legislation mandates the adoption of actual values for 2014 real estate taxes; therefore this issue also should not arise for 2014 real estate tax because the CLR does not apply to assessment appeals made immediately after a full reassessment. To date, about 857 taxpayers with property collectively valued at about $814 million filed assessment appeals with the BRT. The School District filed cross appeals in cases deemed appropriate. The deadline to file an assessment appeal for 2013 expired on October 1, 2012 for all but about 5,000 taxpayers. The City believes a prudent yet reasonable estimate of the amount of total amount of the potential loss on the 800 cases for 2013 would be less than $5 million and therefore the loss to the School District would be approximately $2.7 million.

J. <u>Other Post Employment Life Insurance Benefits</u>

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 occur, rather than in the future when they will be paid. Based upon the requirements of GASB Statement No. 45, 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 provides information useful in assessing potential demands on the School District's future cash flows. Recognition of the liability accumulated from prior years is amortized over no more than 30 years.

<u>Plan Description:</u>

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. Effective November 1, 2013, active employees who become disabled (total and permanent) prior to satisfying the retirement eligibility conditions for postretirement life insurance benefits are no longer eligible for postretirement benefit provided by the District. Employees who were granted disability retirement from PSERS and were approved by the insurance company providing the coverage prior to November 1, 2013 continue to be eligible for postretirement life insurance benefits. An unaudited copy of the life insurance benefit plan can be obtained by writing to School District of Philadelphia, 440 North Broad Street, Philadelphia, PA 19130; Attention: Employee Benefits Management.

<u>Funding Policy:</u>

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. The numbers of eligible participants enrolled to receive such benefits as of June 30, 2014, the effective date of the biennial OPEB valuation, follows. There have been no significant changes in the number covered or the type of coverage since that date.

	Number of Employees	Average Age
Active		
Represented	12,213	46.0
Non-represented	787	48.5
Retirees	10,357	76.8
Disabled	91	59.4
Total	23,448	59.4

<u>Annual OPEB Cost and Net OPEB Obligation:</u>

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 (AAL), which under GASB Statement No. 45 may be amortized over no more than 30 years. The District has elected to amortize the OPEB obligation as an open amortization period, which is recalculated at each biennial actuarial valuation date, amortized over a 30 year period for the valuation period ending June 30, 2014. There was a change in actuarial assumptions since the last biennial actuarial valuation. The payroll growth assumption was eliminated as the District is now using level dollar amortization of the unfunded liability.

Normal Cost	$	82,021
Amortization of Unfunded Actuarial Accrued Liability (UAAL)		916,182
Annual Required Contribution (ARC)		998,203
Interest on Net OPEB Obligation		12,624
Adjustment to the ARC		(20,463)
Annual OPEB Cost	$	990,364
Net OPEB Obligation as of June 30, 2013	$	388,430
Annual OPEB Cost		990,364
Employer Contributions		(567,888)
Increase/(Decrease) in net OPEB Obligation	$	422,476
Net OPEB Obligation as of June 30, 2014	$	810,906

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 ending June 30, 2014 was as follows:

Year Ended June 30	Annual OPEB Cost (APC)	Percentage of APC Contributed	Net OPEB Obligation
2012	$810,749	83.9%	$130,344
2013	810,749	68.2%	388,430
2014	990,364	57.3%	810,906

Basis of Accounting:

As defined by GASB Statement 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, 2014, the most recent actuarial valuation date, the plan was 0.0% funded. The actuarial accrued liability of $18.0 million and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $18.0 million.

Active	$3,280,989
Inactive	14,675,072
Total	$17,956,061

Covered Payroll (annual payroll of active

employees covered by the plan)	$751,086,581
UAAL as a percentage of covered payroll	.02390%

Actuarial Methods and Assumptions:

The actuarial assumptions used in the June 30, 2014 OPEB actuarial valuations are those specific to the OPEB valuations. Actuarial valuations involve estimates of the values of reported amounts, assumptions about the probability of events far into the future, and are subject to continual revision. Actuarial calculations reflect a long-term perspective.

- Discount Rate: 3.25% per year, compounded annually.

- Mortality: Pre-termination and post-termination healthy annuitant rates are projected on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date.

  Pre-termination: RP-2000 Employee Mortality Table for Males and Females.

  Post-termination Healthy Lives: RP-2000 Healthy Annuitant mortality table for males and females.

  Post-termination Disabled Lives: RP-2000 Disabled Annuitant mortality table for males and females. No provision was made for future mortality improvements for disabled lives.

- Termination: Rates which vary by age and years of services were used. Sample rates are shown below:

If less than 5 years of Service		If 5 or more Years of Service	
Years of Service	Rate	Age	Rate
Less than one year	24.49%	25	24.75%
1 - 2	25.23%	30	18.01%
2 - 3	16.54%	35	10.98%
3 - 4	14.07%	40	7.91%
4 - 5	10.88%	45	6.71%
		50	4.03%
		55	3.81%
		60	6.40%

- Retirement: Retirement rates are the rates utilized in the June 30, 2013 Actuarial Valuation for the Pennsylvania Public School Employees' Retirement System and vary by age, service, and gender. Members are eligible for early retirement at age 55 with 25 years of service. Class T-C and T-D members are eligible for superannuation retirement at the earlier of (1) age 62 with 3 years of service, (2) age 60 with 30 years of service, or (3) any age with 35 years of service. Class T-E and T-F members are eligible for superannuation retirement at the earlier of (1) age 65 with 3 years of service or (2) any combination of age and service that totals 92 with at least 35 years of service. Sample rates are shown below.

Sample Early Retirement Rates

Age	Male	Female
55	15%	15%
60	12%	15%

Sample Superannuation Retirement Rates

Age	Male	Female
55	30%	30%
60	28%	30%
65	20%	25%
74	100%	100%

- Disability: Disability rates are the rates utilized in the June 30, 2013 Actuarial Valuation for the Pennsylvania Public School Employees' Retirement System and vary by age and gender. In addition, no disabilities are assumed to occur at age 60 or later. Sample rates are as follows:

Attained Age	Percentage Disability Incidence Male	Female
25	0.024%	0.030%
30	0.024%	0.040%
35	0.100%	0.060%
40	0.180%	0.100%
45	0.180%	0.150%
50	0.280%	0.200%
55	0.430%	0.380%

- Life Insurance Benefits Claimed: All life insurance benefits are assumed to be claimed upon the retiree's death.
- Life Insurance Coverage while Disabled: The maximum amount of life insurance of $45,000 for non-represented employees or $25,000 for represented employees was assumed to be in effect for future disabled retirees prior to age 65. Actual amounts were used for current disabled retirees prior to age 65.
- Life Insurance Coverage while Employed: Only active employees who have life insurance coverage as of June 30, 2014 are included in this valuation. This valuation assumes they will continue to have life insurance coverage until retirement or disability and be eligible for the postretirement life insurance coverage upon retirement or disability. Any current active employee without life insurance coverage is assumed not to elect to have life insurance coverage prior to retirement or disability.
- Benefits Not Valued: The accelerated death benefit was not valued as the estimated liability impact was de minimus as only disabled retirees prior to age 65 can elect this benefit.

K. Pension Plan

(1) Plan Description

The School District of Philadelphia contributes to the Public School Employees' Retirement System (the System), a governmental cost-sharing multiple-employer 401 (a) defined benefit plan administered by the Public School Employees' Retirement System. The System provides retirement and disability benefits, legislative mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants.

The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C. S. 8101-8535) assigns the authority to establish and amend benefit provisions to the System.

The System issues a comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Beth Girman, Office of Financial Management, Public School Employees' Retirement System, 5 N. 5th Street, Harrisburg PA 17101-1905 or by emailing Beth at bgirman@pa.gov. The CAFR is also available on the Publications page of the PSERS website, www.psers.state.pa.us.

(2) Funding Policy

Authority: 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

Members Contributions - Active members who joined prior to July 22, 1983, contribute at 5.25 % (Membership Class T-C) or at 6.50 % (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System on or after July 22, 1983 and who were active or inactive employees as of July 1, 2001 contribute at 6.25 % (Membership Class T-C) or 7.50 % (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System after June 30, 2001 and before July 1, 2011 contribute at 7.50 % (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F Membership, contribute at 10.30% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

Employer's Contributions -Contributions required of employers are based upon an actuarial valuation. For Fiscal Year ended June 30, 2014 the rate of employer contribution was 16.93 % of covered payroll. The 16.93% rate is composed of a pension contribution rate of 16.00 % for pension benefits and .93 % for health insurance premium assistance. The School District's contributions to PSERS for the years ending June 30, 2012, 2013, and 2014 were $93,833,216, $129,407,591 and $165,411,871 respectively.

Commonwealth Contributions - The Commonwealth pays the School District 50 % of the retirement cost for employees hired prior to July 1, 1994 and a percentage equal to the greater of 50 % or the School District's market value/personal income aid ratio for employees hired after June 30, 1994. The School District's market/personal income aid ratio for Fiscal Year 2014 was 72.62 %.

L. 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, Weekly Indemnity (salary continuation during employee illness) and employee medical benefits.

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 with a deductible of $1.0 million and a limit of $250.0 million per occurance. Also, certain insurance coverages including employee performance bonds and fire insurance are obtained.

The School District reported the current portion of its risk management obligations totaling $23.1 million in the General Fund and the long-term portion of its risk management obligations totaling $135.3 million (See Note 4D(2)) in the district-wide Statement of Net Position. Self-Insured Medical Benefits and 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, 2014, the amount of these liabilities totaled $158.4 million. Changes in the balances of claims and liabilities during the past two (2) years are as follows:

(Dollars in Millions)

	Beginning Liability	Claims & Adjustments	Claim Payments	Ending Liability	Due Within One Year
Fiscal Year 2013	$ 180.5	$ 243.3	$ 247.4	$ 176.4	$ 81.7
Fiscal Year 2014	$ 176.4	$ 208.6	$ 226.6	$ 158.4	$ 68.9

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.

M. Prior Period Adjustment

District-wide net position beginning balances were decreased by $30,069,247. These adjustments involved a correction of $9,417,845 for capital assets and an accounting change of $20,651,402.

The $9,417,845 capital assets adjustment involved: (1) an increase to Land of $40,050 which was previously not recorded, (2) the removal of Construction of Progress of $1,393,595 for items deemed not capitalizable, and (3) the removal of $8,064,300 for Artwork no longer capitalized per GASBS 34, par 27. (See Note 4C)

The accounting change adjustment was the result of the District implementing GASBS 65, Items Previously Reported as Assets and Liabilities. GASBS 65 amended the accounting and financial reporting guidance for certain items previously reported as assets and liabilities. As a result of this accounting change, the beginning District-wide net position as of July 1, 2013 was decreased by $20,651,402 in Governmental Activities. GASBS 65 requires bond issuance costs to be expensed, except for those costs related to prepayments. Prior unamortized costs were retroactively written off as reflected in the effect of restating prior periods.

N. Subsequent Events

In preparing the accompanying financial statements, the School District has reviewed events that occurred subsequent to June 30, 2014 through and including February 13, 2015. During this period, the School District did not have any material subsequent events other than those described below:

(1) Tax and Revenue Anticipation Notes

On July 3, 2014 the School District issued its annual tax and revenue anticipation notes for cyclical cash flow purposes in the aggregate principal amount of $300.0 million (the "FY 2015 Notes'). The notes will be paid off by June 30, 2015.

(2) Credit and Bond Ratings

On July 21, 2014, Moody's Investors Service ("Moody's") downgraded its rating of "Aa2" to "Aa3" on the Commonwealth of Pennsylvania's ("Commonwealth") outstanding general obligation bonds. At the same time Moody also downgraded all ratings based on the intercept provisions of the Pennsylvania Public School code of 1949, as amended. The specific rating changes which affect the above-referenced general obligation bonds and lease rental debt ("Bonds") issued by or on behalf of The School District of Philadelphia, Pennsylvania ("School District"), based on the intercept provisions were announced on July 22, 2014. The ratings assigned to Bonds based on what Moody's describes as the Pennsylvania School District Fiscal Agent Agreement Intercept Program (Sec. 633) and the State Public School Building Authority Lease Revenue Intercept Program have been downgraded from "Aa3" to "A1" with a stable outlook.

On August 15, 2014, Moody downgraded the District's underlying credit from "Ba2" to "Ba3".

On September 23, 2014 Fitch Ratings ("Fitch") downgraded from "AA" to "AA-" its rating on the Commonwealth of Pennsylvania's ("Commonwealth") outstanding general obligation bonds. At the same time Fitch also downgraded all ratings assigned to the general obligation bonds, revenue bonds and lease rental debt ("Bonds") issued by or on behalf of the School District based on what Fitch describes as the Pennsylvania School Credit Enhancement Intercept Program and the Pennsylvania School Credit Enhancement Direct-Pay Intercept Program from "AA-" to "A+" with a stable outlook.

On October 02, 2014 Fitch downgraded the district's underlying bond rating to "BB-".

(3) Sale of School District Property

Between September 5, 2014 and January 9, 2015, the District sold three school district properties for a net of $17.8 million. Of this amount, $13.0 million will be used during Fiscal Year 2015 for operating purposes while the remaining will be used for defeasance costs of approximately $2.7 million and for future capital projects of approximately $2.1million.

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APPENDIX C

CITY OF PHILADELPHIA SOCIOECONOMIC INFORMATION

This appendix contains certain socioeconomic information regarding the City of Philadelphia (the "City"). Such information is attached as Appendix V to the City's Preliminary Official Statement dated March 23, 2015, for its Water and Wastewater Revenue Bonds, Series 2015A and Water and Wastewater Revenue Refunding Bonds, Series 2015B. The information speaks as of its date (March 23, 2015 or any earlier date noted therein) and the School District has not undertaken to update or to independently verify the information contained herein. The City is not responsible, directly or indirectly, for the payment of debt service on the Authority's School Lease Revenue Refunding Bonds (The School District of Philadelphia Project) Series 2015A. More current information about the City, including the City's then current Appendix V, is available at the City's investor information webpage at http://www.phila.gov/investor. Such information is not incorporated herein by reference.

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INTRODUCTION

The City of Philadelphia (the "City" or "Philadelphia") is the fifth-largest city in the nation, and is at the center of the United States' sixth largest metropolitan statistical area. The Philadelphia MSA (further described below) includes the fifth largest retail sales market in the nation, as well as a diverse network of business suppliers and complementary industries. Some of the City's top priorities include attracting and retaining knowledge workers, increasing educational attainment among Philadelphians, attracting development, and promoting Philadelphia as a desirable location for business.

According to the 2010 U.S. Census, the City increased its population by 0.6 percent in the ten years from 2000 to 2010 to 1.526 million residents, ending six decades of population decline. Although the increase was modest, it was an indicator of more recent growth and development in Philadelphia. From 2010 to 2013, the City increased its population by 1.8 percent to 1.553 million residents, which exceeded the rate of population growth projected by the Philadelphia City Planning Commission in its 2011 comprehensive plan.

Although facing challenges such as underfunded pension liabilities, high rates of poverty, and the School District of Philadelphia's (the "School District") ongoing fiscal crisis, the City benefits from its strategic geographical location, relative affordability, cultural and recreational amenities, and its growing strength in key industries.

Geography

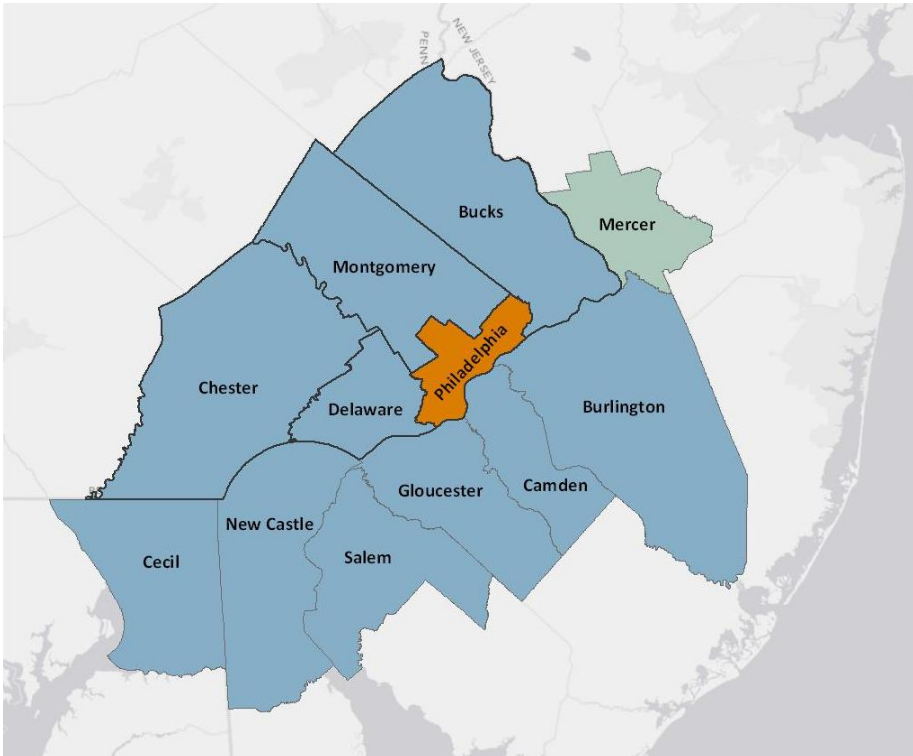
The City has an area of approximately 134 square miles, and is located along the southeastern border of the Commonwealth of Pennsylvania (the "Commonwealth"), at the confluence of the Delaware and Schuylkill Rivers. The City, highlighted in orange in Figure 1, lies at the geographical and economic center of the MSA and PMSA (described below). Philadelphia is the largest city in the Commonwealth, coterminous with the County of Philadelphia.

Philadelphia Metropolitan Statistical Area (the "MSA"), highlighted in blue in Figure 1, is the eleven-county area named the Philadelphia-Camden-Wilmington metropolitan statistical area, representing an area of approximately 5,118 square miles with approximately 6,034,678 residents.[1]

Philadelphia Primary Metropolitan Statistical Area (the "PMSA"), outlined in grey in Figure 1, is a five-county area that is within the MSA that lies in the Commonwealth and is sometimes called the Philadelphia Metropolitan Division. The counties of Bucks, Chester, Delaware, and Montgomery are referred to as the Suburban PMSA herein.

[1] Due to its close proximity and impact on the region's economy, Mercer County, New Jersey, highlighted in green in Figure 1, is included in the MSA by many regional agencies, although it is not included in the area defined by the U.S. Office of Management and Budget.

Figure 1
Map of Philadelphia Region, including the MSA, PMSA, and Mercer County, NJ



Source: 2009 TIGER County Shapefiles

Strategic Location

Philadelphia is at the center of the second largest MSA on the East Coast, and is served by a robust transportation infrastructure, including the Philadelphia International Airport, Amtrak's Northeast Corridor service, major interstate highway access, regional train service provided by Southeastern Pennsylvania Transportation Authority ("SEPTA") and New Jersey's PATCO (as defined herein), and the Port of Philadelphia. The City is within a day's drive of 50 percent of the nation's population and accessible to regional and international markets, due to the transportation infrastructure centered in the City. Philadelphia's central location along the East Coast, an hour from New York City and less than two hours from Washington, D.C. by high-speed rail, also allows for convenient access to these significant economic centers.

Essential to Philadelphia's strategic location is the region's access to public transit. The U.S. Census reports that 26.1 percent of Philadelphians used public transit to commute to work in 2013. SEPTA's regional rail service had record ridership in Fiscal Year 2014, and SEPTA public transit modes collectively had an average annual aggregate ridership increase of 1.9 percent over the last seven years.

Challenges

As evidenced by the City's development and population growth, Philadelphia has made progress transforming itself into a vibrant, attractive city over the past two decades. However, challenges still exist. At 26.3 percent, Philadelphia has the highest poverty rate of the nation's ten largest cities. The School District has experienced persistent budget deficits. The growth in charter school enrollment and state funding issues have exacerbated budget issues and resulted in spending cuts and the closure of 23 district schools in June 2013.

While Philadelphia's cultural amenities and quality of life attract millennials, generally defined as those born between 1980 and 2000, and now comprising the largest demographic group in the City, reports such as "Millennials in Philadelphia, A Promising but Fragile Boom," published by the Pew Charitable Trusts in 2014 (the "2014 Pew Report"), suggest that Philadelphia will struggle to retain these recent transplants unless it can alleviate these challenges. Although 59 percent of millennials said they would recommend the City to a friend as a place to live, only 36 percent of millennials surveyed said they would recommend Philadelphia as a place to raise children, and 56 percent responded they would not recommend the City as a place to raise children.

POPULATION AND DEMOGRAPHICS

Philadelphia is the nation's fifth largest city, with 1.553 million residents, based on 2013 U.S. Census estimates. The City's population gain from 2000 to 2010, while modest, was its first in 60 years. In the three years following the 2010 U.S. Census, the City's population grew by an additional 1.8 percent, adding an additional 27,159 residents, according to 2013 U.S. Census estimates.

From 2006 to 2012, the share of the population represented by citizens age 20 to 34 grew from 20 percent to 26 percent, becoming the largest share of Philadelphia's population. Of the 30 largest cities in the country, Philadelphia had the largest percentage point increase of millennials as a share of overall population from 2006 to 2012, according to the 2014 Pew Report referred to above. This demographic tends to be better educated than the City's and the nation's adult population as a whole. In 2013, 39.8 percent of 25- to 34-year-olds in Philadelphia held a bachelor's degree or higher, while only 32.9 percent of 25 to 34-year-olds in the United States were college graduates. The City's many universities and diverse employment opportunities are likely draws for residents in the 20 to 34 age group. In addition to an increase in the millennial population, the City's immigrant population also grew significantly, with the City's Asian population increasing 126.6 percent and the Hispanic or Latino population growing by 110.3 percent from 1990 to 2010[2].

Table 1
Population
City, MSA, Pennsylvania & Nation

	1990	2000	2010	2013	Percent Change 2000-2010	Percent Change 2010-2013
Philadelphia	**1,585,577**	**1,517,550**	**1,526,006**	**1,553,165**	**0.60%**	**1.77%**
Philadelphia-Camden-Wilmington MSA	5,437,468	5,687,147	5,965,343	6,034,678	4.89%	1.16%
Pennsylvania	11,881,643	12,281,054	12,702,379	12,773,801	3.40%	0.56%
United States	248,709,873	281,421,906	308,745,538	316,128,839	9.70%	2.39%

Source: U.S. Census Bureau, American Community Survey 2013, Census 2010, Census 2000, Census 1990.

Nearly 27 percent of Philadelphia's population is school aged and, in 2013, Philadelphia exceeded most selected peer cities in its share of students who are enrolled in an undergraduate, graduate or professional education program. Among the selected peer cities listed in Table 2, four of the six cities with the largest share of students in higher education were located in the Northeast region. Among these cities, while Boston had the highest percentage of its population enrolled in higher education, Philadelphia had 35,543 more students enrolled in higher education than Boston. Philadelphia had the sixth highest percentage of its population enrolled in higher education and the fifth largest university student population.

[2] Source: Pew Charitable Trusts Philadelphia Research Initiative 2011 report, "A City Transformed: the Racial and Ethnic Changes in Philadelphia Over the Last 20 Years."

Table 2
2013 Total Number of Students, as a Percent of Total Population of Selected Cities, Ranked by Total Number of Students Enrolled in Higher Education

City	Total Number of Students Enrolled in Higher Education	Total Number of Students Enrolled in School (all years)	Percent of All Students Enrolled in Higher Education	Percent of Total Population enrolled in Higher Education
Los Angeles, CA	349,769	1,033,797	33.83%	9.44%
Chicago, IL	237,382	718,978	33.02%	9.12%
Houston, TX	154,833	579,104	26.74%	7.50%
San Diego, CA	148,101	375,049	39.49%	11.51%
Philadelphia, PA	**147,779**	**413,283**	**35.76%**	**9.96%**
San Antonio, TX	115,793	402,022	28.80%	8.74%
Boston, MA	112,236	196,283	57.18%	18.19%
Phoenix, AZ	100,507	408,279	24.62%	7.07%
Washington, DC	75,213	160,155	46.96%	12.34%
Baltimore, MD	61,380	163,015	37.65%	10.28%
Milwaukee, WI	58,244	186,848	31.17%	10.19%
Detroit, MI	55,297	198,829	27.81%	8.27%
Memphis, TN	52,001	178,653	29.10%	12.56%
Cleveland, OH	30,009	102,704	29.22%	7.99%
United States	23,718,337	82,819,691	28.64%	7.85%

Source: 2013 American Community Survey, 3-Year Estimates

ECONOMIC BASE AND EMPLOYMENT

The Philadelphia Economy

The City's economy is composed of diverse industries, with virtually all classes of industrial and commercial businesses represented. The City is a major regional business and personal services center with strengths in insurance, law, finance, health, education, utilities, and the arts. As of 2011, approximately 174,000 residents of Philadelphia's four suburban counties (Bucks, Chester, Delaware, and Montgomery), and an additional 121,000 residents of counties outside the five-county region, worked within the City. The City also provides a destination for entertainment, arts, dining and sports for residents of the suburban counties, as well as for those residents of the counties comprising the MSA plus Mercer County, New Jersey.

The cost of living in the City is relatively moderate compared to other major metropolitan areas. The City, as one of the country's education centers, offers the business community a large, diverse, and industrious labor pool.

Key Industries

Table 3 provides location quotients for Philadelphia's most concentrated industry sectors. Location quotients quantify how concentrated a particular industry is in a region as compared to a base reference area, usually the nation. A location quotient greater than 1.00 indicates an industry with a greater share of the local area employment than is the case in the reference area.

As shown in Table 3, compared to the nation, Philadelphia County has higher concentrations in eight sectors: educational services; health care and social assistance; management of companies and enterprises; finance and insurance; professional and technical services; arts, entertainment, and recreation; transportation and warehousing; and other services[3]. Of these eight sectors, the City has a higher

[3] The Bureau of Labor Statistics ("BLS") defines the "Other Services" (except Public Administration) sector as establishments engaged in providing services not specifically provided for elsewhere in the BLS classification system, such as equipment and machinery repairing, promoting or administering religious activities, grantmaking, advocacy, providing drycleaning and laundry services, personal care services, death care services, pet care services, photofinishing services, temporary parking services, and dating services.

concentration of employment than the Commonwealth in six sectors: educational services; health care and social assistance; finance and insurance; professional and technical services; arts, entertainment and recreation; and other services.

Table 3
Ratio of Philadelphia County and Pennsylvania Industry Concentrations Compared to the United States

Industry	Philadelphia County to the US	Pennsylvania to the US
Educational Services	4.26	1.50
Health Care and Social Assistance	1.72	1.21
Management of Companies and Enterprises	1.28	1.47
Finance and Insurance	1.17	1.04
Professional and Technical Services	1.16	0.92
Arts, Entertainment, and Recreation	1.17	1.04
Transportation and Warehousing	1.08	1.15
Other Services	1.09	1.05

Source: Bureau of Labor Statistics: 2013 Location Quotient, Quarterly Census of Employment and Wages Data. Industry Location Quotients are calculated by comparing the industry's share of regional employment with its share of national employment.

The concentration of educational services not only provides stable support to the local economy, but also generates a steady and educated workforce, fueling the City's professional services and healthcare industries. The City is capitalizing on the region's assets to become a leader in research generated by life sciences and educational institutions. Several sites now foster life science incubator facilities, including the Navy Yard, the University City Science Center, University of Pennsylvania, Children's Hospital of Philadelphia, Jefferson Hospital, and Drexel University.

Employment

Table 4 shows non-farm payroll employment in the City over the last decade by industry sectors. In the past 10 years, the highest levels of growth have occurred in Professional and Business Services, Education and Health Services, and Leisure and Hospitality. These sectors provide stability to the City's overall economy. Government remains the second largest sector by number of employees.

Table 4
Philadelphia Non-Farm Payroll Employment[1]
(Amounts in Thousands)

Sector	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014*	Percent Change 2004-2014	Average Annual Percent Change
Construction & Mining	11.4	12.0	12.4	11.9	12.1	10.1	10.0	10.0	10.2	10.4	11.0	-3.5%	-0.4%
Manufacturing	32.6	31.2	29.9	28.5	27.8	25.7	24.7	23.7	22.9	21.8	21.4	-34.4%	-4.1%
Trade, Transportation, & Utilities	90.9	90.0	88.5	87.8	87.6	85.9	86.6	87.4	88.9	89.5	90.9	0.0%	0.0%
Information	13.6	13.2	12.8	12.6	12.5	12.6	12.2	12.0	12.0	11.5	11.5	-15.4%	-1.7%
Financial Activities	49.0	48.2	47.7	47.1	46.5	44.9	42.6	41.6	41.0	41.1	41.7	-14.9%	-1.6%
Professional & Business Services	80.3	82.4	84.2	85.8	85.3	80.1	81.6	83.0	84.1	86.4	88.3	10.0%	1.0%
Education & Health Services	180.1	182.5	187.7	192.4	196.7	199.2	202.3	206.4	208.1	209.3	212.6	18.0%	1.7%
Leisure & Hospitality	54.6	56.6	58.0	58.0	57.9	56.9	58.4	60.6	63.2	64.8	67.1	22.9%	2.1%
Other Services	28.5	28.5	28.2	28.0	27.8	26.6	26.5	26.4	26.8	27.1	27.4	-3.9%	-0.4%
Private Sector Total	**541.0**	**544.6**	**549.4**	**552.1**	**554.2**	**542.0**	**544.9**	**551.1**	**557.2**	**561.9**	**571.9**	**5.7%**	**0.6%**
Government	116.9	115.7	113.2	110.6	109.2	110.4	112.1	109.0	105.3	103.5	102.2	-12.6%	-1.3%
Total	**657.9**	**660.3**	**662.5**	**662.7**	**663.3**	**652.6**	**657.1**	**660.0**	**662.3**	**665.4**	**674.2**	**2.5%**	**0.2%**

Source: Bureau of Labor Statistics, 2014.
[1] Includes persons employed within the City, without regard to residency.
* 2014 average estimates are calculated using preliminary numbers for December 2014 and are subject to change.

Table 5
Philadelphia Change in Share of Employment Sectors[1]
(Amounts in Thousands)

Sector	Share of Total Employment 2004	Share of Total Employment 2014*	Percent Change 2004 – 2014
Construction & Mining	1.7%	1.6%	-5.8%
Manufacturing	5.0%	3.2%	-35.9%
Trade, Transportation, & Utilities	13.8%	13.5%	-2.4%
Information	2.1%	1.7%	-17.5%
Financial Activities	7.5%	6.2%	-17.0%
Professional & Business Services	12.2%	13.1%	7.3%
Education & Health Services	27.4%	31.5%	15.2%
Leisure & Hospitality	8.3%	10.0%	19.9%
Other Services	4.3%	4.1%	-6.2%
Private Sector Total	**82.2%**	**84.8%**	3.2%
Government	17.8%	15.2%	-14.7%
Total	**100.00%**	**100.0%**	

Source: Bureau of Labor Statistics, 2014.
[1] Includes persons employed within the City, without regard to residency.
*2014 average estimates are calculated using preliminary numbers for December 2014 and are subject to change.

In 2014, the Education and Health Services, Professional and Business Services, Financial Activities, and Leisure and Hospitality sectors collectively represented 60.5 percent of total employment in the City for the year, and 76.6 percent of total private sector wages for the second quarter. Philadelphia has recovered 25,000 private sector jobs since the peak of the recession in 2009.

Unemployment

Throughout the 1990s and as late as 2009, Philadelphia narrowed the gap between its unemployment levels and the national unemployment levels. The effects of the recession on unemployment endured longer in Philadelphia than in many other parts of the country; however, Mayor Nutter has made lowering unemployment a top priority in his second term. To that end, the City has created a Jobs Commission, which in January 2013 released a strategic plan to lower unemployment.

Employment gains in the latter part of 2013 and in 2014 have resulted in a decline in Philadelphia's unemployment rate. According to preliminary data from the Bureau of Labor Statistics, Philadelphia's unemployment rate dropped to 6.2 percent in December 2014, a decline of 2.1 percentage points in 12 months, and is comparable to the City's pre-recession annual unemployment rates of 6.2 percent in 2006 and 6.0 percent in 2007.

Table 6 below shows unemployment information for Philadelphia, the MSA, the Commonwealth and the United States.

Table 6
Unemployment Rate in Selected Geographical Areas
(Annual Average 2004-2014)

Geographical Area	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014*	Change in Rate 2004-2014
United States	5.5%	5.1%	4.6%	4.6%	5.8%	9.3%	9.6%	8.9%	8.1%	7.4%	6.2%	**0.7%**
Pennsylvania	5.4%	5.0%	4.5%	4.4%	5.3%	7.9%	8.5%	8.0%	7.9%	7.4%	5.6%	**0.2%**
Philadelphia-Camden-Wilmington MSA	5.1%	4.7%	4.5%	4.3%	5.4%	8.2%	8.9%	8.6%	8.5%	7.8%	6.1%	**1.0%**
Philadelphia	**7.3%**	**6.7%**	**6.2%**	**6.0%**	**7.1%**	**9.6%**	**10.8%**	**10.9%**	**10.8%**	**10.0%**	**7.6%**	**0.3%**

Source: Local Area Unemployment Statistics, Bureau of Labor Statistics
* 2014 average estimates are calculated using preliminary numbers for December 2014 and are subject to change.

Principal Private Sector Employers in the City

Table 7 lists Philadelphia's 15 largest private sector employers, by wage tax revenue. Five are hospitals and providers of other medical services, four are renowned universities, and three are in the finance and insurance industry. Other sectors represented include food services, bio-tech, and broadcasting/cable.

Two of the City's largest employers, Aramark Corporation and Comcast Corporation are also Fortune 500 companies. Although not among the largest employers, other Fortune 500 companies with a presence in Philadelphia are Crown Holdings Inc., Cigna Corporation, and Sunoco Inc. A number of Fortune 1000 companies are also headquartered within the City, including FMC Corporation, Urban Outfitters Inc., and Radian Group Inc.

Table 7
Principal Private Sector Employers by Wage Tax Revenue
Ranked by Employment in Philadelphia*

Employer	Sector	Employees within Philadelphia
University of Pennsylvania	Education	25,287
University of Pennsylvania Health System	Health	15,290
Children's Hospital of Philadelphia	Health	10,294
Temple University Hospital, Inc.	Health	8,804
Temple University	Education	8,204
Thomas Jefferson University Hospitals	Health	7,860
Aramark Corporation	Food Service	6,347
Drexel University	Education	6,096
Albert Einstein Medical	Health	5,752
Thomas Jefferson University	Education	4,243
Independence Blue Cross	Insurance	3,505
PNC Bank N.A.	Finance	2,981
Ace Insurance Company	Insurance	1,568
GlaxoSmithKline LLC	Bio-tech	1,376
Comcast Corporation[†]	Broadcasting/Cable	
Total		**107,607**

Source: City of Philadelphia Department of Commerce
[*] As of June 2014
[†] Employment Data unavailable

Hospitals and Medical Centers

The City is a center for health, education, research and science facilities with the nation's largest concentration of healthcare resources within a 100-mile radius. There are presently more than 30 hospitals, five medical schools, two dental schools, two pharmacy schools, as well as schools of optometry, podiatry and veterinary medicine, and the Philadelphia Center for Health Care Sciences in West Philadelphia, located in the City. 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.

Major research facilities are also located in the City, including those located at its universities, its medical schools, The Wistar Institute, the Fox Chase Cancer Center, and the University City Science Center. In 2013, the Children's Hospital of Philadelphia completed the construction of a $400 million biomedical research facility located within the Philadelphia Center for Health Care Sciences in West Philadelphia. Philadelphia is home to two of the nation's 41 National Cancer Institute-designated Comprehensive Cancer Centers (the Abramson Cancer Center at the University of Pennsylvania and Fox Chase Cancer Center, which is part of the Temple University Health System). Additionally, Philadelphia is also home to two NCI-designated Cancer Centers (Kimmel Cancer Center and the Wistar Institute Cancer Center).

Table 8 lists the number of licensed and staffed beds in each of the major hospitals and medical centers in the City, as of June 2013, and does not reflect any mergers, consolidations or closures that have occurred since that date.

Table 8
Hospitals and Medical Centers as of June 2013

Institution Name	Total Licensed Beds	Total Staffed Beds
Aria Health[1]	480	480
Belmont Center for Comprehensive Treatment	147	147
Chestnut Hill Hospital	130	67
Einstein Medical Center-Philadelphia	772	445
Fox Chase Cancer Center	98	97
Hahnemann University Hospital	496	496
Hospital of the University of Pennsylvania	789	789
Jeanes Hospital	176	156
Kensington Hospital	45	45
Magee Rehabilitation Hospital	96	96
Mercy Philadelphia Hospital	178	157
Nazareth Hospital	203	173
Penn Presbyterian Medical Center	305	305
Pennsylvania Hospital	496	402
Roxborough Memorial Hospital	141	141
St. Joseph's Hospital[2]	197	182
St. Christopher's Hospital for Children	189	189
Shriners Hospitals for Children - Philadelphia	53	39
Temple University Hospital[3]	728	728
The Children's Hospital of Philadelphia	521	493
Thomas Jefferson University Hospital[4]	969	945

Source: PA Department of Health, Report 1A-1B, 2013.
[1]Aria Health System includes data for all three divisions - Frankford, Torresdale and Bucks County.
[2]St. Joseph's Hospital includes data for Girard Medical Center/Continuing Care Hospital of Philadelphia.
[3]Temple University Hospital includes data for Episcopal Hospital.
[4]Thomas Jefferson University Hospital includes data for the Methodist Hospital Division.

Children's Hospital of Philadelphia Expansion. Top ranked Children's Hospital of Philadelphia ("CHOP") is one of the largest and oldest children's hospitals in the world. Since 2002, CHOP has invested over $2.6 billion in its expansion in Philadelphia. The $500 million Ruth and Tristram Colket, Jr. Translational Research Building opened in 2010. CHOP recently approved an additional $2.7 billion expansion in Philadelphia through 2017. The $500 million, 700,000 square foot Buerger Center for Advanced Pediatric Care is currently under construction and is scheduled to open in 2015. Future projects include phase one of a nine-acre, 1.5 million square foot medical research campus along the east banks of the Schuylkill River, which is expected to be completed by the end of 2016.

The Wistar Institute. The Wistar Institute was founded in 1892 and was the nation's first independent biomedical research facility. The Institute recently completed construction of a $100 million expansion and renovation project that will significantly increase its ability to carry out its mission as an international leader in basic biomedical research and make advancements in the fields of genetics, cancer biology, translational research, immunology and virology.

Educational Institutions

The MSA plus Mercer County, New Jersey, has the second largest concentration of undergraduate and graduate students on the East Coast, with 101 degree granting institutions of higher education and a total enrollment of over 300,000 students, of which approximately 147,779 live within the geographic boundaries of the City. Included among these institutions are the University of Pennsylvania, Temple University, Drexel University, St. Joseph's University, and LaSalle University. Within a short drive from the City are such schools as Villanova University, Bryn Mawr College, Haverford College, Swarthmore College, Lincoln University, and the Camden Campus of Rutgers University.

University of Pennsylvania. The campus of the University of Pennsylvania ("Penn"), an Ivy League institution, sits in West Philadelphia across the Schuylkill River from downtown Philadelphia. More than 24,000 undergraduate, graduate and professional full-time students attend the university. Penn and its health system are the largest private sector employers in Philadelphia, employing over 40,577 combined staff and with a total university budget of $7.25 billion for Fiscal Year 2015. In 2011, Penn completed a $400 million medical research building, the Smilow Center for Translational Research. The Krishna P. Singh Center for Nanotechnology, an $88 million nanotechnology research facility, opened in October 2013.

In February 2014, Penn unveiled a master plan for a 23-acre Innovation and Research Park called Pennovation Works. In October 2014, Penn announced a $26 million project to redevelop an existing building within the complex to include 52,000 square feet of wet lab and incubator space that will house all of Penn's technology transfer facilities. The master planning process includes redevelopment plans for the entire acreage; however, Penn has been leasing various buildings with an innovation center end-use in mind since 2012, including leases with technology companies stemming from innovations developed at Penn.

Drexel University. Founded in 1891 as the Drexel Institute of Science, Art and Industry, Drexel University ("Drexel") occupies a 74-acre main campus in University City. Drexel's student body has grown considerably in the past two decades, from 4,500 in 1996 to approximately 26,000 students in 2015, resulting in expansion of both curriculum and campus. In September 2011, Drexel opened the doors to its new $69 million science building, the Constantine N. Papadakis Integrated Sciences Building. Drexel recently completed construction of a $92 million facility for its LeBow School of Business and a new mixed use residential and retail project on Chestnut Street. Design is also complete for a $44 million renovation of a 161,000 square foot building housing the College of Media Arts and Design. Most recently, Drexel has drafted a plan to develop more than 12 acres of underutilized land near Philadelphia's 30th Street Station into a transit-oriented live/learn/work neighborhood, called the Innovation Neighborhood. To facilitate redevelopment, Drexel expects to award master development rights for this area in May 2015.

Temple University. Temple University ("Temple") has undergone a significant transformation over the past three decades from a university with a mostly commuter-based enrollment to one in which on- and near-campus housing is now in high demand. To meet the increasingly residential nature of its student population, Temple has invested heavily in the renovation of its various existing student housing inventory as well as, most recently, the development of a new state-of-the art residence facility, Morgan Hall, which opened in summer 2013 and houses approximately 1,275 students. Temple has also actively partnered with private developers in the expansion of on-campus housing alternatives for students. Currently, an estimated 12,000 of Temple's 37,619 students live on or around the Temple campus. The university's Board of Trustees approved a master plan, "Visualize Temple," in December 2014, and the university has already begun $1.2 billion of investment. Planned upgrades include improved green space, a student recreation facility, and academic buildings such as a library and a new science research lab. Temple also purchased the vacant William Penn High School property on North Broad Street, and received permission from the Planning Commission in February 2015 to tear down the high school building and construct a new facility.

Median and Average Household Income

Table 9 shows median family income, which includes related people living together, and median household income, which includes unrelated individuals living together, for Philadelphia, the MSA, the Commonwealth and the United States. Table 10 shows the average household income for the same areas, which is based on a more comprehensive measure of total income. Over the period 2005-2013, median family income for Philadelphia increased by 10.4 percent, while average household income increased by 39.6 percent over the period 2005-2014 as a result of an influx of higher income households.

Table 9
Median Family Income* for Selected Geographical Areas, 2005-2013
(Dollar Amounts in Thousands)

Year	Philadelphia	Philadelphia-Camden-Wilmington MSA	Pennsylvania	United States	Philadelphia as a percentage of the US
2005	$40.5	$67.8	$55.9	$55.8	72.60%
2006	$43.0	$70.8	$58.1	$58.5	73.56%
2007	$44.1	$73.5	$60.2	$60.4	73.10%
2008	$46.4	$77.0	$63.1	$63.2	73.35%
2009	$45.8	$76.8	$62.8	$62.4	73.48%
2010	$45.1	$76.7	$63.0	$62.1	72.69%
2011	$45.0	$78.1	$64.3	$62.7	71.80%
2012	$44.6	$77.8	$65.1	$63.1	70.71%
2013	$44.7	$78.5	$66.1	$63.8	70.15%
Change 2005-2013	$4.2	$10.7	$10.2	$8.0	

* Includes related people living together.
Source: American Community Survey, Annual and 3-Year Estimates

Given the high percentage of employers in knowledge-based industries in the City, including higher education, healthcare and other professional services, such as law, accounting and finance, the average household income within the City is higher than the median household income. Also contributing to the lower median household income is the fact that Philadelphia has the fifth largest undergraduate and graduate student population among major U.S. cities. These individuals, numbering approximately 147,800 according to the 2013 American Community Survey, or approximately 10 percent of the City's overall population, generally have very low or no income, as they are either unemployed or working only part-time while they complete their education. The City's large student population has also historically led to an overstatement of the City's percentage of residents living at or below the poverty level.

Table 10
Average Household Income for Selected Geographical Areas, 2005-2014
(Dollar Amounts in Thousands)

Year	Philadelphia	Philadelphia-Camden-Wilmington MSA	Pennsylvania	United States	Philadelphia as a percentage of the US
2005	$78.1	$109.7	$91.1	$93.7	83.35%
2006	$82.3	$117.2	$96.9	$99.5	82.67%
2007	$86.6	$121.3	$101.2	$103.6	83.55%
2008	$93.3	$125.1	$104.0	$106.9	87.29%
2009	$95.1	$123.5	$102.7	$103.8	91.56%
2010	$99.2	$126.1	$105.4	$106.1	93.45%
2011	$103.8	$132.3	$111.0	$111.6	92.97%
2012	$107.1	$137.8	$115.4	$116.2	92.15%
2013	$106.1	$140.5	$117.5	$117.4	90.38%
2014	$109.0	$145.4	$121.9	$121.5	89.72%

Source: iHS Economics

Cost of Living Index

Philadelphia has the second lowest cost of living index among major cities in the Northeast, as shown in Table 11 below. The City markets its relatively low labor costs and cost of living to attract businesses. Additionally, the City's Wage, Earnings, and Net Profits Tax Rates have decreased in Fiscal Years 2014 and 2015, which may further incentivize both business and residents to relocate into the City.

Table 11
2014 Cost of Living Index* of Cities in the Northeastern U.S.

Metropolitan Area	Cost of Living Index
New York (Manhattan)	221.8
Washington-Arlington-Alexandria	141.2
Boston-Cambridge-Quincy	137.3
Philadelphia-Camden-Wilmington	119.1
Baltimore-Towson	109.2

*Data reflects Q1 2014 – Q3 2014
Source: 2014 ACCRA Cost of Living Index

Housing

For purposes of the information included under this "Housing" subheading, the City engaged an outside consultant, Kevin C. Gillen, Ph.D, who prepared the text and tables below and conducted the analysis related thereto. As a professional in the field of urban and real estate economics, the City has relied on the analysis Mr. Gillen has provided below.

Philadelphia's housing stock is among the oldest of any city in the country, and has suffered from decades of depopulation and abandonment since the late 1940s. Like many U.S. cities, Philadelphia has undergone a significant revitalization in the past 25 years, particularly in and around its downtown core of Center City, which is geographically defined as the approximately four square mile area between Washington and Girard Avenues, and from the Schuylkill to Delaware rivers. Philadelphia's recent population gains are overwhelmingly due to new household growth in the downtown core of Center City and adjacent neighborhoods. These same neighborhoods have undergone significant new construction and investment, leading to increases in the value of Philadelphia's housing stock. Large parts of the rest of the City have not yet benefitted from this real estate price appreciation or revitalization of its housing stock. The following table lists the values of key metrics for the Philadelphia housing market, including their percent changes from one year and five years ago, and the direction of their current trend.

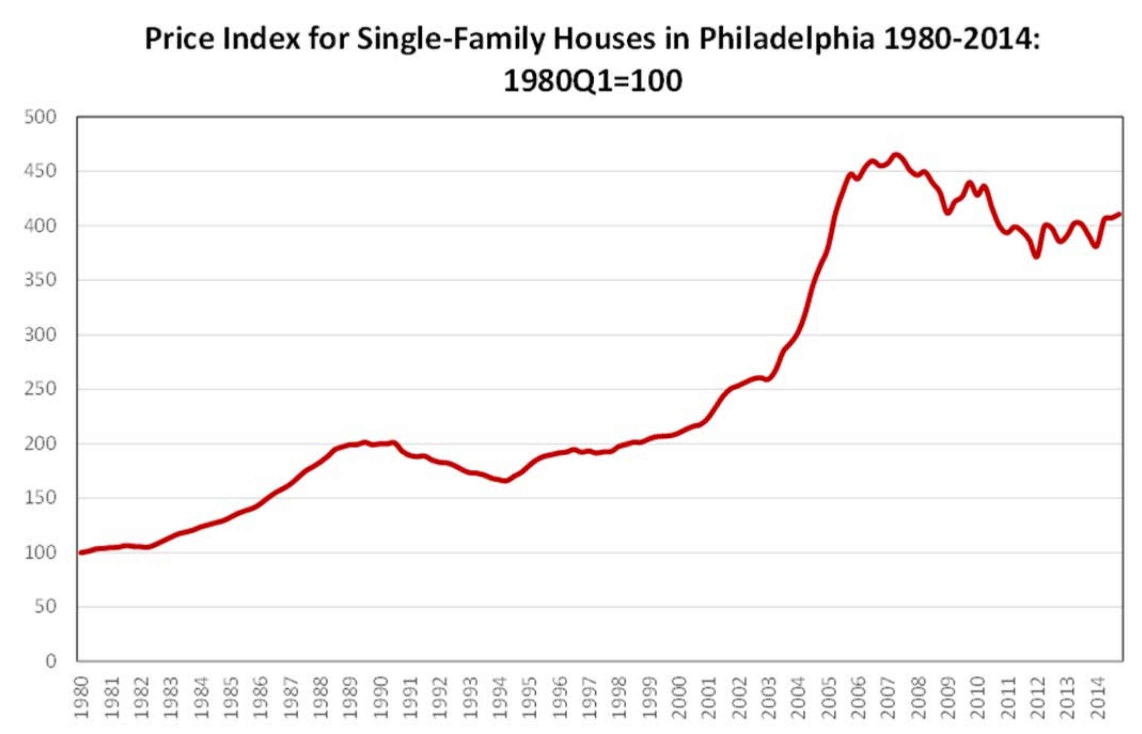
Table 12
Housing Market Metrics

Housing Market Metrics	2014	% Change from 1 Year Ago	% Change from 5 Years Ago	Trend
Total Housing Stock (number of properties)	499,703	0.12%	0.8%	↑
Number of Single-Family Units*	458,632	0.2%	1.3%	↑
Number of Multifamily Units**	94,220	3.0%	3.9%	↑
Median House Price	$125,000	-1.6%	7.5%	↑
Number of House Sales	14,261	6.2%	1.1%	↑
Months' Supply of Inventory	9.5	-18.8%	-37.5%	↓
Avg. Days-on-Market	87	-2.0%	-9.4%	↓
Number of New Units Permitted	3973	41.1%	319.5%	↑
Avg. Housing Rent (Monthly)	$1,194	8.4%	21.5%	↑
Homeownership Rate	52.2%	N/A	-9.7%	↓

* Structures with 1-4 dwelling units.
** Structures with 5 or more dwelling units.

Sources: Philadelphia Recorder of Deeds, Philadelphia Office of Property Assessment, U.S. Census, National Multifamily Housing Council, TREND MLS.

Consistent with national trends, the City's housing market experienced both inflation and deflation over the last ten years as a consequence of the mid-2000s housing boom and subsequent bust. The following chart shows an empirically estimated house price index that displays the trajectory and level of average house prices in Philadelphia on a quality- and seasonally-adjusted basis. The index is computed according to a methodology that is very similar to the methodology used in the computation of the Case-Shiller House Price Indices.

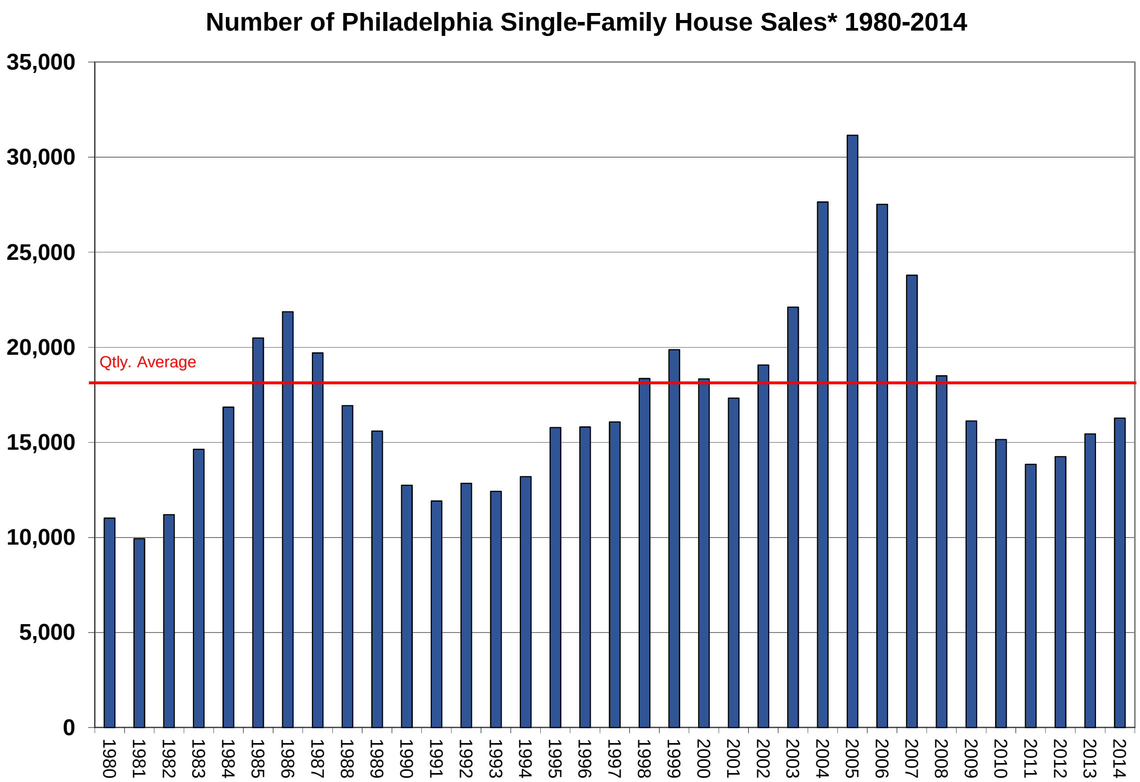


Source: Philadelphia Recorder of Deeds, Computed by Kevin C. Gillen, Ph.D.

The index is normalized to a starting value of 100 in its first period of the first quarter of 1980. The house price index rises steadily through the 1980s to achieve a value of 200 in 1989, indicating that the typical Philadelphia house doubled in value during that period. The index declines during the recession of the early 1990s, and begins to recover in the mid-to-late 1990s. House price appreciation began to proceed at an accelerated rate in the 2000s, with the index obtaining a value of 300 by 2004, thus indicating that Philadelphia house prices in 2004 were three times what their average values were in 1980.

As further indicated by the chart, average house prices rose by 136% during the boom years of the 2000s before peaking in 2007. They declined by 23% since then before hitting bottom in the winter of 2012. They have since recovered only modestly, in an uneven pattern, and are currently 16% below their 2007 peak.

Compared to prices, sales activity has made relatively steadier progress in recovering since the recession. The following chart shows the annual number of single-family house sales in Philadelphia since 1980. The chart depicts only arms-length home sales at market-rate prices.

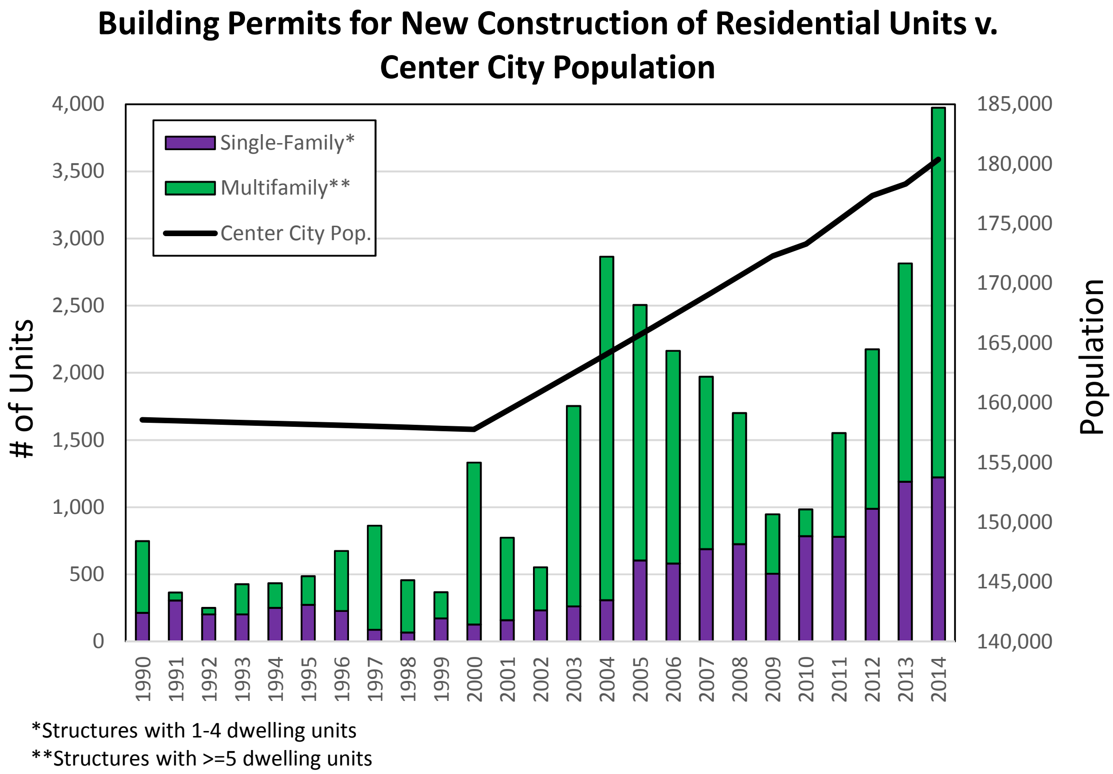


* Structures with 1-4 dwelling units

Source: Philadelphia Recorder of Deeds

Historically, the City has averaged approximately 17,000 transactions of single-family houses per year, but with significant cyclicality around this average. As exhibited in the chart above, sales exhibited increases during the expansionary markets of the mid-1980s and mid-2000s, and decreases during the contractionary markets of the early 1990s and 2008-2011 periods. From a peak of over 31,000 sales in 2005, transactions volume fell nearly 56% to nearly 13,850 sales in 2011. Since then, however, house sales in Philadelphia have steadily grown by 17.5% and are currently trending back to their historic average.

Homebuilding activity in Philadelphia has made significant progress since hitting its recessionary low in 2009. The following chart shows the number of newly constructed units being added to Philadelphia's housing stock, as represented by the number of building permits issued for such units, from 1990 through 2014.



Source: U.S. Census

Between 1990 and 2000, construction of new housing units in Philadelphia was low by both absolute and relative measures, averaging only 400 units per year. Following passage of a ten-year property tax abatement program in 2000, construction began to grow steadily, hitting a peak of nearly 3,000 units in 2004. After declining to 947 units during the recession in 2009, construction activity has recovered steadily, and currently stands well above the boom years of 2003 through 2007. In 2014, permits were issued to approve the construction of nearly 4,000 new housing units in Philadelphia, and the most recent numbers indicate that 2015 is on track to be another robust year.

Under the City's tax abatement program, the value of any new improvements to real estate in Philadelphia is untaxed for the first ten years after the improvements are made. In the case of new construction, this is a substantial tax break to the owner because the entire structure represents an improvement. As such, the owner only pays real estate taxes on the value of the land for the first ten years after a new building is completed.

A key fundamental driver of new housing construction is population and/or household growth, since net additions to the housing stock cannot typically be rationalized without net additions to the population that occupies it. However, the growth in Philadelphia's new construction currently exceeds the rate of the City's overall growth in population. Citywide population growth is significantly increasing in some neighborhoods, while still declining in others. As a consequence, new construction can be rationalized in growing neighborhoods if it is offset by demolitions and depreciations in shrinking neighborhoods.

Because the overwhelming amount of current new construction is in and around the Center City (downtown) neighborhoods of Philadelphia, the above chart also shows total population growth in those same neighborhoods, as represented by the black line.

Office Market and New Development

Philadelphia currently has approximately 40.9 million square feet of office space in the central business district. According to the Cushman and Wakefield Q4 2014 Office Market Beat, the positive trends of lowered vacancy, rising rents, and positive absorption seen in 2014 will continue into 2015. Year-to-date total net absorption in the fourth quarter of 2014 was positive, at 474,420 square feet, according to the same report.

Cushman and Wakefield also reported a continued increase in direct asking rental rates in Philadelphia's central business district, to $27.47 per square foot in the fourth quarter of 2014. The overall vacancy rate for the Philadelphia central business district continued to decline to 11.0 percent in the fourth quarter of 2014, down from 12.3 percent in the fourth quarter of 2013, according to Cushman and Wakefield data. Vacancy rates in suburban markets were 16.2 percent in the fourth quarter, up from 15.8 percent in the fourth quarter of the previous year, making vacancy rates in Philadelphia much lower than their suburban counterparts, even while rents in the Philadelphia central business district were $1.95 per square foot higher in the same quarter of 2014.

Table 13 shows comparative overall office vacancy rates for selected Office Markets. Due to differences in methodology and scale of analysis, Jones Lang LaSalle's national comparison lists Philadelphia's vacancy rate as 10.8 percent for the fourth quarter of 2014, while Cushman and Wakefield's area-specific analysis lists the Philadelphia central business district's vacancy rate as 11 percent for the same time period.

Table 13
Comparative Overall Office Vacancy Rates, Selected Office Markets
Fourth Quarter 2014

Market	Vacancy Rate
New York (Midtown South)	6.90%
New York (Midtown)	9.70%
Boston	10.30%
New York (Downtown)	10.70%
Philadelphia	**10.80%**
Washington DC	12.00%
United States CBD, All Markets	**12.60%**
Chicago	12.80%
Baltimore	13.40%
Houston	13.50%
San Diego	16.40%
San Antonio	16.80%
Cleveland	17.40%
Detroit	17.50%
Los Angeles	18.70%
Phoenix	23.70%

Source: Jones Lang LaSalle, National CBD Data, Fourth Quarter 2014

Two of the City's top corporate tenants, FMC Corporation and Comcast, continue to grow downtown. In May 2014, Brandywine Realty Trust broke ground on the new 49-story, 861,000 square foot FMC Tower at Cira Center South. FMC will lease 253,000 square feet of the new tower, the University of Pennsylvania will lease 100,000 square feet, and leasing activity is occurring to fill the remaining 248,000 square feet of space. Comcast Corporation broke ground in July 2014 on a 59-story, $1.2 billion Comcast Innovation and Technology Center office tower adjacent to its headquarters building in Center City Philadelphia. The new skyscraper will enable Comcast to consolidate employees currently scattered at several sites (in both Philadelphia and the surrounding suburbs) into a single location. The facility will also create a media center in the heart of the City by becoming home to the operations of local broadcast television stations NBC 10/WCAU and Telemundo 62/WWSI and offer space for local technology startups. When completed in 2017, the tower will also serve as the new home to the Four Seasons Hotel, which will occupy the tower's top floors with approximately 200 rooms. The mixed-use tower is expected to be the tallest building in the United States outside of New York and Chicago and will be one of the largest private development projects in the history of Pennsylvania. Ultimately, the project is expected to create 1,500 permanent jobs in Philadelphia.

Retail Market, Food and Dining

Philadelphia continues to establish itself as a retail destination. In January 2015, Philadelphia was named the second of 24 "Best Shopping Cities in the World," by Condé Nast Traveler Magazine. In October 2013, Colliers International reported that the fastest rising retail rents in the nation were on Philadelphia's Walnut Street, with 33.8 percent growth since October 2012. Throughout Philadelphia's central business district, the tenant mix continues to move toward national brands that can support growing rents. Recent additions include Stuart Weitzman, Madewell, Theory, Ulta, Intermix, Nordstrom Rack, Calypso St. Barth, Forever 21, Michael Kors, Banana Republic Factory Store and Suit Supply, the European chain's fifth store in the United States. In October 2014, Japanese retailer Uniqlo opened its first Philadelphia location in Center City, the chain's only standalone store in the United States outside of New York City. Van's Off the Wall, Timberland, and Under Armour are also future central business district retailers.

Plans to revitalize East Market Street continue. Previously, in April 2013, Pennsylvania Real Estate Investment Trust acquired 430,000 square feet of retail and commercial space at 907 Market Street, giving a single entity ownership of The Gallery at Market East, a 130-store retail mall complex. In July 2014, Macerich Co, which owns 55 shopping centers across the nation, acquired a 50 percent interest in The Gallery, and has plans to invest $106.8 million to revitalize the shopping center. Within a block of The Gallery, Marshalls opened a 28,000 square foot store in October 2012, also on East Market Street.

Most recently, in October 2014, New York-based department store Century 21 opened its first store outside of New York City, in a 95,000 square foot space that was previously vacant. In March 2014, NREA Development Services announced a mixed-use redevelopment project, called East Market, also located on East Market Street between 11th and 12th Streets. Once completed in 2016, the project will include 325 apartments, and up to 122,000 square feet of retail space. Future tenants of East Market will include Mom's Organics, a Maryland-based grocery chain. Just one block south of Market Street, Brickstone Co. announced in April 2014 that it would build a mixed-use redevelopment project for the 1100 block of Chestnut Street in April 2014. The project, a mix of new construction and historic preservation, is currently under construction and will include up to 115 apartments and 90,000 square feet of retail space. Future tenants of the project include Target Express.

Philadelphia has experienced a revival in restaurant establishments especially in Center City and in the Greater Center City area, indicating an improved quality of life and vibrancy of those neighborhoods. The Center City District's investment in beautification of the area as well as the City's support in making the area more welcoming to visitors and diners sparked a significant increase in the number of indoor/outdoor dining establishments throughout Center City. In 1995, no sidewalk cafes existed in Center City. By 2013, the same area had 327 sidewalk cafes. Additionally, from 1992 to 2010, the number of fine dining establishments within the Center City District increased 322 percent. Rapid development is also reflected in South Philadelphia, where East Passyunk was named a Top Ten Best Foodie Street in America by Food and Wine Magazine in May 2013.

Preliminary data from the Bureau of Labor Statistics shows that about 49,400 people were employed in retail trades in Philadelphia in 2014, the highest employment number in that industry in over 10 years. Food service and drinking establishments employed about 45,400 people in 2014 according to these preliminary data, representing an average annual growth of 1.2 percent since 2004. The number of private retail establishments and private food services and drinking establishments has also recovered from pre-recession levels; retail trade establishments increased by 213 between 2007 and 2013, and food services and drinking places have increased by 187 in the same time period, according to the Bureau of Labor Statistics' Quarterly Census of Employment Wages.

Table 14 reflects taxable retail sales for the City from Fiscal Years 2007 to 2013.

Table 14
Taxable Retail Sales 2007-2013
(Amounts in Thousands of USD)

Fiscal Year	Taxable Sales
2007	13,643,582
2008	13,704,958
2009	13,211,446
2010	13,050,202
2011	12,403,442
2012	12,721,337
2013	12,880,000

Source: Figures determined by dividing the City's local sales tax reported by the Pennsylvania Department of Revenue by the applicable local sales tax rate.

Airport System

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

Philadelphia International Airport ("PHL"). PHL is classified by the Federal Aviation Administration as a large air traffic hub (enplaning 1.0 percent or more of the total passengers enplaned in the U.S.). According to data reported by Airports Council International – North America, PHL was ranked the eighteenth busiest airport in the United States, serving 30.5 million passengers in calendar year 2013 (i.e. total passengers enplaned and deplaned), and was ranked the tenth busiest in the nation based on aircraft operations. PHL consists of approximately 2,394 acres located partly in the southwestern section of the City and partly in the northeastern section of Delaware County, about 7.2 miles from Center City Philadelphia. PHL's runway system consists of parallel Runways 9L-27R and 9R-27L, crosswind Runway 17-35, commuter Runway 8-26, and interconnecting taxiways.

PHL terminal facilities include approximately 3.3 million square feet, consisting of seven terminal units (A-West, A-East, B, C, D, E and F). Terminal facilities principally include ticketing areas, passenger holdrooms, baggage claim areas and approximately 170 food, retail and service establishments. There are certain other buildings and areas located at PHL, consisting of six active cargo facilities, a U.S. Airways aircraft maintenance hangar, and a former United States Postal Service building located at the western end of PHL.

The outside terminal area consists of a 14-story, 400-room hotel, seven rental car facilities, a 150-vehicle cell-phone lot and two employee parking lots with a total of 4,200 spaces. This area also includes five parking garages and surface lots consisting of a total of 18,940 vehicle spaces, operated by Philadelphia Parking Authority.

Northeast Philadelphia Airport ("PNE"). PNE is located on approximately 1,126 acres situated within the City limits, ten miles northeast of Center City Philadelphia. PNE serves as a reliever airport for PHL and provides for general aviation, air taxi, corporate, and occasional military use. PNE currently has no scheduled commercial service. There are presently 85 T-hangars, nine corporate hangars, and six open hangars for general aviation activities. There are approximately 190 general aviation aircraft based at PNE.

Airport Capital Projects. Since 2000, PHL has constructed more than $1 billion of capital improvements, including construction of new terminals, expansion and renovation of existing terminals, and an extension of one runway. PHL has embarked on a Capacity Enhancement Program ("CEP"), which is a complex, long-term multi-billion dollar effort to expand the capacity, improve efficiency, and modernize the facility of the airport in order to maintain Philadelphia's competitive position in the region.

In September 2011, the Federal Aviation Administration issued a Letter of Intent to contribute $466.5 million toward the CEP over the 12-15 year life of the program. In addition to federal funds, the CEP will be financed by Airport Revenue Bonds and a variety of other funding sources, such as user fees and additional grants. PHL is evaluating the complex projects that are part of the CEP and is in discussions with the airlines regarding the phasing and timing of the projects. In January 2013, PHL and US Airways (which has since merged with American Airlines) agreed upon a two-year extension to the Airport-Airline Use and Lease Agreement (the "Airline Agreement") through June 30, 2015. PHL and American Airlines are in the process of negotiating either an extension to the current Airline Agreement or a new Use and Lease Agreement that would take effect on July 1, 2015. Per the Airline Agreement, capital projects in excess of $500,000 can only be undertaken with airline approval. Table 15 provides a complete list of approved capital projects.

Table 15
Capital Projects Approved under the Airline Agreement

Capital Projects	**Current Project Amount (millions $)**
Airport Maintenance Facilities	10.00
High Speed Exit - K5	9.00
Taxiway K Extension	23.24
Land Acquisition	87.00
International Terminal Gate Expansion - Planning	1.00
Interior Terminal Signage Upgrade	5.00
New Runway 9R-27L Enabling Projects	156.15
On-Airport Facility Relocation	19.65
Environmental Commitment Start-Up	61.95
Eastside AOA Access	3.50
Terminal Modernization Program	237.10
Eastside Taxiways and Runway 9R-27L Extension	118.10
Airport People Mover Study & Initial Design	31.00
Program Management	15.00
Repair/Rehabilitation Projects	67.10
Consolidated Rental Car Facility	312.09
Total	1,156.88

Source: City of Philadelphia, Division of Aviation.

The following are brief descriptions of selected capital projects:

- **Airfield Improvements –** design and construction of a runway extension, new taxiways and aircraft holding bays/aprons to accommodate larger, long-haul aircraft and allow aircraft to queue more efficiently for departure ($118 million budget – currently, part of this project is being designed and part of it is under construction).

- **Automated People Mover –** initial design for an automated people-mover system between concourses that will make it easier for passengers to connect to other flights ($31 million planning and design budget – currently in the planning phase).

- **Terminal Modernization Program –** a redesigned and enhanced Terminal B/C ticketing area, which will include a new, automated baggage handling and screening system and a new, more spacious, centralized passenger security screening checkpoint to provide for greater efficiency and enhanced passenger flow ($237 million budget – currently in the planning phase).

- **Consolidated Rental Car Facility –** replacement of the current rental car facility surface lots with a new, multi-story consolidated rental car facility ($312 million – currently in the planning phase).

- **Renovation and Rehabilitation Projects –** continued renovation and rehabilitation of existing infrastructure to include: security upgrades, roof and window replacements, escalator upgrades, restroom renovations, roadway improvements, concession program enhancements and flight information display system upgrades ($67 million – project components are currently in various phases).

- **Taxiway K Extension –** this project extends Taxiway K from Taxiway Y to Z, and to parallel Taxiway J, thereby increasing the taxi flow between the terminal complex and runways in both east and west flow operations. The project also provides dual queuing for the deicing facility and serves as a perimeter route for Runway 9R-27L departures in order to avoid crossing Runway 9L-27R during west flow operations. The project was substantially complete in October 2014 at an approximate cost of $23 million.

PHL Passenger Traffic and Cargo. The total number of passengers traveling through PHL has increased 16.6 percent from Fiscal Year 2005 through Fiscal Year 2014. The total passenger traffic for PHL is summarized in the Tables 16 and 17 below. Table 16 shows the total number of passengers enplaned and deplaned at PHL from Fiscal Years 2005-2014. Table 17 shows the total annual passenger traffic segmented into domestic and international passengers for the same period. Table 18 summarizes annual cargo transported through PHL, segmented into mail and freight, from Fiscal Year 2005-2014.

Table 16
PHL Enplanements and Deplanements
Fiscal Year 2005-2014

Fiscal Year	Deplaned	Enplaned	Total	Percent Change over Prior Year
2005	15,583,885	15,490,569	31,074,454	-
2006	15,766,462	15,574,997	31,341,459	0.9%
2007	16,033,642	15,851,691	31,885,333	1.7%
2008	16,234,062	16,052,973	32,287,035	1.3%
2009	15,497,428	15,362,743	30,860,171	-4.4%
2010	15,276,158	15,193,741	30,469,899	-1.3%
2011	15,613,887	15,611,583	31,225,470	2.5%
2012	15,268,024	15,344,126	30,612,150	-2.0%
2013	15,143,020	15,215,885	30,358,905	-0.8%
2014	15,223,377	15,316,053	30,539,430	0.6%

Source: City of Philadelphia, Division of Aviation.

Table 17
PHL Domestic and International Passenger Traffic
Fiscal Year 2005-2014

Fiscal Year	Domestic	International	Total	Percent Change over Prior Year
2005	26,951,432	4,123,022	31,074,454	-
2006	27,327,488	4,013,971	31,341,459	0.9%
2007	27,912,154	3,973,179	31,885,333	1.7%
2008	28,135,663	4,151,372	32,287,035	1.3%
2009	26,870,636	3,989,535	30,860,171	-4.4%
2010	26,339,648	4,130,251	30,469,899	-1.3%
2011	26,852,566	4,372,904	31,225,470	2.5%
2012	26,218,341	4,393,809	30,612,150	-2.0%
2013	25,985,009	4,373,896	30,358,905	-0.8%
2014	26,055,259	4,484,171	30,539,430	0.6%

Source: City of Philadelphia, Division of Aviation.

Table 18
PHL Cargo Tonnage
Fiscal Year 2005 - 2014

Fiscal Year	Air Mail Tons	Air Freight Tons	Total	Percent Change over Prior Year
2005	24,447	599,758	624,205	-
2006	22,408	591,815	614,223	-1.6%
2007	18,131	571,452	589,583	-4.0%
2008	22,181	575,640	597,821	1.4%
2009	24,692	475,365	500,057	-16.4%
2010	20,544	440,495	461,039	-7.8%
2011	23,937	449,683	473,620	2.7%
2012	27,151	416,731	443,882	-6.3%
2013	28,285	388,383	416,668	-6.1%
2014	29,545	395,661	425,206	2.0%

Source: City of Philadelphia, Division of Aviation.

Southeastern Pennsylvania Transportation Authority (SEPTA)

SEPTA was established in 1964 for the purpose of planning, acquiring, holding, constructing, improving, maintaining, and operating a comprehensive public transportation system within the City and the local counties, which include Bucks, Chester, Delaware, and Montgomery. SEPTA operates facilities across this five-county area encompassing approximately 2,200 square miles and serving approximately 4.0 million inhabitants. SEPTA operates service 24 hours a day, seven days a week, 365 days a year. SEPTA's Fiscal Year 2015 operating budget totals $1.327 billion. This is supported by $794 million in federal, state, and local subsidies, as well as $533 million of operating revenue.

SEPTA's operations are accounted for in three separate divisions, the percentages following each division representing its approximate share of SEPTA's expense budget: City Transit (67%); Regional Rail Division (23%); and Suburban (10%). The City Transit Division serves the City with a network of 84 subway-elevated, light rail, trackless trolley and bus routes, providing approximately 902,000 unlinked passengers trips per weekday. The Regional Rail Division serves the City and the local counties with a network of 13 commuter rail lines providing approximately 123,000 passenger trips per weekday. The Suburban Division, which includes the Norristown High Speed Line, serves the western and northern suburbs of the City through a series of 46 interurban trolley, streetcar and bus routes providing approximately 67,000 unlinked passenger trips per weekday.

SEPTA ridership has trended upward over the past ten years with exceptions in Fiscal Years 2006, 2010, 2013, and 2014 (see Table 19). In each of Fiscal Years 2010, 2013, and 2014, the decrease in ridership occurred as the result of a one-time event. In Fiscal Year 2010, transit service was shut down for six days as the result of a Transport Worker's Union work stoppage causing a decline in ridership for the year. In Fiscal Year 2013, Hurricane Sandy caused service stoppages that accounted for the decrease of approximately 2 million rides over the previous year. Finally, in Fiscal Year 2014, SEPTA suspended some of its services during 14 days throughout the winter as a result of severely inclement weather. Demand for public transportation has steadily increased over the past decade in the City, and in Fiscal Year 2012, SEPTA experienced its highest ridership in 25 years. This trend is continuing in Fiscal Year

2015, with ridership increasing by approximately two percent in the first seven months (July – January) over the same period in Fiscal Year 2014.

Table 19
Annual SEPTA Ridership by Division

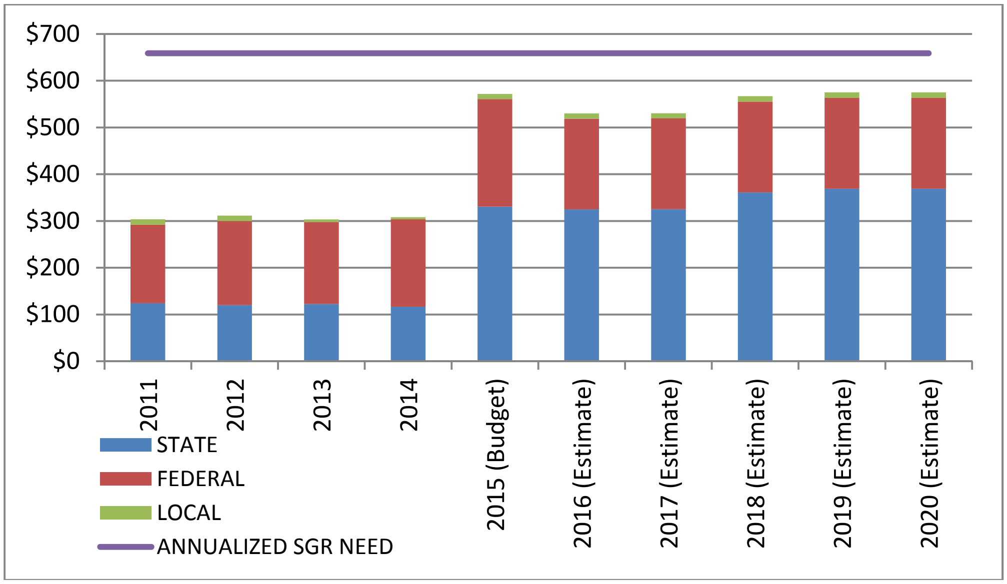
Fiscal Year	City Transit	Regional Rail	Suburban	Total
2005	251,887,150	28,632,676	18,210,677	298,730,503
2006	247,957,108	30,433,631	18,196,551	296,587,290
2007	256,120,000	31,712,000	19,356,000	307,188,000
2008	269,556,000	35,450,000	20,112,000	325,118,000
2009	273,890,000	35,443,000	20,248,000	329,581,000
2010	266,296,000	34,955,000	19,733,000	320,984,000
2011	277,877,000	35,387,000	20,702,000	333,966,000
2012	282,239,000	35,255,000	21,794,000	339,288,000
2013	279,296,000	36,023,000	21,995,000	337,314,000
2014	271,818,000	36,657,000	21,680,000	330,155,000

Source: SEPTA.

Beginning in Fiscal Year 2015, SEPTA's annual capital budget and 12-year capital program have increased significantly. The Fiscal Year 2015 capital budget is $571.8 million, representing an 86 percent increase over the Fiscal Year 2014 budget of $308 million. The Fiscal Year 2015-2026 capital program also increased significantly to $6.8 billion from $3.7 billion in the Fiscal Year 2014-2025 capital program. These increases are largely the result of the passage of Pennsylvania Act 89 in 2013 ("Act 89"), a state transportation funding bill that will result in additional liquid fuels tax payments to the City. By Fiscal Year 2018, the City is estimated to receive an additional $16.5 million in liquid fuels payments over Fiscal Year 2013 levels. Below, Table 20 shows the increase in capital program funding over the previous year, beginning in Fiscal Year 2015.

This increased capital budget will enable SEPTA to address a variety of needs. First, SEPTA will address its State of Good Repair backlog, which has grown as a result of funding shortfalls in previous years. In addition to renovating and upgrading substations, bridges, stations, and aging rail vehicles, SEPTA will also focus on expanding its capacity to serve a growing ridership and enhance accessibility to public transportation. Other projects and expenses supported by the capital program include the New Payment Technology project, expansion of the fleet of hybrid busses, installation of federally-mandated Positive Train Control signal technology, vehicle overhauls, capital leases, and debt service.

Table 20
Capital Program Spending and Budget, 2011 - 2020



Source: SEPTA.

Port of Philadelphia

The Port of Philadelphia (the "Port") is located on the Delaware River within the City limits. Philadelphia's Port facilities are serviced by three Class I railroads (Canadian Pacific Rail, CSX and Norfolk Southern) and provide service to major eastern Canadian points as well as midwestern, southern and southeastern U.S. destinations. Terminal facilities, encompassing four million square feet of warehousing, are located in close proximity to Interstate 95 and Interstate 76. Over 1,600 local general freight trucking companies operate in the MSA, according to Hoover's Inc.

The Philadelphia Regional Port Authority (the "PRPA") is working to increase the Port's competitiveness with increased capacity. The Port is 60 percent complete in deepening the main navigation channel of the Delaware River from 40 to 45 feet, and the next phase of the project is set to begin in the Spring of 2015. Future plans also include the construction of the Southport facility, a container terminal that will be located at the east end of The Navy Yard. Southport will be the first new terminal in Philadelphia in 50 years. In October 2014, the Port announced it is pursuing public-private partnerships to develop the Southport terminal. The first component of the project is projected to begin operating in 2018.

The PRPA reports approximately 5,970,480 metric tons of cargo moved through the Port in 2014, a 17 percent increase over 2013, and a 65 percent increase over 2010. The Port is in the midst of a $120 million expansion project which will ultimately increase cargo capacity for the entire MSA. The Port is the top ranked port for meat importing in the United States, and is among the nation's leaders for fruit, cocoa, forest products and steel imports. In September 2014, the Port welcomed Brazilian company Fibria Celulose S.A., the world's largest producer of bleached eucalyptus wood pulp, which relocated its Northeastern United States distribution center to the Tioga Marine Terminal from Baltimore. The move is expected to create 228 stevedore and terminal jobs and up to 380 total jobs, including rail workers and truckers.

ECONOMIC DEVELOPMENT STRATEGIES AND IMPLEMENTATION

City of Philadelphia Economic Development Mission and Goals

The goal of the City's economic development strategy is to create, maintain, and develop: (1) jobs by fostering an improved business environment; (2) increases in population; and (3) enhanced quality of life within the City—all in order to grow the City's tax base and market competitiveness. Strategic public and private investments, as well as location-based assets, have created a stable economic base and positioned Philadelphia for growth.

Economic Development Infrastructure

The Deputy Mayor for Economic Development and Commerce Director manages a portfolio of City and quasi-public agencies that work together to advance economic development strategies within the City. These agencies serve a variety of functions, including economic development, land use and planning, housing development and historical preservation, each discussed below. Furthermore, the City provides additional programs to businesses and individuals as incentives to relocate and/or develop within the City. These programs include tax incentives such as the City's real estate tax abatement program and access to designated Keystone Opportunity Zones. Finally, the City has found the private sector to be a valuable partner in advancing the overall economic development initiatives within the City, including but not limited to investment in Center City, the Parkway District, the Avenue of the Arts District and the Navy Yard.

The Philadelphia Department of Commerce oversees and implements policies to help both small businesses and major corporations in Philadelphia thrive. The Department of Commerce coordinates activities along neighborhood commercial corridors, with small businesses and entrepreneurs, major real estate development projects, large-scale business attraction and retention efforts, as well as efforts to increase minority-owned business contracting opportunities. The City works closely with economic development partners like the Philadelphia Industrial Development Corporation ("PIDC"), maintaining a relationship that is fully coordinated on business attraction and retention activities and development issues. In collaboration with the Department of Commerce, PIDC plans and implements real estate and financing transactions that attract investment, jobs and tax ratables to the City.

Lending, Land Use and Employer-Based Strategies to Expand Business and Investment. As the City's landholding and financing arm for large commercial and industrial properties well-positioned for industrial redevelopment, PIDC manages public and private resources that are used to leverage even greater investments from a diverse range of governmental, for-profit and non-profit clients throughout Philadelphia. Since its founding in 1958, PIDC has placed more than $11.8 billion of PIDC financing and conveyed more than 3,000 acres of land in commercial and industrial projects. These transactions have leveraged $21.7 billion in total project investment and attracted or retained more than 400,000 jobs.

Through PIDC, the City offers a broad range of financing incentives, including below-market loans, grants, and tax-exempt financing designed to encourage economic growth in Philadelphia. Generally, financing is targeted to capital projects (building acquisition and renovation, new construction, machinery and equipment) that maintain or increase employment levels in Philadelphia where the borrower is not otherwise able to fully fund the project with private-sector debt and equity. PIDC also offers financial assistance for working capital and additional capital programs for construction projects that incorporate sustainability measures. Incentives are capitalized by federal, Commonwealth and local governmental resources, as well as private sector funds, and are available to for-profit and non-profit corporations both small and large.

The City also utilizes several place-based economic development strategies to spur development in Philadelphia. These strategies include: (i) a 10-year real estate tax abatement on all construction, as well as on improvements to existing properties; (ii) Commonwealth-designated Keystone Opportunity

Zones in which eligible businesses may be exempt from all Commonwealth and local business taxes until a specified date; (iii) Commonwealth-designated Keystone Innovation Zones in which energy, defense, technology, and life-sciences companies may be eligible for saleable tax credits worth $100,000 annually for the first eight years of operations; (iv) tax increment financing; and (v) commercial corridor revitalization through support of Business Development Districts and reimbursement for certain storefront and interior retail improvements.

Additionally, the City supports business formation and job creation incentives in a variety of ways, including use of a Job Creation Tax Credit which may be applied against the City's Business Income and Receipts Tax liability. The City works with the Philadelphia business community to build internal and external alliances with minority, women and disabled owned business enterprises, and with private industries to help develop and promote these companies. The City also fosters entrepreneurship and small business formation through a dedicated office, the Office of Business Services. With the growth of Philadelphia's immigrant population, the City has actively pursued multilingual business outreach programming.

Land Use and Planning. The Philadelphia City Planning Commission is responsible for the City's land use and strategic planning policies. The Commission maintains the City's comprehensive plan and monitors land use by applying the zoning code to proposed development. After four years of work, a revised zoning code was adopted by City Council in December 2011 and went into effect August 2012. The new, streamlined code is designed to increase efficiency in the development process by expanding what is allowable by right, thus limiting the number of variance requests. When variances are needed, the Zoning Board of Adjustment is the appointed arbiter of those land use requests.

Housing Development. The Office of Housing and Community Development (the "OHCD") manages planning, policy and investment in low income housing through several assistance programs. Most significantly, the OHCD creates and manages implementation of the Consolidated Plan, a federally-mandated plan and budget that must be updated yearly in order to receive federal Community Development Block Grant funding. The Philadelphia Redevelopment Authority (the "PRA") is the public government agency charged with the redevelopment of the City's neighborhoods, and residential housing development in particular. The PRA focuses on planning and developing balanced, mixed-use communities to create thriving, well-served neighborhoods. The PRA manages disposition of City-owned land. Philadelphia Housing Development Corporation focuses on service to Philadelphia's low- and moderate-income households through development of new housing and rehabilitation of existing homes in partnership with community development corporations. The Philadelphia Housing Authority (the "PHA") is funded primarily by the federal government and is the largest landlord in Pennsylvania. PHA develops, acquires, leases and operates affordable housing for City residents with limited incomes. PHA works in partnership with the City and state governments, as well as private investors.

A new institutional partner in housing development is the newly established Philadelphia Land Bank (the "PLB"). The aim of the PLB is to consolidate many of the land acquisition and disposition processes of the City under one umbrella, making it easier for private individuals and organizations to acquire properties that otherwise contribute to neighborhood disinvestment and turn them into assets for the community in which they are located. The PLB can: acquire tax-delinquent properties through tax foreclosure; clear the title to those properties so that new owners are not burdened by old liens; consolidate properties owned by multiple public agencies into single ownership to speed property transfers to new, private owners; and assist in the assemblage and disposition of land for community, nonprofit and for-profit uses.

Historic Preservation. The City is home to historic resources documenting more than three centuries of local, regional, and national history. The Philadelphia Historical Commission is the City's regulatory agency responsible for ensuring the preservation of that collection of historic resources including buildings, structures, sites, objects, interiors, and districts. The Philadelphia Art Commission is the City's charter-mandated design review board for architecture and public art. The City of Philadelphia has one of the largest collections of public art of any major city in the world, with more than 4,500 cataloged pieces.

Key Development Achievements

Over the last two decades the efforts of Philadelphia's economic development agencies and others have spurred significant economic changes throughout the City. In particular, a number of geographic areas have experienced concentrated developments: Philadelphia's Historic District, Avenue of the Arts, North Broad Street, and the Benjamin Franklin Parkway. Many of these developments, such as a significant increase to Philadelphia's hotel room inventory in Center City Philadelphia and expansion of the Pennsylvania Convention Center, are key to the growth of Philadelphia's leisure and hospitality sector.

Notable Districts. Several key areas within the City have been instrumental in the economic development of Philadelphia over the past twenty-five years and the population growth since 2000. Much of the real estate development referenced throughout this APPENDIX C has occurred in these districts.

- **Center City** – a district that has seen a resurgence over the last two decades, Center City is Philadelphia's central business and office region within the City. Center City is the strongest employment center in the City. In addition, the area contains a sizeable residential population and provides ample access to retail, dining, arts and culture, entertainment, and mass transportation services, to both residents and daily commuters. According to the Center City District, one of the City's business improvement districts, 291,251 riders took public transportation into Center City daily in 2014. The professional services and leisure and hospitality sectors play significant roles in the Center City area.

- **Greater Center City** – the areas of greater Center City result from a growing desire for urban living among people who find these areas more affordable than Center City. Like Center City, these areas have experienced increased population, educational attainment, and family income within the last decade. In 2011, 43.3 percent of all jobs in Philadelphia were located in Greater Center City and Center City together.

- **University City** – located west of Center City, University City is a hub for the health care, life sciences, and higher education sectors and accounted for 11 percent of the City's employment in 2011. It includes the campuses of the University of Pennsylvania, Drexel University, University of the Sciences, the University of Pennsylvania Health System, the Children's Hospital of Philadelphia and The Wistar Institute, as well as the University City Science Center, a biomedical incubator.

- **The Navy Yard** – deeded to the City by the U.S. Navy in 2000 as a result of the federal Base Realignment and Closure Act, the 1,000-acre Philadelphia Navy Yard represents a successful transition of a former naval property with a 125-year history as an active military base to a growing hub for business. Largely through the work of PIDC, the City invests in infrastructure at the Navy Yard, providing an urban alternative to suburban office parks and a base for the rejuvenation of the industrial sector. The Navy Yard surpassed 11,500 employees in January 2014, making the Navy Yard a growing employment area with close to 2 percent of the City's jobs.

As of February 2015, Philadelphia had 37 major projects under construction concurrently, representing almost $4.2 billion in combined public and private investment. Most significantly, in summer 2014, Comcast Corporation broke ground on a 59-story, $1.2 billion office tower adjacent to its headquarters building in Center City. Commercial developers are currently most actively engaged in project development, with $1.8 billion invested across 13 projects, the majority of which are concentrated in Center City and the Navy Yard, while an additional $990 million across 11 new residential and mixed use projects are currently under construction across various neighborhoods throughout the City. Projects from higher education and health care institutions in the University City and North Broad neighborhoods represent over $1 billion in investment. Table 21 reflects major real estate developments under construction as of February 2015. From 2013 through the fourth quarter of 2014, 55 projects representing more than a $3 billion investment were completed.

Table 21
Selected Major Development Investments Under Construction
(As of February 2015)

Project Name, by Neighborhood	Project Type	Cost in Millions	Est. Completion Date
Center City		**$1,866.5**	
The Sterling - Redevelopment	Residential	$50.0	Q2 2015
1116-28 Chestnut	Mixed Use	$65.0	Q2 2015
8th and Market Parking Garage	Public	$18.0	Q4 2015
810 Arch Street - Project Home	Residential	$23.5	Q4 2015
Rodin Square, Wholefoods	Commercial	$160.0	Q1 2016
Mormon Temple	Religious	$70.0	Q2 2016
1919 Market	Mixed Use	$100.0	Q2 2016
East Market (formerly Girard Square)	Commercial	$180.0	Q3 2016
Comcast Innovation and Technology Center	Commercial / Hotel	$1,200.0	Q3 2017
University City		**$1,729.2**	
Advanced Care Hospital Pavilion - Penn Presbyterian Medical Center	Health Care	$92.0	Q1 2015
Buerger Center for Advanced Pediatric Care	Health Care	$500.0	Q1 2015
3601 Market - UCSC Apartment Tower	Residential	$110.0	Q2 2015
Lancaster Square	University Residential	$170.0	Q3 2015
New College House at Hill Field	University Residential	$127.0	Q3 2015
3737 Chestnut	Residential	$105.0	Q3 2015
Hub II	Residential	$19.5	Q3 2015
Dornsife Center	University	$15.7	Q4 2015
FMC Tower at Cira Centre South	Mixed Use	$340.0	Q3 2016
4601 Market - Public Safety Services Campus	Public	$250.0	Q2 2018
North Broad		**$18.0**	
Rodeph Shalom Expansion	Religious	$18.0	Q4 2015
Navy Yard*		**$19.4**	
Building 17 - URBN Expansion (Cont.)	Commercial	-	Q2 2015
Commerce 3 (4000 S 26th Street) - EcoSave	Commercial	-	Q2 2015
Central Green (Park)	Public	$9.4	Q2 2015
Center for Building Energy Education & Innovation	Commercial/Education	-	Q2 2015
4701 League Island Blvd	Commercial	-	Q2 2016
Pavilion	Commercial	$10.0	Q2 2017
1200 Intrepid	Commercial	-	Q4 2017
Other Neighborhoods**		**$416.4**	
Belmont Mansion	Non-Profit	$1.4	Q2 2015

Project Name, by Neighborhood	Project Type	Cost in Millions	Est. Completion Date
Wynnefield Place Senior Apartments	Residential	-	Q3 2015
St. Christopher's Hospital Expansion	Health Care	$92.0	Q4 2015
1700 S. Broad - CHOP Family Care Center	Health Care	$30.0	Q4 2015
Dietz & Watson Facility	Commercial	$50.0	Q4 2015
Philadelphia Mills	Commercial	$40.0	Q4 2015
Broad St Armory	Residential	-	Q2 2016
Park Towne Place - Redevelopment	Residential	$177.0	Q4 2016
University of Pennsylvania Pennovation Works	Commercial	$26.0	Q4 2016
Waterfronts		**$125.0**	
SugarHouse Casino Expansion	Commercial	$125.0	Q2 2015
Total		**$4,174.5**	

Source: Philadelphia Department of Commerce
* Many development costs for Liberty Property Trust buildings at the Philadelphia Navy Yard are confidential, and are not made available for reporting purposes.
** Many development costs are confidential, and are not made available for reporting purposes.

Navy Yard. The Navy Yard is a 1,200 acre mixed-use office, research and industrial park with 11,500 people working on site across 145 companies. The Navy Yard has diverse tenants such as the Aker Philadelphia Shipyard, one of the world's most advanced commercial shipbuilding facilities, the corporate headquarters for retailer Urban Outfitters, a new 205,000 square foot, LEED-certified office building for pharmaceutical company GlaxoSmithKline, and a LEED-Silver certified baking facility for the Tasty Baking Company. More than 6.0 million square feet of space is currently occupied with significant additional capacity available for office, industrial, retail and residential development. In October 2014, restaurateur Marc Vetri opened a 150-seat restaurant, Lo Spiedo, in a 4,700-square-foot former gatehouse.

The Navy Yard is also home to the Consortium for Building Energy Innovation (the "CBEI"), formerly the Energy Efficient Buildings Hub, a consortium of universities, businesses, and economic development groups, working to develop energy efficient building technologies. The CBEI is the recipient of $160 million in Commonwealth and federal funding and part of a U.S. Department of Energy program to create national Energy Innovation Hubs. In 2014, the CBEI relocated to The Center for Building Energy Science (Building 661). The 38,000 square foot building serves as a demonstration laboratory to showcase energy efficiency research. In spring 2015, the CBEI, in collaboration with Pennsylvania State University, plans to open a newly constructed 25,000 square foot educational facility, The Center for Building Energy Education & Innovation.

In February 2013, PIDC released an updated Navy Yard master plan, detailing a comprehensive vision for the Navy Yard. The plan calls for adding over 12 million square feet of new construction and historic renovation supporting office, R&D, industrial and residential development, complemented with commercial retail amenities, open spaces and expanded mass transit. At full build, the Navy Yard will support more than 20,000 employees and over $2 billion in private investment. Seven projects are currently under construction, bringing the Navy Yard closer to its strategic targets. Currently construction projects include: an 80,000 square foot headquarters for Franklin Square Partners, an investment firm; EcoSave, an Australian based energy and water efficiency company, will take 20,000 square feet for their North American headquarters in a new 75,000 square foot flex building; and a new five-acre, $9.4 million park broke ground in summer 2014 and will open in 2015. Current and upcoming construction of these developments is valued over $145 million.

Strategic Business Improvement Districts. Starting in 1990, the City began working with business owners, residents, and non-profit organizations to revitalize commercial corridors through the successful creation of key business improvement districts ("BIDs"). BIDs provide an agreed-upon set of business services and improvements to businesses within an established boundary in exchange for a mandatory annual assessment based on property taxes from commercial and multi-family properties within the district. BIDs are authorized by City Council. Currently, Philadelphia has twelve BIDs/Special Services Districts and two voluntary services districts in neighborhoods throughout the City. Since their inception, these districts have seen population growth, increased property values and lowered vacancy rates, and are some of the most desirable places to live and work in Philadelphia. The Center City District and the University City District are the largest BIDs in the City and have played a pivotal role in the resurgence of their service areas.

The Center City District was founded in 1990. The district encompasses 120 blocks and more than 4,500 individual properties in an area that extends beyond the central business district, roughly from Vine Street to Spruce Street and 30th Street to 4th Street. Center City District provides security, cleaning and promotional services that supplement, but do not replace, basic services provided by the City and the fundamental responsibilities of property owners. Center City District also makes physical improvements to the downtown, installing and maintaining lighting, signs, banners, trees and landscape elements. The type of improvements managed by the Center City District are often credited with the area's increased desirability as a place to live and work, attracting a population with higher educational attainment and higher household income than national averages. At 36.9 percent of the population, Center City has more than twice the national average of residents ages 25-34, according to the 2013 five-year American Community Survey estimates. In 2013, 76.2 percent of Center City residents 25 and older had a bachelor degree or higher, compared to the national average of 28.8 percent. From 2010 to 2013, household income in Center City increased by 14.7 percent from $56,121 to $64,383.

The University City District, founded in 1997, is Philadelphia's second largest BID by area, population, and employment. There are approximately 72,997 jobs in the 2.2 square mile area, with an economy centered on its universities and hospitals. Like the Center City District, the University City District provides security, cleaning and promotional services. The district serves as an economic development entity through assisting both start-up and established businesses with regulatory compliance and in applying for grants, coordinating technical resources with neighborhood commercial corridors, and providing career networking opportunities for its residents. University City District also works with City agencies in planning and implementing improvements for public spaces and transportation infrastructure.

Convention, Hospitality and Tourism Achievements. Chief among Philadelphia's development achievements is the expansion of the City's hospitality sector since 1993. Beyond driving growth in employment, development of amenities and cultural assets improves the tourist experience as well as quality of life for Philadelphia residents. In January 2015, the *New York Times* ranked Philadelphia third on its listing of "52 Best Places to Visit in 2015," the top listing for a location in the United States.

With Philadelphia's historic assets, the City has natural appeal as a tourist destination. The City continues to invest and work to increase development and employment in the leisure and hospitality sector. In 1993, with support from the Commonwealth, the Pennsylvania Convention Center was completed, providing a total of 624,000 square feet of saleable space across its four exhibit halls, ballroom and banquet spaces. In 2011, a $786 million expansion, across 20 acres of central Philadelphia real estate, increased the facility to 2.3 million square feet. It is the largest single public works project in Pennsylvania history. In January 2014, SMG began managing and operating the Convention Center, instituting a number of measures intended to reduce and control show costs and improve customer service. In May 2014, SMG implemented new work rules through a customer service agreement signed by the Convention Center and four of six unions. The Convention Center continues to operate with no plans to replace the two unions which did not sign the agreement. Since the customer service agreement was implemented, five major conventions have booked future meetings, which is expected to bring an estimated $91 million in economic activity to the City.

Over three million hotel room nights were sold in Center City in 2013, a 3.1 percent increase over 2012. Contributing to these sales, the Philadelphia Convention and Visitors Bureau (the "PHLCVB") hosted 453 meetings and conventions in 2013, filling 597,744 hotel room nights across the region, with an estimated economic impact of more than $973 million. The total Convention and Group segment of travelers, which includes smaller conferences and meetings not held in the Convention Center, purchased 35 percent of all hotel rooms booked in Center City in 2013, accounting for 1,010,000 room-nights. In 2014, the Convention Center sold over 484,496 total hotel room nights across the region, having an estimated economic impact of more than $729 million, while the total Convention and Group segment of Philadelphia hotel demand exceeded 1,045,000 hotel nights.

According to the PHLCVB, 2015 and 2016 leisure demand is projected to grow by four percent and two percent respectively, due in part to the City's hosting of high profile events such as the 2015 World Meeting of Families, culminating in a papal visit from Pope Francis, and the 2016 Democratic National Convention.

The number of hotel rooms available in the City in 1993 was 5,613, with annual demand of 1,331,684 hotel rooms, representing 65 percent occupancy. As of March 2014, the City's hotel room inventory was 11,410 rooms, with occupancy in 2013 at 73.8 percent. In October 2013, City Council approved a Tax Increment Financing assistance package for the development of a 755-room hotel, home to both the W and Element brands, which will serve as an anchor to the Convention Center. Additionally, in February 2014, Mayor Nutter announced plans for the adaptive reuse of the City's former Family Division of the Court of Common Pleas building to become a 199-room luxury hotel under the Kimpton name.

Table 22 lists notable hotel developments since 2008, representing $782.4 million dollars in investment.

Table 22
Notable Hotel Developments since 2008, in Millions

Four Points by Sheraton	$14.0 (Estimate)
Le Meridien	61.0 (Estimate)
Kimpton Hotel Palomar	94.0
Homewood Suites University City	43.0
Marriott Courtyard, Navy Yard	31.0
Hotel Monaco by Kimpton	88.0
Hilton Home2 Suites	60.0
Residence Inn by Marriott, Airport	26.0 (Estimate)
W Hotel / Element Hotel (Opening 2017)	280.4
Kimpton Hotel 1801 Vine St (Opening 2017)	85.0
101 N. Broad Hotel (Opening 2016)	-
Four Seasons Hotel in Comcast Tower (Opening 2017)	-
Total	**$782.4 million**

Source: City of Philadelphia Commerce Department and PIDC

Despite a drop during the national recession beginning in 2008, Philadelphia's employment in the leisure and hospitality sector had recovered by 2011, with 60,684 employed in the sector, and exceeded pre-recession levels in 2014 with 65,000 employed. The Bureau of Labor Statistics reports that employment in this sector grew 19 percent from 2004 to 2014, as illustrated in Table 4.

Beyond working to increase convention business, the City and its regional partners work to increase the number of leisure travelers as well. According to a 2013 report by Visit Philadelphia, the region's leisure tourism and marketing corporation, since 1997, the number of overnight leisure hotel stays has grown 80 percent. This can be attributed to a number of factors, notably, an increased supply of hotel rooms and marketing of the region. The City, through Visit Philadelphia, supports domestic marketing efforts.

The City supports international marketing efforts through the PHLCVB. The U.S. Office of Travel and Tourism Industries reported that international visitors to Philadelphia in 2013 numbered more than 673,000, an increase of 13 percent over 2012. Table 23 shows the Greater Philadelphia Region's visitation growth from 1997 to 2013.

Table 23
Greater Philadelphia† Visitation Growth, 1997-2013
(in millions)

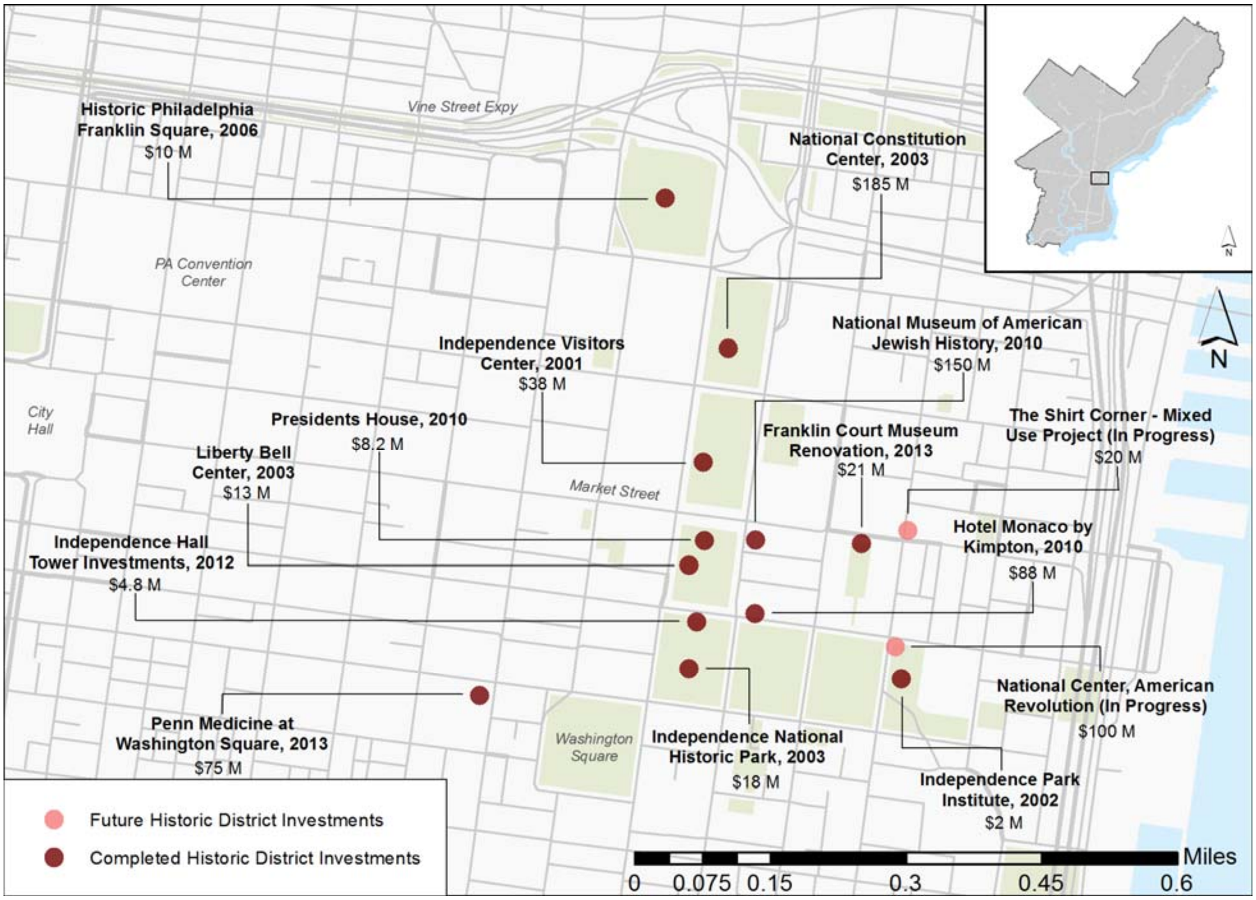
	1997	2013	Net Change	Percent Growth
Total Visitation	26.7	39.0	12.3	46%
Day - Leisure	15.5	20.9	5.4	35%
Overnight - Leisure	7.3	13.4	6.1	84%
Day - Business	2.5	2.6	0.1	4%
Overnight - Business	1.4	2.1	0.7	50%

†Bucks, Chester, Delaware, Montgomery and Philadelphia counties.
Source: Visit Philadelphia, Tourism Economics, Longwoods International.

Crucial to tourism is the City's robust arts and culture sector. The Center City District reports that one-in-three tourists who come to Center City Philadelphia cite museums and cultural events as the primary reason for their visit. In 2011, *Travel + Leisure* magazine ranked Philadelphia as the number one city for arts and culture in the United States. In 2013, major attractions in Center City, including the Liberty Bell Center, Reading Terminal Market, and the Philadelphia Zoo, had over 15.6 million visitors.

Organizations like the Philadelphia Museum of Art, the Kimmel Center, FringeArts, and the more than 400 smaller cultural organizations throughout the City help improve the quality of life for residents and visitors. The Greater Philadelphia Cultural Alliance reported in 2012 that cultural institutions in the PMSA contributed an estimated $1.4 billion in household income in 2011, with $490.3 million in Philadelphia County alone. Part of the wider economic impact generated by this revenue is demonstrated in the over 48,900 creative jobs that the sector supports within Philadelphia.

<u>Figure 2</u>
Map of Select Historic District Development Projects
Representing $733 Million in Selected Completed and Future Investment

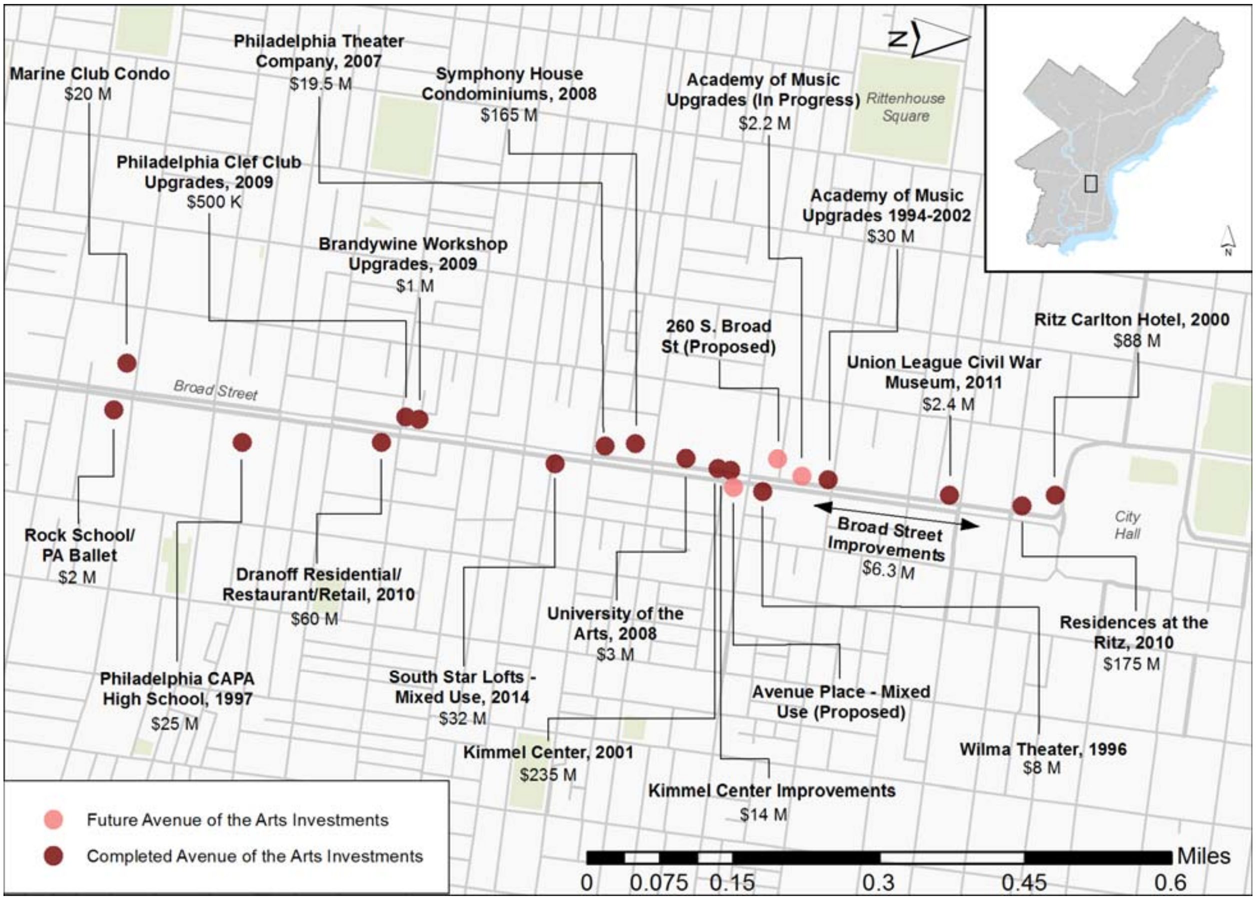


Source: City of Philadelphia Department of Commerce

Historic District Investments. Key to the City's leisure and hospitality growth is the maintenance and investment in the City's extraordinary historic assets. As the birthplace of the country, Philadelphia remains a major tourist destination year-round, particularly the City's Historic District, which includes such national treasures as the Liberty Bell, Independence Hall, Carpenters' Hall, Betsy Ross' house and Elfreth's Alley, the nation's oldest residential street. The City continues to invest in the maintenance and expansion of the Historic District's tourist experience.

Since 2001, $613 million of improvements have been made in Philadelphia's historic district, with an additional $120 million either under construction or planned over the next three years. Figure 2 shows select investments which have complemented the City's notable existing historic assets. Coupled with proposed developments, public and private, this district is expected to remain competitive in the national and international tourism markets for years to come.

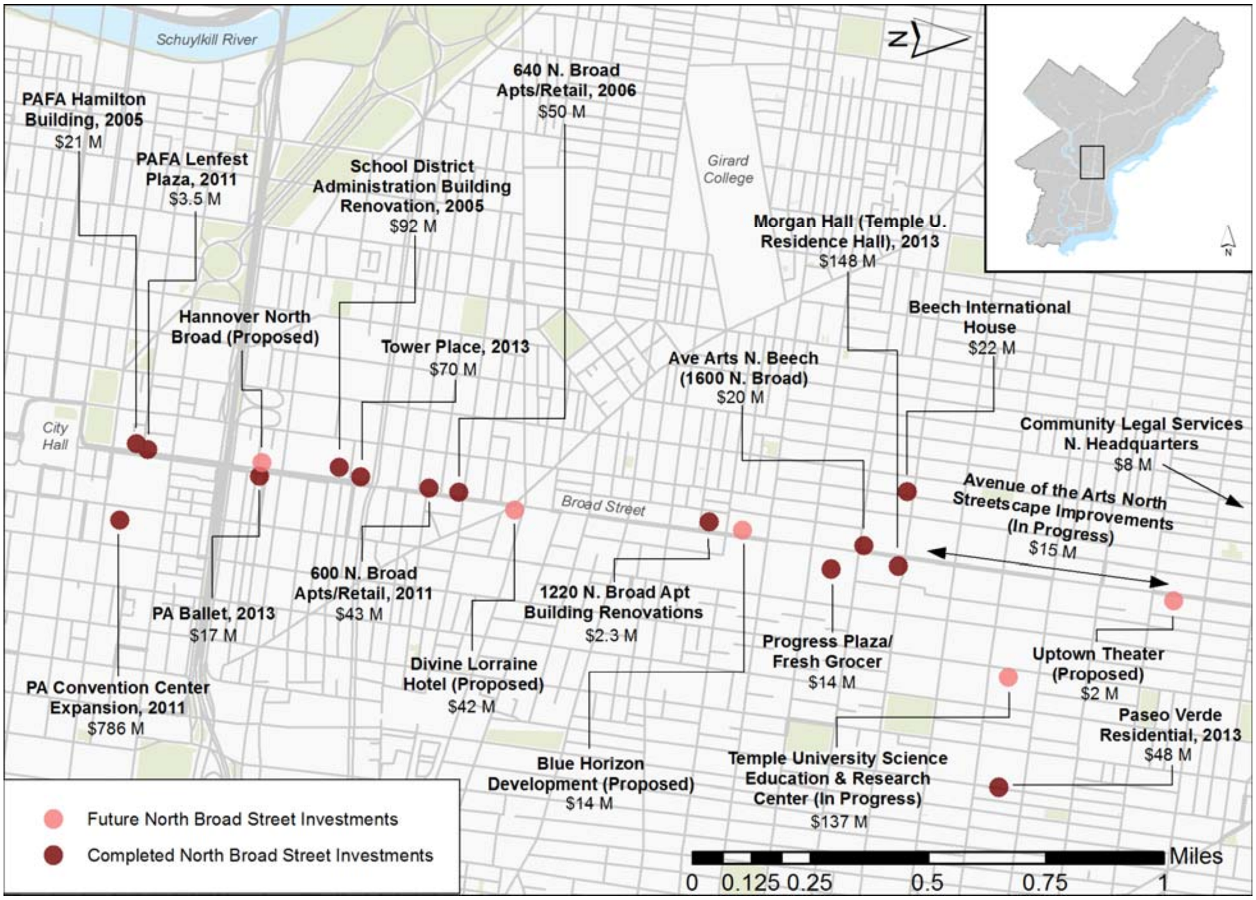
Figure 3
Map of Selected Avenue of the Arts (South Broad Street) Development Projects Representing $888.9 Million in Selected Completed and Future Investments



Source: City of Philadelphia Department of Commerce

Avenue of the Arts (South Broad Street) Investments. The Avenue of the Arts is located along a mile-long section of South Broad Street between City Hall and Washington Avenue, in the heart of Philadelphia's Center City. Reinventing South Broad Street as the Avenue of the Arts, a world class cultural destination, has been a civic goal in Philadelphia for nearly two decades. Cultural institutions, the William Penn Foundation, local property owners and civic leaders advanced the idea of a performing arts district on South Broad Street anchored by the Academy of Music and modeled after successful performing arts districts around the country. The Avenue of the Arts became a key element of the City's strategy to strengthen Center City as the region's premier cultural destination and an important element in the City's bid to expand its convention and tourism industries. Figure 3 provides an overview of investment to date in this district.

Figure 4
Map of Selected North Broad Street Development Projects
Representing $1.55 Billion in Selected Completed and Future Investments



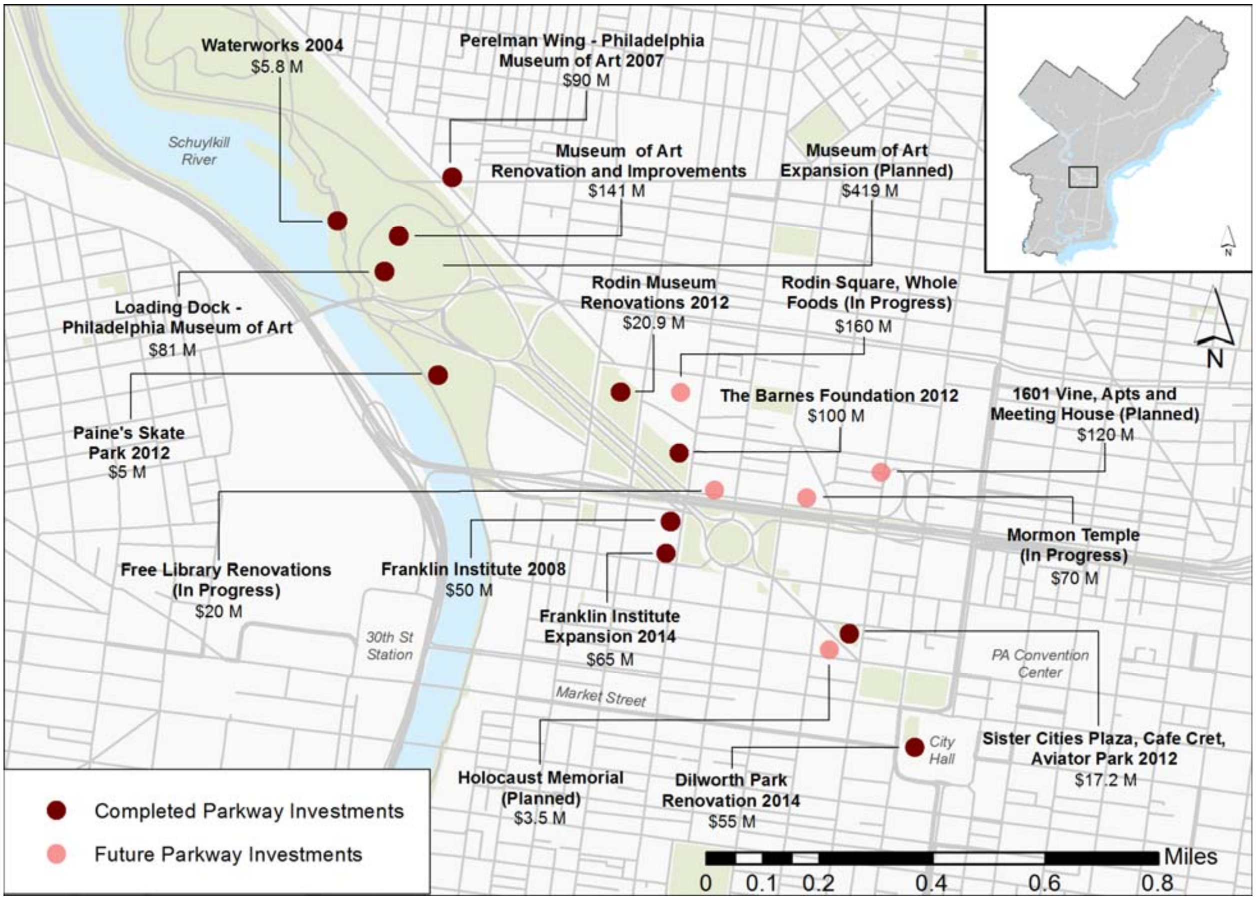
Source: City of Philadelphia Department of Commerce

North Broad Street Investments. The 2011 expansion of the Pennsylvania Convention Center reignited development efforts along the key corridor of North Broad Street. Improvements include Lenfest Plaza, which is adjacent to the Pennsylvania Academy of Fine Arts and across from the Pennsylvania Convention Center expansion's entrance. Lenfest Plaza is also home to Paint Torch, a sculpture by world-renowned American artist Claes Oldenburg.

At Spring Garden Street, the former State office building was redeveloped into 204 rental units and the former headquarters of the Philadelphia Inquirer and Philadelphia Daily News has been sold and is slated for housing and commercial development. Just north of Spring Garden, previously closed commercial businesses have been redeveloped to include 101 new residential lofts, new restaurants and a catering facility. The redevelopment of this block was initiated with the conversion of an empty building into a mixed use development with 250 fully-leased apartments. As discussed on page B-10, Temple University's $1.2 billion capital plans contribute to the revitalization of North Broad Street.

Tying the corridor together is a streetscape enhancement project featuring trees, landscaping and decorative light masts, funded with a mix of federal, state and City funding. Figure 4 shows a map of recent, planned, and proposed projects on the North Broad Street corridor.

Figure 5
Map of Selected Parkway Development Projects
Representing $1.42 Billion in Selected Completed and Future Investments



Source: City of Philadelphia Department of Commerce

Parkway Investments. Complementing the Avenue of the Arts theater district developments, the Philadelphia Parkway is a signature public investment. Conceived as early as 1871, and opened in 1929, the Benjamin Franklin Parkway was originally designed to ease traffic and beautify the City. It runs from the area of City Hall to the Philadelphia Museum of Art and is at the heart of the City's museum district. Today it is central public space and is a principal tourist attraction. Key Parkway features include the Philadelphia Museum of Art, the Rodin Museum, the Franklin Institute, The Barnes Foundation, the Free Library of Philadelphia, the Academy of Natural History, the Swann Memorial Fountain, Sister Cities Park, Cathedral Basilica of Saints Peter and Paul on Logan Square, and numerous pieces of public art.

Opened in May 2012, The Barnes Foundation is a welcome addition to the City's impressive roster of arts facilities, and has had a significant impact on the City's leisure and hospitality industry. In 2013, its first full year of operations, total attendance at The Barnes Foundation was approximately 305,000, and with membership over 25,000, it is ranked among the top institutions of its kind in the country.

Of overnight visitors, arts and culture visitors represent 17 percent, or about 1.36 million, of visitors to Philadelphia annually. According to a 2011 report from Visit Philadelphia, arts and culture visitors spend 54 percent more than the average visitor, stay longer, and are more likely to stay in a hotel.

As detailed in Figure 5, since 2004, the Parkway has undergone additional transformation, improving streetscape and pedestrian access, and adding additional amenities. Improvements include parks, open space and additions to the City's inventory of arts assets.

Waterfront Developments. Taking advantage of the City's geographic assets, the Schuylkill River and the Delaware River, the City is redeveloping its waterfront to accommodate a variety of developments, including mixed-use projects and housing, parks and recreational trails, and hotels. These projects improve quality of life for residents and improve the visitor experience, but also are an impetus for environmental remediation and private development of former industrial property within the City.

- **Delaware River Waterfront Corporation**. The Delaware River has historically been a center of activity, industry, and commerce, bounded at its north and south ends by active port facilities. The City adopted a Master Plan for the Central Delaware in 2011. The Delaware River Waterfront Corporation (the "DRWC"), in partnership with the City, is a nonprofit corporation that works to transform the central Delaware River waterfront into a vibrant destination for recreational, cultural, and commercial activities. Successful park projects include Race Street Pier in 2011 and Washington Avenue Green in 2014. Both parks are adaptive reuse projects built on former pier structures. Another project, Pier 68 is currently under construction, with an anticipated opening in summer 2015. In April 2014, the DRWC published a feasibility study for redevelopment of Penn's Landing, a major public space along the Delaware River waterfront. The Master Plan calls for a combination of public and private investment for the two million square foot development program.

- **Schuylkill River Development Corporation**. Redevelopment along the Schuylkill River is managed by a partnership between the Schuylkill River Development Corporation (the "SRDC"), the Department of Parks & Recreation, and the Department of Commerce. SRDC works with federal, Commonwealth, City and private agencies to coordinate, plan and implement economic, recreational, environmental and cultural improvements, and tourism initiatives on the Schuylkill River. From 1992 to 2014, SRDC has worked with the City to create 1.8 miles of riverfront trails within 17 acres of premiere park space in the heart of the City, and has added amenities to the Schuylkill River Park such as floating docks, fishing piers, composting toilets, and architectural bridge lighting. SRDC continues to work towards meeting its goal of creating and maintaining 10 miles of trail and 70 acres of green space along the tidal Schuylkill River in Philadelphia. The latest Schuylkill Trail extension running from Locust Street to South Street, called the Boardwalk, opened in October 2014 and plans to extend the trail farther south to Christian Street are in final design stages. Since 2005, Philadelphia has benefitted from more than $1 billion in development along the Schuylkill River, with more planned by private developers, universities, and healthcare institutions.

- **Penn Park**. Although not publicly funded, the University of Pennsylvania's Penn Park is a significant piece of infrastructure that strengthens the connection between University City and Center City, improving the resident and visitor experience. It lies along the west bank of the Schuylkill River, and complements the work of the SRDC.

  The University of Pennsylvania opened Penn Park in 2011, increasing the University's green space by 20 percent. The park includes 24 acres of playing fields, open recreational space and pedestrian walkways located between Walnut and South Streets. Formerly parking lots, the park embraces sustainable features, including underground basins that capture rainwater and mitigate storm water overflow into the Schuylkill River. 45,000 cubic yards of soil, 2,200 pilings and more than 500 trees were installed to create canopied hills and picnic areas.

- **SugarHouse Casino**. Legislation enacted by the Pennsylvania General Assembly authorized two stand-alone casino licenses for the City. Philadelphia's first casino, SugarHouse, opened in September 2010. SugarHouse Casino sits on the Delaware River waterfront offering an array of slot machines, table games and dining options. In May 2013, SugarHouse received approval from the Pennsylvania Gaming Control Board to expand its operations, including additional parking and a larger gaming floor. The $155 million expansion, which commenced in July 2014 with completion anticipated by September 2015, is expected to add 500 additional employees to the casino. After a period of significant gains from 2010 through 2012, SugarHouse revenue has leveled off. Until the casino's expansion is complete, current revenue levels are expected to remain relatively unchanged. In 2013, the casino's total revenue was $265,558,237, a decrease of 3.1 percent from 2012, and it employed 1,128 people, up from 1,098 in 2012.

South Philadelphia Sports Complex. Another key element of Philadelphia's hospitality industry is professional sports. Philadelphia is the only city to have a professional hockey, basketball, baseball, and football team playing in a single district within a city, the Sports Complex Special Services District, created by the City in 2000.

The South Philadelphia Sports Complex houses three professional sports facilities: The Wells Fargo Center opened in 1996 and is home to the Philadelphia Flyers (National Hockey League) and Philadelphia 76ers (National Basketball Association); Lincoln Financial Field opened in 2003 and is home to the Philadelphia Eagles (National Football League); and Citizens Bank Park opened in 2004 and is home to the Philadelphia Phillies (Major League Baseball). The Phillies and the Eagles are contractually obligated to play in Philadelphia until 2033 and 2034, respectively.

Average paid home season attendance for the Eagles in Lincoln Financial Field has exceeded 100 percent of actual seating, since its opening in 2003. In the 2009 through 2012 seasons, the Phillies had a paid home season attendance in excess of 100 percent of actual seating at Citizen's Bank Park. In 2010, the Phillies had the second highest attendance of any team in Major League Baseball and in both 2011 and 2012 the Phillies registered the highest home attendance of any team in Major League Baseball. The Phillies attendance rate declined in 2013, but remained in the top ten of Major League Baseball teams. However, 2014 team performance contributed to a significant decline in overall attendance, dropping the Phillies attendance ranking to 16 out of 30 teams.

In March 2012, Xfinity Live! Philadelphia, a 50,000 square foot sports entertainment and dining complex, opened. The privately funded, $60 million venue includes a miniature sports field hosting free concerts and other activities, an outdoor theater accommodating sports games and family films, and a dozen dining and bar establishments. The complex, a Comcast-Spectacor and Cordish-owned company, also hosts the first ever NBC Sports Arena, featuring a 32-foot LED HD television, displaying the NBC Sports Ticker and in-game promotions. The entire complex is open year-round and sustains 276 full-time equivalent jobs.

In November 2014, the Pennsylvania Gaming Control Board awarded the City's remaining casino license to Live! Hotel & Casino, a joint venture between Cordish Cos. and Greenwood Gaming and Entertainment Inc. Once complete in January 2018, the $425 million, 200,000-square-foot casino, will also include a 240-room hotel, 2,000 slots and 125 table games. It will also have a spa and conference center built in and around an existing Holiday Inn at the South Philadelphia Sports Complex.

TRANSPORTATION

The residents of the City and surrounding counties are served by a commuter transportation system operated by SEPTA. This system includes two subway lines, a network of buses and trolleys, and a commuter rail network joining Center City and other areas of the City to PHL and to the surrounding counties. For more information on SEPTA, see "ECONOMIC BASE AND EMPLOYMENT – Southeastern Pennsylvania Transportation Authority (SEPTA)."

A high-speed train line runs from southern New Jersey to Center City and is operated by the Port Authority Transit Corporation ("PATCO"), a subsidiary of the Delaware River Port Authority. On the average weekday, PATCO brings approximately 15,000 individuals to Philadelphia.

An important addition to the area's transportation system was the opening of the airport high speed line between Center City and PHL in 1985. The line places PHL less than 25 minutes from the City's central business district and connects directly with the commuter rail network and the Pennsylvania Convention Center. The opening of the commuter rail tunnel in 1984 provided a unified City transportation system linking the commuter rail system, the SEPTA bus, trolley, and subway lines, the high speed line to New Jersey, and the airport high speed line.

New Jersey Transit operates 19 different bus routes and the Atlantic City Train Line, all of which serve to connect Philadelphia and New Jersey. On the average weekday, the New Jersey Transit bus routes bring approximately 2,000 individuals to Philadelphia and the Atlantic City Line brings approximately 700 individuals to Philadelphia.

Amtrak, SEPTA, Norfolk Southern, CSX Transportation, Conrail and the Canadian Pacific provide inter-city commuter and freight rail services connecting the City to other major cities and markets in the United States. According to Amtrak, Philadelphia's 30th Street Station is the third busiest station in the United States. Structural improvements of $30 million were recently completed to the station, and an additional $60 million restoration project is awaiting federal approval.

The City now has one of the most accessible downtown areas in the nation with respect to highway transportation by virtue of Interstate 95 ("I-95"); the Vine Street Expressway (Interstate 676), running east-to-west through the Central Business District between Interstate 76 ("I-76") and I-95; and the "Blue Route" (Interstate 476) in suburban Delaware and Montgomery Counties, which connects the Pennsylvania Turnpike and I-95 and connects to the Schuylkill Expressway (I-76), which runs to Center City Philadelphia. In addition, more than 100 truck lines serve the Philadelphia area.

The City is served within city limits by numerous private buses and shuttles. These buses and shuttles are operated by apartment complexes, universities, and private companies. These buses and shuttles connect Philadelphians to transit hubs, employment, and residences.

Philadelphia is launching its first bike share system, Indego, in the Spring of 2015. The system will launch with 600 bicycles and 60 bicycle kiosks from Temple University to the Navy Yard and from the Delaware River to University City. The system's title sponsor is Independence Blue Cross and it is the first bike share system in the United States to allow for cash payment, in addition to credit card, to access the system. In 2016, Indego plans to increase in size and scope by adding 60 additional bike share kiosks.

KEY CITY-RELATED SERVICES AND BUSINESSES

Water and Wastewater

The water and wastewater systems of the City are owned by the City and operated by the City's Water Department. The water system provides water to the City (134 square mile service area), to Aqua Pennsylvania, Inc., formerly Philadelphia Suburban Water Company, and to the Bucks County Water and Sewer Authority. The City obtains approximately 58 percent of its water from the Delaware River and the balance from the Schuylkill River. The water system serves approximately 483,955 retail customers through 3,172 miles of mains, 3 water treatment plants, 15 pumping stations and provides fire protection through 25,321 fire hydrants. The water treatment plants continue to meet and/or exceed their Safe Drinking Water Act as well as partnership for Safe Water standards.

The wastewater system services a total of 364 square miles of which 134 square miles are within the City and 230 square miles are in suburban areas. The total number of retail customer accounts is approximately 528,938, including approximately 49,993 storm water only accounts. The wastewater and storm water systems contain three water pollution control plants, a biosolids processing facility, 19 pumping stations, and approximately 3,719 miles of sewers. The wastewater treatment plants continue to meet and/or exceed their National Pollutant Discharge Elimination System permit limits.

Solid Waste Disposal

The City is responsible for collecting solid waste, including recycling, from residential households and some commercial establishments. On average, approximately 2,300 tons of solid waste per day are collected by the City. Municipal solid waste is disposed of through a combination of recycling processing facilities, private and City transfer stations within the City limits, and at various landfills operated outside the City limits.

Parks

The City was originally designed by William Penn and Thomas Holme around five urban parks, each of which remains in Center City to this day. The City's parklands total over 10,300 acres, and include Fairmount Park, the world's largest landscaped urban park at 9,200 acres, Pennypack Park, and the Philadelphia Zoo, the country's first zoo. The City also offers its residents and visitors America's most historic square mile, which includes Independence Hall and the Liberty Bell.

Libraries

The Free Library of Philadelphia, the City's public library system, comprises 54 branches and an extensive online resource system.

Streets and Sanitation

The Philadelphia Streets Department (the "Streets Department") and the divisions within it are responsible for the City's large network of streets and roadways. The City's pavement condition is considered to be a "Fair" pavement condition. In order for the City to maintain its pavement in a state of good repair, local streets should be repaved once every 20 years and arterials should be repaved once every 10 years. This requires approximately 131 miles of paving every year. The pavement program has accumulated a backlog of approximately 1,100 miles since 1996. As a result of the new funding under Act 89, the Streets Department has funds to address long standing state of good repair needs without an additional allocation from the General Fund. During Fiscal Years 2014-2017, the Streets Department will invest in critical equipment replacements and begin to implement a strategy to address recurring state of good repair needs. This includes critical equipment replacement, street paving and pothole repair, and replacement of traffic control equipment.

The Streets Department is also responsible for the ongoing collection and disposal of residential trash and recyclables, as well as the construction, cleanliness and maintenance of the street system. The streets system in Philadelphia totals 2,575 miles - 2,180 miles of City streets, 35 miles of Fairmount Park roads and 360 miles of state highways. The Highway Unit and Sanitation Division annually collects and disposes of approximately 600,000 tons of rubbish and 125,000 tons of recycling, completes over 48,000 miles of mechanical street cleaning, clears 1,800 major illegal dump sites, and removes over 155,000 abandoned tires.

Sustainability and Green Initiatives

Mayor Nutter has stated one of his top priorities is to make Philadelphia the greenest and most sustainable city in America. To aid in achieving this goal, the newly created Philadelphia Energy Authority has been tasked with improving energy sustainability and affordability in the City and with educating consumers on their energy choices. The City is investing in and evaluating additional options and investing in green infrastructure to better manage storm water reclamation and reduce pollution of the City's public waters. There has been extensive investment in creating more and better public green spaces, such as Love Park in Center City as well as green spaces along both the Delaware and Schuylkill Rivers. Finally, the City has been taking steps to further reduce automobile traffic, congestion and pollution by making Philadelphia's streets increasingly friendly to bicyclists. Philadelphia is on-track to introduce its new bicycle sharing system in 2015. Bicycle share programs have been successfully implemented in other cities worldwide. The new program will have over 600 new bicycles in its first phase and up to 2,000 bicycles once fully implemented.

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE, THE LEASE AND THE SUBLEASE

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APPENDIX D

Summary Of Certain Provisions Of The Indenture, The Lease And The Sublease

Set forth below are descriptions of certain provisions of the Indenture, the Lease and the Sublease. These descriptions are brief summaries and do not purport to be and should not be regarded as being complete statements of the terms of the documents or as complete synopses thereof. Reference is made to the documents in their entirety, copies of which may be obtained from the Authority, for the complete statement of the terms and conditions thereof.

The Indenture

Special Limited Obligations of the Authority. **The 2015 Bonds are special limited obligations of the Authority and are secured on parity with the 2003 Bonds, the Remaining 2006 Bonds, the 2012 Bonds and any Additional Bonds (discussed herein) by a pledge and assignment to the Trustee of all of the revenues of the Authority derived from the Sublease, all of the right, title and interest of the Authority in and to the Sublease, all amounts payable to the Authority by the School District under the Sublease (except the rights of the Authority to receive notices, to indemnification and payment of its fees and expenses thereunder), and all moneys and income and receipts in respect of the Sublease held by the Trustee under the Indenture in the Revenue Fund and the Debt Service Fund (together, the "Pledged Revenues"). Neither the principal or redemption price of the 2015 Bonds, nor the interest accruing thereon, shall constitute a general indebtedness of the Authority or an indebtedness of the Commonwealth or any political subdivision thereof (except the School District's obligations under the Sublease) within the meaning of any constitutional or statutory provision whatsoever, or a charge against the general credit of the Authority or the credit or taxing power of the Commonwealth or any political subdivision thereof (except the School District's obligations under the Sublease), or be deemed to be an obligation of the Commonwealth or any political subdivision thereof (except the School District's obligations under the Sublease). The Authority has no taxing power.**

Pledge and Assignment. The Authority has pledged to the Trustee, in the Indenture, a security interest in the Pledged Revenues (which includes the Base Rental Payments payable under the Sublease and amounts on deposit in the Revenue Fund and the Debt Service Fund, but excludes amounts on deposit in the Project Fund and the Rebate Fund), and all of the right, title and interest of the Authority in and to the Sublease and all amounts payable to the Authority by the School District under the Sublease (except the rights of the Authority to receive notices, indemnification and payment of its fees and expenses under the Sublease), for the benefit and security of the Owners of the Bonds issued under the Indenture.

Additional Bonds. The Indenture permits, under certain circumstances and conditions, the issuance of additional parity bonds for the purposes of refunding any series of Outstanding Bonds issued on behalf of the School District or financing the costs of undertaking or completing any Capital Project, as such phrase is defined in the Indenture, including the 2015 Project. In any such event, the Trustee shall, at the written direction of the Authority, authenticate and deliver Additional Bonds, but only upon receipt of the documents specified in Section 3.2 of the Indenture. No such issuance may occur should an Event of Default (or an event which, once all notice or grace periods have passed, would constitute an Event of Default) have occurred and be continuing unless such default shall be cured upon such issuance or unless otherwise consented to by the Bond Insurer (hereinafter defined).

Revenue Fund. All Base Rental Payments and any other amounts paid to or deposited with the Trustee by or on behalf of the School District under the Sublease are required to be deposited in the Revenue Fund established with the Trustee. Moneys in the Revenue Fund are required to be transferred by the Trustee to the various funds and at the times set forth in the Indenture. Costs or expenses incurred in the administration of the Indenture will be paid from the Revenue Fund after the required transfers to the Debt Service Fund.

Debt Service Fund. The Trustee is required to transfer to the Debt Service Fund from moneys in the Revenue Fund on or before the fifteenth day of the calendar month immediately preceding (i) each June 1 and December 1, with respect to the 2003 Bonds and the 2006 Bonds, and with respect to the 2015 Bonds, commencing December 1, 2015, and (ii) each April 1 and October 1, with respect to the 2012 Bonds, moneys in an amount sufficient to make the debt service payments due on the Bonds on such date.

Investment of Funds. Moneys held in the Revenue Fund and the Debt Service Fund, upon written instructions of the School District, shall be wholly or partially invested and reinvested in Permitted Investments, as such phrase is defined in the Indenture.

Rebate Fund. The Trustee is required to establish and maintain a Rebate Fund under the Indenture. The Authority will determine or cause to be determined annually while the Bonds are Outstanding, and upon retirement of the last of the Bonds, the sum (if any) required to be deposited in the Rebate Fund and direct the Trustee to transfer such sum from the other funds and accounts established under the Indenture. If applicable, the Authority will direct the Trustee to pay to the United States of America the sums on deposit in the Rebate Fund at the times and in the amounts required by the Code and all extant regulations promulgated thereunder.

Redemption of Bonds. The Bonds of a particular series shall be subject to redemption by the Authority prior to maturity, at the written direction of the School District, as set forth in the Indenture and as expressed in the particular series of Bonds. Bonds subject to optional, mandatory, or extraordinary redemption shall be redeemed from moneys deposited in the Debt Service Fund for such purpose.

In lieu of mandatory redemption, the Trustee is authorized, but not required unless directed in writing by the School District, to purchase Bonds of any series or maturity subject to mandatory redemption at prices not existing 100% of the principal amount thereof, together with the accrued interest to the date of purchase, from and to the extent of available moneys in the Debt Service Fund.

The Trustee shall cause notice of redemption to be mailed to the Owners of all Bonds to be redeemed at the registered addresses appearing in the Bond Register. If the requisite notice is duly given or waived, the Bonds called for redemption shall be payable on the redemption date at the applicable redemption price. Interest which was due and payable before the redemption date shall continue to be payable to the Owners of such Bonds on the relevant Record Date. The redemption price shall be paid out of the Debt Service Fund as provided in the Indenture.

Events of Default and Remedies. The Act that governs the Authority provides certain remedies to the Bondholders in the event of default or failure on the part of the Authority to fulfill its covenants under the Indenture. These remedies are in addition to the remedies set forth in the Indenture.

The following events of default are set forth under the Indenture:

(a) if payment of the principal of any Bonds issued under the Indenture is not made when the same becomes due and payable whether at maturity or upon call for mandatory redemption;

(b) if payment of any installment of interest on any Bonds issued under the Indenture is not made when the same becomes due and payable;

(c) if an Event of Default shall have occurred under the Sublease and such Event of Default affords the Authority the right to accelerate the School District's outstanding obligations under the Sublease;

(d) if the Authority shall fail or refuse to comply with any provisions of the Act relating to the Bonds, or shall for any reason be rendered incapable of fulfilling its obligations thereunder or under the Indenture or any Bonds issued under the Indenture; or

(e) if the Authority defaults in the due and punctual performance of any other covenant contained in Bonds issued under the Indenture or in the Indenture, and such default shall continue for 30 days after written notice specifying such default and requiring the same to be remedied shall have been given to the Authority and the School District by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Owners of not less than 25% in principal amount of Bonds Outstanding under the Indenture.

In addition, as provided under the Act, the Trustee shall be entitled as of right to the appointment of a receiver to take possession of the revenues and receipts of the Authority from which the Bonds are payable.

No Owner of any of the Bonds may pursue any remedy under the Indenture unless: (a) such Owner has given written notice of an Event of Default to the Trustee, the Authority and the School District; (b) the Owners of not less than 25% in principal amount of the Bonds then Outstanding have made written request to the Trustee to exercise its powers granted under the Indenture or pursue such remedy in its or their names; (c) there have been offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby; and (d) the Trustee has refused or failed to comply with such request, within a reasonable time. For purposes of the exercise of remedies under the Indenture, so long as (i) a bond insurance policy with respect to the 2003 Bonds issued by Assured Guaranty Municipal Corp. (formerly Financial Security Assurance Inc.), or its successors and assigns ("AGM"), as the insurer of the 2003 Bonds (the "2003 Bond Insurer"), (ii) the bond insurance policy with respect to the 2006 Bonds issued by AGM, as the insurer of the 2006 Bonds (the "2006 Bond Insurer"), (iii) the Policy with respect to a portion of the 2015 Bonds issued by AGM, or (iv) a bond insurance policy with respect to Additional Bonds issued by a bond insurer (issuers of effective policies insuring the payment of principal of and interest on Bonds issued pursuant to the Indenture shall be collectively referred to herein as the "Bond Insurer") is in effect and the respective bond insurer is not in default thereunder, such Bond Insurer shall be considered the holder of all of the Bonds that it insures.

If an Event of Default has occurred and is continuing then, the Trustee, in its discretion, may, and upon written request of the owners of 25% in principal amounts of the Bonds then Outstanding and receipt of indemnity to its satisfaction, shall, in its own right: (a) by mandamus or other suit, action or proceeding at law or in equity enforce all rights of the Owner of the Bonds including the right to require the School District to provide sufficient funds to carry out the provisions of the Sublease and make its payment obligations under the Sublease, and to require the Authority to carry out any other agreements with, or for the benefit of, the Owners of the Bonds, and to perform its duties under the act; (b) bring suit upon the Bonds; (c) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of the Bonds; (d) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of the Bonds.

In case any proceeding taken by the Trustee on account of any Event of Default (i) shall have been discontinued or abandoned for any reason, or (ii) shall have been determined adversely to the Trustee, the Trustee and the Owners of the Bonds shall be restored to their former positions and rights under the Indenture, and all rights, remedies, and powers of the Trustee shall continue as though no such proceeding has been taken.

The Owners of a majority in principal amount of the Bonds then Outstanding shall have the right, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Indenture.

No Owner of any of the Bonds shall have the right to pursue any remedy unless: (a) the Owner has given written notice of an Event of Default to the Trustee, the Authority, and the School District; (b) the owners of at least 25% in principal amount of the Bonds then Outstanding have made written request to the Trustee to exercise the powers granted in the Indenture or pursue such remedy in its or their names; (c) the Trustee has been offered security and indemnity satisfactory to it against the costs, expenses, and liabilities to be incurred; and (d) the Trustee failed to comply with such request within a reasonable time.

The remedies conferred or reserved in the Indenture are exclusive of any other remedy, and each shall be in addition to every other remedy given under the Indenture or later existing at law or in equity or by statute.

Resignation or Removal of Trustee. The Trustee may resign and be discharged of the trusts created under the Indenture by executing an instrument in writing, resigning such trusts, specifying the date when such resignation shall take effect, and by giving notice of such resignation to the Authority, the School District and the Owners. Such resignation shall take effect only upon the appointment of a successor trustee.

Any trustee acting hereunder may be removed at any time by the Authority or by an instrument in writing filed with such trustee and executed by the Owners of a majority in principal amount of the Bonds then Outstanding.

In case the Trustee, or any successor trustee, shall resign, shall be removed, or for any other reason a vacancy shall exist in the office of the Trustee, a successor may be appointed by the Authority upon notification to the Owners of the Bonds.

Amendments and Supplements Without Bondholder Consent. In addition to any supplemental indenture otherwise authorized by the Indenture, the Authority and the Trustee from time to time and at any time, subject to the conditions and restrictions contained in the Indenture, may enter into an indenture or indentures with the consent of the Bond Insurer and the School District and without the consent of the Bondholders for any one or more of the following purposes:

(a) to provide for the issuance of Additional Bonds;

(b) to close the Indenture against, or to restrict, in addition to the limitations and restriction therein contained, the issuance of Bonds thereunder;

(c) to add to the covenants and agreements of the Authority contained in the Indenture, other covenants and agreements thereafter to be observed, and to surrender any right or power therein reserved to or conferred upon the Authority;

(d) to modify any of the provisions of the Indenture or relieve the Authority from any of the obligations, conditions or restrictions therein contained or to make such change in the Indenture as shall be necessary in order to conform the Indenture to any change in the administrative procedures of any regulatory or governmental body to which the Authority may be subject; provided that no such modification shall be or become operative or effective that shall adversely affect the rights of Owners of the Bonds issued under the Indenture, except as otherwise provided in the Indenture, and provided, also, that the Trustee may in its discretion decline to enter into any such supplemental indenture containing such modification which in its opinion would not afford adequate protection to the Trustee when the same shall become operative;

(e) to cure any ambiguity or to cure, correct or supplement any defect or inconsistent provision contained in the Indenture or any amendment or supplement thereto; or to make such provision in regard to matters or questions arising under the Indenture as may be necessary or desirable and which shall not adversely affect the interest of the Owners of the Bonds issued under the Indenture; or

(f) to make such provision in regard to matters or questions arising under the Indenture as may be necessary or desirable and which shall not adversely affect the interests of the Owners of the Bonds.

The Trustee is authorized to join with the Authority in the execution of any supplemental indenture authorized or permitted by the terms of the Indenture. The Trustee shall be fully protected in relying on an opinion of Bond Counsel that such supplemental indenture is authorized or permitted by the provisions of the Indenture.

Amendments and Supplements with Bond Owners Consent. Any modifications or amendments of the Indenture, or any supplemental indenture, and of the rights and obligations of the Authority and of the Owners of the Bonds, may be made with the consent of (i) the School District, (ii) the Bond Insurer, and (iii) the Owners of not less than a majority in principal amount of the Bonds then Outstanding or, if less than all Bonds Outstanding are affected thereby, with the consent of the Owners of not less than a majority in principal amount of the Bonds Outstanding affected thereby; provided, however, that no such modification or amendment shall be made, without the consent of the Owner of every Bond affected thereby, which would (a) extend the fixed maturity date of any Bond, or reduce the principal amount thereof or reduce the rate or extent the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, (b) permit the creation by the Authority of any lien prior to or on a parity with the lien of the Indenture upon any part of the Pledged Revenues, or (c) reduce the aforesaid percentage of Bonds, the Owners of which are required to consent to any such modification or alteration. No such modification or amendment that would change or modify any of the rights or obligations of the Trustee shall be or become operative without the written consent of the Trustee.

Defeasance. Whenever all Bonds outstanding under the Indenture and all other sums due thereunder have been paid, or provision shall have been made for payment, then the right, title and interest of the Trustee under the Indenture shall cease and the Trustee shall release and discharge the lien of the Indenture. Provision for payment of the Bonds may be made by depositing any combination of direct non-callable obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America with the Trustee. Amounts paid by Bond Insurer under their respective Policy shall not be deemed paid for purposes of the Indenture and shall remain Outstanding and continue to be due and owning until paid by the Authority in accordance with the Indenture. The Indenture shall not be discharged unless all amounts due or to become due to Bond Insurer have been paid in full or duly provided for.

The Lease

In connection with the issuance of the 2015 Bonds, the Authority and the School District will enter into the Third Supplemental Lease, pursuant to which the School District will lease the 2015 Leased Premises to the Authority for a lump sum rental payment by the Authority to the School District equal to the net proceeds of the 2015 Bonds, respectively. Such 2015 lump sum rental payment shall be paid to the Trustee for application to the costs of the 2015 Project on behalf of the School District in accordance with the provisions of the Indenture. Such 2015 lump sum rental payment is required to be paid to the Trustee for deposit in the Escrow Fund in accordance with the provisions of the Indenture.

Transfer of Leased Premises. The School District is permitted, unless otherwise restricted by law or the terms of the Indenture of Sublease, to transfer or sublet the 2015 Leased Premises, or any interest therein or part thereof, to any person or party other than the Authority during the term of the Third Supplemental Lease.

Release of Leased Premises. Upon notice to AGM, and upon compliance with the terms of the Sublease, and upon the request of the School District, the Authority shall release its leasehold interest in that portion of the 2015 Leased Premises intended to be released. See "The Sublease-Partial Release of Leased Premises" below.

Termination of Lease. The Lease will terminate upon payment to the Authority by the School District of an amount sufficient to pay or by providing for payment under the Indenture of the principal, interest and premium (if any), costs of redemption or prepayment required to retire or cancel all Bonds that may be outstanding, and all other sums payable by the Authority under the terms of the Indenture.

Amendments. The parties may enter into any amendments hereto for any of the following purposes with the prior written consent of the Bond Insurer: (a) to cure any ambiguity, defect, or omission herein in any amendment hereto; (b) to grant or confer upon the Authority any additional rights, remedies, powers, authority, or security that lawfully may be granted to or conferred upon it; (c) to add to the covenants and agreements of the School District herein contained, other covenants or agreements thereafter to be observed, or to surrender any right or power herein reserved to or conferred upon the School District; (d) to make any appropriate change in connection with the issuance of Additional Bonds under the Indenture; (e) to reflect a change in applicable law, including, but without limitation, any change to the Internal Revenue Code of 1986, as amended; or (f) to revise the description of Leased Premises. All other amendments must be approved by the Trustee, receive the prior written consent of the Bond Insurer, and receive the consent of Owners of Bonds in the same manner and to the same extent as required for amendments or supplements to the Original Indenture as set forth in Section 13.3 thereof.

The Sublease

In connection with the issuance of the 2015 Bonds, the Authority and the School District will enter into the Third Supplemental Sublease, pursuant to which the Authority will sublease the 2015 Leased Premises to the School District for the payment of, *inter alia*, the 2015 Base Rental Payments described below.

Term. The Sublease commenced as of September 1, 2003 and ends June 30, 2036 or earlier upon the discharge of the Indenture and the repayment or defeasance of all Outstanding Bonds. The term shall not under any circumstances end prior to the discharge of the Indenture.

2015 Base Rental Payments. The School District is obligated under the Sublease to make 2015 Base Rental Payments for deposit into the Revenue Fund created under the Indenture, which together with other funds available to the Trustee for payment of debt service, will be sufficient to punctually pay the principal or redemption price of, and interest on, the Bonds on the dates and in the amounts set forth in the such Bonds, in accordance with the Debt Service Schedule. The School District agrees to pay or cause to be paid such 2015 Base Rental Payments on the fifteenth day of the calendar month preceding the required debt service payment date as set forth on the Debt Service Schedule. Payments by the State Treasurer to the Trustee with respect to the 2015 Bonds, pursuant to the Intercept Agreement will be credited against 2015 Base Rental Payments due from the School District under the Sublease. See "SECURITY FOR THE BONDS - The Intercept Agreement" herein.

Full Faith and Credit. The School District covenants in the Sublease that it shall (a) include the 2015 Base Rental Payments in its budget for each year; (b) appropriate such amounts from its general revenues for the payment of such 2015 Base Rental Payments; and (c) duly and punctually pay, or cause to be paid, from any of its revenues or funds the 2015 Base Rental Payments on the dates set forth in the Sublease. For such budgeting, appropriation and payment, the School District pledges its full faith, credit and taxing power, within the limits prescribed by law. Such covenant is specifically enforceable.

No Set-Off. The obligation of the School District to make the payments required by the Sublease is absolute and unconditional. The School District agrees in the Sublease to pay without abatement, diminution or deduction all such amounts regardless of any cause or circumstances whatsoever, which may now exist as of the date of the Sublease or may thereafter arise, including without limitation, any defense, set-off, recoupment or counterclaim which the School District may have or assert against the Authority, the Trustee, any owner of Bonds or any other person.

Partial Release of Leased Premises. Upon written notice to the Authority and to AGM, the School District may release one or more parcels constituting 2015 Leased Premises so long as one or more parcels of each of the 2015 Leased Premises remain subject to the Lease and the Sublease.

Absolute Net Lease. The Sublease is an absolute net lease, and the School District is responsible for all expenses incurred in connection with the 2015 Leased Premises.

Maintenance and Operation of the Leased Premises. The School District agrees in the Sublease to: (a) provide and pay for the operation of the 2015 Leased Premises; (b) maintain and keep the 2015 Leased Premises in the same manner of repair and condition provided for similar properties owned by the School District which are not part of the 2015 Leased Premises; (c) pay all costs necessary for such maintenance and repair; and (d) replace all equipment and furnishings as may be necessary.

Insurance. The School District covenants and agrees in the Sublease to maintain, or cause to be maintained, fire, casualty, builder's risk (during construction) and other insurance (or a self-insurance program with respect thereto) on the buildings, structures and equipment located on the 2015 Leased Premises similar in amount and coverage as is maintained with respect to the facilities of the School District which are similar to the 2015 Leased Premises.

Events of Default. Any one or more of the following events will constitute an "Event of Default" under the Sublease: (a) the School District fails to make any of the Base Rental Payments required under the Sublease when due; (b) the School District defaults in the due and punctual performance of any other of the covenants and agreements contained in the Sublease and such default continues for 60 days after written notice specifying such default and requiring the same to be remedied has been given to the School District by the Authority and the Trustee; (c) if an Event of Default has occurred and is continuing under the Indenture.

Remedies. If an Event of Default has occurred and is continuing, the Authority (or the Trustee as its assignee) may exercise, in addition to other rights and remedies as may exist at the time at law or in equity, any one or more of the following remedies: (i) declare all sums due or to become due thereunder to be immediately due and payable if the Event of Default is continuing for thirty days and upon notice to the School District; (ii) by suit, action, or proceeding at law or in equity, enforce all rights of the Authority, and require the School District to carry out any agreements with or for the benefit of the Owners of Bonds and to perform its duties under the Act and the Sublease.

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Disclosure Agreement") is executed and delivered this ___ day of ___________, 2015, by and between The School District of Philadelphia (the "School District"), and The Bank of New York Mellon Trust Company, N.A. (the "Trustee") in connection with the issuance and sale by the State Public School Building Authority (the "Authority") of its $80,000,000 School Lease Revenue Refunding Bonds (The School District of Philadelphia Project), Series 2015A (the "Bonds"). The Bonds are being issued by the Authority pursuant to a Trust Indenture, dated as of September l, 2003, as amended and supplemented, including by a Third Supplemental Trust Indenture dated as of April 1, 2015 (collectively, the "Indenture"), by and between the Authority and the Trustee, as successor trustee, and the proceeds thereof are being loaned to the School District to undertake the 2015 Project further described therein.

In consideration of the mutual covenants, promises and agreements contained herein and intending to be legally bound hereby, the parties hereto agree as follows:

Section 1. Definitions.

In this Disclosure Agreement and any agreement supplemental hereto (except as otherwise expressly provided or unless the context clearly otherwise requires) terms used as defined terms in the recitals hereto shall have the same meanings throughout this Disclosure Agreement and, in addition, the following terms shall have the meanings specified below:

"Annual Financial Information" means annual financial and operating data of the School District of the nature contained in the sections captioned "School District Financial Procedures" and "School District Operations" and in the charts captioned "The School District of Philadelphia Local Tax Revenues," "The School District of Philadelphia Real Estate Tax Levies and Collections" and "Assessed and Estimated Actual Market Value of Taxable Real Estate" in Appendix A annexed to the Official Statement of the Authority relating to the Bonds, dated March 26, 2015. The Annual Financial Information will be included in and will be submitted in the form of the School District's Comprehensive Annual Financial Report (the "CAFR"). The financial statements comprising the Annual Financial Information are prepared according to accounting methods and procedures which conform to generally accepted accounting principles for governmental units as prescribed by the Governmental Accounting Standards Board.

"Business Day" means any day other than a Saturday, Sunday or a day on which the School District or the Trustee is authorized or required by law, executive order or contract to remain closed.

"Disclosure Representative" means the Chief Financial Officer of the School District, which shall include any individual serving in an interim or acting capacity, or such other official or employee of the School District as the Chief Financial Officer shall designate in writing to the Trustee.

"EMMA" is the Electronic Municipal Market Access System maintained by the MSRB at http://emma.msrb.org, which serves as the sole nationally recognized municipal securities information repository under the Rule.

"Listed Event" means any of the events listed in Section 4(a) of this Disclosure Agreement.

"Material Event" means any of the events listed in Section 4(b) of this Disclosure Agreement, if material within the meaning of the Rule.

"MSRB" means the Municipal Securities Rulemaking Board.

"Participating Underwriters" means any of the original underwriters of the Bonds required to comply with the Rule in connection with the purchase and reoffering of the Bonds.

"Registered Owner or Owners" mean the person or persons in whose name a Bond is registered on the books of the School District kept by the Trustee for that purpose in accordance with the Indenture and the Bonds. For so long as the Bonds shall be registered in the name of the Securities Depository or its nominee, the term "Registered Owners" shall also mean and include, for the purposes of this Disclosure Agreement, the owners of book-entry credits in the Bonds evidencing an interest in the Bonds; provided, however, that the Trustee shall have no obligation to provide notice hereunder to owners of book-entry credits in the Bonds, except those who have filed their names and addresses with the Trustee for the purposes of receiving notices or giving direction under this Disclosure Agreement.

"Rule" means Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, as such Rule may be amended from time to time.

"School Reform Commission" means the School Reform Commission of the School District.

"Securities Depository" means The Depository Trust Company, New York, New York, or its nominee, Cede & Co., or any successor thereto appointed pursuant to the Indenture.

All words and terms used in this Disclosure Agreement and not defined above or elsewhere herein shall have the same meanings as set forth in the Indenture, if defined therein.

Section 2. Authorization and Purpose of Disclosure Agreement.

This Disclosure Agreement is authorized to be executed and delivered by the School District in order to assist the Participating Underwriters in complying with their obligations under the Rule.

Section 3. Annual Financial Information.

Within 240 days of the close of each fiscal year of the School District, commencing with the fiscal year ending June 30, 2015, the Disclosure Representative shall file, with the Trustee, Annual Financial Information for such fiscal year. The Trustee shall promptly upon receipt thereof file the Annual Financial Information with the MSRB via EMMA. The Annual Financial Information will be in the form of the CAFR and will contain unaudited financial statements if audited financial statements are not available.

As soon as audited financial statements for the School District are available, commencing with the audited financial statements for the fiscal year ending June 30, 2015, the Disclosure Representative shall file the audited financial statements with the Trustee. The Trustee shall promptly upon receipt thereof file the audited financial statements with the MSRB via EMMA.

If the Trustee has not received the Annual Financial Information by 12:00 noon (Philadelphia Time) on the first business day following the filing date therefor, the School District directs the Trustee to immediately file a notice with the MSRB via EMMA of such failure.

Section 4. Reportable Events.

(a) The School District agrees that it shall provide through the Trustee, in a timely manner not in excess of ten Business Days after the occurrence of the event, to the MSRB via EMMA, notice of any of the following Listed Events with respect to the Bonds:

(1) principal and interest payment delinquencies;

(2) unscheduled draws on debt service reserves reflecting financial difficulties;

(3) unscheduled draws on credit enhancements reflecting financial difficulties;

(4) substitution of credit or liquidity providers, or their failure to perform;

(5) defeasances;

(6) rating changes;

(7) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability or Notices of Proposed Issue (IRS Form 5701-TEB);

(8) tender offers; and

(9) bankruptcy, insolvency, receivership or similar proceeding of the School District.[1]

The nine (9) Listed Events listed in this Section 4(a) are quoted directly from the Rule.

(b) The School District agrees that it shall provide through the Trustee, in a timely manner not in excess of ten Business Days after the occurrence of the event, and upon

[1] This event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officers for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

determining the materially thereof within the meaning of the Rule, notice of any of the following Material Events with respect to the Bonds:

(1) non-payment related defaults;

(2) in addition to the events listed in Section 4(a)(7), the issuance by the Internal Revenue Service of other notices or determinations with respect to the tax status of the Bonds, or other events affecting the tax status of the Bonds;

(3) modifications to rights of the holders of the Bonds;

(4) Bond calls;

(5) release, substitution or sale of property securing repayment of the Bonds;

(6) appointment of a successor or additional trustee, or the change of name of a trustee; and

(7) the consummation of a merger, consolidation, or acquisition involving the School District, the sale of all or substantially all of the assets of the School District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.

The seven (7) Material Events listed in this Section 4(b) are quoted directly from the Rule.

(c) Whenever the School District concludes that a Listed Event or a Material Event has occurred, the Disclosure Representative shall promptly notify the Trustee in writing of such occurrence, specifying the Listed Event or Material Event. Such notice shall instruct the Trustee to file a notice of such occurrence (as provided by the School District) with the MSRB via EMMA. Upon receipt, the Trustee shall promptly file such notice with the MSRB via EMMA.

(d) Notwithstanding the foregoing, the Trustee shall, promptly after obtaining actual knowledge of an event listed in Sections 4(a)(l) or (5), or 4(b)(4), notify the Disclosure Representative of the occurrence of such event and shall, within three (3) Business Days of giving notice to the Disclosure Representative, file notice of such occurrence with the MSRB via EMMA, unless the Disclosure Representative gives the Trustee written instructions not to file such notice because the event has not occurred or the event listed in Section 4(b)(4) is not material within the meaning of the Rule.

(e) The Trustee shall prepare an affidavit of filing for each notice delivered pursuant to Sections 4(a) and (b) hereunder. In addition to the filing information, such affidavit shall also specify the date and hour of receipt of such notice by the MSRB to the extent such information has been provided to the Trustee. Such affidavit shall be delivered to the School District no later than three (3) Business Days following the date of filing of each such notice by the Trustee.

Section 5. Amendment; Waiver.

(a) Notwithstanding any other provision of this Disclosure Agreement, the School District and the Trustee may amend this Disclosure Agreement or waive any of the provisions hereof, provided that no such amendment or waiver shall be executed by the parties hereto or effective unless:

(1) the amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in identity, nature or status of the School District or the governmental operations conducted by the School District;

(2) the Disclosure Agreement, as amended by the amendment or waiver, would have been the written undertaking contemplated by the Rule at the time of original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(3) the amendment or waiver does not materially impair the interests of the Registered Owners of the Bonds.

(b) Evidence of compliance with the conditions set forth in clause (a) of this Section 5 shall be satisfied by the delivery to the Trustee of an opinion of counsel having recognized experience and skill in the issuance of municipal securities and federal securities law, acceptable to both the School District and the Trustee, to the effect that the amendment or waiver satisfies the conditions set forth in clauses (a)(l), (2) and (3) of this Section 5.

(c) Notice of any amendment or waiver containing an explanation of the reasons therefor shall be given by the Disclosure Representative to the Trustee upon execution of the amendment or waiver and the Trustee shall promptly file such notice with the MSRB via EMMA. The Trustee shall also send notice of the amendment or waiver to each Registered Owner (including owners of book-entry credits in the Bonds who have filed their names and addresses with the Trustee).

Section 6. Other Information; Duties Under the Indenture.

(a) Nothing in this Disclosure Agreement shall preclude the School District from disseminating any other information with respect to the School District or the Bonds using the means of communication provided in this Disclosure Agreement or otherwise, in addition to the notices of Listed Events and Material Events specifically provided for herein, nor shall the School District be relieved of complying with any applicable law relating to the availability and inspection of public records. Any election by the School District to furnish any information not specifically provided for herein in any notice given pursuant to this Disclosure Agreement or by the means of communication provided for herein shall not be deemed to be an additional contractual undertaking and the School District shall have no obligation to furnish such information in any subsequent notice or by the same means of communication.

(b) Nothing in this Disclosure Agreement shall relieve the Trustee of any of its duties and obligations under the Indenture.

(c) Except as expressly set forth in this Disclosure Agreement, the Trustee shall have no responsibility for any continuing disclosure to the Registered Owners or the MSRB.

(d) The School District and the Trustee will make any and all filings with the MSRB via EMMA in an electronic format and accompanied by identifying information, in each case as prescribed by the MSRB.

Section 7. Default.

(a) In the event that the School District or the Trustee fails to comply with any provision of this Disclosure Agreement, the Trustee or any Registered Owner of the Bonds shall have the right, by mandamus, suit, action or proceeding at law or in equity, to compel the School District or the Trustee to perform each and every term, provision and covenant contained in this Disclosure Agreement. The Trustee shall be under no obligation to take any action in respect of any default hereunder unless it has received the direction in writing to do so by the Registered Owners of at least 25% of the outstanding principal amount of the Bonds and if, in the Trustee's opinion, such action may tend to involve expense or liability, unless it is also furnished with indemnity and security for its fees and expenses (including, without limitation, attorneys' fees and expenses) satisfactory to it.

(b) A default under this Disclosure Agreement shall not be or be deemed to be a default under the Bonds or the Indenture and the sole remedy in the event of a failure by the School District or the Trustee to comply with the provisions hereof shall be the action to compel performance described in clause (a) above.

Section 8. Concerning the Trustee.

(a) The Trustee may execute any powers hereunder and perform any duties required of it through attorneys, agents, and other experts, officers, or employees, selected by it, and the written advice of such counsel or other experts shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon. The Trustee shall not be answerable for the default or misconduct of any attorney, agent, expert or employee selected by it with reasonable care. The Trustee shall not be answerable for the exercise of any discretion or power under this Disclosure Agreement or liable to the School District or any other person for actions taken hereunder, except for its own willful misconduct or negligence. None of the provisions contained in this Agreement shall require the Fiscal Agent to use or advance its own funds in the performance of any of its duties or the exercise of any of its rights or powers hereunder.

(b) The School District shall pay the Trustee reasonable compensation for its services hereunder, and also all its reasonable expenses and disbursements, including reasonable fees and expenses of its counsel or other experts, as shall be agreed upon by the Trustee and the School District. To the extent permitted by law, the School District will reimburse the Trustee for claims, damages, fines, penalties and expenses, including reasonable and actual out-of-pocket expenses, including reasonable legal fees and expenses, and the allocated costs and expenses of in house counsel (to the extent not covered by the Trustee's fees and expenses referred to in the preceding sentence hereof) (collectively, "Expenses") that are imposed on or are incurred by the Trustee for following any instructions or directions upon which the Trustee is authorized to rely hereunder. In addition, to the extent permitted by law, the School District agrees to reimburse the Trustee for Expenses imposed on or incurred by the Trustee in connection with or arising out of the Trustee's performance under this Disclosure Agreement; provided that the Trustee has not acted with negligence or engaged in willful misconduct. The provisions of this paragraph shall survive termination of this Disclosure Agreement and the resignation or removal of the Trustee.

(c) The Trustee may act on any resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, or other paper or document which it in good faith believes to be genuine and to have been passed or signed by the proper persons or to have been prepared and furnished pursuant to any of the provisions of this Disclosure Agreement; and the Trustee shall be under no duty to make any investigation as to any statement contained in any such instrument, but may accept the same as conclusive evidence of the accuracy of such statement in the absence of actual notice to the contrary.

Section 9. No Obligation of the Authority; Indemnification of the Authority

(a) The Authority shall not have any responsibility or liability in connection with this Disclosure Agreement, the School District's compliance with the Rule, its filing obligations under this Disclosure Agreement or in connection with the contents of those filings. Each submittal of information prepared by the School District required by this Disclosure Agreement shall set forth on its cover page the following language:

The information contained herein is being filed by The School District of Philadelphia pursuant to a Continuing Disclosure Agreement between the School District and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Disclosure Agreement"), which was executed and delivered in order to assist the Participating Underwriters (as defined in the Disclosure Agreement) in complying with their obligations under Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Neither the State Public School Building Authority nor The Bank of New York Mellon Trust Company, N A. has participated in the presentation of this report or examined its contents and does not make any representations concerning the accuracy and completeness of the information contained herein.

(b) The School District agrees to indemnify and save the Authority, and its members, officers, employees and agents, harmless against any loss, expense (including reasonable attorneys' fees) or liability arising out of (i) any breach by the School District of this Disclosure Agreement or (ii) any Annual Financial Information or notices provided under this Disclosure Agreement or any omissions therefrom.

Section 10. Term of Disclosure Agreement.

This Disclosure Agreement shall terminate (1) upon payment or provision for payment in full of the Bonds, or (2) upon repeal or rescission of Section (b)(5) of the Rule, or (3) upon a final determination that Section (b)(5) of the Rule is invalid or unenforceable.

Section 11. Beneficiaries.

This Disclosure Agreement shall inure solely to the benefit of the School District, the Trustee and the Registered Owners from time to time of the Bonds and nothing herein contained shall confer any right upon any other person.

Section 12. Notices.

Any written notice to or demand may be served, presented or made to the persons named below and shall be sufficiently given or filed for all purposes of this Disclosure Agreement if deposited in the United States mail, first class postage prepaid or in a recognized form of overnight mail or by telecopy or electronic means with confirmation of receipt, addressed:

(a) To the Trustee at:

The Bank of New York Mellon Trust Company, N.A.
1735 Market Street, 6th Floor, AIM No. 193-0650
Philadelphia, Pennsylvania 19103
Attention: Global Corporate Trust -Public Finance
Telecopy No: (215) 553-6915/6919
Email: Michael.Judge@bnymellon.com

(b) To the School District or the Disclosure Representative at:

The School District of Philadelphia
440 N. Broad Street -3rd Floor
Philadelphia, PA 19130
Attention: Chief Financial Officer
Telecopy No: (215) 400-4581
Email: mstanski@philasd.org

(c) To the MSRB at:

http://emma.msrb.org

Section 13. No Personal Recourse.

No personal recourse shall be had for any claim based on this Disclosure Agreement against any member, officer, or employee, past, present or future, of the School Reform Commission or the School District (including without limitation, the Disclosure Representative), or of any successor body as such, either directly or through the School Reform Commission or the School District or any such successor body, under any constitutional provision, statute or rule of law or by the enforcement of any assessment or penalty or otherwise.

Section 14. Controlling Law.

The laws of the Commonwealth of Pennsylvania shall govern the construction and interpretation of this Disclosure Agreement.

Section 15. Removal and Resignation of Trustee.

The provisions of Article X of the Indenture shall govern resignation or removal of the Trustee and are hereby incorporated by this reference as if set forth at length herein.

Section 16. Successors and Assigns.

All of the covenants, promises and agreements contained in this Disclosure Agreement by or on behalf of the School District or by or on behalf of the Trustee shall bind and inure to the benefit of their respective successors and assigns, whether so expressed or not.

Section 17. Headings for Convenience Only.

The descriptive headings in this Disclosure Agreement are inserted for convenience of reference only and shall not control or affect the meaning or construction of any of the provisions hereof.

Section 18. Counterparts.

This Disclosure Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be an original; but such counterparts shall together constitute but one and the same instrument.

Section 19. Entire Agreement.

This Disclosure Agreement sets forth the entire understanding and agreement of the School District with respect to the matters herein contemplated and no modification or amendment of or supplement to this Disclosure Agreement shall be valid or effective unless the same is in writing and signed by the parties hereto.

[Remainder of Page Left Blank Intentionally]

IN WITNESS WHEREOF, THE SCHOOL DISTRICT OF PHILADELPHIA, has caused this Disclosure Agreement to be executed by its Chief Financial Officer and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., has caused this Disclosure Agreement to be executed by one of its authorized officers, all as of the day and year first above written.

THE SCHOOL DISTRICT OF PHILADELPHIA

By: ________________________________
Chief Financial Officer

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A, as Trustee

By: ________________________________
Authorized Officer

[Signature Page to Continuing Disclosure Agreement]

APPENDIX F

FORM OF OPINION OF BOND COUNSEL

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FORM OF OPINION OF BOND COUNSEL

__________, 2015

Re: $80,000,000, Aggregate Principal Amount, State Public School Building Authority (Commonwealth of Pennsylvania) School Lease Revenue Refunding Bonds (The School District of Philadelphia Project), Series 2015A

To the Purchasers of the Within-Described Bonds:

We have served as Bond Counsel to the State Public School Building Authority (the "Authority"), in connection with the issuance of $80,000,000, aggregate principal amount, School Lease Revenue Refunding Bonds (The School District of Philadelphia Project), Series 2015A (the "Bonds"), by the Authority under the provisions of the State Public School Building Authority Act, approved by the General Assembly of the Commonwealth of Pennsylvania on July 5, 1947, P.L. 1217, as amended and supplemented (the "Act"), and pursuant to: (i) a resolution adopted by the Authority on February 5, 2015; and (ii) a Third Supplemental Trust Indenture, dated as of April 1, 2015 (the "Third Supplemental Indenture"), which amended and supplemented a Trust Indenture, dated as of September 1, 2003 (the "Original Indenture"), as previously amended and supplemented by a First Supplemental Trust Indenture, dated as of December 1, 2006 (the "First Supplemental Indenture") and by a Second Supplemental Trust Indenture, dated as of November 1, 2012 (the "Second Supplemental Indenture," and together with the Original Indenture, the First Supplemental Indenture and the Third Supplemental Indenture, the "Indenture") between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee").

The proceeds of the Bonds will be used to finance the: (i) advance refunding of a portion of the Authority's School Lease Revenue Bonds (The School District of Philadelphia Project) Series 2006A; and (ii) payment of the costs and expenses of issuing the Bonds.

The School District of Philadelphia (the "School District"), as lessor, and the Authority, as lessee, have entered into a Third Supplemental Lease Agreement, dated as of April 1, 2015 (the "Third Supplemental Lease"), which amends and supplements a Lease Agreement, dated as of September 1, 2003 (the "Original Lease"), as previously amended and supplemented by a First Supplemental Lease Agreement, dated as of December 1, 2006 (the "First Supplemental Lease") and by a Second Supplemental Lease Agreement, dated as of November 1, 2012 (the "Second Supplemental Lease," and together with the Original Lease, the First Supplemental Lease and the Third Supplemental Lease, the "Lease") pursuant to which the School District has leased certain of its real estate, including the buildings, fixtures, improvements, furnishings and equipment thereon (the "2015 Leased Premises"), to the Authority. In accordance with the Lease, the Authority will pay to the School District a lump sum lease rental payment equal to the proceeds of the Bonds. Pursuant to a Third Supplemental Sublease Agreement, dated as of April 1, 2015 (the "Third Supplemental Sublease"), which amends and supplements a Sublease Agreement, dated as of September 1, 2003 (the "Original Sublease"), as previously amended and supplemented by a First Supplemental Sublease Agreement, dated as of December 1, 2006 (the "First Supplemental Sublease") and by a Second Supplemental Sublease Agreement, dated as of November 1, 2012 (the "Second Supplemental Sublease," and together with the Original Sublease, the First Supplemental Sublease and the Third Supplemental Sublease, the "Sublease"), between the Authority, as sublessor, and the School District, as sublessee, the Authority will sublease the 2015 Leased Premises to the School District for certain sublease rental payments (the "2015 Base Rental Payments"), which will be payable by the School District in the amounts and at the times necessary, as set forth in the Third Supplemental Sublease, to enable the Authority to timely pay in full all debt service on the Bonds. The School District has entered into the Third Supplemental Sublease in accordance with the terms and provisions of the Local Government Unit Debt Act of the Commonwealth of Pennsylvania, 53 Pa. C.S. Chs. 80-82 (the "Debt Act"), and in accordance with the Debt Act, the School District has covenanted in the Third Supplemental Sublease that it shall: (i) include the 2015 Base Rental Payments in its budget for each fiscal year in an amount sufficient to pay the debt service on the Bonds; (ii) appropriate such amounts from its general revenues for the payment of such 2015 Base Rental Payments; and (iii) duly and punctually pay, or cause to be paid, from any of its revenues or funds, the 2015 Base Rental Payments at the dates and place and in the manner stated in the Third Supplemental Sublease. For such budgeting, appropriation and payment, the School District has pledged its full faith, credit and taxing power within the limitations provided by law.

Pursuant to provisions of the Assignment of Third Supplemental Sublease, dated as of April 1, 2015 ("Assignment"), from the Authority to the Trustee, the Authority has, among other things, pledged, assigned and granted to the Trustee substantially all of its right, title and interest in and to the Third Supplemental Sublease (except for certain indemnification rights, rights to receive notices, rights to provide approvals and rights to be reimbursed for certain costs and expenses that it may incur, as provided in the Sublease).

Pursuant to a Third Amendment to Intercept Agreement, dated as of April 1, 2015 (the "Third Amendment to Intercept Agreement"), which amends and supplements the Intercept Agreement, dated as of September 1, 2003 (the "Original Intercept Agreement"), as previously amended and supplemented by a First Amendment to Intercept Agreement, dated as of December 1, 2006 (the "First Amendment to Intercept Agreement") and by a Second Amendment to Intercept Agreement, dated as of November 1, 2012 (the "Second Amendment to Intercept Agreement," and together with the Original Intercept Agreement, the First Amendment to Intercept Agreement and the Third Amendment to Intercept Agreement, the "Intercept Agreement"), each by and among the Authority, the Treasurer of the Commonwealth of Pennsylvania (the "State Treasurer") and the School District and accepted and agreed to by the Department of Education (the "Department") and the Trustee, the School District has instructed the Department to instruct and direct the State Treasurer to withhold from appropriations of the Commonwealth of Pennsylvania due to the School District, on the last Thursday of the months of

April and October, commencing in April, 2015, amounts equal to the 2015 Base Rental Payments due from the School District on the next succeeding November 15 or May 15, as applicable, commencing May 15, 2015, and to pay the same directly to the Trustee, as assignee of the Authority under the Third Supplemental Sublease.

As Bond Counsel for the Authority, we have examined: (a) the relevant provisions of the Constitution of the Commonwealth of Pennsylvania ("Commonwealth"); (b) the Act; (c) the Debt Act; (d) the relevant provisions of the Pennsylvania Public School Code of 1949, as amended; (e) the proceedings of the Authority relative to the authorization, issuance and sale of the Bonds, including the Indenture, the Lease, the Sublease, the Assignment and the Intercept Agreement; (f) the resolution adopted by the School Reform Commission of the School District on March 26, 2015 (the "Resolution"), the Debt Statement of the School District and other proceedings of the School District filed with the Pennsylvania Department of Community and Economic Development ("DCED"); (g) a Certificate of Approval issued by DCED in respect of the proceedings authorizing the incurrence of lease rental debt by the School District; and (h) certain statements, certifications, affidavits and other documents and matters of law which we have considered relevant, including, without limitation, a certificate dated the date hereof ("Tax Compliance Certificate") of officials of the Authority and the School District having responsibility for issuing the Bonds, given pursuant to the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder ("Code"), an opinion of Counsel to the Authority as to various matters, an opinion of the General Counsel to the School District as to various matters, and the other documents, certifications and instruments listed in the Closing Index filed with the Trustee on the date of original delivery of the Bonds. We have also examined a fully executed and authenticated Bond, or a true copy thereof, and we assume all other Bonds are in such form and are similarly executed and authenticated. In rendering this opinion, we have assumed the due authorization, execution and delivery of the Original Indenture, Original Lease, Original Sublease, Original Intercept Agreement, First Supplemental Indenture, First Supplemental Lease, First Supplemental Sublease, First Amendment to Intercept Agreement, Second Supplemental Indenture, Second Supplemental Lease, Second Supplemental Sublease and Second Amendment to Intercept Agreement by all parties thereto, including the Authority. We have also assumed the due authorization, execution and delivery of the Third Supplemental Indenture, the Third Supplemental Lease, the Third Supplemental Sublease, and the Third Amendment to Intercept Agreement by all parties thereto, other than the Authority.

In rendering the opinion set forth below, we have relied upon the genuineness, accuracy and completeness of all documents, records, certifications and other instruments we have examined, including, without limitation, the authenticity of all signatures appearing thereon. We have also relied, in the opinion set forth below, upon the opinion of the General Counsel to the School District as to all matters of fact and law set forth therein, and upon the opinion of the Counsel to the Authority with respect to the absence of any challenge to the corporate existence or powers of the Authority, the incumbency of officers of the Authority and their entitlement to their offices, the due convening and conduct of meetings of the Board of the Authority at which action was taken in respect of the Bonds and other matters incident to, inter alia, the execution and delivery by the Authority of the Third Supplemental Indenture, the Third Supplemental Lease, the Third Supplemental Sublease, the Assignment, the Third Amendment to Intercept Agreement, and the Bonds and such other documentation as the Authority, or members or officers of the Board of the Authority or of the Authority, were required to execute and deliver in connection with the issuance of the Bonds.

Except with respect to paragraph 5 below, our opinion is given only with respect to the internal laws of the Commonwealth as enacted and construed on the date hereof.

Based upon the foregoing, we are of the opinion that:

1. The Authority is a body corporate and politic, is validly existing under the laws of the Commonwealth and has the corporate power and lawful authority: (a) to execute and deliver the Third Supplemental Indenture, the Third Supplemental Lease, the Third Supplemental Sublease, the Assignment, and the Third Amendment to Intercept Agreement; and (b) to issue and deliver the Bonds.

2. The Third Supplemental Indenture, the Third Supplemental Lease, the Third Supplemental Sublease, the Assignment, and the Third Amendment to Intercept Agreement have been duly authorized, executed and delivered by the Authority and the Indenture, the Lease, the Sublease, the Assignment and the Intercept Agreement are legal, valid and binding obligations of the Authority enforceable in accordance with the respective terms thereof, except to the extent that enforcement thereof may be affected by bankruptcy, insolvency, reorganization, moratorium or other similar laws or legal or equitable principles affecting the enforcement of creditors' rights ("Creditors' Rights Limitations").

3. The Bonds have been duly authorized, executed, authenticated, issued and delivered, and are the legal, valid and binding obligations of the Authority, payable solely from the revenues received by the Authority pursuant to the Sublease, and are enforceable in accordance with the terms thereof, except to the extent enforcement thereof may be affected by Creditors' Rights Limitations.

4. Under the laws of the Commonwealth as enacted and construed on the date hereof, the Bonds are exempt from personal property taxes in the Commonwealth and interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax; however, under the laws of the Commonwealth as enacted and construed on the date hereof, any profits, gains or income derived from the sale, exchange or other disposition of the Bonds will be subject to Pennsylvania taxes and local taxes within the Commonwealth.

5. Under existing statutes, regulations, rulings and court decisions, interest on the Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes assuming continuing compliance by the Authority and the School District with the requirements of the Code. Interest on the Bonds will not be a specific preference item for purposes of computing the federal alternative minimum tax ("AMT"); however, interest on the Bonds held by certain corporations is included in the computation of "Adjusted Current Earnings", a portion of which is taken into account in determining the AMT imposed on such corporations.

In rendering this opinion, we have assumed compliance by the Authority with its covenants set forth in the Indenture and the Authority's representations in the Tax Compliance Certificate relating to actions to be taken by the Authority after issuance of the Bonds necessary to effect or maintain the exclusion from gross income of the interest on the Bonds for federal income tax purposes. We have also assumed compliance by the School District with its covenants set forth in the Resolution and the School's District's representations in the Tax Compliance Certificate relating to actions to be taken by the School District after issuance of the Bonds necessary to effect or maintain the exclusion from gross income of the interest on the Bonds for federal income tax purposes. These respective representations and covenants relate to, inter alia, the use of and investment of proceeds of the Bonds, and the rebate to the United States Department of Treasury of specified arbitrage earnings, if any. Failure to comply with such covenants could result in the interest on the Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Bonds.

We call to your attention the fact that the Bonds are payable solely from amounts to be received by the Authority under the Sublease and that the Bonds are special, limited obligations of the Authority, and neither the faith nor the credit of the Commonwealth nor the credit of the Authority is pledged to the payment of the Bonds. The Authority has no taxing power.

We express no opinion as to any matter not set forth in the numbered paragraphs herein. This opinion is given as of the date hereof and we assume no obligation to supplement this opinion to reflect changes in law which may hereafter occur or changes in facts or circumstances which may hereafter come to our attention. Without limiting the generality of the foregoing, we express no opinion herein with respect to and assume no responsibility for, the accuracy, adequacy or completeness of the preliminary official statement or the official statement prepared in respect of the Bonds, and make no representation that we have independently verified the contents thereof.

Very truly yours,

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APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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ASSURED GUARANTY MUNICIPAL

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: $ in aggregate principal amount of

Effective Date:

Premium: $

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By ______________________________
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
31 West 52nd Street, New York, N.Y. 10019
(212) 974-0100

Form 500NY (5/90)

SCHOOL REFORM COMMISSION

THE SCHOOL DISTRICT OF PHILADELPHIA, PA.