

SUPPLEMENT DATED NOVEMBER 17, 2016

to

OFFICIAL STATEMENT DATED OCTOBER 20, 2016

relating to

\$821,745,000

**THE SCHOOL DISTRICT OF PHILADELPHIA
GENERAL OBLIGATION BONDS, SERIES OF 2016**

Consisting of:

\$92,345,000 General Obligation Bonds, Series D of 2016,

\$147,245,000 General Obligation Bonds, Series E of 2016

(Qualified School Construction Bonds – Federally Taxable – Direct Subsidy),

and

\$582,155,000 General Obligation Refunding Bonds, Series F of 2016

The purpose of this Supplement is to correct a CUSIP Number* contained in the Official Statement dated October 20, 2016 (the “Official Statement”) relating to the above-referenced bonds. **This Supplement should be read in conjunction with the Official Statement in its entirety.**

The Official Statement is hereby amended to correct the CUSIP Number* for The School District of Philadelphia General Obligation Refunding Bonds, Series F of 2016 maturing on September 1, 2038, to 717883TP7. Except for such correction, the Official Statement is unchanged.

* 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 number listed above is being provided solely for the convenience of bondholders only at the time of issuance of the above-described bonds and The School District of Philadelphia and the Underwriters of such bonds 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 such 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 such bonds. The School District of Philadelphia and the Underwriters of such bonds have not undertaken responsibility for any CUSIP number changes resulting from the purchase of secondary market enhancement.

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



\$821,745,000
THE SCHOOL DISTRICT OF PHILADELPHIA
GENERAL OBLIGATION BONDS, SERIES OF 2016

Consisting of:

\$92,345,000 General Obligation Bonds, Series D of 2016,

\$147,245,000 General Obligation Bonds, Series E of 2016

(Qualified School Construction Bonds – Federally Taxable – Direct Subsidy),
and

\$582,155,000 General Obligation Refunding Bonds, Series F of 2016

Dated: Date of Delivery

Due: As Shown on Inside Cover Page

The School District of Philadelphia General Obligation Bonds, Series of 2016, consisting of \$92,345,000 General Obligation Bonds, Series D of 2016 (the "Series D Bonds"), \$147,245,000 General Obligation Bonds, Series E of 2016 (Qualified School Construction Bonds – Federally Taxable – Direct Subsidy) (the "Series E Bonds"), and \$582,155,000 General Obligation Refunding Bonds, Series F of 2016 (the "Series F Bonds," and collectively with the Series D Bonds and the Series E Bonds, the "Bonds") are issuable as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Purchases of beneficial ownership interests in the Bonds will be made in book-entry-only form. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds. The Bonds will be issuable in denominations of \$5,000 or any integral multiple thereof. Principal and interest on the Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., Philadelphia, Pennsylvania, as sinking fund depository, fiscal agent, registrar and paying agent (the "Fiscal Agent"), directly to Cede & Co., as nominee for DTC, for redistribution by DTC to its participants and in turn to purchasers of the Bonds as described herein. See APPENDIX G attached hereto. Interest on the Bonds shall be paid on each March 1 and September 1, commencing on March 1, 2017.

The proceeds of the Series D Bonds are being used by The School District of Philadelphia (the "School District") to pay: (i) the costs of certain capital projects to be undertaken by the School District; and (ii) the costs of issuance of the Series D Bonds. The proceeds of the Series E Bonds are being used pay: (i) the costs of certain capital projects to be undertaken by the School District for public school purposes that constitute "qualified expenditures" under Section 54F of the Internal Revenue Code of 1986, as amended (the "Code"); and (ii) the costs of issuance of the Series E Bonds not to exceed 2% of the proceeds of the Series E Bonds. The proceeds of the Series F Bonds are being used, together with other available moneys, to: (i) advance refund a portion of the School District's General Obligation Bonds, Series E of 2008 and Series F of 2008; (ii) currently refund all of the School District's General Obligation Bonds, Series A of 2016, Series B of 2016 and Series C of 2016; and (iii) pay the costs of issuance of the Series F Bonds.

The School District will designate and issue the Series E Bonds as "Qualified School Construction Bonds" pursuant to Section 54F of the Code. Pursuant to Section 6431 of the Code, the School District will irrevocably elect to receive periodic interest subsidy payments from the United States Treasury on or before each interest payment date for the Series E Bonds as further described herein. Such periodic interest subsidy payments are not pledged as security for the Bonds. See "TAX MATTERS" herein.

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 debt service payable on the Bonds (including, with respect to the Series E Bonds, the amount of mandatory sinking fund installment payments required to be made) for such fiscal year and will duly and punctually pay or cause to be paid from the sinking fund established for each series of Bonds under a resolution adopted by the School Reform Commission of the School District on October 20, 2016 (the "Resolution"), or from any of its other revenues or funds, the principal or redemption price of, and interest on, the Bonds at the dates and places and in the manner stated in the Bonds. 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. See "SECURITY FOR THE BONDS" and "APPENDIX A - SOURCES OF SCHOOL DISTRICT REVENUE."

The School District has further covenanted in the Resolution to make daily deposits into the sinking funds established for the Bonds of certain School District tax revenues. See "SECURITY FOR THE BONDS - Daily Sinking Fund Deposits."

The Public School Code of 1949, as amended (the "School Code"), provides that if a school district fails to pay (or provide for payment of) any principal or interest or the amount required as a sinking fund deposit on indebtedness of the school district, the Secretary of Education of the Commonwealth of Pennsylvania is required to withhold, out of any Commonwealth appropriation due to such school district, and to pay directly to the sinking fund depository for such bonds, an amount equal to the sum of the interest and principal amount maturing or subject to mandatory redemption or the amount required as a sinking fund deposit which is owing by such school district. The Bonds are entitled to the benefits of the intercept provisions of the School Code; however, the intercept provisions of the School Code are not part of any contract with the holders of the Bonds and may be amended or repealed by future legislation. See "SECURITY FOR THE BONDS - Direct Payment of State Appropriations to Fiscal Agent."

The Bonds are subject to redemption as provided herein. See "DESCRIPTION OF THE BONDS."

This cover page contains certain information regarding the School District and the Bonds 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 regarding the Bonds.

The 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 School District by the Office of the General Counsel to the School District and for the Underwriters by their counsel Cozen O'Connor, Philadelphia, Pennsylvania. It is expected that the Bonds will be available for delivery in definitive form through DTC in New York, New York on or about November 16, 2016.

BofA Merrill Lynch

Janney Montgomery Scott

Barclays Capital

Loop Capital Markets

Citigroup

Morgan Stanley

PNC Capital Markets LLC

J.P. Morgan

RBC Capital Markets

TD Securities

\$821,745,000
THE SCHOOL DISTRICT OF PHILADELPHIA
GENERAL OBLIGATION BONDS, SERIES OF 2016
\$92,345,000 General Obligation Bonds, Series D of 2016

Due (September 1)	Amount	Interest Rate	Yield	Price	CUSIP [†] NO.
2017	\$ 5,890,000	5.000%	1.580%	102.677	717883SE3
2018	6,190,000	5.000%	1.800%	105.614	717883SF0
2019	6,510,000	5.000%	1.960%	108.216	717883SG8
2020	6,845,000	5.000%	2.140%	110.359	717883SH6
2021	7,195,000	5.000%	2.270%	112.325	717883SJ2
2022	7,565,000	5.000%	2.420%	113.860	717883SK9
2023	7,950,000	5.000%	2.610%	114.782	717883SL7
2024	8,360,000	5.000%	2.780%	115.452	717883SM5
2025	8,790,000	5.000%	2.960%	115.685	717883SN3
2026	9,240,000	5.000%	3.070%	116.210	717883SP8
2027	9,710,000	5.000%	3.170%*	115.296*	717883SQ6
2028	8,100,000	5.000%	3.280%*	114.300*	717883SR4

\$147,245,000 General Obligation Bonds, Series E of 2016
(Qualified School Construction Bonds – Federally Taxable – Direct Subsidy)

\$147,245,000 5.060% Bonds Due September 1, 2042 Price: 100.000 Yield: 5.060% CUSIP[†] NO. 717883SD5

\$582,155,000 General Obligation Refunding Bonds, Series F of 2016

Due (September 1)	Amount	Interest Rate	Yield	Price	CUSIP [†] NO.
2017	\$ 560,000	5.000%	1.580%	102.677	717883SS2
2018	565,000	5.000%	1.800%	105.614	717883ST0
2019	5,750,000	5.000%	1.960%	108.216	717883SU7
2020	22,255,000	5.000%	2.140%	110.359	717883SV5
2021	22,535,000	5.000%	2.270%	112.325	717883SW3
2022	22,845,000	5.000%	2.420%	113.860	717883SX1
2023	23,210,000	5.000%	2.610%	114.782	717883SY9
2024	53,050,000	5.000%	2.780%	115.452	717883SZ6
2025	56,435,000	5.000%	2.960%	115.685	717883TA0
2026	34,965,000	5.000%	3.070%	116.210	717883TB8
2027	63,675,000	5.000%	3.170%*	115.296*	717883TC6
2028	60,510,000	5.000%	3.280%*	114.300*	717883TD4
2029	62,700,000	5.000%	3.370%*	113.493*	717883TE2
2030	39,315,000	5.000%	3.450%*	112.781*	717883TF9
2031	12,135,000	5.000%	3.520%*	112.163*	717883TG7
2032	12,760,000	5.000%	3.580%*	111.636*	717883TH5
2033	13,415,000	5.000%	3.640%*	111.112*	717883TJ1
2034	14,100,000	5.000%	3.670%*	110.851*	717883TK8
2035	14,820,000	5.000%	3.700%*	110.591*	717883TL6
2036	15,585,000	5.000%	3.730%*	110.332*	717883TM4
2037	16,380,000	5.000%	3.750%*	110.159*	717883TN2
2038	14,590,000	5.000%	3.770%*	109.987*	717883T97

[†] 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 Bonds and 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 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 Bonds. The School District and the Underwriters have not undertaken responsibility for any CUSIP number changes resulting from the purchase of secondary market enhancement.

* Price/yield to the first optional redemption date of September 1, 2026, at par.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 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 BONDS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.

No dealer, broker, salesman or other person has been authorized by 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 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 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 School District. 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 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 five paragraphs under such heading, or for the information contained in APPENDICES C or F hereto.

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 Bonds are not and will not be registered under the Securities Act of 1933, as amended, and the Resolution 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 Bonds and the terms of the offering, including the merits and risks involved.

THE SCHOOL DISTRICT OF PHILADELPHIA

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SCHOOL REFORM COMMISSION

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FINANCIAL ADVISOR

PHOENIX CAPITAL PARTNERS, LLP

*Marjorie G. Neff has resigned, effective November 3, 2016. See “APPENDIX A — THE SCHOOL DISTRICT OF PHILADELPHIA — School Reform Commission” herein.

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**The Table of Contents does not list all of the subjects in the Official Statement and in all instances reference should be made to the complete Official Statement to determine the subjects set forth herein.*

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OFFICIAL STATEMENT

Relating to

\$821,745,000

THE SCHOOL DISTRICT OF PHILADELPHIA

GENERAL OBLIGATION BONDS, SERIES OF 2016

Consisting of:

\$92,345,000 General Obligation Bonds, Series D of 2016,

\$147,245,000 General Obligation Bonds, Series E of 2016

(Qualified School Construction Bonds – Federally Taxable – Direct Subsidy),

and

\$582,155,000 General Obligation Refunding Bonds, Series F of 2016

INTRODUCTION

The purpose of this Official Statement, including the cover page and appendices hereto, is to provide information concerning The School District of Philadelphia General Obligation Bonds, Series of 2016, consisting of \$92,345,000 General Obligation Bonds, Series D of 2016 (the “Series D Bonds”), \$147,245,000 General Obligation Bonds, Series E of 2016 (Qualified School Construction Bonds – Federally Taxable – Direct Subsidy) (the “Series E Bonds”), and \$582,155,000 General Obligation Refunding Bonds, Series F of 2016 (the “Series F Bonds,” and collectively with the Series D Bonds and the Series E Bonds, the “Bonds”). The Bonds will be dated, mature and bear interest, and will be subject to redemption prior to scheduled maturity, all as described herein.

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. Any capitalized term used in the forepart of this Official Statement, unless otherwise defined herein, shall have the meaning ascribed to such term in the Resolution (hereinafter defined).

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 School District of Philadelphia

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 (the “Home Rule Charter”). The School District is the only school district of the first class in the Commonwealth of Pennsylvania (the “Commonwealth”). The Home Rule Charter provides that the School District will be governed by a nine-member Board of Education (the “Board”) appointed by the Mayor (the “Mayor”) of The City of Philadelphia (the “City”).

In 1998 and 2001, the Public School Code of 1949, as amended (the “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 (the “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 2016 enrollment, as of December 2015, of approximately 202,700 students, including approximately 68,600 charter school students and approximately 2,500 students attending alternative educational schools. The School District has the eighth largest enrollment in the nation and employs approximately 16,300 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 to 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 2017" refers to the Fiscal Year commencing on July 1, 2016 and ending June 30, 2017.

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

Authority for Issuance and Security for the Bonds

The Bonds are general obligations of the School District, issued pursuant to the Pennsylvania Local Government Unit Debt Act, 53 Pa. C.S. Chs. 80-82, as amended (the "Debt Act" or the "Act"), and a resolution of the School District adopted by the School Reform Commission on October 20, 2016 (the "Resolution"). Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Resolution. Pursuant to the Act and the Resolution, the School District has covenanted with the holders of the Bonds that it shall (i) include in its budget for each fiscal year, the amount of debt service on the Bonds payable in such fiscal year, (ii) appropriate such amounts from its general revenues for the payment of such debt service, and (iii) duly and punctually pay, or cause to be paid from its sinking funds, or any other of its revenues or funds, the principal or redemption price of, and interest on, the Bonds at the dates and places and in the manner stated in the Bonds. For such budgeting, appropriation and payment, the School District has pledged its full faith, credit and taxing power. The Act provides that this covenant is specifically enforceable. See "SECURITY FOR THE BONDS" 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 - SOURCES OF SCHOOL DISTRICT REVENUE" herein.

See "SECURITY FOR THE BONDS – Daily Sinking Fund Deposits" herein for a description of the daily deposits into the sinking fund established for each series of the Bonds (as well as other general obligations bonds of the School District) of School District tax revenues collected by the Revenue Commissioner of the City, as School Tax Collector, and "APPENDIX A - SOURCES OF SCHOOL DISTRICT REVENUE - Local Tax Revenues" for a description of the School District Real Estate Tax, Business Use and Occupancy Tax, Liquor Sales Tax and Non-Business Income Tax collected by the Revenue Commissioner of the City, as School Tax Collector.

For a description of the intercept provisions of Section 633 of the School Code applicable to the Bonds, see "SECURITY FOR THE BONDS" herein and APPENDIX A – SCHOOL DISTRICT DEBT. For a description of the features of the School District's general obligation bonds, including the Bonds, and the bonds issued by the State Public School Building Authority (the "SPSBA") for the benefit of the School District, including the SPSBA 2016 Bonds (as defined herein), and the intercept agreement applicable to the SPSBA 2016 Bonds and other bonds issued by the SPSBA for the benefit of the School District, see APPENDIX A – "SCHOOL DISTRICT DEBT." For a description of the provisions of Act 85 of 2016 (as defined herein) allowing certain intercept payments under the School Code to be made in the event that the Commonwealth does not timely enact annual appropriations for public education for a fiscal year, see "SECURITY FOR THE BONDS - Direct Payment of State Appropriations to Fiscal Agent" herein.

Purpose of the Bonds

The proceeds of the Series D Bonds are being used by the School District to pay: (i) the costs of certain capital projects to be undertaken by the School District; and (ii) the costs of issuance of the Series D Bonds. The proceeds of the Series E Bonds are being used to pay: (i) the costs of certain capital projects to be undertaken by the School District for public school purposes that constitute "qualified expenditures" under Section 54F of the Internal Revenue Code of 1986, as amended (the "Code"); and (ii) the costs of issuance of the Series E Bonds not to exceed 2% of the proceeds of the Series E Bonds. The proceeds of the Series F Bonds, together with other available moneys, are being used to: (i) advance refund a portion of the School District's General Obligation Bonds, Series E of 2008 and Series F of 2008; (ii) currently refund all of the School District's General Obligation Bonds, Series A of 2016, Series B of 2016 and Series C of 2016; and (iii) pay the costs of issuance of the Series F Bonds. See "PLAN OF FINANCE" herein. Prior to the issuance of the Series F Bonds, the School District, from other available

moneys, shall separately defease the remaining \$10,000 principal amount of its outstanding General Obligation Bonds, Series F of 2008 maturing on September 1, 2027.

Qualified School Construction Bonds

The School District will designate and issue the Series E Bonds as “Qualified School Construction Bonds” pursuant to Section 54F of the Code. Pursuant to Section 6431 of the Code, the School District will irrevocably elect to receive periodic interest subsidy payments (the “QSCB Direct Subsidy Payments”) from the United States Treasury on or before each interest payment date for the Series E Bonds as further described herein. The QSCB Direct Subsidy Payments are part of the operating funds of the School District and are not pledged as security for debt service on the Bonds. See “TAX MATTERS” herein.

Related Financings

Concurrently with the issuance of the Bonds by the School District, the SPSBA also intends to issue its \$570,010,000 School Lease Refunding Revenue Bonds (The School District of Philadelphia Project) Series 2016A (the “SPSBA 2016 Bonds”), at the request of the School District for the purposes described under “PLAN OF FINANCE” herein. The SPSBA 2016 Bonds will be offered under a separate Official Statement by the underwriters named therein.

THE ISSUANCE AND DELIVERY OF THE BONDS IS NOT CONDITIONED ON THE ISSUANCE AND DELIVERY OF THE SPSBA 2016 BONDS.

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 Fiscal Agent, as Dissemination Agent, in substantially the form of APPENDIX E to this Official Statement. See “CONTINUING DISCLOSURE AND ADDITIONAL 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>. Such information is not incorporated herein by reference.

Other Information

Certain information relating to the School District’s operations and financial affairs is available on the School District’s website www.philasd.org. Such information is not incorporated herein by reference. See “CONTINUING DISCLOSURE AND ADDITIONAL INFORMATION” herein.

The School District’s financial statements are audited by the City Controller of the City (the “City Controller”). The School District has included its audited financial statements for Fiscal Year 2015 in “APPENDIX B” herein. See “CONTINUING DISCLOSURE AND ADDITIONAL INFORMATION-Financial Statements” herein and “APPENDIX B” hereto.

Certain City socioeconomic information is attached hereto as APPENDIX C.

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

DESCRIPTION OF THE BONDS

General

The Bonds will be dated the date of delivery thereof, will be issued as fixed rate bonds and will bear interest at the rates and will mature on September 1 of the years set forth on the inside front cover page hereof until maturity or redemption. Interest on the Bonds shall be paid on each March 1 and September 1 (each an “Interest Payment Date”) commencing on March 1, 2017. Interest on Bonds will be computed on the basis of a 360-day year comprised of twelve 30-day months. “Record Date” with respect to the Bonds means the fifteenth (15th) day of the month next preceding the Interest Payment Date. The Bonds shall be issued in fully registered form in the denomination of \$5,000 and any integral multiple thereof (“Authorized Denominations”).

The Bonds shall be registered on the registration books kept by the Fiscal Agent (hereinafter defined), as registrar and fiscal agent, in the name of The Depository Trust Company, New York, New York (the “Securities Depository” or “DTC”), or its nominee, Cede & Co. Beneficial owners (“Beneficial Owners”) of the Bonds will not receive certificates representing their

respective interests in such Bonds, except in the event the Fiscal Agent issues replacement bonds. The Bonds shall be payable as to principal or redemption price in lawful money of the United States of America at the corporate trust office of The Bank of New York Mellon Trust Company, N.A., located in Philadelphia, Pennsylvania, which shall act as Sinking Fund Depository, Fiscal Agent, Registrar and Paying Agent with respect to the Bonds (the "Fiscal Agent"). Interest on the Bonds shall be paid by check or draft in lawful money of the United States to each registered owner of the Bond at his or her address as it appears on the Record Date on the registration books of the School District kept by the Fiscal Agent or by wire transfer to a bank account in the continental United States to registered owners of more than \$1,000,000 in aggregate principal amount of the Bonds at the written request of such registered owners delivered to the Fiscal Agent at the time set forth in the Bonds. As long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, such payments will be made directly to DTC. See APPENDIX F hereto. Disbursement of such payments to the Direct Participants (as defined in APPENDIX F hereto) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the Direct Participants and the Indirect Participants (as defined in APPENDIX F hereto), as more fully described in APPENDIX F hereto.

The Bonds may be transferred by the registered owners thereof or by their duly authorized attorneys-in-fact or other legal representative for Bonds of the same series and maturity in the same aggregate principal amount and bearing interest at the same rate upon the registration books maintained by the Fiscal Agent upon delivery to the Fiscal Agent of the Bonds accompanied by a written instrument or instruments of transfer in form and with guaranty of signature satisfactory to the Fiscal Agent, duly executed by the registered owner of the Bonds to be transferred or his or her duly authorized attorney-in-fact or other legal representative, containing written instructions as to the details of the transfer of such Bonds. No transfer of any Bond shall be effective until entered on the registration books maintained by the Fiscal Agent or its successor. In like manner Bonds may be exchanged by the registered owners thereof or by their duly authorized attorneys-in-fact or other legal representative for Bonds of the same series and maturity and of authorized denomination or denomination in the same aggregate principal amount and bearing interest at the same rate. The Fiscal Agent may impose a charge sufficient to reimburse the School District or the Fiscal Agent for any tax, fee or other governmental charge required to be paid with respect to such exchange or any transfer of a Bond. The cost, if any, of preparing each new Bond issued upon such exchange or transfer, and any other expenses of the School District or the Fiscal Agent incurred in connection therewith, will be paid by the person requesting such exchange or transfer. The Fiscal Agent will not be required to transfer or exchange any Bond: (1) during a period beginning at the opening of business on any date when Bonds, or portions thereof, are selected for redemption and ending at the close of business on the day of the mailing of a notice of redemption of such Bonds; or (2) which has been so selected for redemption in whole or in part.

Designation of the Series E Bonds as Qualified School Construction Bonds; Election to Receive Interest Subsidy Payments

The School District will designate and issue the Series E Bonds as "Qualified School Construction Bonds" pursuant to Section 54F of the Internal Revenue Code of 1986, as amended (the "Code"). Section 54F was added to the Code under the American Recovery and Reinvestment Act of 2009, Pub. L. 111-5, which was signed into law by the President of the United States on February 17, 2009. Pursuant to Section 54F, the total amount of Qualified School Construction Bonds to be issued nationally is limited (the "QSCB Volume Cap"). The Secretary of the Treasury (the "Secretary") has allocated a portion of the QSCB Volume Cap for calendar year 2009 to the School District in the amount of \$146,897,000 (the "2009 QSCB Allocation") and has allocated a portion of the QSCB Volume Cap for calendar year 2010 to the School District in the amount of \$145,352,000 (the "2010 QSCB Allocation"). The Series E Bonds are being issued utilizing a portion of the 2009 QSCB Allocation and all of the 2010 QSCB Allocation.

Pursuant to Section 6431 of the Code, the School District will irrevocably elect to receive the QSCB Direct Subsidy Payments from the United States Treasury on each interest payment date for the Series E Bonds in an amount equal to the lesser of the amount of interest payable on the Series E Bonds on such date or the amount of interest that would have been payable with respect to the Series E Bonds on such date if the interest were determined at the applicable tax credit rate for the Series E Bonds pursuant to Section 54A(b)(3) of the Code. Under the Code, interest on the Series E Bonds is includible in gross income of the holders thereof for federal income tax purposes.

Redemption Provisions of the Series D Bonds

The Series D Bonds shall be subject to redemption as follows:

Optional Redemption. The Series D Bonds maturing on or after September 1, 2027, are subject to redemption at the option of the School District, from monies available therefor, on or after September 1, 2026, in whole at any time, and in part from time to time, and if in part by lot within a maturity and within particular maturities or portions thereof as determined by the School District, at a redemption price equal to 100% of the principal amount of the Series D Bonds to be redeemed plus accrued and unpaid interest on the Series D Bonds to be redeemed to the date of redemption.

Redemption Provisions of the Series E Bonds

The Series E Bonds shall be subject to redemption as follows:

Optional Redemption. The Series E Bonds are subject to redemption at the option of the School District, in whole or in part, at any time, at a redemption price equal to the greater of (i) 100% of the principal amount of the Series E Bonds to be redeemed, and (ii) as determined by the School District, the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Series E Bonds to be redeemed, not including any portion of interest accrued and unpaid as of the date on which the Series E Bonds are to be redeemed, discounted to the date on which the Series E Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as hereinafter defined) plus 40 basis points, plus, in each case, accrued and unpaid interest on the Series E Bonds to be redeemed to the date of redemption.

“Treasury Rate” means, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days (but not more than forty-five calendar days) prior to such redemption date (excluding inflation indexed securities), at any time, or, if such Statistical Release is no longer published, any publicly available source of similar market data), most nearly equal to the period from such redemption date to the maturity date of the Series E Bonds; provided, however, that if the period from such redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

Extraordinary Optional Redemption. The Series E Bonds are subject to redemption at the option of the School District, in whole or in part, at any time, upon the occurrence and during the continuance of an Extraordinary Event (as hereinafter defined), at a redemption price equal to 105% of the principal amount of the Series E Bonds to be redeemed, plus accrued and unpaid interest on the Series E Bonds or portion thereof to be redeemed to the date of redemption.

“Extraordinary Event” means: (i) a reduction of 65% or more in the rate used to determine the amount of the QSCB Direct Subsidy Payments by the United States Treasury in respect of interest paid on the Series E Bonds from the rate established by United States Treasury on October 20, 2016; or (ii) QSCB Direct Subsidy Payments are eliminated.

Extraordinary Mandatory Redemption. The Series E Bonds are subject to extraordinary mandatory redemption, in whole or in part, from unexpended proceeds of the Series E Bonds, within 90 days after the later of (a) the third anniversary of the delivery date of the Series E Bonds or (b) the Taxable Bond Extension Period Expiration Date as defined herein, at a redemption price equal to 100% of the principal amount of the Series E Bonds to be redeemed, plus accrued interest and unpaid interest on the Series E Bonds to be redeemed to the date of redemption. Such extraordinary mandatory redemption shall only occur to the extent that unexpended proceeds of the Series E Bonds remain on deposit in the Project Fund by the later of (a) the third anniversary of the delivery date of the Series E Bonds or (b) the Taxable Bond Extension Period Expiration Date.

“Taxable Bond Extension Period Expiration Date” means the last day of any extension of time, which the School District may request and the Secretary of the Treasury may grant, as evidenced in writing from the Internal Revenue Service (the “IRS”), that extends the date by which the proceeds of the Series E Bonds must be expended.

Redemption Provisions of the Series F Bonds

The Series F Bonds shall be subject to redemption as follows:

Optional Redemption. The Series F Bonds maturing on or after September 1, 2027, are subject to redemption at the option of the School District, from monies available therefor, on or after September 1, 2026, in whole at any time, and in part from time to time, and if in part by lot within a maturity and within particular maturities or portions thereof as determined by the School District, at a redemption price equal to 100% of the principal amount of the Series F Bonds to be redeemed plus accrued and unpaid interest on the Series F Bonds to be redeemed to the date of redemption.

General Redemption Provisions

Selection of Bonds for Redemption. If less than all of a series and maturity of the Bonds (other than the Series E Bonds) are to be redeemed, the particular Bonds of such series and maturity to be redeemed shall be selected by the Fiscal Agent by lot in such manner as the Fiscal Agent in its discretion may determine and which shall provide for the selection for redemption of portions of the principal of Bonds in Authorized Denominations.

In the case of any partial redemption of the Series E Bonds, DTC will select the Series E Bonds to be redeemed on a pro rata pass through distribution of principal basis pursuant to its rules and procedures or, if the book-entry system with DTC or any other securities depository has been discontinued, the Fiscal Agent will select the Series E Bonds to be redeemed on a pro rata basis in such manner as the Fiscal Agent in its discretion may deem proper. For this purpose, each Authorized Denomination of principal amount represented by any Series E Bond will be considered a separate Series E Bond for purposes of selecting the Series E Bonds to be redeemed. Immediately on selection of the Series E Bonds to be redeemed, the Trustee shall notify the Registrar of the specific Series E Bonds to be redeemed.

Notice of Redemption. The Fiscal Agent shall mail a notice of redemption by first class mail not more than 45 days and not less than 30 days before the date of redemption to the registered owner of each Bond to be redeemed in whole or in part at the address shown on the registration books. Failure to give such notice by mailing to any registered owner of any Bonds or any defect therein shall not affect the validity of any proceedings for the redemption of other Bonds. Deposit of any such notice in the United States mail shall constitute constructive receipt by such registered owner of such Bonds. The Fiscal Agent shall redeem on each respective redemption date the principal amount of such Bonds or portions thereof aggregating the amount to be then redeemed. So long as the Securities Depository is the sole registered owner of the Bonds, the Fiscal Agent shall send a notice of redemption to the Securities Depository at the time and in the manner specified in DTC's Operational Arrangements. Any failure of the Securities Depository to advise any of its participants or any failure of any direct or indirect participant therein to notify any Beneficial Owner of any such notice and its content or effect shall not affect the validity of the proceedings for redemption of the Bonds called for redemption or of any other action premised on such notice. No further interest shall accrue on any Bond called for redemption on and after the redemption date if payment of the redemption price is on deposit with the Fiscal Agent, and the registered owner of the Bond shall have no rights except to receive payment of the redemption price and the unpaid interest accrued on the Bond to the date of redemption.

If such notice is given with respect to an optional redemption prior to moneys for such redemption being deposited with the Fiscal Agent, then such notice shall be conditioned upon the deposit of the redemption moneys with the Fiscal Agent on or before the date fixed for redemption and such notice shall be of no effect (and shall so state) unless moneys are so deposited.

SECURITY FOR THE BONDS

General Obligation

The Bonds are general obligations of the School District. Pursuant to the Act and as provided in the Resolution, the School District covenants with the holders of the Bonds that it shall (i) include in its budget for each fiscal year the amount of debt service on the Bonds payable in such fiscal year, (ii) appropriate such amounts from its general revenues for the payment of such debt service, and (iii) duly and punctually pay, or cause to be paid, from its sinking funds or any other of its revenues or funds, the principal or redemption price of, and the interest on, the Bonds at the dates and places and in the manner stated in the Bonds. For such budgeting, appropriation and payment, the School District has pledged its full faith, credit and taxing power. The Act provides that this covenant is specifically enforceable.

The School District may levy taxes only upon the authorization of the General Assembly or City Council as described in "APPENDIX A - SOURCES OF SCHOOL DISTRICT REVENUE" herein.

The issuance of the Bonds by the School District constitutes the incurrence of non-electoral debt by the School District pursuant to the Debt Act and must be approved in advance by the Pennsylvania Department of Community and Economic Development ("DCED"). This approval will be obtained prior to issuance and delivery of the Bonds. See APPENDIX A – SCHOOL DISTRICT DEBT."

Sinking Funds

Pursuant to the Act and the Resolution, sinking funds for each series of the Bonds, designated "Sinking Fund - Series D of 2016," "Sinking Fund - Series E of 2016" and "Sinking Fund - Series F of 2016," respectively (collectively, the "Sinking Funds") shall be established with the Fiscal Agent and held segregated from all other funds of the School District. The Act requires that the School District deposit into the Sinking Fund, not later than the date when the interest and principal is to become due on the Bonds, amounts sufficient to pay the interest and principal then due. The School District has covenanted in the Resolution to provide for the full amount of each debt service payment due on the Bonds by a date which is 15 days prior to each debt service payment date (each, a "Sinking Fund Deposit Date"). See "Direct Payment of State Appropriations to Fiscal Agent" below for further information regarding the making of sinking fund deposits.

The sinking fund depository for the Bonds is The Bank of New York Mellon Trust Company, N.A., the Fiscal Agent.

Moneys in each of the Sinking Funds may be invested by the Fiscal Agent in securities or deposits authorized by law and the Resolution, upon direction of the School District, all as provided in the Act and the Resolution. Such deposits and

securities shall be in the name of the School District, but shall be subject to withdrawal or collection only by the Fiscal Agent, and such deposits and securities, together with the interest thereon, shall be a part of such Sinking Fund.

The Fiscal Agent is irrevocably authorized and directed to pay from the Sinking Funds pursuant to the Debt Act and the Resolution the principal of, and interest on, the Bonds when due and payable.

The Debt Act provides that all moneys deposited in each of the Sinking Funds and all investments and proceeds of investments thereof shall be, without further action or filing, subject to a perfected security interest in favor of the owners of the applicable series of Bonds.

Series E Bonds -- Mandatory Sinking Fund Installments. The School District has covenanted to deposit (or have on deposit) in the Mandatory Sinking Fund Installment Account within the sinking fund designated the Sinking Fund - Series E of 2016 annually on September 1 of the years set forth below, amounts as follows:

Date (September 1)	Amount	Date (September 1)	Amount
2017	\$ 5,000.00	2030	\$ 10,366,089.29
2018	5,000.00	2031	10,366,089.29
2019	5,000.00	2032	10,366,089.29
2020	5,000.00	2033	10,366,089.29
2021	5,000.00	2034	10,366,089.29
2022	5,000.00	2035	10,366,089.29
2023	5,000.00	2036	10,366,089.29
2024	5,000.00	2037	10,366,089.29
2025	5,000.00	2038	10,366,089.29
2026	5,000.00	2039	10,366,089.29
2027	5,000.00	2040	10,366,089.29
2028	2,064,749.94	2041	10,366,089.29
2029	10,366,089.29	2042 [†]	10,366,089.29

[†] Maturity

Daily Sinking Fund Deposits

In conjunction with the sale of fixed rate general obligation bonds in 1982, the School District covenanted to make daily deposits into each sinking fund established for each of its outstanding fixed rate general obligation bond issues from School District tax revenues collected by the Revenue Commissioner of the City, as School Tax Collector. All subsequent issues of fixed rate general obligation bonds have contained such a covenant, and the Resolution contains a similar covenant with respect to the Bonds. The School District has also made such a covenant for the Refunded 2016 Bonds (as hereinafter defined) which will be redeemed with proceeds of the Series F Bonds. See "APPENDIX A - SOURCES OF SCHOOL DISTRICT REVENUE - Local Tax Revenues" for a description of the Real Estate Tax, Business Use and Occupancy Tax, Liquor Sales Tax and Non-Business Income Tax collected by the Revenue Commissioner of the City, as School Tax Collector.

Each total daily deposit represents the aggregate pro-rata amount required to accumulate in each of the sinking funds on the Sinking Fund Deposit Date (the "Accumulation Date") which is 15 days in advance of a debt service payment date (including a mandatory sinking fund installment deposit date with respect to the School District's 2011 qualified school construction bonds and the Series E Bonds (together, the "QSCBs")), an amount sufficient to make the ensuing interest and principal or mandatory redemption payment required to be paid from such sinking fund (including the next mandatory sinking fund installment deposit with respect to the QSCBs). For example, if the School District is required to make an interest and principal payment on fixed rate bonds (including for a mandatory sinking fund installment deposit with respect to the QSCBs) on September 1, 2017, the required funds must be accumulated in the required sinking fund by August 17, 2017. The daily amount to be set aside for interest is calculated by dividing the amount of the interest payment by the actual number of City business days occurring during the period February 14, 2017, to August 17, 2017. The daily amount to be set aside for principal (and, as applicable, for a mandatory sinking fund installment deposit with respect to the QSCBs) is calculated by dividing the amount of the principal payment (or, as applicable, the mandatory sinking fund installment with respect to the QSCBs) by the actual number of City business days occurring during the period August 17, 2016, to August 17, 2017. Although the Resolution permits interest income to be taken into account in calculating the daily deposits, the School District's current practice is that the interest income earned on investments in the respective sinking funds is not considered in calculating the required total daily deposits.

All of the School District tax revenues subject to this daily deposit covenant are collected for the School District by the Department of Collections (the "Department of Revenue") of the City, acting pursuant to the requirements of the Home Rule Charter and the School Code as the School Tax Collector for the School District. The School District, pursuant to the Resolution, has irrevocably directed the Department of Revenue to make the required total deposits from School District tax revenues directly to each of the Sinking Funds. With respect to each of the School District's outstanding series of General Obligation Bonds, the

School District, in each bond resolution, has irrevocably directed the Department of Revenue to make the required total daily deposits for such bonds from School District tax revenues directly to the appropriate sinking funds. The balance of the revenues, if any, is then deposited to the credit of the School District for general operating purposes. The daily deposit covenant is not considered breached if the revenues collected on a given day are insufficient to cover that day's required total daily sinking fund deposit. Such deficiencies are to be made up out of the next days' receipts and no further deposits are to be made to the credit of the School District for general operating purposes until the sinking funds are current.

It is possible that the debt service requirement for the Bonds, with the debt service requirements for outstanding fixed rate and variable rate general obligation bonds, if hereafter issued and determined by the School District to have the benefit of the daily deposit covenant, and additional fixed rate general obligation bonds issued in the future may create occasional deficiencies in certain of the sinking funds on certain of the Accumulation Dates. The Accumulation Dates are also Sinking Fund Deposit Dates. The School District has covenanted in the resolutions for its general obligation bonds, including the Resolution, that if, on any Accumulation Date, the amount on deposit in a sinking fund is less than the full amount due on the next maturity, redemption or interest payment date, the School District shall deposit, from any available revenues, the amount of such deficiency in such sinking fund.

The foregoing daily deposit covenants are in addition to, and not in place of the pledge by the School District of its full faith, credit and taxing power for the budgeting, appropriation and payment of debt service on the Bonds. Certain limitations on the taxing power of the School District are described in "APPENDIX A - SOURCES OF SCHOOL DISTRICT REVENUE - Local Tax Revenues."

The holders of each respective Series of the Bonds will have a claim only to moneys deposited into the sinking fund for such Series of Bonds and do not have a claim on the sinking fund for any other Series of Bonds. The Act provides that each sinking fund is subject to a perfected security interest in favor of the holders of the Series of Bonds for which such sinking fund is established without any requirement for filing or recording.

Direct Payment of State Appropriations to Fiscal Agent

The School Code provides that where a school district fails to pay or to provide for the payment of any principal or interest or the amount required as a sinking fund deposit on indebtedness of the school district, the Secretary of Education of the Commonwealth is required to withhold, out of any Commonwealth appropriation due to such school district, and to pay directly to the sinking fund depository for such bonds an amount equal to the sum of the interest and principal amount maturing or subject to mandatory sinking fund redemption or the amount required as a sinking fund deposit which is owing by such school district. The general obligation bonds of the School District are entitled to the benefits of the intercept provisions of the School Code. Section 633 of the School Code states:

"In all cases where the board of directors of any school district fails to pay or to provide for the payment of any indebtedness at date of maturity or date of mandatory sinking fund redemption or on any sinking fund deposit date, or any interest due on such indebtedness on any interest payment date, or on any sinking fund deposit date in accordance with the schedule under which the bonds were issued, the Secretary of Education shall notify such board of school directors of its obligations and shall withhold out of any State appropriation due such school district an amount equal to the sum of the principal amount maturing or subject to mandatory sinking fund redemption and interest owing by such school district, or such sinking fund deposit due by such school district, and shall pay over the amount so withheld to the bank or other person acting as sinking fund depository for such bond issue."

The intercept provisions of Section 633 of the School Code will apply to the Sinking Fund Deposit Dates established by the School District in the Resolution.

The School Code also requires each school district to report to the Secretary of Education of the Commonwealth within 120 days after the close of its fiscal year as part of its annual financial report, the amount of bonds or other indebtedness that became due during the fiscal year together with amounts paid on such indebtedness. Failure to include such information in the annual report permits the Secretary of Education of the Commonwealth to withhold any Commonwealth appropriation until such report is filed.

In the Resolution, the Fiscal Agent, as sinking fund depository, is directed to make demand on the Secretary of Education of the Commonwealth if there is a deficiency on a Sinking Fund Deposit Date in order to cause the implementation of the provisions of Section 633 of the School Code in advance of an actual debt service payment date. The declaration of distress by the Secretary of Education of the Commonwealth does not affect the application of the withholding provisions of Section 633 of the School Code.

All public school subsidies made by the Commonwealth are subject to appropriation by the General Assembly. The withholding provisions of Section 633 of the School Code are not part of any contract with the holders of the Bonds, and may be amended or repealed by future legislation. Furthermore, the schedule of installments and payment dates for the basic education subsidy, which is the largest State appropriation to the School District, is statutorily established and is subject to change by legislative action. Other Commonwealth appropriations are paid at the discretion of the executive branch. The Commonwealth has the right, but not the obligation, to pay appropriations in advance of their due dates. 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, including during the 2016 Fiscal Year, the enactment of budget and appropriation laws by the Commonwealth has been delayed, resulting in, among other things, the inability of the Treasurer to make direct payments of school district subsidies pursuant to the intercept provisions described below and increased interim borrowing by school districts pending the appropriation 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 appropriations will be available for payments to bondholders if indebtedness of such school district is not paid when due. See “APPENDIX A – SOURCES OF SCHOOL DISTRICT REVENUE – Commonwealth Subsidies” and “– CERTAIN FINANCIAL INFORMATION OF THE SCHOOL DISTRICT – Operating Budget Revenues, Obligations and Changes in Fund Balances” herein for information concerning current payments made by the Commonwealth.

Certain bonds have been previously issued on behalf of the School District by the SPSBA (the “SPSBA Bonds”). The Public School Code contains certain debt service intercept provisions applicable to the School District’s debt obligations related to the SPSBA Bonds and the School District is a party to an intercept agreement relating thereto. In Fiscal Year 2016, due to the Commonwealth’s Fiscal Year 2016 budget impasse, certain payments of base rental payments required to be paid pursuant to the Intercept Agreement were not made and such payments were timely made in full directly by the School District as required by the sublease and the indenture related to the SPSBA Bonds. For a description of the intercept agreement (the “Intercept Agreement”) among the SPSBA, the School District and the Treasurer of the Commonwealth of Pennsylvania (the “State Treasurer”) and acknowledged and agreed to by the Pennsylvania Department of Education (“PDE”) and the trustee for the bonds issued on behalf of the School District by the SPSBA (the “SPSBA Bonds”), including the SPSBA 2016A Bonds, see APPENDIX A – “SCHOOL DISTRICT DEBT” and – “SOURCES OF SCHOOL DISTRICT REVENUE – Commonwealth Subsidies”.

On July 13, 2016, the Governor of the Commonwealth signed into law Act No. 85 of 2016, (P.L. 664, No. 85) (“Act 85 of 2016”), an amendment to the Act of April 9, 1929 (P.L. 343, No. 176), known as the Fiscal Code (“Fiscal Code”). Act 85 of 2016 adds to the Fiscal Code Article XVI-E.4, entitled “School District Intercepts for the Payment of Debt Service During Budget Impasse”, which provides for intercept of subsidy payments by PDE from a school district subject to an intercept statute or an intercept agreement in the event of a budget impasse in any fiscal year. Act 85 of 2016 includes in the definition of “intercept statutes” Sections 633 and 785 of the Public School Code, which apply to the Bonds and the SPSBA 2016 Bonds, respectively. “Intercept agreements” are defined in Act 85 of 2016 as agreements entered into under the authority of an intercept statute, such as the Intercept Agreement. The School District’s general obligation bonds, including the Bonds, are subject to Section 633 of the Public School Code, and Section 785 of the Public School Code governs the Intercept Agreement.

Act 85 of 2016 provides that the amounts as may be necessary for PDE to comply with the provisions of the applicable intercept statute or intercept agreement “shall be appropriated” to PDE from the General Fund of the Commonwealth after PDE submits justification to the majority and minority chairs of the appropriations committees of the Pennsylvania Senate and House of Representatives allowing ten (10) calendar days for their review and comment, if, in any fiscal year: (1) annual appropriations for payment of Commonwealth money to school districts have not been enacted by July 1 and continue not to be enacted when a payment is due; (2) the conditions under which PDE is required to comply with an intercept statute or intercept agreement have occurred, thereby requiring PDE to withhold payments which would otherwise be due to school districts; and (3) the Secretary of PDE, in consultation with the Secretary of the Budget, determines that there are no payments or allocations due to be paid to the applicable school districts from which PDE may withhold money as required by the applicable intercept statute or intercept agreement.

The necessary amounts shall be appropriated on the expiration of the tenth (10th) day following submission of the justification described above to the majority and minority chairs of the appropriations committees, who may comment on the justification but cannot prevent the effectiveness of the appropriation.

The School District has not been advised as to whether PDE will submit a justification covering all school districts at the beginning of a budget impasse on July 1 of a fiscal year or on a case by case basis. The School District will include (i) in its fiscal agent agreements which govern its general obligation bonds, including the Bonds, and which require the Section 633 intercept to be triggered if insufficient funds are in a sinking fund fifteen (15) days before a debt service payment date, and (ii) in

the Intercept Agreement, provisions requiring notice to be given to PDE that the justification required by Act 85 of 2016 must be submitted to the appropriation committee chairs immediately (if it has not already been submitted) so that the steps necessary for the intercept payment to be made by the applicable debt service payment date can be implemented in sufficient time.

The total of all intercept payments under Article XVII-E.4 for a school district may not exceed 50% of the total non-federal general fund subsidy payments made to that school district in the prior fiscal year.

Act 85 of 2016 requires that each school district subject to an intercept statute or intercept agreement must deliver to PDE, in such format as PDE may direct, a copy of the final Official Statement for the relevant bonds or notes or the loan documents relating to the obligations, within thirty (30) days of receipt of the proceeds of the obligations. Until PDE finally establishes an electronic format and method for filing the information required, which includes a schedule of principal and interest payments, the School District will file hard copy of the Official Statements for the Bonds and the SPSBA 2016 Bonds, including schedules of principal and interest payments for all series of obligations outstanding, including sinking fund deposit dates or intercept payment dates, as applicable, and scheduled debt service payment dates for each series. The same schedules will be submitted by the School District as part of any electronic filing.

Act 85 of 2016 provides that any obligation for which PDE does not receive the required documents shall not be subject to the applicable intercept statute or intercept agreement.

The provisions of Act 85 of 2016 are not part of any contract with the holders of the Bonds and may be amended or repealed by future legislation.

Statutory Remedies

The Act provides that if principal or interest on bonds issued pursuant to the Act is not paid when due and such failure continues for 30 days, the holder of such bonds, subject to any prior rights of holders of tax and revenue anticipation notes and the right of the court 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 into the treasury of the issuer and may be a judgment upon which funding bonds may be issued.

The Act further provides that in the event of such default and its continuance for 30 days, the holders of 25 percent in aggregate principal amount of the bonds may appoint a trustee to represent their interests. The trustee is entitled, by mandamus or other suit, to enforce the rights of the holders of the bonds and require the issuer to carry out agreements with holders of the bonds, bring suit on the bonds, petition the court of common pleas to levy, after a hearing upon notice to the owners of assessable real estate, the amount due before or after the exercise of any right to acceleration, upon all taxable real estate and other property subject to ad valorem taxation in the jurisdiction of the issuer in proportion to the value thereof as assessed for tax purposes. Such assessments may be collected as by foreclosure of a mortgage or security interest on the realty or other property if not paid on demand. In addition, such trustee may by suit in equity seek to enjoin any acts or things which may be unlawful or in violation of the rights of the holders of such bonds, and, upon thirty (30) days' prior written notice to the School District, subject to any limitation in the Resolution, may declare the unpaid principal amount of such bonds due and payable.

Limitation of Remedies

The rights and remedies of holders of the Bonds are subject to the provisions of Chapter 9 of the Federal Bankruptcy Code (the "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 authorize the political subdivision to file a petition under the United States Bankruptcy Code. Pennsylvania law prohibits the School District 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 before approving the petition and plan. 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 Bonds.

Fiscal Year 2016 and 2017 Commonwealth Budgets

A final operating budget for the Commonwealth's 2016 fiscal year did not become law until March 28, 2016. While an initial general appropriation act of the Commonwealth enacted in December 2015 appropriated approximately 45% of the basic education subsidies due to school districts (which was received by school districts in January 2016), the remaining approximately 55% of the basic education subsidy was not appropriated until March 2016 and was not received by the School District until May 2016. Such delays required the School District to issue additional tax and revenue anticipation notes (in excess of its regular tax and revenue anticipation notes borrowing) to continue operations during the Commonwealth budget impasse. As in every prior fiscal year, there was no default in payment of debt service on any of the School District's general obligation bonds or on any bonds issued by the SPSBA for the benefit of the School District, and all such tax and revenue anticipation notes were repaid on or before the due dates thereof. The full operating budget for the Commonwealth's 2017 fiscal year was signed by the Governor on July 13, 2016.

PLAN OF FINANCE

Purpose of the Bonds

The proceeds of the Series D Bonds are being used by the School District to pay: (i) the costs of certain capital projects to be undertaken by the School District; and (ii) the costs of issuance of the Series D Bonds.

The proceeds of the Series E Bonds are being used to pay: (i) the costs of certain capital projects to be undertaken by the School District for public school purposes that constitute "qualified expenditures" under Section 54F of the Code; and (ii) the costs of issuance of the Series E Bonds not to exceed 2% of the proceeds of the Series E Bonds.

The proceeds of the Series F Bonds, together with other available moneys, are being used to: (i) advance refund a portion of the School District's General Obligation Bonds, Series E of 2008 and Series F of 2008 (the "Refunded 2008 Bonds"); (ii) currently refund all of the School District's General Obligation Bonds, Series A of 2016, Series B of 2016 and Series C of 2016 (the "Refunded 2016 Bonds"); and (iii) pay the costs of issuance of the Series F Bonds. The proceeds of the Series F Bonds to be applied to refunding the Refunded 2008 Bonds will be deposited in an escrow fund established under an escrow deposit agreement between the School District and The Bank of New York Mellon Trust Company, N.A., as escrow agent, invested in United States Treasury securities, and applied to the payment of the interest on and redemption price of the Refunded 2008 Bonds to and including September 1, 2018, the date fixed for redemption of the Refunded 2008 Bonds. See "VERIFICATION" herein. The Refunded 2016 Bonds will be redeemed on the date of issuance of the Bonds.

Prior to the issuance of the Series F Bonds, the School District, from other available moneys, shall separately defease the remaining \$10,000 principal amount of its outstanding General Obligation Bonds, Series F of 2008 maturing on September 1, 2027.

The SPSBA intends to issue the SPSBA 2016 Bonds as further described under "INTRODUCTION - Related Financings." The proceeds of the SPSBA 2016 Bonds, together with other available moneys, will be used to (i) currently refund a portion of the State Public School Building Authority School Lease Revenue Bonds (The School District of Philadelphia Project) Series 2006A and a portion of the State Public School Building Authority School Lease Revenue Bonds (The School District of Philadelphia Project) Series 2006B (together, the "Refunded SPSBA 2006 Bonds") and (ii) pay the costs of issuance of the SPSBA 2016 Bonds.

The School District is refunding the Refunded 2016 Bonds, the Refunded SPSBA 2006 Bonds and the Refunded 2008 Bonds (collectively, the "Refunded Bonds") to achieve net present value savings for the School District.

SOURCES AND USES OF FUNDS

	<u>Series D Bonds</u>	<u>Series E Bonds</u>	<u>Series F Bonds</u>	<u>Total</u>
<u>Sources of Funds</u>				
Principal Amount of Bonds	\$92,345,000.00	\$147,245,000.00	\$582,155,000.00	\$821,745,000.00
Original Issue Premium	11,671,423.10		79,076,120.45	90,747,543.55
Certain Moneys in the Sinking Funds of the Refunded Bonds			6,053,085.31	6,053,085.31
Other Available Moneys Provided by School District			11,200.00	11,200.00
Total	<u>\$104,016,423.10</u>	<u>\$147,245,000.00</u>	<u>\$667,295,405.76</u>	<u>\$918,556,828.86</u>
<u>Uses of Funds</u>				
Deposit to Project Fund	\$103,600,000.00	\$146,400,000.00		\$250,000,000.00
Refunding of Refunded 2008 Bonds			\$314,340,109.16	314,340,109.16
Refunding of Refunded 2016 Bonds			349,960,000.00	349,960,000.00
Cost of Issuance [†]	416,423.10	845,000.00	2,995,296.60	4,256,719.70
Total	<u>\$104,016,423.10</u>	<u>\$147,245,000.00</u>	<u>\$667,295,405.76</u>	<u>\$918,556,828.86</u>

[†] Includes legal fees and expenses, underwriters' discount, financial advisory fees, Fiscal Agent's fees, rating agency fees, escrow agent fees, verification agent fees, printing and miscellaneous fees and expenses.

Additional Financing

The School District has other outstanding debt and may, from time to time, issue additional debt to finance certain projects or to refund certain outstanding debt of the School District. For additional information concerning the School District's outstanding debt, see "SCHOOL DISTRICT DEBT" in APPENDIX A attached hereto.

SCHOOL DISTRICT DEBT SERVICE REQUIREMENTS

The table below sets forth total debt service on the Bonds when issued, and the table on the following page shows the School District's outstanding general obligation bonds and lease rental debt, in each case for the fiscal years ending June 30, 2017, and thereafter:

Debt Service on the Bonds

Fiscal Year	Series D Bonds			Series E Bonds ⁽¹⁾			Series F Bonds		
	Principal	Interest	Total Debt Service	Principal ⁽²⁾	Interest	Total Debt Service	Principal	Interest	Total Debt Service
2017		\$ 1,346,697.92	\$ 1,346,697.92		\$ 2,173,090.79	\$ 2,173,090.79		\$ 8,489,760.42	\$ 8,489,760.42
2018	\$ 5,890,000	4,470,000.00	10,360,000.00	\$ 5,000.00	7,450,597.00	7,455,597.00	\$ 560,000	29,093,750.00	29,653,750.00
2019	6,190,000	4,168,000.00	10,358,000.00	5,000.00	7,450,597.00	7,455,597.00	565,000	29,065,625.00	29,630,625.00
2020	6,510,000	3,850,500.00	10,360,500.00	5,000.00	7,450,597.00	7,455,597.00	5,750,000	28,907,750.00	34,657,750.00
2021	6,845,000	3,516,625.00	10,361,625.00	5,000.00	7,450,597.00	7,455,597.00	22,255,000	28,207,625.00	50,462,625.00
2022	7,195,000	3,165,625.00	10,360,625.00	5,000.00	7,450,597.00	7,455,597.00	22,535,000	27,087,875.00	49,622,875.00
2023	7,565,000	2,796,625.00	10,361,625.00	5,000.00	7,450,597.00	7,455,597.00	22,845,000	25,953,375.00	48,798,375.00
2024	7,950,000	2,408,750.00	10,358,750.00	5,000.00	7,450,597.00	7,455,597.00	23,210,000	24,802,000.00	48,012,000.00
2025	8,360,000	2,001,000.00	10,361,000.00	5,000.00	7,450,597.00	7,455,597.00	53,050,000	22,895,500.00	75,945,500.00
2026	8,790,000	1,572,250.00	10,362,250.00	5,000.00	7,450,597.00	7,455,597.00	56,435,000	20,158,375.00	76,593,375.00
2027	9,240,000	1,121,500.00	10,361,500.00	5,000.00	7,450,597.00	7,455,597.00	34,965,000	17,873,375.00	52,838,375.00
2028	9,710,000	647,750.00	10,357,750.00	5,000.00	7,450,597.00	7,455,597.00	63,675,000	15,407,375.00	79,082,375.00
2029	8,100,000	202,500.00	8,302,500.00	2,064,749.94	7,450,597.00	9,515,346.94	60,510,000	12,302,750.00	72,812,750.00
2030				10,366,089.29	7,450,597.00	17,816,686.29	62,700,000	9,222,500.00	71,922,500.00
2031				10,366,089.29	7,450,597.00	17,816,686.29	39,315,000	6,672,125.00	45,987,125.00
2032				10,366,089.29	7,450,597.00	17,816,686.29	12,135,000	5,385,875.00	17,520,875.00
2033				10,366,089.29	7,450,597.00	17,816,686.29	12,760,000	4,763,500.00	17,523,500.00
2034				10,366,089.29	7,450,597.00	17,816,686.29	13,415,000	4,109,125.00	17,524,125.00
2035				10,366,089.29	7,450,597.00	17,816,686.29	14,100,000	3,421,250.00	17,521,250.00
2036				10,366,089.29	7,450,597.00	17,816,686.29	14,820,000	2,698,250.00	17,518,250.00
2037				10,366,089.29	7,450,597.00	17,816,686.29	15,585,000	1,938,125.00	17,523,125.00
2038				10,366,089.29	7,450,597.00	17,816,686.29	16,380,000	1,139,000.00	17,519,000.00
2039				10,366,089.29	7,450,597.00	17,816,686.29	14,590,000	364,750.00	14,954,750.00
2040				10,366,089.29	7,450,597.00	17,816,686.29			
2041				10,366,089.29	7,450,597.00	17,816,686.29			
2042				10,366,089.29	7,450,597.00	17,816,686.29			
2043				10,366,089.29	3,725,298.50	14,091,387.79			
TOTAL	\$92,345,000	\$31,267,822.92.00	\$123,612,822.92	\$147,245,000	\$192,163,314.29	\$339,408,314.29	\$582,155,000	\$329,959,635.42	\$912,114,635.42

⁽¹⁾ Gross debt service.

⁽²⁾ Includes mandatory sinking fund deposits. Principal on the Series E Bonds is not payable to bondholders until final maturity.

Total School District Debt Service⁽¹⁾

<u>Fiscal Year</u>	<u>Total Debt Service on the Bonds⁽²⁾</u>	<u>Total Debt Service on the SPSBA 2016 Bonds</u>	<u>Other General Obligation Debt Service⁽³⁾</u>	<u>Qualified Zone Academy Bonds Debt Service</u>	<u>Total General Obligation Bonds Debt Service⁽⁵⁾</u>
2017	\$ 12,009,549.13	\$35,087,770.83	\$ 91,312,623.01	\$ 1,257,666.67	\$ 139,667,609.63
2018	47,469,347.00	28,418,000.00	202,975,097.35	7,633,737.67	286,496,182.02
2019	47,444,222.00	28,373,000.00	201,600,539.85	7,633,737.67	285,051,499.52
2020	52,473,847.00	28,328,000.00	193,621,228.35	6,252,666.67	280,675,742.02
2021	68,279,847.00	28,283,000.00	176,679,885.65	6,252,666.67	279,495,399.32
2022	67,439,097.00	28,238,000.00	173,554,042.55	6,252,666.67	275,483,806.22
2023	66,615,597.00	28,193,000.00	161,936,282.15	4,191,666.67	260,936,545.82
2024	65,826,347.00	49,783,000.00	144,113,572.80		259,722,919.80
2025	93,762,097.00	50,626,250.00	107,342,240.20		251,730,587.20
2026	94,411,222.00	58,046,000.00	96,678,827.60		249,136,049.60
2027	70,655,472.00	34,548,500.00	141,962,725.50		247,166,697.50
2028	96,895,722.00	34,548,000.00	114,423,137.00		245,866,859.00
2029	90,630,596.94	34,554,250.00	117,054,371.00		242,239,217.94
2030	89,739,186.29	75,505,500.00	67,507,167.00		232,751,853.29
2031	63,803,811.29	100,753,000.00	63,339,546.13		227,896,357.42
2032	35,337,561.29	134,513,000.00	47,005,972.75		216,856,534.04
2033	35,340,186.29	134,515,000.00	24,490,472.25		194,345,658.54
2034	35,340,811.29	18,282,250.00	98,692,992.50		152,316,053.79
2035	35,337,936.29	18,286,500.00	20,425,430.50		74,049,866.79
2036	35,334,936.29	15,450,750.00	20,227,433.25		71,013,119.54
2037	35,339,811.29		16,167,184.50		51,506,995.79
2038	35,335,686.29		15,869,794.50		51,205,480.79
2039	32,771,436.29		15,554,858.75		48,326,295.04
2040	17,816,686.29		14,141,024.25		31,957,710.54
2041	17,816,686.29				17,816,686.29
2042	17,816,686.29				17,816,686.29
2043	14,091,387.79				14,091,387.79
TOTAL ⁽⁴⁾	\$1,375,135,772.63	\$964,332,770.83	\$2,326,676,449.38	\$39,474,808.67	\$4,705,619,801.51

⁽¹⁾Reflects refunding of the Refunded Bonds.

⁽²⁾Includes gross debt service on the Series E Bonds.

⁽³⁾Includes Lease Rental debt service.

⁽⁴⁾Totals may not add up due to rounding.

⁽⁵⁾Includes gross debt service on the Build America Bonds Series B of 2010 and Qualified School Construction Bonds Series A Bonds of 2011.

NO LITIGATION AFFECTING THE BONDS

Upon the delivery of the Bonds, the Office of the General Counsel to the School District shall furnish an opinion, in form satisfactory to Bond Counsel and the Underwriters, to the effect that, among other things, except as disclosed in this Official Statement, there is no litigation or other legal proceeding pending, or to the best of its knowledge, threatened, to restrain or enjoin the issuance or delivery of the Bonds or challenging the validity of the proceedings of the School District taken in connection therewith or the covenant of the School District with respect to the payment of the Bonds, or contesting the powers of the School District with respect to any of the foregoing.

See “APPENDIX A - LEGAL PROCEEDINGS” herein for a summary of certain legal proceedings affecting the School District.

FINANCIAL ADVISOR

In connection with the authorization and issuance of the Bonds, the School District has retained Phoenix Capital Partners LLP, Philadelphia, Pennsylvania, an independent registered municipal advisor, as its financial advisor (the “Financial Advisor”). The 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 a registered municipal advisor and an independent financial advisory firm and is not engaged in the business of underwriting, trading, or distributing municipal securities or other securities.

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated is acting as the representative for the Underwriters shown on the cover page of this Official Statement.

The Underwriters have agreed to purchase the Series D Bonds from the School District, subject to the terms of the bond purchase agreement between the School District and Underwriters for the Bonds (the “Bond Purchase Agreement”), for a purchase price of \$103,704,779.73 (which is equal to the par amount of \$92,345,000.00, plus original issue premium of \$11,671,423.10, and less the Underwriters’ discount of \$311,643.37).

The Underwriters have agreed to purchase the Series E Bonds from the School District, subject to the terms of the Bond Purchase Agreement, for a purchase price of \$146,568,468.09 (which is equal to the par amount of \$147,245,000.00, less the Underwriters’ discount of \$676,531.91).

The Underwriters have agreed to purchase the Series F Bonds from the School District, subject to the terms of the Bond Purchase Agreement, for a purchase price of \$658,899,838.38 (which is equal to the par amount of \$582,155,000.00, plus original issue premium of \$79,076,120.45, and less the Underwriters’ discount of \$2,331,282.07).

The Underwriters may offer and sell the Bonds to certain dealers and others (including sales for deposit into investment trusts, certain of which may be sponsored or managed by one or more of the Underwriters) at prices lower than the public offering prices stated on the inside cover page hereof.

Citigroup Global Markets Inc. (“Citigroup”), an Underwriter of the Bonds, has entered into a retail distribution agreement with each of TMC Bonds L.L.C. (“TMC”) and UBS Financial Services Inc. (“UBSFS”). Under these distribution agreements (the “Citigroup Agreements”), Citigroup may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, Citigroup may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the Bonds.

J.P. Morgan Securities LLC (“JPMS”), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a “JPMS Dealer Agreement”) with each of Charles Schwab & Co., Inc. (“CS&Co.”) and LPL Financial LLC (“LPL”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each JPMS Dealer Agreement, each of CS&Co. and LPL may purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

Morgan Stanley & Co. LLC (“MSC”), an Underwriter of the Bonds, has entered into a retail distribution arrangement (the “MSC Agreement”) with its affiliate Morgan Stanley Smith Barney LLC. As part of this arrangement MSC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, MSC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

TD Securities (USA) LLC (“TD Securities”), one of the Underwriters of the Bonds, has entered into a negotiated dealer agreement (the “TD Dealer Agreement”) with TD Ameritrade for the retail distribution of certain securities offerings, including the Bonds, at the original price. Pursuant to the TD Dealer Agreement, TD Ameritrade may purchase the Bonds from TD Securities at the original issue prices less a negotiated portion of the selling concession applicable to any of the Bonds that TD Ameritrade sells.

The preceding four paragraphs have been furnished by Citigroup, JPMS, MSC and TD Securities, respectively, for inclusion in this section of the Official Statement. The School District has not requested or been furnished with any documents relating to the Citigroup Agreements, the JPMS Dealer Agreements, the MSC Agreement or the TD Dealer Agreement (collective, the “Distribution Agreements”) and has not entered into any agreement or arrangement with any of the parties who are entering into the Distribution Agreements with respect to the offering and sale of the Bonds (other than the Bond Purchase Agreement).

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the School District, for which it received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for its own account and for the accounts of its customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the School District.

The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

The School District intends to use a portion of the proceeds of the Series F Bonds to redeem the Refunded 2008 Bonds and the Refunded 2016 Bonds. To the extent an Underwriter or an affiliate thereof is an owner of Refunded 2008 Bonds or Refunded 2016 Bonds, such Underwriter or its affiliate, as applicable, would receive a portion of the proceeds of the Series F Bonds as described herein. In addition, Bank of America, N.A. and PNC Bank, National Association, affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated and PNC Capital Markets LLC, respectively, two of the Underwriters, currently provide letters of credit which support the Refunded 2016 Bonds.

The Underwriters are also acting as the underwriters of the SPSBA 2016 Bonds.

The School District suggested to the Underwriters that it consider retaining the law firm of Cozen O'Connor to serve as underwriters' counsel (“Underwriters' Counsel”) in connection with the Bonds from a list of approved counsel maintained by the School District. The selection of Underwriters' Counsel was an independent determination of the Underwriters.

RATINGS

Moody's Investors Service (“Moody's”) and Fitch Ratings, Inc. (“Fitch”) have assigned their respective municipal bond ratings of “A2” (with a stable outlook) and “A+” (with a stable outlook) to the Bonds, based on intercept provisions of the School Code.

Moody's has assigned the Bonds an underlying rating, without regard to the intercept provision of the School Code of “Ba3” (with a stable outlook). Fitch has also assigned its underlying rating with respect to School District's general obligation bonds, including the Bonds, without regard to the intercept provisions of the School Code, of “BB-” (with a stable outlook). See “SECURITY FOR THE BONDS” herein.

No application has been made to any other ratings service for a rating on the Bonds. The School District furnished to Moody's 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. 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 Bonds may be resold.

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

Moody's Investors Service	Fitch Ratings, Inc.
7 Trade Center at 250 Greenwich Street	One State Street Plaza
New York, NY 10007	NY 10004
(212) 553-0377	(212) 908-0500

Neither the School District nor the Underwriters have assumed any responsibility to maintain any particular rating on the Bonds. The School District has agreed to report actual rating changes on the Bonds. See "APPENDIX E – FORM OF CONTINUING DISCLOSURE AGREEMENT."

TAX MATTERS

Federal – Series D Bonds and Series F Bonds

Exclusion of Interest from Gross Income.

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions, interest on the Series D Bonds and the Series F Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, assuming continuing compliance by the School District with the requirements of the Code. Interest on the Series D Bonds and the Series F Bonds will not be a specific preference item for purposes of computing the federal alternative minimum tax ("AMT"); however, interest on the Series D Bonds and the Series F Bonds held by corporations is included in the computation of "adjusted current earnings," a portion of which is taken into account in determining the AMT imposed on corporations.

In rendering its opinion, Bond Counsel has assumed compliance by the School District with its covenants contained in the Resolution and the Tax Compliance Certificate executed and delivered in connection with the issuance of the Series D Bonds and the Series F Bonds, that are intended to comply with the provisions of the Code relating to actions to be taken by the School District in respect of the Series D Bonds and the Series F Bonds, and covenants of the SPSBA and the School District with respect to the SPSBA 2016 Bonds, after issuance thereof to the extent necessary to effect or maintain the exclusion from federal gross income of the interest on the Series D Bonds and the Series F Bonds. These covenants relate to, inter alia, the use of and investment of proceeds of the Series D Bonds, the Series F Bonds and the SPSBA 2016 Bonds and the rebate to the United States Treasury of specified arbitrage earnings, if any. Failure to comply with such covenants could result in interest on the Series D Bonds and the Series F Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Series D Bonds and the Series F Bonds.

Original Issue Premium.

The initial public offering prices of the Series D Bonds and the Series F Bonds (collectively, the "Premium Bonds") are more than the principal amounts payable on the Premium Bonds at their respective maturities. Such excess, over the amount payable at maturity of a Premium 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 Premium 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 Premium Bond. Owners of Premium 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 Premium Bonds.

Other Federal Tax Matters.

Ownership or disposition of the Series D Bonds and the Series F 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, taxpayers who have an initial basis in the Series D Bonds and the Series F 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 Series D Bonds and the Series F Bonds.

Bond Counsel is not rendering any opinion as to any federal tax matters other than those described under the caption “Federal - Series D Bonds and Series F Bonds - Exclusion of Interest from Gross Income” and expressly stated in the forms of the opinions of Bond Counsel included as Appendix D hereto. Prospective purchasers of the Series D Bonds and the Series F Bonds should consult their independent tax advisors with regard to all federal tax matters.

Federal – Series E Bonds

Taxable Qualified School Construction Bonds.

General. The School District has elected to designate the Series E Bonds as taxable “Qualified School Construction Bonds” pursuant to Section 54F of the Code, and as “Qualified Bonds” pursuant to Sections 54AA(g) and 6431(f) of the Code.

Direct Pay Bonds. Pursuant to the Hiring Incentives to Restore Employees Act enacted on March 18, 2010 (“HIRE”), the School District has elected to receive the QSCB Direct Subsidy Payments from the United States Treasury equal to the lesser of: (i) 100 percent of the amount of interest payable on the Series E Bonds, or (ii) 100 percent of the amount of interest that would have been payable if the interest were determined at the applicable tax credit bond rate published by the United States Treasury on the sale date of the Series E Bonds. The Code imposes requirements on the Series E Bonds that the School District must continue to meet after the Series E Bonds are issued in order to receive the QSCB Direct Subsidy Payments. These requirements generally involve the way that Series E Bonds proceeds are invested and used. If the School District does not meet these requirements, it is possible that the School District may not receive the QSCB Direct Subsidy Payments and the Series E Bonds may fail to be “Qualified School Construction Bonds” under Section 54F of the Code, and “Qualified Bonds” under Section 54AA(g) and 6431(f) of the Code from the date of issuance of the Series E Bonds. Any such failure to qualify as “Qualified School Construction Bonds” or any effect described in the next succeeding paragraph, will not alter the School District’s obligation to pay the principal and interest due on the Series E Bonds.

In certain circumstances, the QSCB Direct Subsidy Payments to be made to the School District may be reduced (by offset) by amounts determined to be applicable under the Code and Regulations or eliminated in their entirety. For example, offsets may occur by reason of any past-due legally enforceable debt of the School District to any Federal agency. The amount of any such offset is not predictable.

In addition, a series of automatic federal deficit reduction spending cuts known as “sequestration” became effective on March 1, 2013 as a result of the failure by Congress to adopt alternative deficit reduction legislation; recent legislation has extended sequestration through the 2024 federal fiscal year. Sequestration affects the QSCB Direct Subsidy Payments.

Based on guidance issued by the IRS on August 3, 2016, the QSCB Direct Subsidy Payments will be reduced by 6.9% for payments from October 1, 2016, through September 30, 2017. The sequestration reduction rate will be applied unless and until a law is enacted that cancels or otherwise impacts the sequester, at which time the sequestration reduction rate is subject to change. Reductions in future federal fiscal years are currently unknown.

Inclusion of Interest on Series E Bonds in Gross Income

Interest on the Series E Bonds is included in gross income of the holders thereof for federal income tax purposes.

Certain Federal Income Tax Considerations for Series E Bonds

Backup Withholding. Certain purchasers of Series E Bonds may be subject to backup withholding at the applicable rate determined by statute with respect to interest paid with respect to the Series E Bonds if the purchasers, upon issuance or subsequent purchase, fail to supply their brokers, or any other person required to collect such information pursuant to the Code, with their taxpayer identification numbers, furnish incorrect taxpayer identification numbers, fail to report interest, dividends or other “reportable payments” (as defined in the Code) properly, or, under certain circumstances, fail to provide a certified statement, under penalty of perjury, that they are not subject to backup withholding. Information returns will be sent annually to the Internal Revenue Service and to each purchaser setting forth the amount of interest paid with respect to the Series E Bonds and the amount of tax withheld thereon.

Prospective purchasers of the Series E Bonds should consult their independent tax advisors with regard to all federal tax matters relating to the Series E Bonds.

Pennsylvania – The Bonds

In the opinion of Bond Counsel, under the laws of the Commonwealth of Pennsylvania as presently enacted and construed, interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax and the Bonds are exempt from personal property taxes in Pennsylvania; 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.

Other

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

Bond Counsel is not rendering any opinion on state tax matters other than those described under the caption “Pennsylvania – The Bonds” and expressly stated in the form of Bond Counsel opinion included in Appendix D hereto.

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

LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approval of the legality of issuance of the Bonds by Eckert Seamans Cherin & Mellott, LLC, Philadelphia, Pennsylvania, Bond Counsel. The forms of opinions of bond counsel expected to be delivered at the time of issuance of the Bonds with respect to each series of the Bonds are attached hereto as APPENDIX D. 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, Philadelphia, Pennsylvania.

CERTAIN RELATIONSHIPS

Eckert Seamans Cherin & Mellott, LLC, Bond Counsel, represents the School District in matters unrelated to the issuance of the Bonds, including serving as co-bond counsel to the SPSBA in connection with the issuance of the SPSBA 2016 Bonds. The Underwriters for the Bonds are also acting as the underwriters for the SPSBA 2016 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 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 its general obligation bonds and to bonds issued on its behalf by the SPSBA. 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. The School District has two existing Pre-2006 Continuing Disclosure Agreements. For the fiscal years ending June 30, 2007, through June 30, 2015, 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. For Fiscal Year 2015, the School District’s unaudited financial statements were posted on EMMA on December 30, 2015, and its Annual Financial Information (including its audited financial statements for Fiscal Year 2015) was posted on EMMA on February 24, 2016.

All of the School District’s other continuing disclosure agreements relating to its general obligation bonds, and bonds issued by the SPSBA for the benefit of the School District, including the Continuing Disclosure Agreement, require the School District to file its annual financial information 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, except that the (i) annual financial information for Fiscal Year 2013 was filed with EMMA one day late and no notice of late filing was filed; and (ii) the annual financial information for Fiscal Year 2014 was

timely filed but mislabeled as being for Fiscal Year 2015 and was indexed under "Other Financial Information." This filing has been refiled under the correct indexing and relabeled.

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. Certain event filings and annual financial information were filed timely but were not linked to all relevant CUSIPs. These have been corrected.

The foregoing descriptions of instances of non-compliance by the School District should not be construed as an acknowledgement by the School District that any such instance was material.

As of the date of this Official Statement, except as noted above, the School District has complied for the past five years in all material respects with its continuing disclosure agreements. All of the School District's continuing disclosure agreements currently provide for The Bank of New York Mellon Trust Company, N.A., as the single dissemination agent.

Other Information

Certain information concerning the School District is on file with EMMA. Certain additional information relating to the School District's operations and financial affairs is made available from the School District at its website (www.philasd.org). Information on EMMA and the School District's website is not incorporated by reference in this Official Statement and prospective purchasers of 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 2015 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 School District, on or before the date of the delivery of the Bonds, its report (the "Verification Report") indicating that it has verified the mathematical accuracy of the information provided by the School District and its representatives with respect to the refunding requirements of the Refunded 2008 Bonds and the yield on the Bonds and the applicable 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 escrow accounts to meet the scheduled payment of interest on the Refunded 2008 Bonds until redemption or maturity, as applicable, and the payment of the redemption price of the Refunded 2008 Bonds on the 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 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 School District and its 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

Negotiable Instruments

The Act provides that obligations issued thereunder which have all the qualities and incidents of securities under Article 8 of the Uniform Commercial Code of the Commonwealth shall be negotiable instruments.

Certain References

All references to the provisions of the Bonds and the security therefor, the Act, the Resolution and the Continuing Disclosure Agreement set forth herein, and all summaries and references to other materials not purported to be quoted in full are only brief outlines of certain provisions thereof and do not constitute complete statements of such documents or provisions. Reference is made hereby to the complete documents relating to such matters for the complete terms and provisions thereof or for the information contained therein. A copy of the Resolution is on file at the designated corporate trust office of the Fiscal Agent. Insofar as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are made merely as such and not as representations of fact.

NEITHER ANY ADVERTISEMENT FOR THE BONDS NOR THIS OFFICIAL STATEMENT IS TO BE CONSTRUED AS CONSTITUTING A CONTRACT WITH PURCHASERS OF THE BONDS.

The distribution of this Official Statement has been approved by the School District.

THE SCHOOL DISTRICT OF PHILADELPHIA

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

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APPENDIX A - THE SCHOOL DISTRICT OF PHILADELPHIA

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THE SCHOOL DISTRICT OF PHILADELPHIA

The School District of Philadelphia (“School District” or “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 2016 enrollment as of December 2015, of approximately 202,700 students, including approximately 68,600 charter school students and approximately 2,500 students attending alternative educational programs. The School District has the eighth largest enrollment in the nation and employs approximately 12,800 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. See “SOURCES OF SCHOOL DISTRICT REVENUES – Local Tax Revenues” herein.

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 2016” or “FY2016” refers to the Fiscal Year ending June 30, 2016.

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. Three commissioners are appointed by the Governor with the advice and consent of the Senate; two commissioners are appointed by the Mayor of the City. The Governor appoints the Chair. The Chair has no statutory or reserved powers. 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 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; (7) to enter into agreements with persons and for-profit or nonprofit organizations providing educational or other services to or for the School District; (8) notwithstanding any other provisions of the School Code, to close or reconstitute a school, including the reassignment, suspension or dismissal of professional employees; (9) to suspend professional employees without regard for specific provisions of the School Code relating, among other things, to seniority; (10) to appoint managers, administrators and for-profit or nonprofit organizations to oversee the operations of a school or group of schools; (11) to reallocate resources, amend school procedures, develop achievement plans and implement testing or other evaluation procedures for educational purposes; (12) to supervise and direct principals, teachers and administrators; (13) to negotiate any memoranda of understanding under a collective bargaining agreement in existence on April 27, 1998; (14) to negotiate new collective bargaining agreements; (15) 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 (16) 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 can be limited by judicial decisions.

In an opinion and order dated February 16, 2016, in West Philadelphia Achievement Charter Elementary School v. The School District of Philadelphia and School Reform Commission, the Pennsylvania Supreme Court held that Section 696(i)(3) of the School Code, which authorized the School Reform Commission to suspend the requirements of the School Code and regulations of the State Board of Education was unconstitutional as a violation of Article II, Section 1 of the Pennsylvania Constitution, which prohibits the delegation of legislative power under certain circumstances. Accordingly, the Court permanently enjoined the School District from taking further action under the authority which such provision confers. The School District filed an application for reconsideration with the Supreme Court on February 29, 2016, which was denied on April 4, 2016. The School District believes that the Court's decision has prospective effect only and is not to be applied retroactively.

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 appealed to the Commonwealth Court. On January 22, 2015, the Commonwealth Court issued an en banc 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. The School District appealed to the Supreme Court of Pennsylvania. On August 15, 2016, the Supreme Court affirmed the order of the Commonwealth Court. *See: "SCHOOL DISTRICT LABOR RELATIONS" herein.*

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:

<u>Name</u>	<u>Title</u>	<u>Appointment</u>	<u>Term Expires</u>
Marjorie G. Neff	Chair	July 3, 2014 (a)	January 18, 2017 (c)
William J. Green	Commissioner	February 18, 2014 (b)	January 18, 2019
Farah Jimenez	Commissioner	January 18, 2014 (b)	January 18, 2019
Sylvia P. Simms	Commissioner	February 4, 2013 (a)	January 18, 2017

(a) *Appointed Commissioner by the Mayor.*

(b) *Appointed Commissioner by the Governor.*

(c) *Ms. Neff has tendered her resignation effective November 3, 2016.*

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

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.

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. Governor Corbett also appointed Mr. Green the Chair of the School Reform Commission at that time. In February 2015, Governor Wolf removed Mr. Green as the Chair and appointed Commissioner Neff as the Chair. 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 VistaScope Security Systems.

On or about April 19, 2016, Mr. Green filed suit in the Commonwealth Court against Governor Wolf contesting the legality of his removal as Chair. The School Reform Commission and Chairwoman Neff are named as nominal respondents in the petition for review. On October 6, 2016, following Chairwoman Neff’s announcement of her resignation, effective

* There is currently one vacancy on the School Reform Commission.

November 3, 2016, Commissioner Green filed, as part of his pending petition for review, a petition to the Commonwealth Court to issue a preliminary injunction preventing the Governor from naming a Chair when Chairwoman Neff's resignation takes effect or, in the alternative, ordering the return of the chairmanship to Commissioner Green until the Court decides the case on the merits. Oral argument was held on October 19, 2016. The Court has taken the matter under advisement.

Farah Jimenez, Commissioner. Ms. Jimenez is the President and CEO of the Philadelphia Education Fund ("Ed Fund") – a nonprofit that impacts learning through programming that supports teachers via professional development and peer networks and college-bound seniors via college access and college persistence counseling and last dollar scholarships. Before arriving at the Ed Fund, Ms. Jimenez was the President and CEO of the People's Emergency Center – a comprehensive social services agency that serves vulnerable and homeless families throughout West Philadelphia. Ms. Jimenez also 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.

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 team, which includes the: Chief of Staff, Chief Academic Support Officer, Chief Financial Officer, Chief Operating Officer, the Chief Information Officer, Chief Talent Officer, Chief of Neighborhood Networks and the Chief of Student Support Services. The Superintendent represents the School District before students and families, 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.

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, constructing best-in-class educational offerings that address the needs of all of the District's students, and providing ongoing learning opportunities for teachers. 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, College and Career Readiness, Academic Enrichment, Professional Development (Teachers), and Federal Program Design and Implementation.

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.

Chief Operating Officer. The Chief Operating Officer ("COO") reports directly to the Superintendent. The COO is responsible for overseeing the day to day operation of Capital Programs, Environmental Services, Facilities and Maintenance, Food Services, Procurement, Real Property and Transportation. The COO provides ongoing leadership and support to provide safe, comfortable, welcoming and healthy school facilities that support teaching and learning opportunities while offering nutritious food and safe and effective transportation to principals, students, teachers, administrators, district colleagues and the school community.

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 who are part of 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. He also 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.

Cheryl Logan, Chief Academic Support Officer. Cheryl Logan assumed her role as Chief Academic Support Officer on August 1, 2015. Ms. Logan joined The School District of Philadelphia in July 2013, as the Assistant Superintendent for the Autonomy Network and Learning Networks 5 and 7. Ms. Logan also has prior experience as a high school and elementary school principal, assistant principal and teacher (English, Spanish, French, and English as a Second Language). Ms. Logan holds a Bachelor of Science degree from the University of Maryland College Park and a Master's degree in Educational Administration from Johns Hopkins University. Ms. Logan is a doctoral candidate in education policy at the University of Pennsylvania. In addition to her K-12 experience, Ms. Logan has taught graduate level courses in Educational Administration and Human Relations at Towson University. Ms. Logan is a 2013 winner of The Washington Post Distinguished Educational Leader Award and the 2016 recipient of the Hispanic-Serving District Administrator of the Year Award.

Uri Monson, Chief Financial Officer. Mr. Monson began serving as the Chief Financial Officer for the School District of Philadelphia in February 2016. He brings extensive governmental experience to this role, From January 2012 until joining the School District, Mr. Monson served as the Chief Financial Officer for Montgomery County, Pennsylvania where he advised the Commissioners on County fiscal matters and was responsible for the overall management of County funds, including formation of the County's operating and capital budgets, monitoring County spending throughout the year, producing reports to promote better internal management and public awareness of County revenues and expenditures, managing the County's debt portfolio, and overseeing the County's Pension Fund. From 2008 to 2012, Mr. Monson served as the Executive Director of the Pennsylvania Intergovernmental Cooperation Authority (PICA). In this role, he monitored the City of Philadelphia's budget; reviewed the City's annual \$20 billion Five-Year Financial Plan; and authored reports on the City's financial and economic outlook. Prior thereto he worked as PICA's Deputy Executive Director from October 2001, after serving as PICA's Director of Budgetary Analysis for two years.

Mr. Monson previously served as Assistant Budget Director for the City of Philadelphia where his primary responsibilities included analyzing proposed policies for the Finance Director and the Mayor's Cabinet. Additionally, Mr. Monson worked for the United States Department of Education in Washington, D.C. as a Congressional Liaison and as a policy analyst for the Office of Postsecondary Education. In these roles he proposed initiatives on organizational restructuring and program development and helped to redesign and facilitate passage of the Higher Education Reauthorization Act of 1998. Mr. Monson also served as manager of the Javits Graduate Fellowship Program and co-managed the National Resource Center Program.

Mr. Monson has a Master's Degree in Public Policy, with a concentration in education policy, from the Columbia University School of International and Public Affairs. He has a Bachelor's Degree in Political Science from Columbia University, as well as a Bachelor's Degree in Midrash from the Jewish Theological Seminary of America.

Frances A. Burns, Chief Operating Officer. Ms. Burns joined the District as Chief Operating Officer in July 2013. With 18 years of public sector experience, her background encompasses operations, economic development and public sector finance. Ms. Burns has held various public sector positions including Executive Director of the Pennsylvania Intergovernmental Cooperation Authority and Commissioner of the Philadelphia Department of Licenses and Inspections. She also held positions as Assistant Budget Director and Assistant Managing Director for the City of Philadelphia. Ms. Burns also served as Executive Director of the Manayunk Development Corporation and started her career working for the City of Philadelphia Commerce Department.

Ms. Burns has an undergraduate degree in Political Science as well as a Master's Degree in Public Administration from Villanova University.

Miles H. Shore, Interim General Counsel. Mr. Shore has served as Interim General Counsel since July 1, 2016. Mr. Shore joined the Office of General Counsel of The School District of Philadelphia in 2003, serving first as Assistant General Counsel, Interim General Counsel in 2005-2006 and again in 2009-2010 and as Deputy General Counsel since 2010. Mr. Shore was an associate and later a partner at the Philadelphia law firm of Saul Ewing Remick & Saul from 1968 to 2003, concentrating his practice in commercial litigation and professional responsibility matters.

Mr. Shore holds a Bachelor of Laws Degree from the University of Pennsylvania Law School and a Bachelor of Arts degree from the University of Pennsylvania.

SCHOOL DISTRICT DEBT

Outstanding Debt

As of October 1, 2016, the School District's outstanding general obligation bond and lease rental indebtedness was in the principal amount of \$2,884,319,321. 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 30 of the last 32 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 5, 2016, the School District issued \$250.0 million of Tax and Revenue Anticipation Notes, Series A-1 and \$125.0 million of Tax and Revenue Anticipation Notes, Series A-2 (together with the Series A-1 Notes, the “FY 2017 Series A Notes”), in direct purchase transactions with two financial institutions. The FY 2017 Series A Notes will mature on June 30, 2017.

General Obligation Debt

Fixed Rate. The School District has covenanted to make daily deposits of school tax revenues collected on behalf of the School District by the Department of Revenue of the City, as School Tax Collector, to each sinking fund established for each of its outstanding fixed rate general obligation bond issues. As of October 1, 2016, the aggregate principal amount of fixed rate debt outstanding, including Qualified Zone Academy Bonds and Qualified School Construction Bonds described below, was \$1,449,474,321. For information on the School taxes subject to the Daily Deposit covenant. See “*SCHOOL DISTRICT FINANCIAL PROCEDURES – Tax Collection*” herein.

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”) (collectively, the “Prior Variable Rate Bonds”), which were refunded with the proceeds of the 2016 General Obligation Refunding Bonds (hereafter defined) and were redeemed on June 1, 2016 simultaneously with the issuance of the 2016 General Obligation Refunding Bonds. The School District has determined in the Resolution authorizing General Obligation Refunding Bonds, Series A, B, and C of 2016 (“2016 General Obligation Refunding Bonds”) that such Bonds are subject to the daily deposit covenant currently provided for the fixed rate general obligation bonds. The 2016 General Obligation Refunding Bonds are being refunded by a portion of the 2016 Series of Bonds as described in the forepart of this Official Statement. On completion of that refunding the School District will have no outstanding variable rate debt.

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. The Debt Policy, like all other policies adopted by the School Reform Commission may be amended at any time in the sole discretion of the Governing Body, subject to applicable law.

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. As of October 1, 2016, the School District has three outstanding issues of general obligation bonds which are QZABs in the aggregate principal amount of \$37,186,809.

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 \$144,035,000 as of October 1, 2016.

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 for the 2003 Bonds, 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, as well as base rental payments to become due under the sublease agreement for the 2006A Bonds and the 2006B Bonds. Simultaneously with the issuance of the Bonds, the Authority is expected to issue SPSBA 2016 Bonds to currently refund the 2006A Bonds and the 2006B Bonds, except for the 2006B Bonds scheduled to mature on June 1, 2027 and June 1, 2029. *See: “Related Financings” in the forepart of this Official Statement.*

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.

In 2015, the School District incurred lease rental debt through the issuance of the Authority’s School Lease Revenue Refunding Bonds (The School District of Philadelphia Project), Series 2015A (the “2015 SPSBA Bonds”) in the amount of \$80,000,000 which constitutes lease rental debt which refunded a portion of the 2006A Bonds. In connection with the issuance of the 2015 SPSBA Bonds, the Sublease was amended to reflect the Base Rental Payments to become due under the Sublease with respect to the 2015 SPSBA Bonds and the Intercept Agreement was amended so that it provides 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.

In FY2016, due to the Commonwealth’s FY2016 budget impasse, certain payments of lease rentals required to be paid pursuant to the Intercept Agreement were not made to the Trustee and such payments were made (when required to be made) directly by the School District. *See: “SOURCES OF SCHOOL DISTRICT REVENUE – Commonwealth Operating Budget Impasse” herein.*

As of October 1, 2016, the aggregate principal amount outstanding of lease rental debt is \$1,084,885,000.

Rating Agency Actions Due to Budget Impasse

On December 11, 2015, Standard & Poor’s Ratings Services (“S&P”) withdrew its ratings on Pennsylvania school districts and community colleges that are based on Pennsylvania’s State Aid Intercept Program and on December 22, 2015, Moody’s Investors Service (“Moody’s”) downgraded the ratings on Pennsylvania School District Enhancement Programs to the underlying rating of the school district plus one notch, with a floor of B1 and a ceiling of Baa1. On August 15, 2016, as a result of the passage of Act 85, Moody’s upgraded the Pennsylvania School District Enhancement Programs referred to by Moody’s as the “Fiscal Agent agreement” or “Pre-default” program to A2 from Baa1 and revised the outlook to stable from negative. As a result, the School District’s outstanding bonds (including bonds issued by the State Public School Building Authority for the benefit of the School District) have (i) no rating from S&P (the School District’s bonds do not have an unenhanced underlying

rating from S&P), and (ii) an enhanced rating from Moody's of A2 and a Moody's underlying rating of Ba3. See "Ratings" in the forepart of this Official Statement for a description of the ratings assigned to the 2016 Bonds.

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 17% 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 October 3, 2016, the mark to market value for the 2006 Basis Swaps is (\$1,347,067).

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 October 1, 2016****BORROWING BASE**

Gross Revenues: General, Special Revenue and Debt Service Fund for the fiscal years ended June 30, 2014, 2015 and 2016*	\$9,004,486,317
Less: Statutory exclusions	<u>1,057,098,909</u>
Net Revenues	<u>\$7,947,387,408</u>
 Borrowing Base (average of net revenues for the fiscal years ended June 30, 2014, 2015 and 2016*)	 <u>\$2,649,129,136</u>

DEBT LIMIT

Electoral Debt Limit	No Limit
Electoral Debt Outstanding	<u>\$ 0</u>
 Electoral Debt Capacity	 <u>No Limit</u>
 Non-Electoral Debt Limit (100% of Borrowing Base)	 <u>\$2,649,129,136</u>
 Non Electoral Debt	\$1,799,434,321
Exclusion for Deficit/Term Bond Outstanding	<u>(192,137,550)</u>
Less: Non-Electoral Debt Outstanding	<u>\$1,607,296,771</u>
Non-Electoral Debt Capacity	<u>\$1,041,832,365</u>
 Non-Electoral and Lease Rental Debt Limit (200% of Borrowing Base)	 \$5,298,258,272
Non-Electoral Debt Outstanding	\$1,792,501,771
Lease Rental Debt Outstanding	<u>995,135,000</u>
 Less: Non-Electoral Debt and Lease Rental Debt Outstanding	 <u>\$2,787,636,771</u>
Non-Electoral and Lease Rental Borrowing Capacity	<u>\$2,510,621,501</u>

***UNAUDITED FIGURES.**

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 May 26, 2016, the School District adopted its FY2017 Capital Budget and the Capital Improvement Program which totals approximately \$1,128 million. The FY2017 Capital Budget of \$172.7 million includes: 41 active construction projects at 28 locations; \$76.1 million in life-cycle replacements, such as structural and façade restorations, electrical system upgrades, and roof replacements; and the design of 41 additional projects. The CIP assumes the incurrence of \$200 million of School District debt in Fiscal Year 2017, \$200 million in Fiscal Year 2019 and \$160 million in Fiscal Year 2021.

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 (FCA). The last FCA that the School District completed was in 2004. Currently, facility-related information from different School District departments is not consolidated to provide an overall assessment of each building's condition. The information collected from the FCA will serve as the basis to prioritize future capital projects and establish priorities in the annual capital budget and six-year capital improvement plan. The School District has engaged a professional firm to perform a visual survey and assessment of 308 educational and athletic facilities with a total area of about 25.7 million square feet. The objective of the FCA is to accomplish the following goals:

- Create one central depository of data on critical building systems, life expectancy, and capital investments.
- Calculate Facility Condition Index (FCI) Scores for buildings including FCI scores for individual building 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 plan to address deferred maintenance.
- Use data gathered from the FCI scores to develop 3-, 5-, and 10-year capital improvement plans beginning in FY 2017.

The FCA is a planning tool and the School District is not required to either accept it when it is presented in final form or to implement any part of an accepted FCA. A preliminary draft is expected to be delivered in November 2016.

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*" herein. 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 2015. 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 2015. The School District will file its applications for both certificates for Fiscal Year 2016. 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 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.

Pooled Cash Account. 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, in its capacity as School Tax Collector, subject to the same collection procedures applicable to City taxes. Such taxes collected by the City, on behalf 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 general obligation bonds issued by the School District which are entitled to receive daily deposits of school taxes 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") perform an annual audit of the books of account, as well as financial records and transactions of the School District. The City Controller, an independently elected local official, is required to appoint a Certified Public Accountant as deputy in charge of auditing. Pursuant to these requirements, the Office of the City Controller conducted an independent audit of the School District's financial statements for the fiscal year ended June 30, 2015. 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, 2015, 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, 2015, 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, 2015, 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

On October 7, 2015 an Intergovernmental Cooperation Agreement (“ICA”) was executed by the City Council of Philadelphia (“Council”), the School Reform Commission, and the School District. As part of the ICA, the School District agreed to provide quarterly school manager reports to Council and to brief Council members on major issues “in K-12 education related to the School District’s efforts to improve school quality and expand equity.” The ICA has a stated term ending June 30, 2017.

SOURCES OF SCHOOL DISTRICT REVENUE

In Fiscal Year 2017, the School District’s Operating Budget revenue is expected to be derived primarily from three sources: (i) the Commonwealth, which represents approximately 55.1%; (ii) local, which represents approximately 44.5%; and (iii) federal, which represents approximately 0.4%.

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 2017.

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 2016, the School District’s amended revenues were \$1,020.1 million from the basic education funding allocation (a 3.65% increase from Fiscal Year 2015). Other Commonwealth revenues included (i) \$135.4 million in special education funding (a 3.26% increase from Fiscal Year 2015) and (ii) \$291.6 million in other funding, the largest component of which was a reimbursement for a portion of pension costs. Commonwealth revenues for Fiscal Year 2017 are estimated to be \$1,572.0 million of which \$1,107.6 million is the basic education funding allocation (a 8.58% increase over Fiscal Year 2016) and \$143.3 million is special education funding (a 5.83% increase over Fiscal Year 2016).

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 (although the Commonwealth has not made such payments on a timely basis). 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. See *“SECURITY FOR THE BONDS” in the forepart of this Official Statement for a description of provisions of the School Code providing for the intercept for debt service of Commonwealth Subsidies.*

THE SCHOOL DISTRICT OF PHILADELPHIA
COVERAGE RATIOS OF NET CASH RECEIVED FROM
COMMONWEALTH SUBSIDIES TO DEBT SERVICE PAYMENTS

Fiscal Years 2013-2017 (a)
(Dollar Amounts in Thousands)

	ACTUAL			AMENDED	ADOPTED
	Fiscal Year <u>2013</u>	Fiscal Year <u>2014</u>	Fiscal Year <u>2015</u>	Fiscal Year <u>2016</u>	Fiscal Year <u>2017</u>
Net Commonwealth Subsidies (b)	\$1,274,757	\$1,313,498	\$1,337,985	\$1,369,152	\$1,544,432
Long-term Debt Service (including State Public School Building Authority)	257,084	271,150	264,486	272,127	270,820
Ratios	4.96	4.84	5.06	5.03	5.70
Long-term and Short-term Debt Service (c)	761,024	396,944	566,152	1,100,825	651,540
Ratios	1.68	3.31	2.36	1.24	2.37
Short-term note debt service(d)	503,940	125,794	301,666	828,698	380,720

(a) Actual data is derived from the School District's Comprehensive Annual Financial Reports. The estimated data for FY2016 and FY2017 is derived from the School District's Amended FY2016 Budget and Adopted FY2017 Budget respectively, adopted on May 26, 2016.

(b) Net Commonwealth subsidies reflect gross revenues, received as to Actual or expected as to Estimated, less certain cash deductions made by the State for payments to other educational entities.

(c) Includes both principal and interest.

(d) Short-term debt service represents interest and principal payments on the School District's borrowings in each fiscal year, 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 and may not be reduced during the period of distress. 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 2017 by ordinance as adopted on June 16, 2016. 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” herein.*

The School District’s Governing Body authorized the levy of the following taxes for Fiscal Year 2017 by resolution on June 16, 2016. The following is a brief description of those taxes levied for school purposes:

Real Estate Tax. 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 property’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. The Pennsylvania Supreme Court ruled that without an amendment to State law, 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, inter alia, 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 were more than 24,000 formal appeals to the Board of Revision of Taxes in tax year 2014 and another 4,800 formal appeals for tax year 2015. For tax year 2016, there were more than 3,600 appeals filed of which approximately 900 remain outstanding to date. The net impact of appeals on property taxes is built into the School District’s total collections.

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 using the authorization for 16.75 mills (which the School District may levy directly pursuant to legislative authorization by the General Assembly without any further action by 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 2016, 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 and for Fiscal year 2016 the tax rate was increased. Accordingly, the School District did not levy any of the 16.75 mills of direct authorization from the Commonwealth for fiscal years 2016 and 2017.

On June 16, 2016 City Council authorized the School District to levy tax of 0.7681% on assessed value of real estate and on the evening of June 16, 2016, 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 2017 is 1.21%. 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 2017, the rate is 3.9004%, 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.

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.

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 House Bill 1177, 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 lower 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).

Local Non-Tax Revenues

Proceeds of 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 additional 1% City Sales tax which expired on June 30, 2014.

In July 2013, the General Assembly of the Commonwealth enacted legislation authorizing the imposition of an additional City Sales Tax of 1% replacing the expiring 1% 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 upon certification by the Secretary of Education that the School District is implementing reforms that provide for fiscal stability, educational improvement, and operational control; (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.

City Grants. City Grant revenues for Fiscal Year 2017 are expected to be \$104.3 million which are subject to the provision of Section 696(h) of the School Code which provides that such grants may not be lowered or withdrawn in any subsequent fiscal year so long as the School District is subject to a declaration of distress.

The following sets forth, for each tax, the actual tax revenues collected in Fiscal Years 2013 through 2015, the estimated tax revenues for Fiscal Year 2016, and the estimated tax revenues set forth in the adopted budget for Fiscal Year 2017:

The School District of Philadelphia
Local Tax Revenues
Fiscal Years 2013-2017
(Dollar Amounts In Thousands)

	Actual (a)			Amended (b)	Adopted (b)
	Fiscal Year <u>2013</u>	Fiscal Year <u>2014</u>	Fiscal Year <u>2015</u>	Fiscal Year <u>2016</u>	Fiscal Year <u>2017</u>
Real Estate Tax	\$653,562	\$657,418	\$662,093	\$706,118	\$721,234
Business Use and Occupancy Tax	132,689	138,080	127,808	139,500	139,500
Non-Business Income Tax	28,105	40,501	40,358	39,800	39,900
Public Utility Realty Tax	1,049	1,067	1,100	1,043	1,043
Liquor Sales Tax	54,238	60,527	61,712	63,950	65,650
Sales Tax (c)(d)			120,000	120,000	120,000
Cigarette Tax (d)			50,245	57,860	53,800
Payments in Lieu of Taxes	4	3	4	0	0
Total Taxes	<u>\$869,646</u>	<u>\$897,597</u>	<u>\$1,063,320</u>	<u>\$1,128,271</u>	<u>\$1,141,127</u>

(a) Derived from the School District's Comprehensive Annual Financial Reports.

(b) The FY2016 and FY2017 figures reflect the School District's Amended and Adopted Budgets respectively, as approved by the SRC on May 26, 2016.

(c) Statutorily mandated grant of first \$120,000,000 of City Sales Tax.

(d) Collected by State Department of Revenue.

The table below sets forth local tax revenues by month subject to daily deposits, which are first deposited by the Fiscal Agent into the sinking funds for the School District's general obligation bonds. See "*SCHOOL DISTRICT FINANCIAL PROCEDURES – Tax Collection*" herein.

Local Tax Revenues Subject to Daily Deposit Covenant by Month
Fiscal Year 2016
(Dollars in Thousands)

Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	TOTAL
33,483	24,644	29,247	27,271	26,701	29,254	69,999	381,518	181,455	67,298	47,712	31,788	950,370

Source: The School District's actual unaudited amounts.

The following table sets forth the School District's Real Estate Tax Levies and Collections for the calendar years 2007-2016:

REAL ESTATE TAX LEVIES AND COLLECTIONS
For the Calendar Years 2007 through 2016
(Dollars in Thousands)

Calendar Year	Tax Levy for the Calendar Year Original Levy (a)	Adjusted Total Levied Tax (b)	Collected within the Calendar Year of the Original Tax Levy		Delinquent Tax Collections (c)	Total Collected to Date	
			Amount (\$) (c)	Percentage of Original Levy (%)		Total Tax Collections	Percentage of Original Tax Levy (%)
2007	556,336	540,724	498,506	0.8961	35,833	534,339	96.05%
2008	583,170	589,439	541,097	0.9279	40,280	581,377	99.69%
2009	605,207	596,223	543,105	0.8974	44,243	587,348	97.05%
2010	608,708	587,537	540,288	0.8876	49,167	589,455	96.84%
2011	612,266	595,725	549,036	0.8967	40,845	589,881	96.34%
2012	655,006	639,956	549,558	0.8390	44,377	593,935	90.68%
2013	659,127	639,960	595,637	0.9037	56,744	652,381	98.98%
2014	737,778	709,718	605,455	0.8206	35,781	641,236	86.91%
2015	731,692	701,132	607,462	0.8302	19,171	607,462	83.02%
2016	703,065 (d)	686,362 (d)	621,865 (d)	0.8845	-	621,865	88.45%

(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

(c) 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.

(d) Source: City of Philadelphia, Revenue Department Reports-Taxes Collected for Tax Years 2007 through 2016-Gross Principal Only.

Memorandum City of Philadelphia Department of Revenue 2016 Monthly Real Estate Billed/Balance Due dated 09/19/2016 as of August 31, 2016.

N/A = Data Not Available

The following table sets forth Assessed and Market Value of Taxable Real Estate in the City for the calendar years 2007-2016:

THE SCHOOL DISTRICT OF PHILADELPHIA
ASSESSED AND ESTIMATED ACTUAL MARKET VALUE OF TAXABLE REAL ESTATE
For the Calendar Years 2007 - 2016
(Dollars Amounts in Millions)

Calendar Year of Levy (a)	Certified Assessed Values (b)		Total Taxable Assessed Value	Percentage Increase Over Prior Year	Certified Assessed Value Ratio (d)	Estimated Actual Value Ratio (e)	Percentage Increase Over Prior Year	Millage for School Purposes
	Total Assessed Value	Less: Tax-Exempt Property (2)(3)(5)						
2007	\$ 16,243	\$ 4,628	\$ 11,615	1.61%	0.2922	\$ 39,750	1.68%	47.90
2008	\$ 16,974	\$ 4,799	\$ 12,175	4.83%	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	\$ 45,926	7.09%	49.59
2011	\$ 17,940	\$ 5,593	\$ 12,347	0.58%	0.2805	\$ 44,017	-4.16%	49.59
2012	\$ 18,022	\$ 5,685	\$ 12,337	-0.08%	0.2887	\$ 42,734	-2.91%	53.09
2013	\$ 18,181	\$ 5,765	\$ 12,416	0.64%	0.2868	\$ 43,290	1.30%	53.09
2014	\$ 137,404	\$ 37,462	\$ 91,923	640.38%	1.0000	\$ 91,923	112.34%	7.382
2015	\$ 136,341	\$ 37,223	\$ 89,914	-2.19%	1.0000	\$ 89,914	-2.18%	7.382
2016	\$ 136,295	\$ 44,759	\$ 35,532	-60.48%	1.0000	\$ 35,532	-60.48%	7.681

(a) Real property tax bills are sent out in December and are payable at a one percent (1%) discount until February 28th, otherwise the face amount is due March 31 without penalty or interest.

(b) Source: The City of Philadelphia, Department of Finance Statistics via Board of Revision of Taxes (CY2005-2010) and the Office of Property Assessment (CY2011-**2016**). Beginning in 2014, the Assessed Value Certification Date was moved up to March 31, 2013. In prior years, the Certification date occurred on or slightly before the Billing Date; henceforth, the Certification Date was change to March 31st.

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

The City granted \$6,411 million in homestead exemptions as of March 31, 2015 along with \$37,223 million in tax-exempt real property. An additional adjustment after the certification date of March 31, 2014 of \$2,793 million was made.

The City granted \$6,373 million in homestead exemptions as of March 31, 2016 along with \$44,759 million in tax-exempt real property. An additional adjustment after the certification date of March 31, 2015 of \$49,632 million was made.

(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, to the STEB. In addition, STEB annually determines for each municipality in the Commonwealth of Pennsylvania a ratio assessed valuation to true value. The ratio is used for the purpose of equalizing certain state aid distributions. Obtained from STEB website-Market Value.

(e) Represents total taxable assessed value multiplied by the STEB ratio for calendar years 2006 through 2013. In calendar years 2014, 2015, and **2016**, the market value represents the actual amounts.

(f) 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.

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 2016, approximately 46.9% of its operating budget expenditures involve personnel services and related employee benefits. Charter school payments represent approximately 26.6%; debt service payments represent approximately 9.8%; property, transportation and communication expenses represent approximately 5.0%; payments to other educational entities and alternative programs represent approximately 4.1%; utilities represent approximately 1.6%; professional and technical contracted services represent approximately 1.7%, materials, supplies, books, instructional aids and equipment represent approximately 3.2%; and other items represent approximately 1.0%.

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 2013 through 2015, the amended budget for FY 2016 and the adopted budget for FY 2017. See “CERTAIN FINANCIAL INFORMATION OF THE SCHOOL DISTRICT – Operating Budget Revenues, Expenditures and Changes in Fund Balances” and “Five-Year Financial Plan” herein.

	ACTUAL 2013	ACTUAL 2014	ACTUAL 2015	AMENDED 2016 (a)	ADOPTED 2017 (a)
REVENUES:	\$	\$	\$	\$	\$
<i>Local Sources:</i>					
Total Taxes					
(b)	869,646	897,597	1,063,320	1,128,271	1,141,127
Non-tax Revenues (c)	104,370	169,902	131,023	140,858	129,513
Total Local Sources	974,016	1,067,499	1,194,343	1,269,129	1,270,640
<i>State Subsidies:</i>					
Gross Instruction (d)	968,129	984,007	984,120	1,020,075	1,107,611
Less: Reimbursement of Prior Year					
I.U. Advances	(44,443)	(49,304)	(47,402)	(55,376)	(58,256)
Net					
Instruction	923,686	934,703	936,718	964,699	1,049,355
Debt Service	7,493	14,809	14,120	12,138	12,367
School Dist. Special Education	127,567	127,544	131,164	135,434	143,324
Other (e)	163,791	181,096	197,350	213,903	238,830
I.U.					
Advances	94,604	101,881	107,390	120,934	128,169
Total State Subsidies	1,317,141	1,360,033	1,386,742	1,447,108	1,572,045
<i>Federal:</i>					
Non-					
categorical	13,414	11,286	11,375	11,358	11,169
Total Revenues	2,304,571	2,438,818	2,592,460	2,727,595	2,853,854
<i>Other Financing Sources (f)</i>	303,417	31,667	317,952	356,309	1,489
Total Revenues & Other Financing Sources	2,607,988	2,470,485	2,910,412	3,083,904	2,855,343
EXPENDITURES:					
<i>Personal</i>					
<i>Services:</i>					
Salaries & Wages	846,652	768,957	725,111	742,949	772,888
Employee Benefits	514,746	442,021	444,993	516,910	560,875
Subtotal	1,361,398	1,210,978	1,170,104	1,259,859	1,333,763
(g)					
Professional/Technical Services	36,500	37,532	40,904	46,890	72,866
Utilities	51,302	51,935	49,439	43,972	52,221
Books, Supplies & Equipment	30,622	22,795	29,390	86,987	31,947
Debt Service (including issuance costs)	258,957	271,150	266,962	263,710	261,618
Non-Public School Services (only direct 3000)	13,672	13,597	13,560	13,479	13,469
Charter Schools (h)	592,580	701,930	715,428	713,709	830,434
Property/Transportation/Communication	113,286	125,460	122,116	133,275	136,074
Payments to Other Educational Entities & Partner (i)	85,467	87,955	89,611	95,806	94,758
Other (j)	4,847	2,681	5,179	27,003	33,232
Investments in High Quality Seats					
Subtotal Expenditures	2,548,631	2,526,013	2,502,693	2,684,691	2,860,382

<i>Other Financing Uses (k)</i>	2,459	2,535	302,584	352,796	2,252
<i>Expenditure Reductions(Personnel)</i>					
Total Expenditures & Other Financing Uses	<u>2,551,090</u>	<u>2,528,548</u>	<u>2,805,277</u>	<u>3,037,487</u>	<u>2,862,634</u>
Excess (Deficiency) Revenues and Proceeds Over (Under) Expenditures and Other Uses	56,898	(58,063)	105,135	46,417	(7,291)
Fund Balance (Deficit) July 1	(20,436)	39,462	(14,821)	88,048	117,903
Changes in Reserve & Designations (l)	3,000	3,780	(20,130)	(16,562)	(9,702)
Prior Period Adjustment	<u>0</u>	<u>0</u>	<u>17,864</u>	<u>0</u>	<u>0</u>
Fund Balance (Deficit) June 30 (m)	<u>39,462</u>	<u>(14,821)</u>	<u>88,048</u>	<u>117,903</u>	<u>100,910</u>

Notes Relating to the Summary of Operating Results

- a. The School Reform Commission on May 26th, 2016 amended the Fiscal Year 2016 Budget and adopted a Fiscal Year 2017 Budget.
- 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 Year 2013 reflects increases to the City grant of \$20.0 million. 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 a one-time \$30 million grant from the City. In Fiscal Year 2016 Local Non-Tax Revenues increased by \$9.8 million due to a \$5.1 million increase in the Grant from the City, a \$7.0 million increase in debt service local non tax revenue offset by a (\$1.9) million reduction in a casino settlement, and a \$0.4 million net increase in all other areas. In Fiscal Year 2017 budgeted local non tax revenue is (\$11.3) million lower primarily due to a \$8.7 million reduction in Debt Service non tax revenue, a \$3.1 million reduction in Parking Authority revenue offset by a \$0.5 million increase in all other budgeted revenues.
- d. The Gross Instruction Subsidy increased from FY 2015 to FY 2016 by \$36.0 million due to increases in the enacted State budget. For the FY 2017 Adopted Budget, the Gross Instruction Subsidy increased from 2016 by \$87.5 million due to the Governor's proposed FY 2017 budget which included a \$47.1 million increase in Gross Instruction Subsidy as well as \$40.4 million in funding that had previously been included in the Ready to Learn State grant. The budgeted expenses associated with the \$40.4 million are included in the FY17 Adopted Operating expenditure budget. Subsequent to the School District's adoption of its FY 2017 operating budget, the Commonwealth enacted a budget that reversed the Governor's shift and restored the funding to the Ready to Learn State grant.
- e. Other includes the State's partial reimbursement of the School District's pension contribution, approximately, \$68.3 million in Fiscal Year 2013, \$87.5 million in Fiscal Year 2014, \$105.7 million in Fiscal Year 2015, and a budgeted \$129.7 million and \$156.9 million in FY16 and FY17 respectively.
- f. Fiscal Year 2013 includes \$302 million in deficit financing. Fiscal Year 2014 includes \$30.0 million from the sale of property. Fiscal Year 2015 includes issuance of refunding bonds which yielded proceeds of \$295.2 million. Fiscal Year 2016 includes issuance of refunding bonds which yielded proceeds of \$350.0 million.

- g. In Fiscal Year 2013 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 through Fiscal Year 2016. Employee Benefit increases are primarily due to the employer's contribution rate increase for retirement costs mentioned in note (e) above.
- h. Charter expenditure increases are due to certain mandated increases in per pupil costs, the removal of caps on enrollment, an increase of students attending charter schools from Fiscal Year 2013 to Fiscal Year 2016, including students from the conversion of School District operated schools to Renaissance charters and the opening of additional cyber charters. See "Enrollment". 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.
- i. 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.
- j. "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.
- k. Primarily reflect the defeasance of certain bonds. Fiscal Year 2015 included bond defeasements of \$300.4 million with the remaining \$2.0 million being local share and internal service fund transfers. Fiscal Year 2016 included bond defeasements of \$348.3 million with the remaining \$4.5 million being local share and debt service adjustments. In other years, the amounts reflect local share.
- l. The School District issued Qualified Zone Academy Bonds (QZABs) Series 2004E, 2007C, and 2007D which required annual mandatory sinking fund deposits or cash to be held in trust with its fiscal agent until the debt under these instruments was fully matured at the end of the depository period. The liability under: (1) QZAB bond Series 2004E of \$19.3 million is due September 1, 2018, (2) QZAB bond Series 2007C of \$13.5 million is due December 28, 2022 and (3) QZAB bond Series 2007D of \$28.2 million is due December 28, 2022.

Beginning in Fiscal Year 2006 and continuing through Fiscal Year 2014, the School District applied the accounting and financial reporting practice of considering these types of transactions as "partially defeased in substance" under Government Accounting Standard Board Statement (GASBS) 7, par.4.

In Fiscal Year 2015, in determining the accounting and financial reporting for QZABs and Qualified School Construction Bonds-Federally Taxable-Direct Subsidy (QSCBs) 2011A, which also required that annual deposits to a mandatory sinking fund be held in trust until maturity, it was determined that the deposit of funds into a mandatory sinking fund until the debt matures did not qualify as a "partially defeased in substance" transaction for accounting and financial reporting purposes under GASBS 7, par.4 because it did not relate to a refunding.

In order to correct this accounting practice, a prior period adjustment for Fiscal Year 2015 was established. The adjustment under the Debt Service Fund: (1) increased the asset values for the investments and cash defeased on the Balance Sheet; (2) increased the reported principal fund balance for the adjustments of the cumulative deposits held by fiscal agent on the Balance Sheet; and (3) reported a Prior Period Adjustment to the Fiscal Year 2014 Debt Service Fund Balance on the Income Statement for the mandatory deposits of \$17,863,639 that were previously reported as expenditures. In addition, the outstanding bond liability for these QZABs that had been defeased in substance was re-established. The increase to the outstanding liability for the QZABs is reflected in the School District's Comprehensive Annual Financial Report for Fiscal Year 2015 in Note 4D Obligations, Schedule of Bonds Outstanding as of June 30, 2015, Note 4M Prior Period Adjustments, and Statistical pages related to applicable debt capacity retro-actively restated when necessary.

For Debt Act purposes, amounts in the sinking funds may be excluded in determining net debt.

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

Five Year Plan

On May 26, 2016 the School District adopted as its Operating Budget for FY2017 the first year of a Five Year Financial Plan (the “Financial Plan”) introduced in March 2016 as part of the process of the introduction and adoption of the operating budget. The Financial Plan may be viewed at http://webgui.phila.k12.pa.us/offices/b/budget/documents/fy17-budget-adoption_final_5.26.16.pdf and is not incorporated herein by reference. The Five Year Plan may be amended or modified at any time. The Financial Plan is a budget and spending estimate which strives for structural balance while determining investments designed to achieve the mission of equity in educational opportunity for all children. It utilizes reasonable projections for revenues and expenditures based on actual activity, current law, and historic trends. While the Financial Plan projects positive year-end fund balances through the end of Fiscal Year 2018, it also projects that in each year, the percentage of expenditure growth will exceed the percentage increase in revenue growth. This cumulative gap between revenue and expenditure growth is projected to result in a cumulative negative fund balance estimated at \$603 million by the end of Fiscal Year 2021.

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

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 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 2014, another \$50 million was committed by the City of Philadelphia and in November 2014, the Commonwealth provided another \$45 million. In total, the School District received an additional \$112 million after the adoption of the Fiscal Year 2014 Budget.

Fiscal Year 2014 – Actual. Following 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 reauthorization of the 1% City Sales Tax, the first \$120 million 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, offset by 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 \$17.5 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 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 the following expenditure reductions: (1) 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 was 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 June 30, 2015, the School Reform Commission amended the Operating Budget for Fiscal Year 2015 with anticipated revenues and other financing sources of \$2,888.6 million and

expenditures and other financing uses of \$2,866.9 million, resulting in a projected ending fund balance of \$6.8 million on June 30, 2015.

Subsequent Events. In Fiscal Year 2015 it was determined that certain prior period sinking fund deposits that the School District categorized as prior period expense were not expenses but reservations of fund balance. As a result, a prior period fund balance adjustment of \$17.9 million was made with an offsetting reservation of fund balance.

Fiscal Year 2015 – Actual. The School District ended Fiscal Year 2015 with an \$88 million positive fund balance representing an \$81.2 million surplus over the Fiscal Year 2015 Amended Budget. The surplus can be attributed to: a) a revenue and other financing sources surplus of \$21.9 million over the Fiscal Year 2015 Amended Budget, primarily due to payment of real estate taxes and revenue related to the new cigarette tax being higher than budgeted, and debt service and social security reimbursement revenues being higher than budgeted; b) approximately \$61.6 million in expenditure savings, primarily in the following areas: 1) full time salaries and associated benefits, 2) self-insured medical expenses, 3) termination costs for retired and other separated employees, and 4) savings in transportation, debt service, and payments to other educational entities; and c) changes in reserves which reduced the budgetary surplus by \$2.3 million.

Fiscal Year 2016 Adopted Operating Budget. On June 30, 2015, the School Reform Commission adopted the Operating Budget for Fiscal Year 2016 with anticipated revenues and other financing sources of \$2,659.2 million and expenditures and other financing uses of \$2,684.0 million, resulting in a projected zero ending fund balance on June 30, 2016.

Revenues increased by \$84.5 million from the revenues in the Fiscal Year 2015 Amended Operating Budget due to the following changes: (1) Local Tax Revenues increased by \$67.3 million due to increased real estate and use and occupancy taxes and the full year implementation of the cigarette tax; (2) Local Non-Tax Revenues increased by \$1.8 million due to a \$5 million increase in the grant from the City offset by reductions in the casino settlement and miscellaneous debt service revenue; (3) State Revenues increased by \$15.5 million due to a \$22.5 million increase in retirement reimbursements from higher employer contribution rates, and other net increases of \$1.9 million offset by a \$8.9 million decrease due to an increased payback to the State for transportation prior year advances. Other Financing Sources declined by \$313.9 million due to non-recurring refinancing savings of \$295.2 million, and a sale of property reduction of \$21.1 million, offset by an increased transfer from Capital Projects fund of \$2.4 million for issuance costs.

Expenditures increased by \$124.0 million from the expenditures in the Fiscal Year 2015 Amended Operating Budget (excluding refunding) due to the following changes: (1) a \$63.8 million increase in salaries and benefits driven primarily by an increase in Employer contributions for Retirement (PSERS) rate as a percentage of salaries from 21.4% in Fiscal Year 2015 to 25.84% in Fiscal Year 2016; (2) Per Pupil Payments to Charter Schools increased by \$40.6 million; and (3) increases of \$19.6 million in all other areas.

Subsequent Events. On December 24, 2015, HB1460 was signed in the Pennsylvania House of Representatives and presented to Governor Wolf. On December 29, 2015, the Governor signed the act but also exercised his line item veto power to veto in whole or in part certain appropriations made in that act (State line item spending plan). The act, as signed by the Governor and containing the line item vetoes, appropriated approximately 45 percent of the basic education subsidy allocated to each School District in addition to partially appropriating other State revenues.

The Fiscal Year 2016 State Budget Impasse and the December 2015 State Line Item Spending Plan had a number of impacts on the District. The total financial impact to the District is approximately \$7.1 million in Fiscal Year 2016 due to: Additional Short Term Borrowing Costs (Estimated Fiscal Year 2016 Cost of approximately \$2.0 million), Additional Letter of Credit Interest Cost Due to Budget Impasse – State Intercept Program Ratings Downgrade and Rating Withdrawal (Estimated Fiscal Year 2016 Cost of \$5.1 million).

In Fiscal Year 2016, the District refunded certain variable rate bonds to reduce the interest rate on its bond series. This transaction resulted in an impact to Revenues & Sources of \$349,965,000 and Obligations & Uses of \$348,991,000, which nets to a \$1.0 million positive impact to the bottom line.

Fiscal Year 2016 Amended Operating Budget. On May 26, 2016, the School Reform Commission amended the Operating Budget for Fiscal Year 2016 with anticipated revenues and other financing sources of \$3,083.9 million, expenditures and other financing uses of \$3,037.5 million, and transfers from reserves of negative \$16.6 million resulting in a projected \$117.9 ending fund balance on June 30, 2016.

Subsequent Events. There were a number of events after the Amended Operating Budget which affect Fiscal Year 2016 operating results. Revenue impacts include:

- (\$12.1) million decrease of State Debt Service PlanCon funding.
- (\$3.9) million decrease of local taxes due to lower property tax collections to date partially offset by increased projected accruals for other local taxes;
- (\$3.0) million decrease of State Health Services revenue; and

Expenditure impacts include:

- (\$21.8) million savings in District operated schools. A significant portion of these savings result from the failure of certain bargaining units of the District to settle labor contracts with the District. The District set aside funds in Fiscal Year 2016 with the intent of reaching collective bargaining agreements with all of its represented units. In the absence of completed contracts, the projected expenditures for Fiscal Year 2016 are below the budgeted amounts.
- (\$3.9) million decrease in Debt Service primarily due to incorrectly capturing lower interest charges for the variable rate debt in the Amended Operating Budget.

Another event not included in the Fiscal Year 2016 Amended Operating Budget was the transfer by the School District of \$9.5 million of operating funds reserved for self-insured health-related costs to create its own Health Insurance (HI) Fund. Employer contributions, COBRA premiums, and employee contributions will be combined in this fund and used to cover District self-insured medical, optical, and prescription services (excluding Health & Welfare payments to unions).

Fiscal Year 2017 Adopted Operating Budget. On May 26, 2016, the School Reform Commission adopted the Operating Budget for Fiscal Year 2017 with anticipated revenues and other financing sources of \$2,855.3 million, expenditures and other financing uses of \$2,862.6 million, and transfers from reserves of negative \$9.7 million resulting in a projected \$100.9 ending fund balance on June 30, 2017.

Revenues increased by \$126.3 million from the revenues in the Fiscal Year 2016 Amended Operating Budget due to the following changes: (1) Local Tax Revenues increased by \$12.9 million due primarily to an increase of \$15.1 million in real estate taxes, offset by a \$4.0 million budgeted reduction in cigarette tax revenue and a \$1.8 million increase in all other taxes, (2) Local Non-Tax Revenues decreased by \$11.3 million due to a \$3.1 million decrease in parking authority revenue and a \$6.9 million decrease in miscellaneous revenue refund of prior year expenditure. And a net \$1.3 million decrease in all other local non tax revenue. (3) State Revenues increased by \$124.9 million due to a \$87.5 million increase in gross Basic Education subsidy, \$27.2 million increase in retirement reimbursements from higher employer contribution rates, an increase of \$7.9 million in Special Education revenue, and a \$3.3 million increase in IU Special Education Transportation revenue offset by other net decreases of \$1 million, and (4) Operating Federal revenue decreased by \$0.2 million primarily due to a decrease in the Federal Debt Service Subsidy.

Other Financing Sources declined by \$354.8 million due to non-recurring refinancing proceeds of \$350.0 million, and a sale of property reduction of \$5.3 million, offset by an increased transfer from Capital Projects fund of \$0.5 million for issuance costs.

Expenditures increased by \$173.4 million from the expenditures in the Fiscal Year 2016 Amended Operating Budget (excluding refunding) due to the following changes: (1) a \$73.9 million increase in salaries and benefits driven primarily by a decrease in budgeted salary savings due to vacancies and an increase in Employer contributions for Retirement (PSERS) rate as a percentage of salaries from 25.84% in Fiscal Year 2016 to 30.03% in Fiscal Year 2017; (2) Per Pupil Payments to Charter Schools increased by \$116.7 million; and (3) decreases of \$6.2 million in all other areas. Other Financing Uses declined in the FY 2017 Adopted Operating Budget by \$348.3 million due to non-recurring refinancing uses of funds.

Subsequent Events. Funds not included in the Fiscal Year 2017 Adopted Operating Budget that were included in the Fiscal Year 2016 Amended Operating Budget but are now expected to be received in Fiscal Year 2017 include: \$12.1 million of State Debt Service PlanCon funding revenue; and \$3.0 million of State Health Services revenue. In addition, on July 11, 2016, the Fiscal Year 2017 Commonwealth budget became law without the Governor's signature, which included the following revenue impacts relative to the Fiscal Year 2017 Adopted Operating Budget:

- a) The Basic Education subsidy was reduced by \$40.5 million with \$40.4 million of that amount shifted back to the pre-existing Ready to Learn grant. The Governor’s proposed budget, which was the basis for the Fiscal Year 2017 Adopted Operating budget, eliminated the Ready to Learn grant (which is not part of the Operating Fund) and shifted those funds into the Basic Education subsidy. The Fiscal Year 2017 Commonwealth budget included a \$40.4 million Ready to Learn grant not included in the Governor’s budget and had a corresponding decrease in the Basic Education subsidy. As a result, this was not a reduction of overall State revenues to the District, only a shift in the mix of Operating and Grant fund revenue. The Ready to Learn grant is a categorical fund and so its funding will not be included in Operating Fund results.
- b) Cigarette tax revenues in the State budget increased by \$4.2 million from \$53.8 million to \$58.0 million. The School District will receive at least \$58 million annually from this tax by virtue of an amendment to the Fiscal Code contained in Act 85.
- c) The Philadelphia School District Special Education subsidy was reduced by \$4.7 million from \$143.3 million to \$138.6 million

SCHOOL DISTRICT OPERATIONS

The School District is the eighth largest district in the nation based on enrollment data, with over 202,680 pupils in Fiscal Year 2016, including approximately 68,600 students attending both brick and mortar and cyber charter schools, and approximately 2,500 students in alternative schools.

School Organization

The Fiscal Year 2017 organizational structure for the School District includes 215 public schools comprised of the following: 50 elementary schools; 97 K-8 schools; 15 middle schools; 1 K-12 school; and 52 high schools (six of which serve lower grades). Additionally, there are currently 86 charter schools and 25 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 2011-12 to 2015-16:

THE SCHOOL DISTRICT OF PHILADELPHIA

Fall Enrollment

2011–12 through 2015-16

Grade	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
K	12,144	13,119	11,852	11,979	11,579
1	12,950	12,774	12,869	12,761	12,393
2	12,484	12,099	11,764	12,166	12,390
3	12,049	11,778	11,330	11,389	11,883
4	11,678	11,459	11,079	10,935	11,310
5	11,123	10,402	10,264	10,160	10,345
6	10,603	9,938	9,169	8,988	9,180
7	10,338	9,291	8,881	8,617	8,820
8	10,325	9,338	8,672	8,426	8,448
9	11,438	10,313	10,172	9,951	10,573
10	11,218	9,512	9,088	9,101	9,334
11	9,892	8,708	8,394	7,918	8,076
12	9,104	8,018	7,828	7,182	6,905
Ungraded	744	763	--	--	--
Subtotal	146,090	137,512	131,362	129,573	131,236
Alternative Education	3,608	3,631	3,558	3,324	2,529
PA Virtual Academy	--	--	272	336	311
Total Public Schools	149,698	141,143	135,192	133,233	134,076
Charters	45,999	54,491	59,613	64,301	62,713
Cyber Charters	4,864	5,950	6,350	6,619	5,522
Non-Philadelphia Charter	210	172	146	263	375
Total Charters	51,073	60,613	66,109	71,183	68,610
Total	200,771	201,756	201,301	204,416	202,686

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

Curriculum, Instruction and Assessment

The School District of Philadelphia purchased new K-12 Core Math instructional resources and English Language Arts (ELA) anthologies and reading books for the 2016-2017 school year. In order to support the development, implementation, and monitoring of quality, high-level instruction, enhancements have been made to the ELA and Mathematics online curriculum engine. These enhancements include alignment between the curricula and the new core materials. The School District also revised the entire K-12 science curriculum beginning in the 2015-2016 school year in order to align to the PA standards for science as well as the Next Generation Science Standards. Partnerships have continued with the Philadelphia Education Fund's Math and Science Coalition, Philadelphia Regional Noyce Partnership, Temple University and Drexel University. Planning has begun for the revisions of the Social Studies curriculum for implementation in the 2017-2018 school year.

Math Initiative

Beyond the curriculum engine updates and distribution of new curriculum materials, particular initiatives in mathematics include targeted PD on content and pedagogy, as well as expanded opportunities for students in algebraic-reasoning

instruction. In June 2016, the School District partnered with Carnegie Learning to offer a week-long MathCounts Institute for teachers from approximately 75 schools on the Standards for Mathematical Practice of the PA Core Standards, engaging students as mathematical thinkers, and investigating student thinking. Ongoing support to these schools in 2016-2017 via a team of MathCounts Institute Specialists who will support schools with content and pedagogy. Further, 42 schools are participating in the Algebra Readiness / Blended Learning Initiative, which supports personalized learning via online adaptive tools. This initiative offers localized support for selected schools by following a cohort model which will continue with additional schools over a 3-year period.

Focus on Early Literacy

The School District continues to pursue a comprehensive early literacy strategy at the classroom, school and community levels to address low reading proficiency rates among its youngest students. This focus includes 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 students' individual learning needs. Through a partnership with Children's Literacy Initiative, 94 Early Literacy Specialists have been assigned to 93 schools to work directly with individual teachers, teacher teams, and school leadership to ensure implementation of best practices in early literacy instruction, to provide specialized professional feedback to shape classroom practice and lesson planning, and to ensure utilization of student data to inform and differentiate instruction. In addition, 18 Reading Specialists have been assigned to 18 focus and priority schools to provide intensive intervention to students reading below grade level. A week-long Summer Literacy Institute is offered to approximately 700 teachers and school leaders, with workshops focusing on the five pillars of literacy instruction, the Comprehensive Literacy Framework, assessment and data, and family engagement.

Other Areas of Support

The Office of Curriculum, Instruction and Assessment also provides support in the areas of Health and Physical Education, Nutrition, Library Services, and Gifted and Talented Programs.

The School District focuses much of its Health and Physical Education program on preventing and delaying chronic diseases, reducing risk factors, and promoting fitness and wellness in children. Students are taught a comprehensive Health curriculum and a fitness based PE curriculum. In FY 2017, there are 340 Health and Physical Education teachers in the School District's schools.

All School District schools are offered a variety of nutrition education services and programs for students and caregivers. The Eat.Right.Now.Program (ERN) is a partnership with five organizations who, along with the School District, receive Supplemental Nutrition Assistance Program (SNAP, formerly known as the Food Stamp Program) Education federal funding, to foster behavioral changes related to nutrition and physical activity including the importance of healthy lifestyle choices.

The School District continues to support its school libraries. While many schools have libraries, few have full time staff. Currently there are seven certified librarians and three library instruction media assistants, and several schools have other staff or volunteers maintaining collections and book circulation.

The Gifted and Talented program is fully site based within schools under the leadership of each School Principal. Enrichment resources used to differentiate instruction within the classroom serve our academically advanced students in K-8. High School students in every school have opportunities to enroll in Advanced Placement (AP), Honors, or International Baccalaureate (IB) courses onsite or online. STEM projects and Coding are part of many schools' academic activities. Currently, the School District has over 2,500 gifted students identified within 200 schools. The six-year goal for this program is to expand the identification of and services to gifted and talented students to all neighborhood networks. In an effort to reach this goal, all 2nd grade students will be evaluated for academic talent beginning in the 2016-2017 school year.

MTSS & RtII

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 behavioral 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.

In the 2014 school year, the Pennsylvania Department of Education transitioned from RtII to PA's Multi-Tiered System of Supports (PA-MTSS), or MTSS-RtII. For the 2016-2017 school year, the School District continues to implement MTSS-RtII, 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. MTSS-RtII helps all students meet with continual academic, attendance and behavioral success.

Assessment

The School District of Philadelphia implements various assessments to monitor student progress and inform instruction. There are two required Pennsylvania State Assessment Examinations administered to students, the Pennsylvania System of School Assessment (PSSA) and the Keystone Examination.

In 2016, students in grades 3-8 were administered the PSSA in English language arts, math, and science, which is given annually throughout the Commonwealth. The assessments were based on the PA Core Standards, which are the knowledge and skills the State Board of Education has identified Pennsylvania students need in order to be ready for college and career.

In the second year of the new, more rigorous PSSA standards, District performance was mostly stable. The proficiency rate for District 3rd to 8th graders in English Language Arts was 32% (same as 2015), Math was 18% (up from 17% in 2015), and Science was 36% (down from 37% in 2015).

Keystone Examinations were administered for the first time in the 2012-2013 school year, after a pilot administration the previous spring. The 2015-2016 represented the fourth year of testing. Keystone Examinations are end-of-course assessments designed to assess proficiency in the area of Algebra I, Literature, and Biology.

At the high school level, PDE reports Keystone results as the best performance to date for all 11th graders statewide. The School District's 11th graders matched or outpaced the state increases in each subject area tested by the Keystone exams. Proficiency rates increased from 49% to 55% (+ 6%) in Literature, from 38% to 43% (+ 5%) in Algebra I, and from 29% to 36% (+ 7%) in Biology.

The achievement gap between economically disadvantaged and non-economically disadvantaged District students also narrowed. Specifically, on the Literature and Algebra I Keystones, the proficiency rate for economically disadvantaged students increased from 43% to 51% (+ 8%) and from 33% to 38% (+ 5%) respectively. This improvement continues progress started in the 2014-2015 school year as we work to narrow the achievement gap.

Career and Technical Education

The mission of the Office of Career and Technical Education (CTE) is to deliver the highest quality CTE programs that provide students with the opportunity to acquire challenging academic and technical skills, and thus, be prepared for the high-skill, high wage, and high priority occupations in the global economy. Currently, the School District operates five (5) CTE schools and 130 CTE Programs of Study with close to 6,000 students. CTE programs are also offered in an additional 25 comprehensive and special admission high schools. In the school year 2015-2016, 1,514 CTE students earned 2,742 industry-recognized credentials.

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.

In an effort to ensure that the highest quality CTE programming is provided to our students and alignment with workforce and economic development needs, the Office of Career and Technical Education seeks advice from subject-matter experts from both business and community stakeholders. These meaningful partnerships, which include representatives from business, industry, organized labor, Philadelphia Workforce Investment Board, economic development agencies, community

based organizations, and post-secondary education, provide for informed decision making regarding the improvement in the overall quality of current CTE programs, as well as new and emerging 21st century occupations for which education should be provided.

Multilingual Curriculum & Programs

The Office of Multilingual and Programs (OMCP) supports instructional programs for over 13,000 English Language Learners (ELLs) across the School District. The education of ELLs is a shared responsibility; therefore, OMCP works with all educators to ensure ELLs have access to grade-level curriculum and standards as well as instruction to support academic language development in English. To accomplish this, there are a variety of instructional programs in place including English for Speakers of Other Languages (ESOL) in more than 200 schools, dual language and transitional bilingual programs in six elementary schools, and one Newcomer Learning Academy (NLA) for ELLs in high school with significant gaps in formal education. Arts and Academic Enrichment

The Office of Arts and Academic Enrichment provides multiple learning opportunities that ensure a high quality well-rounded 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; (2) providing professional development to teachers and school leaders in the Music, Art, Theater, and Dance and (3) providing in and out of school enrichment and extra-curricular opportunities for students through a shared delivery model including School District educators and community partners.

Art Education. The School District of Philadelphia offers a rigorous art education program taught by certified PreK-12 Visual Arts specialists. The arts promote creative problem solving skills and lead students to discover that there can be multiple answers to a problem. Developing this skill set encourages students to think creatively, become innovators and have the confidence in their ability to compete in the 21st Century workforce. The visual arts program facilitates learning in and through the arts for children Pre-K through grade 12. In FY2017 there are approximately 200 Art Specialists teaching throughout the District, some serving in more than one school.

Theatre Education. The School District of Philadelphia (SDP) offers arts credit for theatre education courses in several high schools. Certified Communications/English teachers teach these courses. The State of Pennsylvania passed a Theatre Endorsement in May 2015 to ensure quality theatre programs in our schools. PreK-6 grade theatre classes are available in some schools. Theatre productions are encouraged as a creative art form in SDP schools. Community Theatre partners work with SDP teachers and schools to enhance the theatre arts.

Dance Education. The School District of Philadelphia (SDP) offers arts credits for dance education courses in several high schools taught by certified Physical Education, Vocational Dance or Communications teachers. The State of Pennsylvania passed a Creative Movement Endorsement in December 2015 as a guide to address a set of competencies relative to creative movement courses. PreK-6 grades movement classes are available in some schools. Community Dance partners work with SDP teachers and schools to enhance and encourage the creative arts.

Music Education. The School District of Philadelphia continues its long-standing excellence in music education while establishing itself as a recognized leader in innovative practices, striving to provide opportunities for all students to enjoy the well-documented benefits of participating in learning music as part of a "well-rounded" education. The Office of Music Education supports learning in and through music for children in Pre-K through 12th grade. In FY2016, 153 music teachers facilitated music education in District Schools through rostered programs and classes, with an additional 66 itinerant Class Instrumental Music Teachers visiting 173 schools each week offering small group instruction.

College and Career Readiness

In support of the School District's Action Plan 3.0, Anchor Goal 1, 100% of students graduating from high school ready for college and career, the District established an initiative titled, Re-imagining the High School Experience. The purpose of this initiative was to focus on providing support to neighborhood comprehensive high schools in an effort to increase positive student outcomes and eventually become schools of choice.

As a result, a working group established in Fall 2015 consisted of Principals, Assistant Superintendents, and District Leaders from the Offices of College Readiness, Career and Technical Education, Curriculum and Instruction, School Climate and Safety, School Organization and Scheduling, Specialized Services, Educational Technology, and Academic Enrichment.

The purpose of this group was to identify strategies needed to support neighborhood comprehensive high schools and address the challenges contributing to students not achieving college and career readiness. The internal team developed a five-year Re-imagining the High School Experience framework that is based upon five core strategies:

- Supporting the 9th Grade Transition
- Improving Student Outcomes Through Effective Classroom Instruction
- Working with School Leaders to Support Positive Climate and Academic Culture
- Providing Alternate Paths to Overage and Under Credited Students
- Dispelling Myths about Comprehensive High Schools

The foundation of the plan is the design and implementation of 9th Grade Academy to support the 9th Grade Transition.

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. Since 1997, there have been a limited number of amendments to the Charter School Law. 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 to the charter school based on a formula determined by the Commonwealth. The Charter School Law permits a charter school to apply directly to the Secretary of Education to request payment from state payments otherwise due to the applicable school district in the event the school district does not pay the charter school for students the charter school claims are enrolled in the charter school pursuant to a signed charter. The Charter School Law requires the Secretary to hold a hearing prior to paying a charter school if a school district objects to the request for payment; however, the Secretary has not been scheduling and holding such hearings, and instead has been withholding from school district subsidies and making payments to charter schools without holding hearings.

The School District is the largest charter school authorizer in the Commonwealth. Nearly 35% of Philadelphia’s students attend a variety of charter schools: (i) charter schools authorized by the School Reform Commission: consisting of standard brick and mortar charter schools and Renaissance Charter Schools, which are schools formerly operated by the School District that have been converted to charter schools; (ii) cyber charter schools authorized by the Pennsylvania Department of Education (“PDE”); and (iii) charter schools located in school districts outside of Philadelphia County. The School Reform Commission has the authority to grant new charters within Philadelphia’s boundaries, to revoke charters’ operating charters or to deny the renewal of charters. Additionally, the School Reform Commission considers amendment requests from charters, including requests for expansion of contractually agreed-to enrollment caps. See *“THE SCHOOL DISTRICT OF PHILADELPHIA – School Reform Commission,” herein*.

At the commencement of the 2016-17 school year, there are 86 brick and mortar charter schools in operation in Philadelphia. Three charter schools closed at the end of the 2015-16 school year.

Renaissance Charter Schools. As part of its strategic plan, beginning in 2010, the School District embarked on a reform initiative, the Renaissance Schools Initiative, to identify chronically under-performing School District operated schools and transform them into high-achieving schools through conversion into Renaissance Charter Schools and School District-run Promise Academies (see “Promise Academies” below). Renaissance Charter Schools are managed by third-party educational services organizations or charter management organizations. In the 2016-17 school year, there are 21 Renaissance Charter Schools. These schools include a mixture of elementary, middle and high schools. The process to convert School District schools into Renaissance Charter Schools involves soliciting proposals and Renaissance charter applications from educational services organizations or charter management organizations that have a proven track record of academic improvement and achievement through a Request for Proposals process. 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 up to the enrollment limitation in the Renaissance Charter School's charter. In April and May 2016, the SRC authorized two new Renaissance Charter

Schools for five-year terms with a total of 1116 new charter seats commencing in the 2016-17 school year. Young Scholars Kenderton Charter School closed and surrendered its charter effective June 30, 2016. The School District is now running the Kenderton School as a School District school.

Cyber Charter Schools and Non-Philadelphia Charter Schools. Cyber charter schools primarily provide educational programs through the Internet or other electronic means. Additionally, a limited number of students in Philadelphia choose to attend charter schools operated outside of Philadelphia. For the 2016-17 school year, it is projected that approximately 6,300 Philadelphia students will be enrolled in 12 cyber charter schools. and that approximately 400 Philadelphia students will be enrolled in 7 brick and mortar charter schools located outside of the city. The School District's total payments for all charter schools for the 2016-17 fiscal year are projected to be approximately \$830 million. The costs of transportation for charter school students during the 2016-17 fiscal year are estimated to be approximately \$36 million.

The following table shows by year, the number of new charter school openings and total charter schools in operation in Philadelphia, 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
1999-2000	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	2015-16	1	83
			2016-17	6	86

* One charter school closed in 2004, two closed in 2009-10, one in 2013, two in 2014, two in 2015 and three closed in 2016.

New Charter School Applications. House Bill 1177, approved in September 2014, required the School District in November 2014 to accept new charter applications for the first time in seven years. In November 2015, the Charter Schools Office accepted 14 applications for new charter schools; however, two of these applications were withdrawn by the applicants prior to consideration by the School Reform Commission. In February, 2016, the School Reform Commission conditionally approved one application for a new charter school and conditionally approved two charter schools or in the alternative granted amendments to the applicants' existing charter to increase grades and enrollment. In February, 2016, the School Reform Commission denied 9 other applications. Two of the 9 applicants submitted revised applications; one revised application was granted, and one revised application was denied. The total projected approved new charter seats by the 2021-22 school year range from 2,032 seats to 2,790 seats depending upon the charter schools meeting certain academic performance requirements. 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 ("CAB"). Currently, there are no appeals by applicants whose applications were denied. Decisions of the CAB can be appealed to the Commonwealth Court.

Promise Academies. As part of the School District's reform initiative to increase academic performance, the Renaissance Schools Initiative, 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 a goal of replacement of at least 50% of the teaching staff. During the 2016-17 school year, there are twelve operating Promise Academies: four high schools, one middle school, one elementary school, and six K-8 schools.

Proposed Legislation

During the past several legislative sessions, charter school reform legislation has been considered by the Pennsylvania House of Representatives and the Pennsylvania Senate but has not been approved. The legislation has in the past been designated

as House Bill 530 ("HB530"). HB530 contains proposed amendments to the provisions of the Public School Code which are applicable to charter schools and the powers and duties of PDE and school districts with respect to charter schools. 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 the current form of HB530, adversely affect the School District's cash flow within each fiscal year and impair the ability of 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 enabled the School District to issue a smaller tax and revenue anticipation note issue in each of those years, thereby reducing its borrowing costs.

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

- **Direct Payment of Charter School Payments by PDE from School District Appropriations.** HB530 requires that charter schools be paid in 12 equal monthly installments by PDE from annual appropriations to school districts. The payments are required by 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, would mean that more interceptible aid would 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 material 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 also would 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, if HB530 were 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.** 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.
- **Caps on Charter Enrollment.** Different versions of HB530 have included a provision which would prohibit school districts and charter schools from agreeing to any cap on the enrollment at charter schools. The elimination of caps from charters would limit the School District's ability to budget for charter payments. The recent Pennsylvania Supreme Court decision in the West Philadelphia Achievement Charter School case restricted the School Reform Commission's ability to impose such caps.
- **State Opportunity Schools.** HB530 would permit up to five persistently low-achieving schools in Philadelphia, as designated by the Secretary of Education, to be transferred each year to PDE for oversight. Such persistently low-achieving schools may be School District run schools or charter schools. PDE would be the authorizer of State Opportunity charter schools. The School District would be required to pay PDE on a pupil basis for each student enrolled in a persistently low-achieving school under a similar calculation to that for charter school students in 12 equal monthly installments. Thus, similar to charter school per pupil payments, these per pupil payments are likely to be more costly than if the students were to remain in the School District and would affect the School District's cash flow.

The School District is strongly opposed to HB530 or any similar bill and will advocate for modification or deletion of 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 HB530 or some other form of charter legislation will be enacted in the next legislative session commencing in January 2017, or that if enacted, it would be signed into law by the Governor.

Specialized Services

The School District is the public school system (IU26) for 29,332 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 2015-2016 school year.

The School District of Philadelphia provides special education services to its students in 218 brick and mortar buildings as well as a virtual academy. Approximately 19,227 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 87 authorized charter schools. There are approximately 10,105 students with disabilities attending charter schools in Philadelphia.

The Office of Specialized Services (OSS) provides operational and programmatic support to schools in a variety of ways to meet the needs of 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 118 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 re-evaluates 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 ensures 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.

Federal Program Design & Implementation: NCLB to ESSA

On August 20, 2013, Pennsylvania’s No Child Left Behind (NCLB)/Elementary and Secondary Education Flexibility Waiver Request was approved by the 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.

In 2013 the School 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 the School District’s focus on and commitment to ensuring that all students are learning. The School 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.

On December 10, 2015, President Obama signed Every Student Succeeds Act (ESSA) which reauthorized No Child Left Behind (NCLB) / Elementary and Secondary Education Act. New State accountability systems (and related interventions) will take effect in school year 2017-18. The Commonwealth of Pennsylvania has decided to extend the approved waiver during the transition year (2016-17). Under the current waiver, Title I schools will receive a federal designation of “Priority,” “Focus,” “High Reward” “High Progress” or “No Designation”. In addition, the Chief Academic Support Officer (CASO) will sit on state led multiple work groups during the transition year as well as lead and support all divisions and schools through the transition to ESSA.

During the 2016-17 academic year, “Priority” and “Focus” schools will receive technical assistance supervised and provided by the Office of Federal Program Design and Implementation. 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. Senior Associates 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 Federal Program Design and Implementation 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 Federal Program Design and Implementation 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.

Additionally, all District schools will receive technical assistance in their school improvement and Comprehensive Planning efforts through needs analysis, goal development and success monitoring as determined by identified school needs. In an effort to align the School District’s practice to the Every Student Succeeds Act (ESSA) during the 2016-2017 transition year, the Office of Federal Program Design & Implementation will provide targeted specialized support to a pilot group of schools designed to offer targeted support and evidence-based interventions through collaboration with other District offices in the identification, implementation and monitoring of the targeted evidence-based interventions for the schools.

Transportation

The School District provides school bus and cab service to approximately 40,000 students who attend public, charter and non-public schools. In Fiscal Year 2016, 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, and are in a special education program. The School District has a combination of 17.5 percent School District-operated routes and 82.5 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 Director of Transportation has been leading the Department of Transportation Services since October 2015, and is leading the transition toward integrating technology and clean energy to run a more efficient, professional operation. New performance management initiatives are being implemented to provide information necessary to make adjustments in real time. The routing software that was acquired and implemented during the 2015-16 academic year is being refined to better suit the needs of the School District. Specific activities include improved training for drivers and bus attendants to be conducted as part of Professional Development, to ensure staff is effectively trained in dealing with students with disabilities

and other special needs. Additionally, the department is actively pursuing a modernization of the fleet, effectively reducing the average age of the fleet by nearly 25%, while employing cleaner more efficient technologies and vehicles with significant safety enhancements.

Personnel

The School District employs approximately 16,300 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 2010-11 through 2016-17 from the Operating Budget:

THE SCHOOL DISTRICT OF PHILADELPHIA

Personnel*

<u>SCHOOL YEAR</u>	<u>INSTRUCTIONAL PROFESSIONAL</u>	<u>NON PROFESSIONAL</u>	<u>NON- INSTRUCTIONAL</u>	<u>TOTAL</u>
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
2015-16	7,579	1,550	3,624	12,753
2016-17	7,687	1,795	3,625	13,106

* *Personnel funded by the operating budget.*

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 the Internal Revenue Service (IRS) Code, the PSERS pension plan is classified as a 401(a), governmental defined benefit plan. A defined benefit plan means that an individual's retirement benefit is determined by a formula which includes a retirement factor, years of credited service, and the final average salary. 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 and hourly employees 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 2017 is 74.48 percent.

In Fiscal Year 2016, the employer rate was 25.84 percent of payroll costs; the employer rate in Fiscal Year 2017 is 30.03 percent and the School District has been advised that in Fiscal Year 2018 the employer rate will increase to 32.04 percent of payroll.

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. In its Fiscal year 2015 Financial Statements, the School District reported its “net pension liability” as required by GASB 68 and 71– See Appendix B attached hereto.

SCHOOL DISTRICT LABOR RELATIONS

The School District engages in collective bargaining with the Philadelphia Federation of Teachers (“PFT”), which represents approximately 12,029 employees; Service Employees International Union Local 32BJ (“Local 32BJ”), formerly the International Brotherhood of Firemen and Oilers, AFL-CIO, Local 1201, which represents approximately 2027 employees; the School Cafeteria Employees Union, Local 634 (“Local 634”), which represents approximately 1,779 employees; the Commonwealth Association of School Administrators (“CASA”), which represents approximately 508 employees; and the School Police Association of Philadelphia (“SPAP”), which represents approximately 305 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 a subsequent 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 appealed to the Commonwealth Court. On January 22, 2015, the Commonwealth Court issued an en banc 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. The School District appealed to the Supreme Court of Pennsylvania. On August 15, 2016, the Supreme Court affirmed the order of the Commonwealth Court.

The School District negotiated and settled a three-year collective bargaining agreement with CASA. This collective bargaining agreement, which ran from September 1, 2013 through August 31, 2016, was extended through December 31, 2016. The contract does not include any scheduled across the board salary increases. The agreement provides for half-step salary increments on January 1, 2016 and August 31, 2016. It also provides for a new, cost-saving medical plan and requires employees represented by CASA to begin contributing to medical premium costs as follows: 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 employer-provided 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 ran 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. The parties have begun negotiating a successor agreement.

Effective June 10, 2016, the School District and Local 32BJ entered into a four (4) year collective bargaining agreement. This agreement expires on August 31, 2020 and provides for a three percent (3%) lump sum bonus, two step increases, and three percent (3%) across the board wage increases on September 1, 2017, September 1, 2018 and September 1, 2019.

The School District and Local 634 negotiated and settled a four (4) year collective bargaining agreement covering the period from October 1, 2013 through September 30, 2017. The agreement provides for across the board increases effective May 18, 2015, August 25, 2016 and August 25, 2017. The entire cost of these wage increases will be funded through a multi-year cessation of contributions to Local 634's Health and Welfare Plan. The District will not make any payments to the Local 634 Health and Welfare Plan until September 1, 2017. On June 23, 2016, the School District and Local 634 entered into a two-year extension of this agreement. The extension provides for a three percent (3%) lump sum bonus payable July 15, 2016, five percent (5%) increases in Health and Welfare Plan payments on September 1, 2018 and September 1, 2019, and three percent (3%) across the board wage increases on August 25, 2017, August 25, 2018 and August 25, 2019.

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 2015 for workers' compensation totaled \$29.4 million. Payments for unemployment compensation and weekly indemnity coverage totaled \$1.7 million and weekly indemnity coverage. As of June 30, 2015, there existed a cumulative total potential liability of \$109.6 million for workers' compensation claims and \$5.9 million for unemployment compensation claims. The School District does not anticipate a significant increase in any amounts which may have to be accrued to FY 2016.

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 2015, the amount paid from the Operating Funds for settlements and judgments in personal injury, property damage, and civil rights cases, including plaintiffs' attorneys' fees and costs, labor and employment matters and commercial litigation was approximately \$5 million. The total amount paid in Fiscal Year 2016 for losses and judgments was approximately \$4.8 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 seven 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 Pennsylvania Secretary of Education. However, prior to the hearing, the dispute between Pittsburgh School District and the charter schools was settled. Within the last year, PDE selected another case involving the Pittsburgh School District and a different charter school to serve as the example case; however, that charter school ultimately withdrew its claim so the new example case also has not moved forward.

The School District has been advised that all of the withholding requests (both against the School District and around the Commonwealth) may be withdrawn. If all of the requests are withdrawn, then there will be no further controversy to defend or litigate. If all of the cases are not withdrawn, however, the School District 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 cases 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 all 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

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.

The U.S. Department of Education (“DOE”) 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. Most of the corrective actions have already been implemented or are being addressed 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 Judges. 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 United States Secretary of Education (the “Secretary”). On December 29, 2014, the Secretary affirmed the liability, although he did not adopt the standard used by the ALJ. The Secretary’s final decision was appealed to the U.S. Court of Appeals for the Third Circuit on February 17, 2015. A panel of the Third Circuit issued its decision on March 10, 2016, denying the petition for review of the Secretary’s decision and sustaining the \$7.2 million liability. PDE and the School District filed a petition for certiorari with the Supreme Court of the United States on July 8, 2016, which petition was denied on October 3, 2016.

The second PDL demanded a recovery of \$2.5 million. That PDL was not timely appealed by PDE. However, the PDL invited the PDE to present evidence to DOE of the amount barred by the statute of limitations. After PDE and the School District presented documentation demonstrating the application of the statute of limitations to DOE on April 4, 2016, DOE’s attorney advised that the second PDL is resolved with no liability and a final letter from DOE will be issued to that effect. Such letter has not yet been received.

Because of the possible appeal process and the ongoing discussions with DOE on the impact of the statute of limitations, no assurance can be given 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 the timing of such repayments could have a material adverse effect on the financial condition of the School District.

Litigation

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

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 L.R. On January 14, 2013, Christina Regusters entered W.C. Bryant Elementary School and proceeded directly to L.R.’s classroom. The parent alleges that Mr. Reginald Littlejohn, a substitute teacher, asked Regusters to produce identification and verification that L.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 L.R. into Regusters’ custody” without proper verification. Regusters then left the School with L.R. and sexually assaulted her at an undisclosed location. Plaintiff brings claims against the School District, SRC, and Littlejohn for violating “L.R.’s substantive due process right to bodily integrity, under the Fourteenth Amendment to the Constitution of the United States.” Regusters was found guilty of kidnapping, assault and various other related charges.

The School District’s and Mr. Littlejohn’s Motion to Dismiss based on the applicability of qualified immunity was denied on Nov. 21, 2014. The School District and Mr. Littlejohn appealed the denial to the United States Court of Appeals for the Third Circuit. Mr. Littlejohn passed away on Jan. 3, 2015; his estate has been substituted as a party. On September 6, 2016, a panel of the Third Circuit affirmed the denial of the motion to dismiss. The case will be remanded to the District Court for discovery, motions and trial.

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 the Estate of 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 (“IBS”), 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. Discovery has been completed. The School District’s motion to dismiss was denied and later motion for summary judgment, on the ground that SDT has not met the test for a corporation to acquire a racial identity under Title 42 U.S.C. Section 1981, were denied.

After jury trial, a judgment was entered on June 30, 2016 against the School District and the Estate of Arlene Ackerman, jointly and severally, in the amount of \$2,335,000. The School District filed a post-trial motion, which is pending.

SDT filed a motion for attorney's fees and costs and pre-judgment interest in the amount of \$1,297,267. The School District opposes the motion. Enforcement of the judgment is stayed pending the Court's decision on the post-trial motions.

Visionquest National, Ltd. v. School District, United States District Court for the Eastern District of Pennsylvania, Civil Action No. 16-76. Suit was filed on January 8, 2016 by this provider of residential educational services, including special education services. Plaintiff claims that the School District failed to pay \$1,600,000 for educational services rendered by VisionQuest to students who reside in the School District and who are committed by the juvenile justice system to VisionQuest's residential facilities in other school districts in Pennsylvania. Plaintiff claims breach of the Public School Code, federal civil rights violation for unconstitutional taking of its property, violation of due process, unjust enrichment, quantum meruit and injunctive relief. The School District's motion to dismiss for failure to state claims for which relief can be granted and for failure to exhaust state administrative remedies is pending.

Labor and Employment Matters

Arbitration between the PFT and the School District - Recall of School Counselors. This arbitration proceeding concerns three grievances from 2013 - the minimum staffing requirements, the recall of counselors from layoff in an order that departed from seniority as to certain counselors, and the inability of the recalled counselors to choose the schools to which they would be assigned based upon seniority.

Following hearings on September 10, 2014 and January 20, 2015, the Arbitrator ruled on June 29, 2015 in the PFT's favor on all three grievances, ordering that the counselors who should have been recalled in order of seniority and were not should be compensated with back pay for the time lost. He also ruled that the School District had to re-do the school assignments to all counselors in order of seniority, including those who had been recalled, as well as those who had not. Finally, the Arbitrator upheld the grievance based on the one counselor-per-school provision in the Collective Bargaining Agreement and ordered that each school had to be served on a full-time basis by a counselor.

A Petition to vacate or modify the Arbitration Award was filed on July 29, 2015 in the Court of Common Pleas for Philadelphia County. After oral argument on the Petition, on November 12, 2015, the Court issued an Order and Opinion, affirming the Arbitration Award. The School District appealed the order to the Commonwealth Court. The parties agreed to a limited stay pending appeal to the Commonwealth Court. Oral argument was held on October 17, 2016. The Court has not yet issued a decision. The School District has estimated the cost of back pay through September 22, 2015 at \$5.2 million.

Arbitration between the PFT and the School District – Red-Circled NTAs/Special Education Classroom Assistants. This arbitration proceeding concerns claims by the PFT that the School District improperly removed bargaining unit members from red-circled positions. Following hearings on March 4, 2015 and June 29, 2015, the Arbitrator ruled on March 25, 2016 in the PFT's favor, ordering that the affected bargaining unit members be reinstated to their red-circled positions and that they be made whole for lost wages and benefits. A Petition to vacate the Arbitration Award was filed on April 28, 2016 in the Court of Common Pleas for Philadelphia County, where it is currently pending.

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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, 2015

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THE SCHOOL DISTRICT OF PHILADELPHIA OFFICE OF THE SUPERINTENDENT

440 NORTH BROAD STREET, SUITE 301
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WILLIAM R. HITE, JR., Ed.D.
SUPERINTENDENT

TELEPHONE (215) 400-4100
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February 17, 2016

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, 2015. 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, 2015, 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 Fiscal Services 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 500 school districts in the Commonwealth employing 16,800 full time employees as of June 15, 2015 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 for the 2014-2015 school year was over 204,500 students including 71,125 attending charter schools consisting of 64,301 attending charter school and 6,824 enrolled in cyber schools and Non-Philadelphia (brick and mortar) charter schools; and 3,324 in alternative education programs/schools. The enrollment for the School District for 2015-2016 as of December 2015 was 204,444. The enrollment in charter schools in the 2015-2016 school year as of December 2015 was 69,906, consisting of 63,441 attending charter schools and 6,526 attending cyber schools and Non-Philadelphia (brick and mortar) charter schools. The 2015-2016 cyber charter school enrollments exclude Ed Plus cyber charter school which closed at the end of November, 2015 with an enrollment of 247 students.

During Fiscal Year 2015 there were 218 schools that the School District operated, as well as 24 alternative education programs/schools and 86 charter schools managed by other entities within the city and that serve Philadelphia's children. Two charter schools closed mid-year 2015 and one additional closed by the beginning of the 2015-2016 school year, reducing the number of charter schools to 83. In Fiscal Year 2015, just over one of every three (35%) 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 2015 organizational structure for the School District includes 55 elementary schools; 93 elementary/middle schools; 17 middle schools; and 53 high schools. At the end of the 2013-2014 School Year, the School District had closed 24 schools that the District operated due to a myriad of factors including: low occupancy levels, the shift of enrollment to charter schools, academics, school climate and building conditions. There were no further school closures in Fiscal Year 2015. In Fiscal Year 2015, 6 schools were sold for proceeds of \$24.6 million. About 13% of the School District's buildings are 40 years old or less, 47% 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. Pre-K educational services are also provided on a more limited basis. 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 2015 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

Our mission states “that the School District of Philadelphia (SDP) will deliver on the civil right of every child in Philadelphia to an excellent public education and ensure all children graduate from high school ready to succeed, fully engaged as a citizen of the world.” Our vision is, “For all children, a great school, close to where they live.” The Four Anchor Goals in support of our mission and vision as set by the SRC and the Superintendent remained the same for Fiscal Year 2015 as part of the updated Strategic Action Plan v3.0 and are: Anchor Goal #1 - 100 percent of students will graduate, ready for college and career; Anchor Goal #2 - 100 percent of 8 year olds will read on grade level; Anchor Goal #3 - 100 percent of schools will have great principals and teachers and, Anchor Goal #4 - the School District will have 100 percent of the funding we need for great schools and zero deficit. All actions in Fiscal Year 2015 directly supported the attainment of one or more of the Four Anchor Goals. For the 2014-2015 School Year the District focused on core concerns of early literacy and graduation rates.

To achieve these Four Anchor Goals, the School District recognizes 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 are in place to carry out the Four Anchor 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.

In Fiscal Year 2015 there was a shift from a single focus on fiscal stability to also implementing key components of the updated Strategic Action Plan v3.0 blue print for school improvement, educational equity for all students and a focus on initiatives to lead to future educational outcomes regardless of demographics and location.

Major initiatives in support of Anchor Goal #1, College and Career Ready; were to implement the Naviance System to provide college planning and career assessment software tools and provision of additional college and career counseling supports for students. In support of Anchor Goal #2, Early Literacy, the Children’s Literacy Initiative (CLI) provided 44 reading coaches and all K-5 teachers were provided laptop computers. In addition, assessment tools were implemented to assist teachers to monitor student progress and to differentiate student learning. For Anchor Goal #3, a System of Great Schools, the numbers of seats for special admit and citywide admission schools were expanded by approximately 1,000; three new public schools which offered high quality options to children in their neighborhood were opened and three underperforming charter schools were closed. Finally, in support of Anchor Goal #4, Financial Stability, several initiatives were achieved which included: 1) local tax revenue increases through a new City of Philadelphia cigarette tax and reauthorization of a one percent sales tax; 2) debt was refunded and new debt issued to achieve savings and ensure adequate future financial resources; 3) health care savings accomplished through improved self insurance dependent verification and renegotiated pharmacy contracts; 4) validation of cyber charter enrollments was enhanced; and 5) the impacts of the savings from a contract ratification agreement reached with the Commonwealth Association of School Administration (CASA) Union in March 2014, for substantial changes to past contract provisions which included a modified wage structure and changes to the medical plan provisions and premium contributions resulted in Fiscal Year 2015 savings of approximately \$9.9 million and over \$20 million for the term of the contract from September 1, 2013 to August 31, 2016.

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 41% of the Fiscal Year 2015 overall revenues. The City and the School District have successfully focused attention on improving the collections of all taxes and expanding revenue sources.

The Fiscal Year 2015 adopted budget included \$93.0 million in revenue enhancements and obligation reductions “to be determined”. In addition, the adopted budget included \$150.0 million in new revenues: \$120.0 million from the reauthorization of the one percent sales tax and \$30.0 million from a one-time City borrowing.

After the budget adoption in June, the District addressed the \$93.0 million budget savings yet to be identified by securing an estimated \$49.0 million in revenues from a new cigarette tax, increasing other revenues by over \$19.0 million, identifying over \$10.9 million in additional expenditure cuts, and by taking advantage of a \$14.1 million improvement in the expected Fiscal Year

2014 ending fund balance from (\$28.9) million to (\$14.8) million. Together, these adjustments made up the \$93.0 million in revenue enhancements and obligation reductions that were still to be determined in the Fiscal Year 2015 adopted budget. The Fiscal Year 2015 overall Operating revenues and sources increased by \$337.9 million from the “original” adopted budget to the “final” amended budget. Most of the change was driven by higher local revenues and Special Education revenues and higher property sales revenues in addition to a debt service source increase due to a refinancing that was not in the original budget. The Fiscal Year 2015 overall Operating expenditures and other uses increased by \$251.9 million from the original to final budget primarily due to expenditure reductions in salaries and benefits and increased uses of funds due to bond defeasement that was not in the original budget.

Through a combination of revenue increases and expenditure savings, the School District was able to end the year with a positive operating fund balance of \$88.0 million as discussed below. However, the District continues to project a structural deficit in future years as expenditure growth is expected to continue to outpace revenue growth.

Budget Structure

The Operating Budget is made up of the General Fund, the Debt Service Fund and the Intermediate Unit Fund. The Fiscal Year 2015 ending Operating Fund Balance of a positive \$129.1 million compares to a positive \$3.4 million reported for Fiscal Year 2014 (the \$3.4 million Operating Fund balance was later restated to a positive \$21.3 million due to a prior period adjustment). Of the total \$129.1 million fund balance for the Operating Fund at June 30, 2015, \$20.9 million is encumbered for existing purchase commitments or inventory, and \$20.2 million is restricted for future QZAB debt service principal payments, leaving a fund balance of positive \$88.0 million. The following are the classifications of the Operating Fund balances: 1) in the General Fund, a negative (\$6.9) million unassigned (consisting of a negative (\$25.2) million of undesignated fund balance offset by a positive \$18.3 million of encumbrances), \$9.5 million of restricted for medical self-insurance and, \$1.2 million of non-spendable fund balance for inventories, 2) in the Intermediate Unit Fund, a positive \$1.4 million of assigned fund balance for encumbrances, and 3) in the Debt Service Fund, a positive \$123.9 million is considered restricted for future debt service payments. The Fiscal Year 2015 available fund balance represents a \$102.8 million increase from the reported Fiscal Year 2014 available Operating Fund balance of a negative (\$14.8) million to the positive \$88.0 million Fiscal Year 2015 balance (the Fiscal Year 2014 available ending fund balance was later restated to a positive \$3.0 million due to a prior period adjustment, making the increase over the restated Fiscal Year 2014 ending fund balance \$85.0 million).

On June 30, 2014, the SRC adopted the Fiscal Year 2015 Operating Budget of \$2,550.0 million in revenue and other sources and \$2,614.2 million in obligations and other uses. On May 31, 2015 the SRC amended the Fiscal Year 2015 Operating Budget of \$2,888.6 million in revenues and other financing sources and obligations and other financing uses of \$2,866.9 million. Both the adopted and amended Fiscal Year 2015 Operating Budget SRC resolutions reflect other financing sources and uses net of transfers between the General Fund, Intermediate Unit Fund and Debt Service Fund. Under the GASB 54 guidelines the Fiscal Year 2015 ending operating fund balance available for future operations is an increase of \$81.2 million from the amended budget ending fund balance of \$6.8 million. The main reason for this improvement was a \$61.6 million budget surplus in obligations coupled with revenue and other uses budget surplus of \$21.9 million offset by a negative (\$2.3) million adjustment due to prior period adjustments and changes in reserves. The favorable obligations variance was driven by budget surpluses in salary and benefits, transportation, debt service, and payments to non district operated schools. The revenue surplus was driven by a \$26.7 million favorable variance in General Fund local taxes and state revenue partially offset by a (\$4.8) million unfavorable variance in the Intermediate Unit Fund revenue and sources.

The Capital Improvement Program (CIP) identifies over \$913.8 million in facility needs through Fiscal Years 2015 - 2020 to improve major infrastructure systems and buildings. The Fiscal Year 2016 Capital Budget reflects two realities: the completion of the final projects under the \$1.9 billion CIP that began in 2003 and a reduction in capital spend that prioritize the funding of deferred maintenance and life cycle replacements. On June 30, 2015, the School District adopted its 2016 Capital Budget and six-year capital improvement program for Fiscal Years 2016-2021 (“Capital Improvement Program” or “CIP”) which collectively totals approximately \$981.9million. The School District amended its Capital Budget for Fiscal Year 2015 on June 30, 2015 to total approximately \$72.8 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, 74% is spent on academic and education support services and the remaining 23% is spent on capital financing and maintenance directly benefiting the schools.

Factors Affecting Financial Conditions

The information presented in the accompanying financial statements and report is best understood when placed in context with the District’s financial planning and policy practices coupled with local social and economic factors, such as:

Financial Planning:

These continue to be challenging times for The School District of Philadelphia as we continue to have higher rates of expenditure growth than revenues and an outlook of structural deficits. The District continues its practice of financial austerity and obtaining structural fiscal balance while executing our Strategic Plan v.3.0 and focusing on equity and educational outcomes. Inadequate revenues to cover 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 over the past several years and make unprecedented program sacrifices to remain fiscally sound. The School District's longer term finances continue to pose challenges as we proceed into the 2015-2016 School Year and recognize the need to enhance our programs to benefit all students regardless of physical location or ability. 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 match 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 the Fiscal Year 2016 Adopted Budget, fixed costs are expected to increase over Fiscal Year 2015 expenditures due to increases in charter/non-public school payments and pension, healthcare, and transportation costs.

The challenge in Fiscal Year 2016 and beyond, and the intent of the update to 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, balanced with the educational needs of our students. These objectives will place even greater challenges to achieve structural budget balance. Governor Wolf and Mayor Nutter proposed increases in recurring revenues totaling approximately \$264.7 million for Fiscal Year 2016, a requested \$159.4 million of additional recurring state revenues and an additional \$105.3 million in recurring revenue from the City of Philadelphia of which \$70 million was authorized in both the City and School Districts' adopted budgets. Although the \$159.4 million was included in the Fiscal Year 2016 School District Adopted Budget, \$141 million has not been allocated for expenditures since it has not been authorized by the State due to the budget impasse in Harrisburg. To date, the District has had no final commitments from the State due to the absence of a Fiscal Year 2016 Commonwealth Budget.

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 regardless of student demographics and location.

The Local Economy: During the period between 2000 and 2010 the population of the City increased from 1.517 million to 1.526 million an increase of 0.6% over the 10 years, ending six decades of population decline. In the four years following the 2010 Census, the City's population grew by an additional 2.25% to 1.56 million residents according to the 2014 U.S. Census Bureau estimates which exceeded the rate projected by the Philadelphia Planning Commission.

Although facing challenges such as underfunded pension liabilities, high rates of poverty and the public school system's on-going fiscal issues, the City benefits from its strategic geographical location, relative affordability, cultural and recreational amenities, and its growing strength in key industries. 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 has led to a revitalization of the City. Philadelphia is experiencing a construction boom, with over 44 major projects under construction currently, representing over \$5.3 billion in combined public and private investment. Most significantly, in the summer of 2014 Comcast Corporation began construction of a 59-story, \$1.2 billion office tower. Higher education and healthcare institutions represent over \$1 billion of investment and commercial developers are currently the most actively engaged in development with over \$1.4 billion invested.

As a major urban center and the birthplace of this country, 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 3.1 million room nights were sold in Center City in 2014, a 3.0% increase over 2013. 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. Leisure demand grew in

2015 and 2016 is expected to grow by 5% and 2%, respectively, due to 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.

Legislation passed by the Pennsylvania General Assembly authorized two stand alone casino licenses. Philadelphia's first casino, Sugarhouse, opened in 2010 and has an expansion currently underway.

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 latter part of 2013 and in 2014 have resulted in a decline in Philadelphia's unemployment rate. Data from the Bureau of Labor Statistics shows 2014's unemployment rate reached 8%, a decline of 2.4% since 2013. Preliminary data shows 2015's unemployment rate at June 2015 to be 7.4% and an average of 7.2% for 2015. Philadelphia's poverty rate is 26%, the highest of the nation's ten largest cities.

Accounting Pronouncements: Effective for Fiscal Year 2015, the School District has implemented two new Government Accounting Standards Board (GASB) Statements, GASB No. 68 & GASB No. 71. GASB Statement No. 69 was considered but found not to be applicable.

GASBS 68, Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27, improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. These changes were reflected in the preparation of the School District's financial statements for Fiscal Year 2015.

GASBS 69, Government Combinations and Disposals of Government Operations establishes accounting and financial reporting standards related to government combinations and disposals of government operations. Government combinations are arrangements that meet the definition of a government merger, government acquisition, or transfer of operations as set forth in paragraphs 10, 11, and 12 of GASBS 69, respectively, and meet the service continuation requirement in paragraph 9 of the same. This Statement applies to all state and local governmental entities. The provisions of Statement 69 are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. This requirement was considered in the preparation of the School District's financial statements for Fiscal Year 2015 and was not applicable.

GASBS 71, Pension Transition for Contributions Made Subsequent to the Measurement Date an amendment of GASB Statement No. 68, addresses an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. Specifically the issue relates to amounts associated with contributions, if any, made by a state or local government employer or non employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement requires a state or local government employer (or non employer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. This requirement was incorporated in the preparation of the School District's financial statements for Fiscal Year 2015.

Long-term Debt: As of June 30, 2015, the School District's outstanding principal amount of general obligation bonds and lease rental indebtedness was \$3.1 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 for Fiscal Year 2015 are A3 and under review from Moody's, A+ with a negative outlook from Standard & Poor's and AA- with a stable outlook from Fitch. Moody's and Fitch provide underlying ratings for the School District which are Ba3 and BB-, respectively, both with negative outlooks. Standard & Poor's only provides a rating based upon the State Intercept Program for the School District.

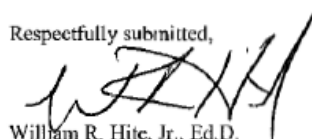
Awards and Acknowledgements

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 2014. 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 2014. 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 the GFOA and the ASBO to determine its eligibility for additional certificates for Fiscal Year 2015.

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



Frances Burns
Executive Sponsor of Finance
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, 2014

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, 2014*

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



Mark C. Pepera, MBA, RSBO, SFO
President

John D. Musso, CAE, RSBA
Executive Director



CITY OF PHILADELPHIA

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(215) 686-6880 FAX (215) 686-3832

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, 2015, 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 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.

CITY OF PHILADELPHIA
OFFICE OF THE CONTROLLER

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, 2015, 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.

Emphasis of Matter - Change in Accounting Principle

As discussed in Notes 1D, (12) and 4K to the financial statements, in 2015 the School District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68*, which represents a change in accounting principle. As of July 1, 2014, the School District's net position was restated to reflect the impact of adoption. A summary of the restatement is presented in Note 4N. 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 required supplementary information other than management's discussion and analysis as listed in the table of contents 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.

Other Supplementary Information

Our audit for the year ended June 30, 2015 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, 2015, as listed in the table of contents, 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 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, 2015, 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, 2015.

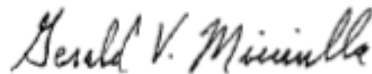
We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the School District as of and for the year ended June 30, 2014 (not presented herein), and have issued our report thereon dated February 13, 2015, which 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 2014 amounts included in the Comparative Schedule by Source of Capital Assets Used in the Operation of Governmental Funds for the year ended June 30, 2014 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

CITY OF PHILADELPHIA
OFFICE OF THE CONTROLLER

accounting and other records used to prepare the 2014 financial statements. The 2014 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 2014 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 2014 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, 2014.

Other Information

The other information, which includes the Introductory Section and 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 them.



GERALD V. MICCIULLA, CPA
Deputy City Controller
Philadelphia, Pennsylvania
February 17, 2016

SCHOOL DISTRICT OF PHILADELPHIA MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

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, 2015. 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 thirteen 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 2015 include, but are not limited to, the following:

- Total revenues for the governmental funds were \$2.9 billion. About 50% of total revenues are received from the State, with PA Basic Education Subsidy (BES) representing approximately two thirds of the State revenues and subsidies and grants awarded and appropriated by the Pennsylvania State government comprising about one third. About 41% 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 9%, 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 deficit was (\$4,847.2) million resulting from an excess of liabilities and deferred inflows over assets and deferred outflows. The Fiscal Year 2015 adoption of GASB No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB 68" required the recognition of an unfunded net pension liability of (\$2,980.5) which was a major factor impacting the total net position. 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 additional long-term liabilities impacting this balance. Other liabilities

Management's Discussion and Analysis

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 2015 ending Operating Fund balance is \$129.1 million. Of the total \$129.1 million fund balance for the Operating Fund at June 30, 2015, \$20.9 million is non-spendable or encumbered for existing purchase commitments and \$20.2 million is restricted for future debt service payments, leaving an ending budgetary fund balance of \$88.0 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 fiscal year end, the sinking funds in our fiscal agent's custody totaled \$123.0 million from the School District to pay obligations for the next fiscal year.

Financial results for Fiscal Year 2015, compared to Fiscal Year 2014, are the result of several factors and events; the most significant include, but are not limited to:

- Total revenues for the governmental funds increased by \$186.3 million compared to Fiscal Year 2014. Local revenue increases of \$130.1 million were generated mostly from \$50.2 million from the new Cigarette tax and \$120.0 million for reauthorization of the 2% City Sales tax offset by the elimination of a one-time \$45 million subsidy from the State received through the City. State grants and subsidies increased by \$42.8 million primarily due to pension plan and special education program and transportation reimbursements. There was a \$13.4 million increase in federal grants and subsidies revenues primarily due to: increased revenue in Title 1 grants of \$17.7 million and in the RACE to the Top grant of \$4.1 million; offset by decreased revenue in the IDEA and ARRA grants of \$4.3 million and \$2.5 million, respectively.
- Total expenditures for the governmental funds increased by \$19.6 million compared to Fiscal Year 2014. This increase was caused by increases in expenditures of \$35.7 million in student support services, administrative support and other support, an increase of \$9.5 million in charter school expenses, and an increase of \$8.3 million in the Capital Improvement Plan (CIP); offset by decreases in expenditures of \$29.8 million in instructional costs, pupil transportation costs and operation and maintenance of plant and maintenance of plant services and a decrease of \$4.1 million in long term debt costs.
- The Debt Service Fund is a separate governmental 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 \$5.4 million increase from Fiscal Year 2014 to Fiscal Year 2015. This change reflects: a net increase of sources of financing of \$5.9 million primarily due to \$9.7 million increase of tax revenues and state subsidies and a \$0.4 million increase of financing issuance proceeds, offset by a decrease in the sale of capital asset proceeds from the sale of buildings of \$4.2 million, an increase of \$0.4 million in interest and other revenue, a net decrease of expenditures of \$6.4 million resulting from lower principal, interest and authority obligation payments, offset by a decrease in other revenue and financing for annual bank fees and refunding proceeds of \$5.1 million, an increase in administrative and fixed swap expenses of \$1.0 million and an increase in variable rate payments and issuance costs of \$1.2 million.
- The Operating Fund balance of \$129.1 million as of June 30, 2015 reflects a \$125.7 million increase from the Fiscal Year 2014 balance (the Fiscal Year 2014 ending fund balance of \$3.4 million was restated to \$21.3 million due to a \$17.9 million prior period adjustment explained in footnote 4M on page 84). This balance, which includes \$19.7 million of encumbrances for the General and Intermediate Funds, \$1.2 million of General Fund inventories, \$9.5 million restricted for medical self insurance and \$20.2 million for future debt payments, is primarily the result of several factors: 1) higher local revenues primarily due to the new Cigarette Tax and the re-authorization of the City Sales Tax as described above, 2) continued reductions in targeted personnel, facilities management and administrative support costs as a result of ongoing cost-cutting efforts; offset by 3) an increase in charter school payments due to higher enrollments and increases in per student payments, and 4) increases in special education program and transportation costs.

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

Management's Discussion and Analysis

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, deferred outflows of resources, liabilities, deferred inflows of resources 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 2015. 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.

Management's Discussion and Analysis

Net Position

Table 1 provides a summary of the School District's net position as of June 30, 2015 and has been restated to reflect the implementation of GASB Statement No. 68 & GASB Statement No. 71 and restated for a change in the Fiscal Year 2014 calculation of the "Net Investment in Capital Assets." (Refer to Note 4N). 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, 2015
(Dollars in Millions)
Table 1

	Governmental		Business-Type		Total	
	Activities		Activities			
Assets	2015	2014	2015	2014	2015	2014
Current & Other Assets	\$ 603.7	\$ 472.8	\$ 13.1	\$ 8.3	\$ 616.8	\$ 481.1
Capital Assets	1,727.8	1,808.8	1.7	1.7	1,729.5	1,810.5
Total Assets	\$ 2,331.5	\$ 2,281.6	\$ 14.8	\$ 10.0	\$ 2,346.3	\$ 2,291.6
Deferred Outflows of Resources						
Deferred Refunding Charges - Loss	\$ 130.8	\$ 140.8	\$ -	\$ -	\$ 130.8	\$ 140.8
Deferred Pension Contributions	177.6	143.9	2.6	2.1	180.2	146.0
Total Deferred Outflows	\$ 308.4	\$ 284.7	\$ 2.6	\$ 2.1	\$ 311.0	\$ 286.8
Liabilities						
Long-Term Liabilities	\$ 3,728.1	\$ 3,798.4	\$ 5.3	\$ 2.7	\$ 3,733.4	\$ 3,801.1
Other Liabilities	232.3	286.6	5.3	7.2	237.6	293.8
Net Pension Liability	2,937.3	3,449.6	43.1	50.6	2,980.4	3,500.2
Total Liabilities	\$ 6,897.7	\$ 7,534.6	\$ 53.7	\$ 60.5	\$ 6,951.4	\$ 7,595.1
Deferred Inflows of Resources						
Deferred Pension - Earnings/Proportions/Contributions	\$ 544.9	\$ -	\$ 8.0	\$ -	552.9	-
Deferred Refunding Charges - Gain	0.2	-	-	-	0.2	-
Total Deferred Inflows	\$ 545.1	\$ -	\$ 8.0	\$ -	\$ 553.1	\$ -
Net Position						
Net Investment in Capital Assets	\$ (397.9)	\$ (372.5)	\$ 1.7	\$ 1.7	\$ (396.2)	\$ (370.8)
Restricted	139.4	118.4	-	-	139.4	118.4
Unrestricted (Deficit)	\$ (4,544.4)	(4,714.2)	\$ (46.0)	(50.1)	(4,590.4)	(4,764.3)
Total Net Position (Deficit)	\$ (4,802.9)	\$ (4,968.3)	\$ (44.3)	\$ (48.4)	\$ (4,847.2)	\$ (5,016.7)

For the Fiscal Year ending June 30, 2015, the School District's total net position was (\$4,847.2) million. This negative net position amount is cumulative and represents the accumulated results of all prior fiscal year operations of which (\$4,590.4) million is unrestricted. This balance also reflects an increase of \$169.5 million from Fiscal Year ended June 30, 2014 as restated for GASB Statement No. 68 & GASB Statement No. 71 and for the change in the calculation of the Net Investment in Capital Assets. This increase is primarily the result of the following: 1) An increase of \$135.7 million in cash and investments, 2) an increase of \$24.2 million in deferred outflows for refunding and pension related items, and 3) a decrease of (\$643.7) million in liabilities for net pension and other liabilities; offset by 4) a decrease of (\$81.0) million in capital assets and 5) an increase of \$553.1 million in deferred inflows of resources mainly for pension related items.

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).

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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 and has been restated to reflect the implementation of GASB Statement No. 68 & GASB Statement No. 71 (Refer to Note 4N).

Changes in Net Position
Fiscal Year Ended June 30, 2015
(Dollars in Millions)
Table 2

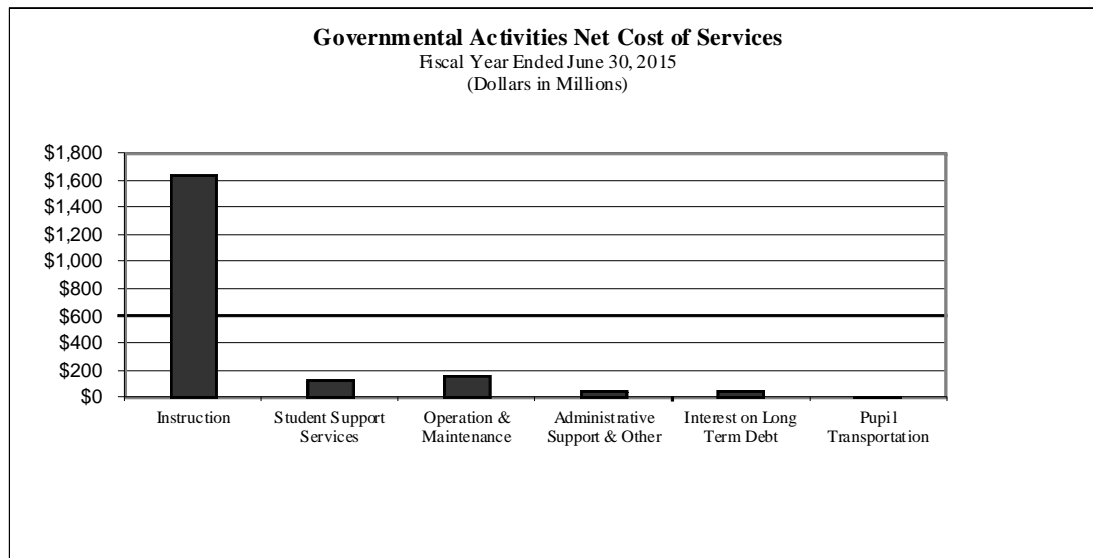
	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues						
Program Revenues						
Charges for Services	\$ 10.7	\$ 5.6	\$ 0.3	\$ 1.4	\$ 11.0	\$ 7.0
Operating Grants & Contributions	826.2	778.8	85.8	74.0	912.0	852.8
Capital Grants & Contributions	0.1	-	-	-	0.1	-
General Revenues						
Property Taxes	683.5	661.3	-	-	683.5	661.3
Other Taxes	404.9	238.0	-	-	404.9	238.0
Grants & Contributions Not Restricted	123.3	164.5	-	-	123.3	164.5
State & Federal Subsidies Not Restricted	925.8	912.4	-	-	925.8	912.4
Gain on Sale of Capital Assets	3.8	21.1	-	-	3.8	21.1
Investment Revenue	13.7	0.8	-	-	13.7	0.8
Total Revenues	\$ 2,992.0	\$ 2,782.5	\$ 86.1	\$ 75.4	\$ 3,078.1	\$ 2,857.9
Expenses						
Instruction	\$ 2,146.8	\$ 4,350.0	\$ -	\$ -	\$ 2,146.8	\$ 4,350.0
Student Support Services	184.5	651.2	-	-	184.5	651.2
Administrative Support & Other	88.3	293.9	-	-	88.3	293.9
Interest on Long Term Debt	145.6	153.4	-	-	145.6	153.4
Pupil Transportation	80.5	159.5	-	-	80.5	159.5
Operation & Maintenance	181.6	514.8	-	-	181.6	514.8
Early Childhood Education	0.1	0.1	-	-	0.1	0.1
Food Service	-	-	81.7	120.6	81.7	120.6
Total Expenses	\$ 2,827.4	\$ 6,122.9	\$ 81.7	\$ 120.6	\$ 2,909.1	\$ 6,243.5
Excess (Deficiency) before Transfers	\$ 164.6	\$ (3,340.4)	\$ 4.4	\$ (45.2)	\$ 169.0	\$ (3,385.6)
Transfers	\$ 0.3	\$ 0.3	\$ (0.3)	\$ (0.3)	\$ -	\$ -
Increase/(Deficit) in Net Position	\$ 164.9	\$ (3,340.1)	\$ 4.1	\$ (45.5)	\$ 169.0	\$ (3,385.6)
Net Position (Deficit) - Restated Beginning	\$ (4,968.3)	\$ (1,598.1)	\$ (48.4)	\$ (2.9)	\$ (5,016.7)	\$ (1,601.0)
Prior Period Adjustment/Restatement	0.5	(30.1)	-	-	0.5	(30.1)
Net Position (Deficit) - Ending	\$ (4,802.9)	\$ (4,968.3)	\$ (44.3)	\$ (48.4)	\$ (4,847.2)	\$ (5,016.7)

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, 2015
(Dollars in Millions)
Table 3

Functional Expense	Gross Cost of Services	Net Cost of Services
Instruction	\$ 2,146.8	\$ 1,631.0
Student Support Services	184.5	117.3
Operation & Maintenance	181.6	158.4
Administrative Support & Other	88.3	46.1
Interest on Long Term Debt	145.6	49.0
Pupil Transportation	80.5	(11.3)
Food Service	81.7	(4.4)
Early Childhood Education	0.1	-
Total Expenses	<u>\$ 2,909.1</u>	<u>\$ 1,986.1</u>



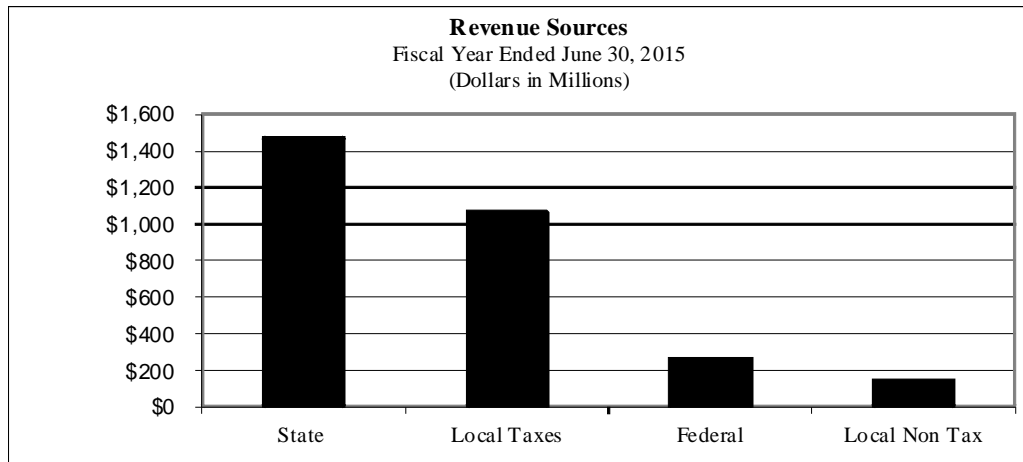
Major Sources of Revenues

The School District's overall revenues are derived primarily from three sources: (i) state grants and subsidies totaling 50.1%; (ii) local taxes and non-tax revenues totaling 40.9%; and (iii) federal grants and subsidies totaling 9.0%. 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, sales tax, cigarette tax, non-business

Management's Discussion and Analysis

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 2015:



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 \$2,947.1 million can be found on pages 40-41 of the Basic Financial Statement Section in the Statement of Revenues, Expenditures and Changes in Fund Balance.

Revenue by Source and Type
Fiscal Year Ended June 30, 2015
(Dollars in Millions)
Table 4

Revenue Source	General Fund	Intermediate Unit Fund	Categorical Funds
Local Taxes	\$ 1,063.3	\$ -	\$ -
Local Non-Tax	127.5	0.8	9.2
State Grants and Subsidies	1,279.3	107.4	88.4
Federal Grants and Subsidies	11.4	-	255.1
Total Revenue	<u>\$ 2,481.5</u>	<u>\$ 108.2</u>	<u>\$ 352.7</u>

V. MAJOR FUND HIGHLIGHTS

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

General Fund

The General Fund serves as the School District's main operating fund 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 positive ending fund balance of \$3.8 million on June 30, 2015. For Fiscal Year 2015, there was an excess of revenues over expenditures of \$582.2 million, \$18.1 million of capital asset proceeds and \$499.6 million of net other financing uses which together resulted in a \$100.7 million positive impact to the ending fund balance.

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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 2015, the Intermediate Unit Fund had a \$0.6 million net increase in fund balance which resulted in an ending fund balance of \$1.4 million at June 30, 2015.

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 \$0.4 million net decrease in fund balance which resulted in a negative \$4.4 million ending fund balance at June 30, 2015. The reason for the decrease in fund balance was an increase of \$0.4 million in receivables over 90 days past due that were not recorded as revenues in Fiscal Year 2015 under GASB Statement No. 33 guidelines. At June 30, 2015, there was \$4.4 million still outstanding from grantors and recorded as unavailable revenues and not yet recognized as current revenues.

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 2015, the Debt Service Fund reflects a \$24.5 million net increase in fund balance to \$123.9 million as of June 30, 2015 of which \$17.9 million is a prior period adjustment (see Note 4 M). Debt Service interfund transfers of \$272.8 million, refunding proceeds of \$295.2 million, revenues of \$2.8 million and capital asset sales of \$3.2 million were offset by expenditures of \$267.0 million and defeasement payments of \$300.4 million accounts for the remaining \$6.6 million fund balance increase.

Capital Projects Fund

The Capital Projects Fund is used to account for financial resources to cover the costs associated with the acquisition of capital assets and for the construction, modernization, alteration, repair, and improvements to the School District's major capital facilities and buildings. During Fiscal Year 2015, capital outlays resulted in a positive net change of \$17.8 million in the capital projects fund which increased the fund balance as of June 30, 2015 to \$94.1 million. This increase was the result of new debt issuance's of \$46.8 million, bond premiums of \$6.0 million and revenues and capital asset sales of \$4.5 million; offset by expenditures for capital alterations and improvements totaling \$30.7 million, new building construction totaling \$4.2 million, environmental management of \$3.9 million, transfers out totaling \$0.5 million and equipment acquisitions totaling \$0.2 million.

Enterprise Fund

The Enterprise Fund is used to account for the operation of the Food Service Division. The Enterprise Fund had a negative total net position balance of (\$44.4) million at the end of Fiscal Year 2015 which reflects a \$4.1 million increase from the previous fiscal year as restated for GASB 68 pension adjustments of (\$48.5) million.

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:

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Excess (Deficiency) of Revenues, Other Financing Sources/Uses, and Over (Under) Expenditures for Major and Non-Major Funds

Fiscal Year Ended June 30, 2015

(Dollars in Millions)

Table 5

Fund	Fiscal Year 2015	Fiscal Year 2014
General	\$ 100.7	\$ (56.1)
Intermediate Unit	0.6	(0.2)
Categorical	(0.4)	1.8
Debt Service	6.6	1.2
Capital Projects	17.8	(27.2)
Enterprise	4.1	3.0
Non-Major Governmental	-	-
Total Change in Fund Balance/Net Position	<u>\$ 129.4</u>	<u>\$ (77.5)</u>

Total Fund Balances for Major and Non-Major Funds

As of June 30, 2015

(Dollars in Millions)

Table 6

Fund	Fiscal Year 2015	Fiscal Year 2014
General	\$ 3.8	\$ (96.8)
Intermediate Unit	1.4	0.8
Categorical	(4.4)	(4.0)
Debt Service	123.9	99.4
Capital Projects	94.1	76.2
Enterprise	(44.4)	0.1
Non-Major Governmental	<u>6.3</u>	<u>6.3</u>
Total Fund Balance/Net Position	<u>\$ 180.7</u>	<u>\$ 82.0</u>

VI. BUDGETING HIGHLIGHTS

Included in its enabling legislation pursuant to the Philadelphia Home Rule Charter ("Charter"), the School District is required to adopt an operating budget, a capital budget and a capital improvement program for each fiscal year. Each budget is based on obligations; the most significant budgeted fund being the General Fund. During the course of each fiscal year, the operating budget is amended and approved by the School Reform Commission. The final amended budget incorporates all of the School District's approved adjustments that were incurred since the initial advertised or adopted operating budget was issued. While all budgets must be approved by the School Reform Commission, the Charter also requires the governing body to levy taxes annually, within the limits authorized by the Pennsylvania General Assembly and the Philadelphia City Council, respectively, in amounts sufficient to provide funds to cover operating expenses and debt service charges. The Philadelphia City Council annually holds hearings to determine the level of local tax funding for the School District.

The capital budget is prepared as part of a six-year capital improvement program, of which, the first year of the program is the 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

Management's Discussion and Analysis

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 2015, the final budgeted General Fund revenue was \$18.7 million higher than the original Fiscal Year 2015 budget adopted in June 2014. This resulted primarily from a \$17.6 million increase in local tax revenues, a \$3.9 million increase in State revenue, and a \$0.1 million increase in Federal revenue. This was offset by local non tax revenues which decreased by \$2.9 million.

The anticipated obligations in the final General Fund budget represented a decrease of \$52.9 million over the original adopted budget. This increase resulted primarily from the following changes in budgets: an \$18.2 million decrease in salary, a \$28.0 million decrease in benefits, and a net \$6.7 million decrease in all other areas.

The anticipated Other Financing Sources/ (Uses) in the final General Fund budget were \$18.9 million favorable over the original adopted budget. This is due to a \$1.0 million reduction in uses (driven primarily by a \$2.8 million reduction in the General Fund to Debt Service transfer and a \$0.3 million reduction in transfer to the special revenue fund offset by a \$2.1 million unfavorable variance in the General Fund to IU transfer) and a \$17.9 million increase in sources (due primarily to a \$18.1 million increase in budgeted sale of property offset by a \$0.2 million decrease in transfers from categorical funds).

The actual ending General Fund balance at June 30, 2015 of a positive \$3.8 million was \$106.0 million favorable compared to the final budget ending balance of a negative \$102.2 million. Actual General Fund revenues of \$2,481.5 million are \$25.7 million higher than those estimated in the final General Fund budget of \$2,455.8 million. Actual General Fund obligations totaling \$1,901.4 million were \$51.1 million lower than estimated in the final budget of \$1,952.5 million. Other financing sources/uses of negative \$481.6 million were \$9.7 million favorable compared to the final budget and \$19.5 million of fund balance is not available for appropriation (made up of the \$17.4 million favorable difference between the final budget and actual beginning fund balance due to encumbrances and other reserves not available for appropriation and an additional \$2.1 million change in encumbrance and inventory reserves during the year).

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 the General Fund Budgetary Comparison Schedule on page 88 of the Required Supplementary Information section:

General Fund Budget Comparison

Fiscal Year Ended June 30, 2015

(Dollars in Millions)

Table 7

	Budget		Actual	Variance vs
	Original	Final		Final Budget
Total Revenues	\$ 2,437.1	\$ 2,455.8	\$ 2,481.5	\$ 25.7
Total Obligations	2,005.4	1,952.5	1,901.4	51.1
Total Other Financing Sources/(Uses)	(510.2)	(491.3)	(481.6)	9.7
Net Change in Fund Balance	(78.5)	12.0	98.5	86.5
Fund Balance Beginning of Year	(113.9)	(114.2)	(96.8)	17.4
Change in Reserves	-	-	2.1	2.1
Fund Balance End of Year	<u>\$ (192.4)</u>	<u>\$ (102.2)</u>	<u>\$ 3.8</u>	<u>\$ 106.0</u>

Management's Discussion and Analysis

During Fiscal Year 2015, the School District incurred a number of variances compared to the final General Fund budget including, but not limited to:

- Revenues had a \$25.7 million favorable variance due to a \$16.9 million favorable variance in Local Tax revenues (primarily due to additional proceeds from a new cigarette tax implemented in 2015 and new proceeds received from the reauthorization of a 1% increase in city sales tax that was implemented on October 8, 2009), a \$9.8 million favorable variance in State revenues, offset by a \$(1.0) million unfavorable variance in Local Non-Tax revenues.
- Obligations were \$51.1 million less than budgeted primarily due to a \$29.8 million favorable variance in Operation and Maintenance of Plant Services and Pupil Transportation, an \$11.8 million favorable variance in Instruction and Student Support Services, and a \$9.5 million favorable variance in Administrative, Charter School payments and other functions.
- Other Financing Sources/ (Uses) were \$9.7 million favorable from the final budget This is driven primarily by a \$9.5 million reduction in the General Fund to Debt Service transfer, a \$0.2 million favorable variance in the General Fund to IU transfer, a \$0.5 million reduction in transfer to the special revenue fund offset by a \$0.5 million unfavorable variance in transfers to internal service funds.

VII. CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of the end of Fiscal Year 2015, the School District had \$3,416.9 million invested in capital assets. Over the years, these assets have depreciated by \$1,687.4 million leaving a carrying value of \$1,729.5 million. This represents a decrease of \$80.9 million over the Fiscal Year 2014 ending balance. Table 8 represents Net Capital Assets. Refer to Note 4C, page 67 for additional information.

Net Capital Assets
As of June 30, 2015
(Dollars in Millions)
Table 8

<u>Capital Asset Category</u>	Governmental Activities		Business-Type Activities	
	2015	2014	2015	2014
Land	\$ 130.2	\$ 131.0	\$ -	\$ -
Buildings, Improvements & Intangible Assets	1,524.6	1,611.9	-	-
Personal Property	52.4	59.1	1.7	1.7
Construction In Progress	20.6	6.7	-	-
Total Net Book Value	<u>\$ 1,727.8</u>	<u>\$ 1,808.7</u>	<u>\$ 1.7</u>	<u>\$ 1.7</u>

Debt Administration

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

The 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, 2015

(Dollars in Millions)

Table 9

	Governmental Activities		Business-Type Activities	
	2015	2014	2015	2014
Total Bonded Debt	\$ 3,223.8	\$ 3,287.5	\$ -	\$ -
Employee Related Obligations	3,270.0	3,784.9	45.9	53.4
Due to Other Governments	45.3	45.3	-	-
Other	126.2	130.3	2.7	-
Total Long-Term Obligations Outstanding	\$ 6,665.3	\$ 7,248.0	\$ 48.6	\$ 53.4

The Total Long-term Obligations Outstanding for governmental activities decreased by \$582.7 million. This includes a decrease in bonded debt of \$63.7 million with a corresponding decrease in employee obligations of \$514.9 million. All other long-term obligations decreased by \$4.1 million. Refer to Note 4D(2), pages 68-75 for additional information.

VIII. FUTURE CHALLENGES FOR THE SCHOOL DISTRICT

Current Financial Situation

The School District ended Fiscal Year 2015 with a positive operating fund balance of \$129.1 million as defined in 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 \$129.1 million includes \$20.9 million of encumbrances and inventories for the General and Intermediate Unit Funds and \$20.2 million in funds assigned to future long-term Debt Service payments. The ending budgetary operating fund balance is a positive \$88.0 million after accounting for those items. In Fiscal Year 2015, this represents an \$81.2 million surplus over the Fiscal Year 2015 Amended Budget. The surplus can be attributed to approximately \$61.6 million in savings, primarily in the following areas: 1) full time salaries and associated benefits, 2) self-insured medical expenses, 3) termination costs for retired and other separated employees, and 4) savings in transportation, debt service, and payments to other educational entities. In addition, local tax and state debt service and social security revenues were higher than budgeted contributing to a \$21.9 million budget surplus for revenues and other financing sources. Finally, changes in reserves reduced the budgetary surplus by \$2.3 million.

The adoption of the GASB Statement No. 68 and GASB Statement No. 71, requirements for pension reporting has had and will continue to have, a profound effect on the financial statements and net position of school districts in Pennsylvania and across the nation. As described in Note 1D(12) on page 55, the District contributes to the Pennsylvania Public School Employees' Retirement System (PSERS), a defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The new standards have shifted pension reporting from a funding-based approach, in which the District reported only its contributions to the plan, to an accounting-based approach. Under this new approach the District must report its proportionate share of the net pension liability on the statement of net position of the government-wide and proprietary fund financial statements. In Fiscal Year 2015, these new reporting requirements added a \$3.0 billion net pension liability to the net position on the government-wide statements and a \$43.1 million net pension liability to the food service fund proprietary fund statements, respectively. Reporting on the governmental fund statement is not affected.

The School District is projecting a balanced fiscal year ending June 30, 2016 budgetary operating fund balance. The projected balanced Fiscal Year 2016 operating fund budget was achieved primarily through the passing of \$70 million in recurring revenue from the city made up of: a) a \$35 million increase in the City Grant, b) a \$10 million increase in the Use & Occupancy tax, and c) a \$25 million increase in real estate taxes; and a higher fiscal year 2015 ending fund balance than originally projected. Increases in budgeted healthcare and pension costs, and higher charter and transportation costs, increased budgeted expenditures by almost \$100 million. A portion of the cost saving measures and other factors that contributed to lower Fiscal Year 2015 expenditures are expected to continue partially offset these increases in costs. The current budget impasse in Harrisburg prevents the District from clearly estimating commitments

Management's Discussion and Analysis

from the State and updating the revenue and expenditure assumptions required to formulate a Fiscal Year 2017 ending fund balance estimate.

Impact of No Child Left Behind and Charter Schools

One major cost driver that affected School District spending in fiscal years ended prior to December 10, 2015 was 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 2015, 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 from all funds were \$722 million representing a \$9.5 million increase over the prior fiscal year. Fiscal Year 2015 was the fourth 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 2014, 87.8% of the teachers in the School District were considered highly qualified, and 99.3% were considered fully certified. Due to recruitment and retention strategies, on-going professional development, and staffing process improvements, the percentage of highly certified teachers of core academic subjects remained at 99.3% in Fiscal Year 2015. The percentage of highly qualified teachers increased to 96.3% in Fiscal Year 2015.

Academic Achievement

A focus in the Chief Academic Support Office in School Year (SY) 2014-2015 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 Core Standards. In order to facilitate this shift, the Chief Academic Support Office focused on early childhood literacy and the alignment of the District's curriculum to the Pennsylvania Core Standards.

Early Literacy Initiative

Early literacy is a district-wide instructional focus, resulting in the placement of 40 Early Literacy Specialists in 39 state-designated priority and focus schools. Early Literacy Specialists provided professional development on The School District of Philadelphia (SDP) Literacy Framework, Developmental Reading Assessment (DRA2), and AIMSweb to K-5 classroom teachers. A summer literacy workshop series was also provided to 40 elementary schools in the summer of 2015 for the purpose of providing more targeted early literacy professional development to over 500 teachers. In support of this focus, assistant superintendents, principals, central office personnel, and community partners received training in the following areas: Early Literacy Block Lesson Plan Outline, Early Literacy instructional practices, and the SchoolNet Early Literacy monitoring tool. A K-5 local assessment plan was developed to monitor the progress of the early literacy focus. Local assessment tools, such as AIMSweb and DRA2, provide relevant quantitative and qualitative measures to ensure all students are progressing relative to grade level academic and Anchor Goal 2 – (100% of 8 year olds will read on grade level) expectations.

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Curriculum Scope & Sequence

The Office of Curriculum, Instruction, and Assessment developed a Reading/English and Mathematics (PK-12) Scope and Sequence to reflect a consistent curricular framework characterized by content aligned to the Pennsylvania Core Standards. The new Scope and Sequence contained common curricular components which include, but are not limited to: Common Core correlates, key terms and definitions, starting points documents, performance-based objectives, essential questions, Illustrative Mathematics, CK-12, PA Department of Education Standards Aligned System (SAS) resources, Universal Design for Learning (UDL) resources, as well as literary and informational texts. The teacher resources provided in the Scope and Sequence are standards specific, allowing teachers to more easily access instructional resources relative to the Pennsylvania Core Standards.

A Social Studies Scope and Sequence is being developed to align with the Pennsylvania Academic Standards for Social Studies and Pennsylvania Core Standards.

A Science Scope and Sequence has been developed to align with the Next Generation Science Standards, PA Core Standards and Common Core Standards for Literacy in History/Social Studies, Science, and Technical Subjects. In addition, PK-12 STEM content and resources are embedded within the Science Scope and Sequence. Professional development and training on the new Scope and Sequence has been provided to science teachers and principals in order to more effectively utilize the resources and information.

Community Learning Links

The City of Philadelphia is fortunate to have numerous museums, public and private institutions and organizations that offer educational programming; therefore, a repository of community based curricular resources, linked to grade level academic expectations, has been created for parents, students and teachers and is accessible through SchoolNet.

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

2015 PSSA Results

In 2015, students in grades 3 to 8 are currently administered a new core-aligned PSSA in English, Language and Arts (ELA) and Mathematics, which is given annually throughout the Commonwealth. Science is given to grades 4 and 8 only. It is important to note that the new PSSAs are based on the rigorous "PA Common Core State Standards", the knowledge and skills the State Board of Education has identified as what Pennsylvania students need to be ready for college and career, and differ significantly from the tests given in 2014. Because the new tests are based on different, more challenging content and skills, an "apples to apples" comparison with results on prior PSSA tests is not appropriate.

As discussed above, 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, 33% of our 3rd graders attained proficiency on the PSSA in English Language Arts (ELA).

Among other outcomes related to student performance, as measured by the required PSSA examination, the SDP saw the following trends in the SY 2014-15 in comparison to the previous year:

- The State experienced significant declines in proficiency on the new core-aligned PSSA and the School District's performance on the new PSSAs mirrored statewide trends.
- For all students district-wide, proficiency rates were 32 percent in English Language Arts, 17 percent in Mathematics, and 37 percent in Science.
- For all subjects, proficiency rates decreased in all grades with the exception of Grade 5 ELA and Grade 8 Science where proficiency rates increased slightly and remained constant, respectively.
- For ELA performance levels among students, 20% improved, 56% remained the same, and 24% declined.
- For Mathematics performance levels among students, 3% improved, 44% remained the same and 53% declined.
- Economically Disadvantaged, English Language Learners (ELL), and Special Education students experienced decreases in ELA and Mathematics proficiency rates.
- In Science, ELL and Special Education students increased their proficiency rates by 2 and 1 percentage points, respectively. Proficiency rates for Economically Disadvantaged students remained constant.
- All racial/ethnic subgroups experienced decreases in ELA and Mathematics proficiency rates.
- In Science, Asian students experienced increases in proficiency rates, and Hispanic/Latino students' proficiency rates remained constant. Black/African American and White Students experienced decreases in Science proficiency rates.

Management's Discussion and Analysis

- The majority of schools experienced decreases in proficiency rates; however, 4 schools increased their ELA proficiency rates.
- On average, schools decreased in ELA proficiency rates by 11 % and in Mathematics by 29%.

2015 Keystone Examination Results

Keystone Examinations were administered for the first time in the 2012-2013 school year and 2014-2015 represents the third 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 SY 2013-2014 to SY 2014-2015, proficiency rates increased in Biology but decreased in Algebra I and Literature.
 - Algebra I proficiency rates *decreased* by 1 percentage points from 39% to 38%.
 - Biology proficiency rates *increased* by 3 percentage points from 26% to 29%.
 - Literature proficiency rates *decreased* by 3 percentage points from 52% to 49%.

Economically Disadvantaged, English Language Learners, and Special Education Students

- Proficiency rates *increased* in Algebra I for Special Education (2 percentage points), were unchanged for Economically Disadvantaged and *decreased* for ELL students (6 percentage points).
- All three subgroups experienced a 3 percentage point *increase* in Biology proficiency rates.
- Proficiency rates in Literature increased for ELL (1 percentage point) and Special Education (2 percentage points) and decreased for Economically Disadvantaged Students (3 percent)

Race/Ethnicity

- Proficiency rates for Asian students increased in Algebra I by 2 percentage points, Biology by 4 percentage points and decreased by 2 percentage points for Literature.
- Proficiency rates for Hispanic/Latino students increased in Biology by 4 percentage points but decreased in Algebra I by 1 percentage points and Literature by 4 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 (2 percentage points) but *decreased* in Algebra I (1 percentage points), and Literature (4 percentage points).
 - For White students, proficiency rates *increased* in Biology (7 percentage points) and *increased* in Algebra I (1 percentage points) but *decreased* in Literature (1 percentage points).

School-Level Proficiency

- Of the 48 schools that administered the Keystone Exams in grade 11 in SY 2013-2014 and SY 2014-2015
 - 15 (31%) demonstrated an *increase* in the percentage of students scoring proficient or advanced in Algebra I, 7 (15%) demonstrated no change, and 26 (54%) *decreased*.
 - 11 (23%) demonstrated an *increase* in the percentage of students scoring proficient or advanced in Literature, 2 (4%) demonstrated no change and 35 (73%) demonstrated a *decrease*.
 - 26 (54%) demonstrated an *increase* in the percentage of students scoring proficient or advanced in Biology, 5 (10%) demonstrated no change and 17 (35%) demonstrated a *decrease*.
- On average, school-level proficiency rates decreased by 1 percentage point in Algebra I, 4 percentage points in Literature and increased by 2 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 18.0% from Fiscal Year 2014 to Fiscal Year 2015. There has been significant focus and much improvement to school safety over the past several years and in particular in Fiscal Year 2015. Much of this improvement has been due to an emphasis on de-

Management's Discussion and Analysis

escalation training and a strong collaboration between the Office of School Safety and the Philadelphia Police Department. The Office of School Safety also maintains a "focus schools list" that provided direct safety supports to high incident 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. For Fiscal Year 2015 there were no Persistently Dangerous Schools on the list. The School District continues to emphasize reporting all incidents while focusing on improving the quality of school based interventions and arrest diversion programs.

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, since fiscal year 2003, has overseen 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. In Fiscal Year 2013 the adopted CIP assumed a moratorium on increasing capacity through new construction or additions over the next five years. 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 \$981.9 million from Fiscal Year 2016 to Fiscal Year 2021 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.

Management's Discussion and Analysis

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 Frances Burns, Executive Sponsor of Finance or Marcy F. Blender, CPA, Comptroller, at 440 North Broad Street, Philadelphia, PA 19130.

School District of Philadelphia
Statement of Net Position
June 30, 2015

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash & Cash Equivalents	\$ 156,662	\$ -	\$ 156,662
Cash and Investments with Fiscal Agent	123,882,358	-	123,882,358
Equity In Pooled Cash and Investments	63,233,488	5,362,276	68,595,764
Taxes Receivable (Net)	202,952,591	-	202,952,591
Due from Other Governments	70,731,460	6,331,550	77,063,010
Accounts Receivable (Net of Allowance)	21,699,164	-	21,699,164
Accrued Interest Receivable	678,092	-	678,092
Inventory	1,233,309	1,370,466	2,603,775
Prepaid Bond Insurance Premium Costs	6,337,030	-	6,337,030
Restricted Assets:			
Cash and Cash Equivalents	98,985,826	-	98,985,826
Cash and Investments with Fiscal Agent	4,036,720	-	4,036,720
Cash and Investments Held by Trustee	238,510	-	238,510
Funds on Deposit	9,500,000	-	9,500,000
Capital Assets:			
Land	130,164,041	-	130,164,041
Buildings and Improvements	2,974,937,090	-	2,974,937,090
Personal Property	225,912,029	14,997,600	240,909,629
Construction in Progress	20,665,629	-	20,665,629
Intangibles	50,225,190	-	50,225,190
Accumulated Depreciation	(1,674,098,820)	(13,321,432)	(1,687,420,252)
Total Assets	2,331,470,369	14,740,460	2,346,210,829
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Refunding Charges - Losses	130,804,726	-	130,804,726
Deferred Pension Contributions	177,580,359	2,607,256	180,187,615
Total Deferred Outflows of Resources	308,385,085	2,607,256	310,992,341
LIABILITIES			
Accounts Payable	60,582,579	4,215,720	64,798,299
Overpayment of Taxes	13,078,578	-	13,078,578
Accrued Salaries and Benefits Payable	67,286,965	916,551	68,203,516
Termination Compensation Payable	23,346,191	159,726	23,505,917
Severance Payable	7,283,717	-	7,283,717
Other Liabilities	1,565,565	-	1,565,565
Derivative Instrument - Swap Liability	9,389,228	-	9,389,228
Unearned Revenue	10,686,277	-	10,686,277
Due to Other Governments	10,889,566	-	10,889,566
Bond Interest Payable	28,197,267	-	28,197,267
Non-Current Liabilities			
Due within one year	279,556,346	2,754,463	282,310,809
Due in more than one year	6,385,800,709	45,656,261	6,431,456,970
Total Liabilities	6,897,662,988	53,702,721	6,951,365,709
DEFERRED INFLOWS OF RESOURCES			
Deferred Pension - Earnings/Proportions/Contributions	544,870,450	7,999,853	552,870,303
Deferred Refunding Charges - Gain	205,043	-	205,043
Total Deferred Inflows of Resources	545,075,493	7,999,853	553,075,346
NET POSITION			
Net Investment in Capital Assets	(397,929,610)	1,676,168	(396,253,442)
Restricted for:			
Medical Self-Insurance	9,500,000	-	9,500,000
Debt Service	122,991,723	-	122,991,723
Special Revenue Funds & Permanent Funds			
Expendable - Student Health	3,411,340	-	3,411,340
Non-Expendable - Scholarships	2,895,210	-	2,895,210
Arbitrage Rebate Payable	693,425	-	693,425
Unrestricted (Deficit)	(4,544,445,115)	(46,031,026)	(4,590,476,141)
Total Net Position (Deficit)	\$ (4,802,883,027)	\$ (44,354,858)	\$ (4,847,237,885)

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, 2015

Functions/Programs	Expenses	Indirect Expense Allocation	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities								
Instruction	\$ 2,146,846,707	\$ -	\$ 969,651	\$ 514,833,709	\$ -	\$ (1,631,043,347)	\$ -	\$ (1,631,043,347)
Student Support Services	184,494,848	-	-	67,212,864	-	(117,281,984)	-	(117,281,984)
Administrative Support	107,527,872	-	4,862,147	39,302,733	-	(63,362,992)	-	(63,362,992)
Operation & Maintenance of Plant Services	183,703,173	(2,077,680)	4,836,576	18,270,270	81,918	(158,436,729)	-	(158,436,729)
Pupil Transportation	80,471,473	-	-	91,739,303	-	11,267,830	-	11,267,830
All Other Support Services	(19,244,210)	-	-	(1,873,433)	-	17,370,777	-	17,370,777
Early Childhood Education	138,738	-	-	138,738	-	-	-	-
Interest on Long-Term Debt	145,607,933	-	-	96,611,616	-	(48,996,317)	-	(48,996,317)
Total Governmental Activities	2,829,546,534	(2,077,680)	10,668,374	826,235,800	81,918	(1,990,482,762)	-	(1,990,482,762)
Business-Type Activities:								
Food Service	79,554,150	2,077,680	250,098	85,788,847	-	-	4,407,115	4,407,115
Total Business-Type Activities	79,554,150	2,077,680	250,098	85,788,847	-	-	4,407,115	4,407,115
Total	\$ 2,909,100,684	\$ -	\$ 10,918,472	\$ 912,024,647	\$ 81,918	\$ (1,990,482,762)	\$ 4,407,115	\$ (1,986,075,647)

General Revenues/Gain/(Loss)/Investment Revenue/Transfers:

Property Taxes	\$ 683,471,252	\$ -	\$ 683,471,252
Use & Occupancy Taxes	127,711,238	-	127,711,238
Liquor Taxes	62,327,116	-	62,327,116
School (Non-Business) Income Taxes	43,506,681	-	43,506,681
Public Utility / PILOT Taxes	1,104,254	-	1,104,254
Cigarette Sales Tax	50,245,020	-	50,245,020
Sales Tax	120,000,000	-	120,000,000
Grants and Contributions Not Restricted to Specific Programs	123,324,590	-	123,324,590
State & Federal Subsidies Not Restricted to Specific Programs	925,824,989	-	925,824,989
Gain/(Loss) on Sale of Capital Assets	3,802,870	(57,164)	3,745,706
Transfers	289,437	(289,437)	-
Investment Revenue	13,724,311	-	13,724,311
Total General Revenues and Transfers	\$ 2,155,331,758	\$ (346,601)	\$ 2,154,985,157
Change in Net Position	164,848,996	4,060,514	168,909,510
Net Position (Deficit)- As of July 1, 2014	(1,662,570,672)	119,030	(1,662,451,642)
Prior Period Restatement	(3,305,680,596)	(48,534,402)	(3,354,214,998)
Prior Period Adjustments	519,245	-	519,245
Net Position (Deficit) - As of June 30, 2015	\$ (4,802,883,027)	\$ (44,354,858)	\$ (4,847,237,885)

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

School District of Philadelphia
Balance Sheet
Governmental Funds
June 30, 2015

	General Fund	Intermediate Unit Fund	Categorical Funds
ASSETS			
Cash & Cash Equivalents	\$ 156,663	\$ -	\$ -
Cash and Investments with Fiscal Agent	-	-	-
Equity in Pooled Cash and Investments	41,404,980	13,809,349	1,663,002
Cash and Investments Held by Trustee	-	-	-
Funds on Deposit	9,500,000	-	-
Taxes Receivable (Net)	202,952,591	-	-
Due from Other Funds	528,527	-	-
Due from Other Governments	28,843,852	5,670,006	35,505,493
Accounts Receivable (Net)	20,749,873	865,181	-
Accrued Interest Receivable	-	-	-
Inventory	1,205,883	-	-
Total Assets	\$ 305,342,369	\$ 20,344,536	\$ 37,168,495
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 28,582,918	\$ 8,490,324	\$ 14,552,601
Overpayment of Taxes	13,078,578	-	-
Accrued Salaries and Benefits Payable	45,111,439	10,466,989	11,364,435
Termination Compensation Payable	23,346,191	-	-
Severance Payable	7,283,717	-	-
Unearned Revenue	-	-	10,686,277
Due to Other Funds	-	-	-
Due to Other Governments	10,315,082	9,302	565,182
Other Liabilities	1,301,665	-	-
Total Liabilities	129,019,590	18,966,615	37,168,495
Deferred Inflows of Resources:			
Unavailable Tax and Accounts Receivable Revenue	\$ 172,503,053	\$ -	\$ -
Unavailable Grant Revenue	-	-	4,428,254
Total Deferred Inflows of Resources	172,503,053	-	4,428,254
Fund Balances:			
Nonspendable:			
Inventories	1,205,883	-	-
Permanent Fund Principal	-	-	-
Restricted:			
Medical Self-Insurance	9,500,000	-	-
Retirement of Long Term Debt	-	-	-
Debt Service Interest	-	-	-
Arbitrage Rebate Payable	-	-	-
Trust Purposes	-	-	-
Capital Purposes	-	-	-
Assigned:			
Special Education	-	1,377,921	-
Defeasance	-	-	-
Future Capital Projects Programs	-	-	-
Unassigned (Deficit):	(6,886,157)	-	(4,428,254)
Total Fund Balances (Deficit)	3,819,726	1,377,921	(4,428,254)
Total Liabilities and Fund Balances	\$ 305,342,369	\$ 20,344,536	\$ 37,168,495

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
\$ -	\$ 98,985,825	\$ -	\$ 99,142,488
123,882,358	4,036,720	-	127,919,078
-	-	6,315,075	63,192,406
-	238,510	-	238,510
-	-	-	9,500,000
-	-	-	202,952,591
-	-	-	528,527
-	699,025	-	70,718,376
-	-	-	21,615,054
678,092	-	-	678,092
-	-	-	1,205,883
<u>\$ 124,560,450</u>	<u>\$ 103,960,080</u>	<u>\$ 6,315,075</u>	<u>\$ 597,691,005</u>
\$ 115,400	\$ 8,793,261	\$ 8,525	\$ 60,543,029
-	-	-	13,078,578
-	310,720	-	67,253,583
-	-	-	23,346,191
-	-	-	7,283,717
-	-	-	10,686,277
299,932	228,595	-	528,527
-	-	-	10,889,566
263,900	-	-	1,565,565
<u>679,232</u>	<u>9,332,576</u>	<u>8,525</u>	<u>195,175,033</u>
\$ -	\$ -	\$ -	\$ 172,503,053
-	563,150	-	4,991,404
<u>-</u>	<u>563,150</u>	<u>-</u>	<u>177,494,457</u>
-	-	-	1,205,883
-	-	1,365,405	1,365,405
-	-	-	9,500,000
98,627,444	-	-	98,627,444
24,364,279	-	-	24,364,279
-	693,425	-	693,425
-	-	4,941,145	4,941,145
-	93,319,201	-	93,319,201
-	-	-	1,377,921
889,495	-	-	889,495
-	51,728	-	51,728
-	-	-	(11,314,411)
<u>123,881,218</u>	<u>94,064,354</u>	<u>6,306,550</u>	<u>225,021,515</u>
<u>\$ 124,560,450</u>	<u>\$ 103,960,080</u>	<u>\$ 6,315,075</u>	<u>\$ 597,691,005</u>

School District of Philadelphia
Reconciliation of the Balance Sheet for Governmental Funds
To the Statement of Net Position
June 30, 2015

Fund Balance - Total Governmental Funds (page B-34)	\$	225,021,515
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Amounts reported for governmental activities 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.		1,727,774,544
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the governmental funds.		177,494,457
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Deferred outflows and inflows of resources for refunding losses and gains are not available for the current period, therefore, are not reported in the governmental funds.		130,599,682
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Long-term liabilities, including bonds payable and unfunded net pension payable, are not due and payable in the current period, and therefore are not reported as liabilities in the governmental funds.		(6,685,790,799)
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Derivative instruments, are not due and payable in the current period, and therefore are not reported as liabilities in the governmental funds.		(9,389,228)
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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.		(367,127,208)
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Internal Service Fund (Print Shop) Net PSERs liability and fund balance are not available for current period, and therefore are not reported in the governmental funds.		(1,465,990)
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Net position (deficit) of governmental activities (page B-31)	\$	(4,802,883,027)
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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, 2015

	General Fund	Intermediate Unit Fund	Categorical Funds
REVENUES			
Local Taxes	\$ 1,063,320,312	\$ -	\$ -
Locally Generated Non Tax	127,468,777	786,755	9,218,872
State Grants and Subsidies	1,279,352,301	107,389,894	88,337,102
Federal Grants and Subsidies	11,375,416	-	255,132,162
Total Revenues	<u>2,481,516,806</u>	<u>108,176,649</u>	<u>352,688,136</u>
EXPENDITURES			
Current:			
Instruction	852,212,923	223,563,885	263,527,942
Student Support Services	26,509,974	100,703,669	50,874,052
Administrative Support	61,678,795	9,445,138	32,328,212
Operation & Maintenance of Plant Services	182,079,479	-	579,182
Pupil Transportation	80,655,067	-	-
All Other Support Services	(19,281,664)	-	-
Early Childhood Education	-	-	138,738
Payments to Charter Schools	715,473,007	-	6,566,213
Debt Service:			
Principal	-	-	-
Interest	-	-	-
Principal & Interest - Authority	-	-	-
Issuance Costs	-	-	-
Administrative Expenditures	-	-	-
Capital Outlay:			
New Buildings and Additions	-	-	-
Environmental Management	-	-	-
Alterations and Improvements	-	-	-
Equipment Acquisitions	-	-	-
Total Expenditures	<u>1,899,327,581</u>	<u>333,712,692</u>	<u>354,014,339</u>
Excess (Deficiency) of Revenues over Expenditures	<u>582,189,225</u>	<u>(225,536,043)</u>	<u>(1,326,203)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	758,948	226,099,872	1,677,425
Transfers Out	(500,340,397)	-	(758,948)
Capital Asset Proceeds	18,062,624	-	-
Issuance of Refunding Bonds	-	-	-
Debt Issuance	-	-	-
Bond Premium	-	-	-
Bond Defeasement	-	-	-
Total Other Financing Sources and (Uses)	<u>(481,518,825)</u>	<u>226,099,872</u>	<u>918,477</u>
Net Change in Fund Balances	100,670,400	563,829	(407,726)
Fund Balances, July 1, 2014	(96,819,946)	814,092	(4,020,528)
Change in Inventory Reserve	(30,728)	-	-
Prior Period Adjustment - Debt Service	-	-	-
Fund Balances, June 30, 2015	<u>\$ 3,819,726</u>	<u>\$ 1,377,921</u>	<u>\$ (4,428,254)</u>

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

Debt Service Fund	Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
<u> </u>	<u> </u>	<u> </u>	<u> </u>
\$ -	\$ -	\$ -	\$ 1,063,320,312
2,767,176	1,180,466	67,854	141,489,900
-	682,370	-	1,475,761,667
-	-	-	266,507,578
<u>2,767,176</u>	<u>1,862,836</u>	<u>67,854</u>	<u>2,947,079,457</u>
-	-	54,837	1,339,359,587
-	-	-	178,087,695
-	-	-	103,452,145
-	-	-	182,658,661
-	-	-	80,655,067
-	-	-	(19,281,664)
-	-	-	138,738
-	-	-	722,039,220
101,232,596	-	-	101,232,596
91,754,792	-	-	91,754,792
69,052,063	-	-	69,052,063
2,475,931	-	-	2,475,931
2,446,842	-	-	2,446,842
-	4,211,578	-	4,211,578
-	3,902,719	-	3,902,719
-	30,689,265	-	30,689,265
-	221,525	-	221,525
<u>266,962,224</u>	<u>39,025,087</u>	<u>54,837</u>	<u>2,893,096,760</u>
<u>(264,195,048)</u>	<u>(37,162,251)</u>	<u>13,017</u>	<u>53,982,697</u>
272,832,730	-	-	501,368,975
-	(446,369)	-	(501,545,714)
3,218,871	2,660,953	-	23,942,448
266,690,000	-	-	266,690,000
-	46,770,000	-	46,770,000
28,485,270	6,011,447	-	34,496,717
(300,439,989)	-	-	(300,439,989)
<u>270,786,882</u>	<u>54,996,031</u>	<u>-</u>	<u>71,282,437</u>
6,591,834	17,833,780	13,017	125,265,134
99,425,745	76,230,574	6,293,533	81,923,470
-	-	-	(30,728)
17,863,639	-	-	17,863,639
<u>\$ 123,881,218</u>	<u>\$ 94,064,354</u>	<u>\$ 6,306,550</u>	<u>\$ 225,021,515</u>

School District of Philadelphia
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2015

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

Net change in fund balances - total governmental funds (page B-37)	\$	125,265,134
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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.		(67,119,273)
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Non capitalized purchases that exceed capital outlays.		4,991,151
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The net effect of miscellaneous transactions involving losses arising from disposal, donation and sale of capital assets are not reported as expenditures in the governmental funds.		(17,886,169)
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.		39,637,920
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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.		73,786,985
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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.		6,237,271
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The net revenue (loss) of certain activities of the Internal Service Fund is reported with governmental activities.		(530,199)
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Transfers In to the Internal Service Fund is reported with the governmental activities.		466,176
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Change in net position of governmental activities (page B-32)	\$	164,848,996
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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, 2015

	Enterprise Fund Food Service	Internal Service Fund Print Shop
ASSETS		
Current Assets:		
Equity in Pooled Cash and Investments	\$ 5,362,276	\$ 41,082
Due From Other Governments	6,331,550	13,084
Other Receivables	-	84,110
Inventories	1,370,466	27,426
Total Current Assets	<u>13,064,292</u>	<u>165,702</u>
Noncurrent Assets:		
Machinery & Equipment	14,997,600	614,420
Accumulated Depreciation	<u>(13,321,432)</u>	<u>(583,805)</u>
Total Noncurrent Assets	<u>1,676,168</u>	<u>30,615</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred Pension Contributions	<u>2,607,256</u>	<u>78,753</u>
Total Deferred Outflows of Resources	<u>2,607,256</u>	<u>78,753</u>
 Total Assets and Deferred Outflows of Resources	 <u><u>\$ 17,347,716</u></u>	 <u><u>\$ 275,070</u></u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 4,215,720	\$ 39,550
Accrued Salaries and Benefits Payable	916,551	33,382
Termination Compensation Payable	<u>159,726</u>	<u>-</u>
Total Current Liabilities	<u>5,291,997</u>	<u>72,932</u>
Noncurrent Liabilities:		
Termination Compensation Payable	1,912,124	123,851
Severance Payable	713,994	-
Net Pension Liability	43,126,398	1,302,641
Other Liabilities	<u>2,658,208</u>	<u>-</u>
Total Noncurrent Liabilities	<u>48,410,724</u>	<u>1,426,492</u>
Total Liabilities	<u>53,702,721</u>	<u>1,499,424</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred Pension	<u>7,999,853</u>	<u>241,636</u>
Total Deferred Inflows of Resources	<u>7,999,853</u>	<u>241,636</u>
NET POSITION		
Net Investment in Capital Assets	1,676,168	30,615
Unrestricted (Deficit)	<u>(46,031,026)</u>	<u>(1,496,605)</u>
Total Net Position (Deficit)	<u>(44,354,858)</u>	<u>(1,465,990)</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u><u>\$ 17,347,716</u></u>	<u><u>\$ 275,070</u></u>

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

School District of Philadelphia
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2015

	Enterprise Fund Food Service	Internal Service Fund Print Shop
Operating Revenues:		
Food Service Revenue	\$ 250,098	\$ -
Sale of Printing Services	-	657,775
Total Operating Revenues	<u>250,098</u>	<u>657,775</u>
Operating Expenses:		
Salaries	15,525,062	439,944
Employee Benefits	13,547,008	286,254
Other Purchased Service - Food	45,852,787	-
Depreciation	351,688	7,935
Other Operating Expenses	6,355,285	453,841
Total Operating Expenses	<u>81,631,830</u>	<u>1,187,974</u>
Operating (Loss)	(81,381,732)	(530,199)
Non-Operating Revenues/(Expenses):		
Federal and State Grants	85,788,847	64,023
Loss on Sale of Capital Assets	(57,164)	-
Income (loss) Before Contributions and Transfers	<u>4,349,951</u>	<u>(466,176)</u>
Transfers In/(Out)	(289,437)	466,176
Change in Net Position	<u>4,060,514</u>	<u>-</u>
Total Net Position July 1, 2014	119,030	-
Prior Period Restatement	(48,534,402)	(1,465,990)
Total Net Position (Deficit) Restated July 1, 2014	<u>(48,415,372)</u>	<u>(1,465,990)</u>
Total Net Position (Deficit) June 30, 2015	<u>\$ (44,354,858)</u>	<u>\$ (1,465,990)</u>

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

School District of Philadelphia
Statement of Cash Flows
Proprietary Funds
For The Year Ended June 30, 2015

	Enterprise Fund Food Service	Internal Service Fund Print Shop
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Users	\$ 250,098	\$ 657,775
Cash Payments to Employees for Services	(28,932,898)	(729,586)
Cash Payments to Suppliers for Goods and Services	(39,580,067)	-
Cash Payments for Other Operating Expenses	(3,697,077)	(525,718)
	<u>(71,959,944)</u>	<u>(597,529)</u>
Net Cash (Used)/Provided by Operating Activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments to/Advances from Other Funds	(2,594,549)	-
State Sources	5,517,322	47,150
Federal Sources	75,023,984	16,872
Transfers In/(Out)	(289,437)	466,177
	<u>77,657,320</u>	<u>530,199</u>
Net Cash Provided by Non-Capital Financing Activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Facilities Acquisition, Construction, Improvements	(346,002)	-
Purchase of Equipment	-	(2,100)
Net Cash Used by Capital and Related Financing Activities	<u>(346,002)</u>	<u>(2,100)</u>
Net (Decrease)/Increase in Cash and Cash Equivalents	5,351,374	(69,430)
Cash and Cash Equivalents July 1, 2014	10,902	110,512
	<u>\$ 5,362,276</u>	<u>\$ 41,082</u>
Cash and Cash Equivalents June 30, 2015		
Reconciliation of Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Operating (Loss)	\$ (81,381,732)	\$ (530,199)
Adjustments to Reconcile Operating Income/(Loss) to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation	351,688	7,935
Donated Food Commodities	4,825,717	-
(Increase)/Decrease in Accounts Receivable	3,204,887	(84,060)
(Increase)/Decrease in Due From Other Governments	-	(2,964)
(Increase)/Decrease in Inventories	393,738	1,150
Increase/(Decrease) in Accounts Payable	(2,151,622)	14,000
(Decrease) in Accrued Salaries and Benefits Payable	167,059	13,226
Increase/(Decrease) in Termination Compensation Payable	19,155	(16,148)
Increase/(Decrease) in Other Liabilities	2,658,208	-
(Decrease) in Severance Payable	(31,636)	-
Increase/(Decrease) in Deferred Pension Contributions	(494,704)	(14,943)
Increase/(Decrease) in Net Pension Liability	(7,520,555)	(227,162)
Increase/(Decrease) in Deferred Pension	7,999,853	241,636
	<u>9,421,788</u>	<u>(67,330)</u>
Total Adjustments		
Net Cash Used by Operating Activities	<u>\$ (71,959,944)</u>	<u>\$ (597,529)</u>
Non cash items:		
Federal and State Grant revenue not yet received	\$ 6,331,550	\$ 13,084
Donated Commodities	4,825,717	-

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, 2015

	Private - Purpose Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ -	\$ 4,863,964
Equity in Pooled Cash and Investments	706,051	73,531,986
Investments	200,013	-
Accounts Receivable	94	1,173,933
Total Assets	<u>906,158</u>	<u>79,569,883</u>
LIABILITIES		
Payroll Deductions and Withholdings	-	73,560,098
Due to Student Activities	-	4,863,964
Other Liabilities	-	1,145,821
Total Liabilities	<u>-</u>	<u>79,569,883</u>
NET POSITION		
Held in Trust for Various Purposes	<u>\$ 906,158</u>	<u>\$ -</u>

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

School District of Philadelphia
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2015

	Private Purpose Trust Funds
ADDITIONS	
Gifts and Contributions	\$ 3,100
Interest Received	1,446
Total Additions	<u>4,546</u>
DEDUCTIONS	
Scholarships Awarded	47,335
Total Deductions	<u>47,335</u>
Change in Net Position	(42,789)
Net Position July 1, 2014	948,947
Net Position June 30, 2015	<u><u>\$ 906,158</u></u>

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, 2015

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.

I. 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, 2015, 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 2015, the School District served over 204,500 students, including those in Charter and Alternative Schools, as well as employed over 16,800 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, 2015 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, an Inspector General, an Internal Audit Director, 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 has a dual reporting relationship to the SRC and the Superintendent/CEO. The Chief School Police Officer, Deputy Superintendent, Communications Officer, 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 No.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, 2015, 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. For the entire 2015 fiscal year, the tax rate was 13.40 mills. Of the 13.40 mills, 7.382 mills was for the School District.

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 \$1.2 million. Included are expendable supplies of \$0.9 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. The District reports 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 \$1.0 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:

<u>Assets</u>	<u>Years</u>
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, 2015, the Categorical Funds reported unearned revenue of \$10.7 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, 2014 and 2015 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) Pensions

During the year ended June 30, 2015, the District implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68." GASB Statement No. 68 replaces the requirements of GASB Statement No. 27, with the objective of improving the accounting and financial reporting of state and local governments for pensions. It requires that state and local governments recognize and record the actuarially determined net pension liability or, for multi-employer cost sharing plans, the entity's share of the net pension liability in the entity's financial statements.

GASB Statement No. 71 amends GASB Statement No. 68 and addresses an issue regarding application of the transition provisions in the year of implementation. It requires that in the year of implementation, the state or local government recognize a beginning deferred outflow of contributions for its pension contributions made after the date of measurement.

- (a) For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

- (b) General Information about the Pension Plan

Plan description: Public School Employees' Retirement System (the System) is a governmental cost-sharing multiple-employer defined benefit plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSRS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

Benefits provided: The System provides retirement and disability and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes- (1) Membership Class T-E (Class T-E) and (2) Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Pennsylvania Public School Code (Code) of multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to defined benefits is vested and early retirement benefits may be elected. For Class T-E and T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in

the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and T-F members) or who has at least five years of credited services (ten years for Class T-E and T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Contributions

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 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:

The School District of Philadelphia' contractually required contribution rate for fiscal year ended June 30, 2015 was 20.50% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to PSERS pension plan from the School Districts were \$180,187,615 for the year ended June 30, 2015

Commonwealth Contributions:

The Commonwealth reimburses the School District 50 percent of the 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/personal income aid ratio for Fiscal Year 2015 was 73.73 percent.

(13) 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 has two items that qualify for reporting in this category. They are: (1) deferred refunding charges and (2) deferred pension contributions both of which are reported only in the government-wide statement, Statement of Net Position. Deferred refunding charges result 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. Deferred pension contributions results from the difference between PSERS contributions made by the School District during the measurement date and subsequent to the measurement.

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.

(14) 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 nonspendable, 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.

(15) 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.

(16) Comparative Data

Comparative data from Fiscal Year 2014 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.

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	\$ 3,401,289,559
Accumulated Depreciation	(1,673,515,015)
Net Cost of Capital Assets	<u>\$ 1,727,774,544</u>

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

Unavailable Tax Revenue	\$ 169,910,437
Unavailable Accounts Receivable Revenue	2,592,616
Unavailable Grant Revenue	4,991,404
	<hr/>
Total Adjustment of Other Assets	\$ 177,494,457
	<hr/>

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 (\$6,685,790,799) difference are as follows:

Bonds Payable	\$ (3,099,555,025)
Deduct: Discount on Bonds Payable	8,705,538
Deduct: Prepaid Bond Insurance Premium Cost	6,337,030
Add: Premium on Bonds Payable	(133,009,069)
Bond Interest Payable	(28,197,267)
Funds Due to Other Governments	(45,278,566)
Workers' Compensation Payable	(109,551,313)
Unemployment Compensation Payable	(5,890,589)
Compensated Absences Payable	(189,906,875)
Severance Payable	(125,715,285)
Claims and Judgments Payable	(8,216,269)
Arbitrage Rebate Payable	(693,424)
DHS Payable	(1,000,000)
OPEB Payable	(1,221,929)
NSF Payable	(762,246)
Incurred But Not Reported IBNR Payable	(15,797,000)
PSERS Pension Liability - FY 2014 Restated Prior Period	<hr/> (2,936,038,510)
	<hr/>
<i>Net adjustment to reduce fund balance - total governmental funds - to arrive at net position governmental activities.</i>	\$ (6,685,790,799)
	<hr/>

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

The governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net 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 (\$67,119,273) difference are as follows:

Capital outlay	\$ 39,025,087
Depreciation expense	<hr/> (106,144,360)
	<hr/>
<i>Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities.</i>	\$ (67,119,273)
	<hr/>

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 (\$17,886,169) difference are as follows:

Gain on Sale of Capital Assets	\$ 3,802,870
Gain on Donated Capital Assets	1,507,242
Loss on Disposal of Capital Assets	746,168
Proceeds from Sale of Capital Assets	<u>(23,942,449)</u>

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

\$ (17,886,169)

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 \$39,637,920 difference are as follows:

Deferred Inflows of Resources-Unavailable Tax Revenue	\$ 25,045,249
Deferred Inflows of Resources-Unavailable Grant Revenue	311,721
Derivative Investment Revenue	13,724,311
Miscellaneous Revenue	<u>556,639</u>

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

\$ 39,637,920

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 \$73,786,985 difference are as follows:

Principal Repayment on Bonds	\$ 100,067,513
Bond Issuance and Defeasance	(43,920,612)
Principal Repayment from Sale of Property	1,165,084
Principal Repayment on Authority Obligations	<u>16,475,000</u>

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

\$ 73,786,985

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 \$6,237,271 difference are as follows:

Change in Compensated Absences Payable	\$ 10,342,603
Change in Severance Payable	(981,128)
Change in Workers' Compensation Payable	4,425,763
Change in Unemployment Compensation Payable	454,761
Change in Claims and Judgments Payable	(2,650,388)
Change in PSERS Pension Expense	1,048,888
Change in Arbitrage Rebate Payable	(427,718)
Change in Net Accrued Bond Interest	(34,015)
Change in Bond Issuance Costs	(1,438,471)
Change in DHS Payable	1,500,000
Change in OPEB Payable	(411,024)
Change in NSF Payable	840,000
Change in IBNR Payable	<u>(6,432,000)</u>

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

\$ 6,237,271

C. Explanation of Computation of Net Investment in Capital Assets

The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of bonds. Deferred outflows of resources and depreciation, deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also are included in this component of net position. In addition, all significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period were identified. The portion of the debt or deferred inflows of resources attributable to the unspent amount were included in the calculation of net investment in capital assets.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Capital Assets: (June 30th balances) Statement of Net Position-(Excludes Internal Service Fund)	\$ 3,401,289,561	\$ 1,676,168
Less: Accumulated depreciation (Excludes Internal Services Fund Assets)	<u>(1,673,515,015)</u>	<u>-</u>
Net Capital Assets -(Governmental Activities Excludes Internal Service Fund)	\$ 1,727,774,546	\$ 1,676,168
Less: Outstanding principal of related debt	\$ (3,099,555,026)	
Total Exclusion - Outstanding Bonds Not Capital Related	515,989,526	
Total Other Adjustments to Outstanding Bonds for NonCapital Related Items	19,607,346	
Debt Related To Disposed Capital Assets	52,089,910	
Undercapitalized Expenditures-Cumulative Year-to Date	292,099,734	
Unspent Bond Proceeds Governmental Activities Only	94,064,354	
Net Adjusted Outstanding Bonds Related to Capital Assets	(2,125,704,156)	
Net Investment in Capital Assets	<u><u>\$ (397,929,610)</u></u>	<u><u>\$ 1,676,168</u></u>

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**A. Budgetary Information****(1) General Budget Policies**

As required by various legislative mandates, the School District is required to adopt both an operating budget and a capital budget for each fiscal year. The operating budget consists of the General Fund, the Intermediate Unit Fund and the Debt Service Fund. In 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).

The Fiscal Year 2015 Final Budget was adopted on June 30, 2015 due to delays in Fiscal Year 2016 funding decisions from the City and State.

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/Deficit Net Position

For governmental activities and business-type activities, the unrestricted net deficit amounts of (\$4,544,445,115) and (\$46,031,026), respectively, includes the effect of deferring the recognition of pension contributions made subsequent to the measurement date of the net pension liability, the unamortized portion of contributions made in excess of the District's share of its proportionate contributions to its pension plan, and the deferred outflows resulting from the change in the District's share of the net pension liability. This is offset by the District's actuarially determined pension liability and the deferred inflows resulting from the differences between projected and actual investment earnings.

The operating funds, which consist of the General Fund, Intermediate Unit Fund and Debt Service Fund, experienced a fund balance of \$129.1 million. This amount is comprised of a General Fund negative fund balance of \$3.8 million, which is offset by \$123.9 million in the Debt Service Fund and \$1.4 million in the Intermediate Unit Fund.

Categorical Funds experienced a negative fund balance of (\$4.4) 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 a negative net position of (\$44.4) million. This negative amount is due to the retroactive adoption of GASB Statement No. 68, Accounting and Financial Reporting for Pensions. See Note 1D(12) for details.

4. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS

A. Cash and Investments

(1) General Information

The School District's cash and investments, including \$78.3 million held in agency funds, at June 30, 2015 are summarized as follows:

Cash and Cash Equivalents	\$	104,006,452
Cash and Investments with Fiscal Agent		127,919,078
Equity in Pooled Cash and Investments		142,833,801
Cash and Investments Held by Trustee		238,510
Investments		200,013
Total Cash and Investments	\$	<u>375,197,854</u>

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

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 2015 was approximately 0.29% and total interest income was \$1.5 million. This was a \$0.3 million increase in total interest income over fiscal year 2014. The increase in interest income is a result of higher cumulative principal balances held in the sinking funds under the Quality Zone Academy Bonds (QZABs) BoA Forward Purchase Agreements (FPA).

(3) Investments

As of June 30, 2015, the School District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity in Years</u>
Morgan Stanley Institutional Liquidity		
Fund Treasury Securities Portfolio (MUSUXX)	\$ 79,049,069	.003
Federal Home Loan Mortgage Corp. (FHLMC)	20,995,215	.608
Federal Home Loan Bank (FHLB)	19,084,161	.011

(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. Morgan Stanley Institutional Liquidity Fund Treasury Securities Portfolio investments for sinking funds as of June 30, 2015 mature in one (1) day. Discounted Notes purchased by the School District relating to forward purchase agreements for sinking fund deposits are designed to mature in less than a year. 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:

<u>Investment</u>	<u>Name</u>	<u>Moody's</u>	<u>S& P</u>	<u>Fitch</u>
Discounted Notes under BoA & Forward Purchase Agreements	Federal Home Loan Mortgage Corporation (FHLMC)	AAA	AA+	AAA
	Federal Home Loan Bank (FHLB)	AAA	AA+	N/R*

N/R*=Fitch does not rate (N/R) FHLB

(c) *Concentration of Credit Risk* - The School District does not restrict the amount of deposits made to any particular bank or any counterparty to a repurchase agreement.

(d) *Custodial Credit Risk~Deposits* - The School District maintains all deposits in depositories which are insured by the Federal Deposit Insurance 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 102% market value of collateral requirement was not applicable to the above 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 values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps.

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, 2015 along with the counterparties and their credit ratings.

Associated Bonds	Initial Notional	Curren Notional	Effective Date	Maturit Date	Rate Paid	Rate	Fair	Bank Counterparty	Counterparty Rating
Series 2003 School Lease Revenue Bonds	\$150,000,000	\$150,000,000	11/30/2006	5/15/2033	SIFMA Swap Index	67% of USD-LIBOR + 0.2788%	(\$2,816,768)	Wells Fargo Bank N.A.	Aa2/AA-
Series 2003 School Lease Revenue Bonds	\$350,000,000	\$350,000,000	11/30/2006	5/15/2033	SIFMA Swap Index	67% of USD-LIBOR + 0.2788%	(\$6,572,459)	JPMorgan Chase Bank, N.A.	Aa3/A+/AA
							(\$9,389,227)		

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, 2015, the net benefit to the School District has been \$13,158,207.

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, 2015, 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 swaps become positive, the School District would be exposed to credit risk.

The basis swap agreements contain varying collateral agreements with the counterparties. The swaps require collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds.

Termination risk. Only the School District may terminate the two existing 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 swap's fair value.

(5) Depositary Investment Accounts

(a) *Depositary Agreement:*

- (i) SRC-9 resolution issued on May 29, 2014 allowed the SRC to suspend requirements of the School Code and regulations of the State Board of Education which then allowed the Chief Financial Officer and his subordinates to enter into a Depositary Agreement and to use the building sales proceeds for Debt Service and Capital Projects. On June 2, 2014 the School District of Philadelphia (SDP) and The Bank of New York Mellon Trust Company, N.A. (BONY) (Depositary) entered into a Depositary Agreement for the purpose of providing for the deposit of funds with the Depositary held on behalf of SDP from the sale of buildings. This agreement required the Depositary to establish two separate accounts for each building sold- (1) Property Sales Defeasance Account and (2) Property Sales Capital Funds Account.
 - (ii) Deposits into these "Accounts" constitute the property of the SDP and would be on behalf of SDP by the Depositary. *Depositary shall have custody* of the Account, held on behalf of SDP and kept separate from other assets of the Depositary. Money on deposit in the Account shall be held, invested and disbursed as directed by SDP. The Depositary agreed to invest and reinvest funds in the Property Sales Defeasance Account in a 100% U.S. Treasury Money Market Fund and Property Sales Capital Funds Account in U.S. Treasury Bills.
 - (iii) The agreement also authorized that moneys deposited from sales of unused and unnecessary SDP property in the "Accounts" shall be paid out from time to time by the Depositary pursuant to directions provided by an authorized officer of the SDP.
- (b) Depositary Investment Account: During Fiscal Year 2015, The School District sold six buildings for \$24.6 million. Of this amount, \$18.1 million was transferred into the School District general fund to be used for current expenses of the School District. Of the remaining \$6.5 million, \$5.9 million was deposited into the Depositary Investment Accounts with BONY while the balance was used for ancillary costs.
- (c) Changes in the Depositary Investment Accounts during Fiscal Year 2015 were as follows:

	(Dollars in thousands)			
	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
<u>Governmental Activities:</u>				
SDP Depositary Investment Accounts:				
Property Sale Defeasance	\$ 5,934.5	\$ 3,483.2	\$ (8,528.2)	\$ 889.5
Property Sale Capital Funds	<u>2,600.8</u>	<u>2,396.2</u>	<u>(960.3)</u>	<u>4,036.7</u>
Total	<u>\$ 8,535.3</u>	<u>\$ 5,879.4</u>	<u>\$ (9,488.5)</u>	<u>\$ 4,926.2</u>

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	Fiduciary	Total
Receivables					
Interest	\$ -	\$ 678.1	\$ -	\$ -	\$ 678.1
Taxes	333,143.6	-	-	-	333,143.6
Accounts (net)	20,749.9	-	865.2	1,174.0	22,789.1
Gross Receivables	353,893.5	678.1	865.2	1,174.0	356,610.8
Less: Allowances for Uncollectible					
Taxes	130,191.0	-	-	-	130,191.0
Total Allowance	130,191.0	-	-	-	130,191.0
Net Total Receivables	<u>\$ 223,702.5</u>	<u>\$ 678.1</u>	<u>\$ 865.2</u>	<u>\$ 1,174.0</u>	<u>\$ 226,419.8</u>

(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, 2015 equaled \$202.9 million as follows:

(Dollars in Millions)			
	<u>Taxes Receivable</u>	<u>Estimated Uncollectible</u>	<u>Estimated Collectible</u>
<u>Real Estate Taxes</u>			
Current	\$ 83.8	\$ 8.1	\$ 75.7
Prior	<u>188.3</u>	<u>79.9</u>	<u>108.4</u>
Total Real Estate Taxes	<u>272.1</u>	<u>88.0</u>	<u>184.1</u>
<u>Self Assessed Taxes</u>			
Use and Occupancy	23.0	18.1	4.9
School Income Tax	12.0	8.5	3.5
Liquor Sales Tax	<u>26.0</u>	<u>15.6</u>	<u>10.4</u>
Total Self Assessed Taxes	<u>61.0</u>	<u>42.2</u>	<u>18.8</u>
Total Taxes Receivable	<u>\$ 333.1</u>	<u>\$ 130.2</u>	<u>\$ 202.9</u>

During July and August 2015, \$21.6 million in real estate taxes receivable and \$11.5 million in self-assessed taxes receivable were collected. Those amounts were accrued and included in Fiscal Year 2015 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	\$ 16.3	\$ -	\$ -	\$ -	\$ -	\$ 5,624.8	\$ 5,641.1
State	28,827.6	5,670.0	4,482.7	135.8	13.1	706.8	39,836.0
Grantors	-	-	31,022.7	563.2	-	-	31,585.9
Total Due From Other Governments	<u>\$ 28,843.9</u>	<u>\$ 5,670.0</u>	<u>\$ 35,505.4</u>	<u>\$ 699.0</u>	<u>\$ 13.1</u>	<u>\$ 6,331.6</u>	<u>\$ 77,063.0</u>

Amounts due from other governments under the General Fund, Intermediate Unit Fund, and Internal Service Fund primarily include \$22.5 million for retirement and FICA reimbursements from the Commonwealth of Pennsylvania and \$3.0 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 \$31.6 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 \$4.6 million for FICA reimbursements from the Commonwealth of Pennsylvania.

The amount due from other governments under the Enterprise Funds includes \$5.6 million reimbursements from Federal

government for the breakfast, lunch, fruit, Child and Adult Care Food Programs, and, \$0.7 million for retirement and breakfast and lunch programs reimbursements from the Commonwealth of Pennsylvania.

(4) Unearned Revenue/Deferred Outflows of Resources and Deferred Inflows of Resources

- (a) Unearned Revenue: Governmental funds report unearned revenue in connection with receivables that are not considered to be available to liquidate liabilities of the current period and also in connection with resources that have been received but not yet earned. A summary of unearned revenues for the individual major governmental funds and nonmajor governmental funds in the aggregate at June 30, 2015 are as follows:

Categorical grant funds received prior to meeting all eligibility requirements	\$	<u>10,686,277</u>
	\$	<u>10,686,277</u>

- (b) 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 two items that qualify for reporting in this category.

- i. Deferred Refunding Charges-Losses resulted from the difference of the reacquisition price (funds required to be deposited into escrow account to refund old bonds) and the net carrying amount of the old bonds. This item is valued at \$130.8 million and has been reported as deferred outflows on the Statement of Net Position under Governmental Activities as of June 30, 2015.

<u>GOB Series</u>	<u>Refunding Charges</u>	<u>Swap Termination Refunding Charges</u>	<u>Total Amount as of June 30, 2015</u>
2005A	2,557		2,557
2006B	25,555,878		25,555,878
2007A	4,731,139		4,731,139
2008F	804,129		804,129
2009B	180,093		180,093
2009C	472,731		472,731
2010C	12,968,848		12,968,848
2010C	-	12,797,681	12,797,681
2010D	132,637		132,637
2010E	2,914,340		2,914,340
2010E	-	42,334,618	42,334,618
2010F	9,071,928		9,071,928
2010G	4,509,015		4,509,015
2010H	4,509,015		4,509,015
2011C	1,574,197		1,574,197
2011D	60,004		60,004
2015C	1,319,955		1,319,955
2015D	2,786,350		2,786,350
2015A	4,079,612		4,079,612
	<u>\$ 75,672,430</u>	<u>\$ 55,132,299</u>	<u>\$ 130,804,729</u>

- ii. For the second item, refer to Note 4K(1)(c) Pension Plan on page 82 for deferred outflows of resources for deferred pension contributions.

- (c) Deferred Inflows of Resources: 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. The School District has three items that qualify for reporting in this category.

- i. On the full accrual basis of accounting, the School District has two item that qualifies for reporting in this category.

- [a] One item valued at \$ 0.2 million has been reported as deferred inflows on the Statement of Net Position under Governmental Activities as of June 30, 2015.

Deferred Refunding Charges-Gain (205,043)

[b] For the second item, refer to Note 4K(1)(c) Pension Plan on page 82 for deferred inflows of resources for deferred pension contributions.

- ii. On the modified accrual statements the School District has one item that qualifies for reporting in this category. This item has three components which the District reported \$177.5 million as deferred inflows on the Governmental Balance Sheet as of June 30, 2015. They are as follows:

	General Fund	Categorical Funds	Capital Projects Funds	Total
Unavailable taxes revenue	\$ 169,910,437	\$ -	\$ -	\$ 169,910,437
Unavailable accounts receivable revenue	2,592,616	-	-	2,592,616
Unavailable grant revenue	-	4,428,254	563,150	4,991,404
	<u>\$ 172,503,053</u>	<u>\$ 4,428,254</u>	<u>\$ 563,150</u>	<u>\$ 177,494,457</u>

C. Capital Assets

Capital Assets activity for the fiscal year ended June 30, 2015 are summarized as follows:

	(Dollars in Millions)				
	Balance July 1, 2014	Additions	Deletions	Transfers	Balance June 30, 2015
Governmental Activities:					
Capital Assets - Not Depreciated					
(1) Land	\$ 132.1	\$ -	\$ (1.9)	\$ -	\$ 130.2
(2) Construction in Progress	6.1	19.4	-	(4.9)	20.6
Total Capital Assets - Not Depreciated	\$ 138.2	\$ 19.4	\$ (1.9)	\$ (4.9)	\$ 150.8
Capital Assets - Depreciated					
Buildings	\$ 1,782.9	\$ 1.6	\$ (33.4)	\$ 2.1	\$ 1,753.2
Improvements	1,243.6	10.0	(34.5)	2.7	1,221.8
Intangible Assets	48.7	1.6	-	-	50.3
(3) Personal Property	230.4	13.0	(17.5)	-	225.9
Total Capital Assets - Depreciated	\$ 3,305.6	\$ 26.2	\$ (85.4)	\$ 4.8	\$ 3,251.2
Less Accumulated Depreciation					
Buildings	\$ (656.4)	\$ (31.4)	\$ 22.4	\$ -	\$ (665.4)
Improvements	(767.9)	(53.4)	27.3	-	(794.0)
Intangible Assets	(38.9)	(2.4)	-	-	(41.3)
(4) Personal Property	(171.2)	(19.0)	16.7	-	(173.5)
Total Accumulated Depreciation	\$ (1,634.4)	\$ (106.2)	\$ 66.4	\$ -	\$ (1,674.2)
Net Capital Assets Depreciated	\$ 1,671.2	\$ (80.0)	\$ (19.0)	\$ 4.8	\$ 1,577.0
Governmental Activities - Net Capital Assets	<u>\$ 1,809.4</u>	<u>\$ (60.6)</u>	<u>\$ (20.9)</u>	<u>\$ (0.1)</u>	<u>\$ 1,727.8</u>
Business-Type Activities:					
Capital Assets - Depreciated					
Machinery and Equipment	\$ 15.7	\$ 0.4	\$ (1.1)	\$ -	\$ 15.0
Less Accumulated Depreciation	(14.0)	(0.3)	1.0	-	(13.3)
Business-Type Activities - Net Capital Assets	<u>\$ 1.7</u>	<u>\$ 0.1</u>	<u>\$ (0.1)</u>	<u>\$ -</u>	<u>\$ 1.7</u>

- (1) The beginning balance for WIP was adjusted to reflect a \$1.1 prior period adjustment to properly account for the new West Philadelphia High School.
- (2) The beginning balance for WIP was adjusted to reflect a \$0.6 prior period adjustment to remove items not deemed as able to be capitalized.
- (3) The beginning balance for Personal Property was adjusted to reflect a prior period adjustment of (\$2,746).
- (4) The beginning balance for Personal Property Accumulated Depreciation was adjusted to reflect a prior period adjustment of \$2,860.

Depreciation expense was charged to the following activities as follows:

Governmental Activities:	(Dollars in Millions)
Instruction	\$ 95.5
Student Support Services	4.4
Administrative Support	5.4
Operation & Maintenance of Plant Services	0.7
All Other Support Services	0.2
Total Depreciation Expense	<u>\$ 106.2</u>

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

D. Obligations

(1) Short-Term Obligations

The School District issued \$300.0 million of Tax and Revenue Anticipation Notes (TRANS) on July 2, 2014 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, 2015. Changes in short-term obligations payable during Fiscal Year 2015 were as follows:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Governmental Activities:				
Tax and Revenue Anticipation Note (Series A of 2013-2014)	\$ -	\$ 300.0	\$ (300.0)	\$ -
Total	<u>\$ -</u>	<u>\$ 300.0</u>	<u>\$ (300.0)</u>	<u>\$ -</u>

(2) Long-Term Obligations

Changes in long-term obligations payable during Fiscal Year 2015 were as follows:

	Long Term Obligations (1) (Dollars in Millions)				
	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015	Due Within One Year
Governmental Activities:					
General Obligation Bonds/Lease Rental Debt (2)	\$ 3,177.6	\$ 331.3	\$ (409.3)	\$ 3,099.6	\$ 116.7
Bond Premium	119.2	34.5	(20.7)	133.0	12.3
Bond Discount	(9.3)	-	0.5	(8.8)	(0.5)
Total Bonded Debt	<u>\$ 3,287.5</u>	<u>\$ 365.8</u>	<u>\$ (429.5)</u>	<u>\$ 3,223.8</u>	<u>\$ 128.5</u>
Termination Compensation Payable	\$ 200.4	\$ 9.0	\$ (19.4)	\$ 190.0	\$ 34.3
Severance Payable	124.7	10.0	(9.0)	125.7	16.9
Due to Other Governments					
- Deferred Reimbursement	45.3	-	-	45.3	45.3
Other Liabilities	125.9	30.1	(32.3)	123.7	36.3
Incurred But Not Reported (IBNR) Payable	9.4	6.4	-	15.8	15.8
Early/Voluntary Retirement Incentive	-	-	-	-	-
Arbitrage Liability	0.3	0.4	-	0.7	0.7
DHS Liability	2.5	-	(1.5)	1.0	1.0
OPEB Liability	0.8	0.4	-	1.2	-
NFS Federal Liability	1.6	-	(0.8)	0.8	0.8
PSERS Pension Liability (3)	3,449.5	-	(512.2)	2,937.3	-
Governmental Activity - Long-Term Liabilities	<u>\$ 7,247.9</u>	<u>\$ 422.1</u>	<u>\$ (1,004.7)</u>	<u>\$ 6,665.3</u>	<u>\$ 279.6</u>
Business-Type Activities:					
Termination Compensation Payable	\$ 2.1	\$ -	\$ -	\$ 2.1	\$ 0.2
Severance Payable	0.7	-	-	0.7	-
FMS Arbitration Payable	-	2.7	-	2.7	2.7
PSERS Pension Liability (3)	50.6	-	(7.5)	43.1	-
Business-Type Activities - Long-Term Liabilities	<u>\$ 53.4</u>	<u>\$ 2.7</u>	<u>\$ (7.5)</u>	<u>\$ 48.6</u>	<u>\$ 2.9</u>

- (1) Termination (Compensated absences), severance, unemployment, works compensation, claims and judgments liabilities are accrued to the governmental funds to which the individual is charged. These liabilities are then liquidated by the General Fund. In addition, DHS, OPEB and Arbitrage liabilities are fully liquidated by the General Fund.

- (2) Adjusted General Obligation Bonds for QZABs previously reported as a defeased in principal; See Prior Period Adjustment (See Note 4M).
- (3) The beginning balance of Long-Term Liabilities under both Governmental and Business Type Activities changed due to the implementation of GASB Statements No. 68 & 71. GASB Statements No. 68 & 71 required PSERS Pension Liability to be restated as of the beginning period July 1, 2004 (See Note 4N).

(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, 2015 by bond issue are summarized as follows:

(Dollars in Thousands)

Issue ⁽¹⁾	Interest Rates	Maturity Year Ending 30-Jun	Original Principal Issued	Principal		Interest	Total
				Outstanding ⁽¹²⁾⁽¹³⁾			
2003B-SPSBA ⁽³⁾	5.500	2028	588,140	43,505		31,106	74,611
2004E-QZAB	-	2019	19,335	19,335 ⁽⁹⁾		-	19,335
2005A	5.000	2016	198,140	17,325		433	17,758
2005C	4.700	2016	71,740	3,335		78	3,413
2005D	5.500	2022	29,920	14,470		2,909	17,379
2006A-SPSBA ⁽³⁾	4.450 - 5.000	2036	317,125	182,295		130,582	312,877
2006B-SPSBA ⁽³⁾	3.625 - 5.000	2033	545,570	545,530		389,631	935,161
2007A	4.000 - 5.000	2034	146,530	146,455		107,493	253,948
2007C-QZAB	-	2023	13,510	13,510 ⁽¹⁰⁾		-	13,510
2007D-QZAB	1.250 ⁽²⁾	2023	28,160	28,160 ⁽¹⁰⁾		2,640	30,800
2008E	4.500 - 6.000	2039	282,365	256,130		217,206	473,336
2008F	5.000 - 5.250	2028	114,215	113,670		33,819	147,489
2009B	4.000 - 5.000	2019	30,710	23,380		2,873	26,253
2009C	1.250 ⁽⁴⁾	2026	49,200	48,850		4,965	53,815
2010A	5.000	2016	27,820	5,470		273 ⁽⁵⁾	5,743
2010B	4.735 - 6.765 ⁽⁶⁾	2040	221,485	220,915		225,661	446,576
2010C	2.750 - 5.000	2022	300,045	185,020		33,059 ⁽⁶⁾	218,079
2010D	3.125 - 5.000	2023	49,365	49,365		11,801	61,166
2010E	5.000 - 5.250	2025	125,880	113,425		40,504	153,929
2010F	1.250 ⁽⁴⁾	2031	150,000	150,000		23,231	173,231
2010G	1.250 ⁽⁴⁾	2031	150,000	150,000		23,231 ⁽⁵⁾	173,231
2011A-QSCB	5.995 ⁽⁷⁾	2031	144,625	137,175 ⁽¹¹⁾		134,357 ⁽⁵⁾	271,532
2011B	2.000 - 5.000	2022	16,970	12,505		1,324 ⁽⁷⁾	13,829
2011C	5.000	2022	41,185	27,735		5,130	32,865
2011D	3.000 - 5.000	2022	16,330	13,185		1,831	15,016
2012A ⁽⁸⁾	2.000	2017	35,313	14,125		424	14,549
2012B-SPSBA ⁽³⁾	5.000	2032	264,995	251,225		127,593 ⁽⁸⁾	378,818
2015A-SPSBA ⁽³⁾	2.000 - 5.000	2026	80,000	80,000		27,719 ⁽⁷⁾	107,719
2015A	3.000 - 5.000	2036	46,770	46,770		28,967	75,737
2015B	4.000 - 5.000	2017	13,505	13,505		565	14,070
2015C	1.550 - 4.038	2026	44,565	44,565		9,532	54,097
2015D	5.000	2023	128,620	128,620		28,368	156,988
Total			4,292,133	3,099,555		1,647,305	4,746,860

(1) All debt has been issued for Capital purposes, except for issues for 2005-A, 2005-C, 2012-A, 2012-B, 2015-C and 2015-D.

(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 (SPSBA).

- (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 2015, this subsidy was reduced by \$0.4 million due to the Federal Budget Sequestration.
- (7) Bonds issued as ARRA Qualified School Construction Bonds (QSCBs) 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 2015, this subsidy was reduced by \$0.5 million due to the Federal Budget Sequestration. See Subsequent Event Note 4O for changes to occur beginning October 1, 2015.
- (8) The School District issued a note to SEPTA on July 1, 2012 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.
- (9) The QZAB bond series 2004E for \$19.3 million was issued on August 1, 2014 and the aggregate principal of \$19.3 million is due September 1, 2018. The School District irrevocably places \$1.4 million in trust under a mandatory sinking fund with its fiscal agent each September 1st. These annual deposits are invested in a forward purchase agreement to be used solely for satisfying the scheduled principal payment of September 1, 2018. As of June 30, 2015, \$13.5 million had been placed under the mandatory sinking fund. The \$13.5 million had an investment value of \$15.2 million (See Note 4M).
- (10) The QZAB bond series 2007C and 2007D for \$13.5 and \$28.2 million, respectively, were issued on December 28, 2008 and the aggregate amounts of the debt is due December 28, 2022. The School District irrevocably places \$0.9 million in trust under a mandatory sinking fund with its fiscal agent each December 15th for the 2007C bonds. These annual deposits are invested in a forward purchase agreement to be used solely for satisfying the scheduled principal payment of \$13.5 million on December 28, 2022. As of June 30, 2015, \$6.3 million had been placed under the mandatory sinking fund. The \$6.3 million had an investment value of \$7.0 million (See Note 4M).
- (11) The QSCB bond series 2011A for \$144.6 million was issued on December 20, 2011. The School District has an agreement with its fiscal agent to irrevocably deposit \$7.5 million each September 1st to a mandatory sinking fund. The first deposit was required on September 1, 2014, however, the fiscal agent inadvertently paid the bondholders instead of depositing the funds into the mandatory sinking fund account. This error has been accepted by our fiscal agent as their error. The fiscal agent intends to collect the principal payments from the bondholders and restore the proceeds to the mandatory sinking fund. Going forward, the fiscal agent will irrevocably deposit \$7.5 million each September 1st to a mandatory sinking fund to be used solely for satisfying the scheduled principal payment of \$137.2 million on September 1, 2030.
- (12) The "Amount Due in One Year for each issue" is shown on Pages 114-116 Schedule of Bonds Outstanding.
- (13) The "Amount of Installments and the range of maturities" are shown on Pages 114-116 Schedule of Bonds Outstanding.

Debt service to maturity on general obligation bonds at June 30, 2015 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
2016	\$ 99,418	\$ 85,258	\$ 184,676
2017	101,933	82,364	184,297
2018	98,025	77,670	175,695
2019	120,764	72,889	193,653
2020	104,690	67,912	172,602
2021-2025	537,070	265,983	803,053
2026-2030	416,480	180,513	596,993
2031-2035	380,950	86,080	467,030
2036-2040	137,670	22,005	159,675
Total	\$ 1,997,000	\$ 940,674	\$ 2,937,674

- (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, 2015 is summarized as follows:

Governmental Activities
(Dollars in Thousands)

Year Ending June 30	Interest Rates	Principal	Interest	Total
2016	3.625-5.000	\$ 17,255	\$ 54,133	\$ 71,388
2017	2.000-5.000	18,130	52,827	70,957
2018	3.750-5.000	18,790	51,921	70,711
2019	3.875-5.000	19,650	51,062	71,712
2020	4.000-5.000	20,625	50,080	70,705
2021 – 2025	3.375-5.000	189,965	231,473	421,438
2026 – 2030	4.750-5.500	364,635	163,881	528,516
2031 – 2035	4.450-5.000	436,250	50,480	486,730
2036	4.450-4.500	17,255	774	18,029
Total		<u>\$ 1,102,555</u>	<u>\$ 706,631</u>	<u>\$ 1,809,186</u>

(ii) Sinking Fund Covenants

- Fixed Rate General Obligation Bonds: The School District has covenanted that the City will, on each business day, 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 (15th) day of the calendar month immediately preceding each debt service date for the State Public School Building Authority bonds. These covenants were established to enhance the credit 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, 2015, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2015 financial statements are as follows (amounts in thousands; debit (credit)):

<u>Change in Fair Value</u>		<u>Fair Value at June 30, 2015</u>		
<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Notional</u>
<u>Governmental Activities</u>				
Investment derivatives:				
Pays-variable interest rate swaps	Investment revenue			
	\$13,724	Investment	\$ (9,389)	\$ 500,000
			<u>\$ (9,389)</u>	

As of June 30, 2015, 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) General Obligation Bonds, Refundings, and Defeasements

(i) *General Obligation Bonds:*

On April 20, 2015, the School District issued Series A of 2015 fixed rate general obligation bonds in the aggregate amount of \$46,770,000 with a premium of \$6.0 million for the Capital Improvement Program. Bond proceeds of \$0.4 million were utilized for underwriting fees, and other bond issuance costs.

(ii) *Refunding Bonds:*

- (a) On April 20, 2015, the School District issued General Obligation Refunding Series B of 2015 fixed rate general obligation bonds in the aggregate amount of \$13,505,000 with a premium of \$486,624 for current refunding of GOB Series 2005B. Bond proceeds of \$78,925 were utilized for underwriting fees, and other bond issuance costs.

Securities for the issue along with \$119,102 of sinking fund proceeds were deposited in a separate irrevocable trust with an escrow agent to provide for all future debt service payments for the refunded notes.

- (b) On April 20, 2015, the School District issued General Obligation Refunding Series C of 2015 fixed rate general obligation bonds in the aggregate amount of \$44,565,000 for advance refunding of GOB Series 2005C. Securities for the issue along with \$1,152,778 of sinking fund proceeds were deposited in a separate irrevocable trust with an escrow agent to provide for all future debt service payments for the refunded notes. Bond proceeds of \$341,840 were utilized for underwriting fees, and other bond issuance costs.

- (c) On April 20, 2015, the School District issued School Lease Revenue Refunding Bonds Series A of 2015 fixed rate general obligation bonds in the aggregate amount of \$80,000,000 through the State Public School Building Authority with a premium of \$11,838,516 which were used to advance refund certain 2006A School Lease Revenue Bonds. Bond proceeds of \$697,882 were utilized for underwriting fees, bond premium insurance, and other bond issuance costs.

Securities for the issue along with \$3,596,625 of sinking fund proceeds were deposited in a separate irrevocable trust with an escrow agent to provide for all future debt service payments for the refunded notes.

- (d) On May 5, 2015, the School District issued General Obligation Refunding Bonds Series D of 2015 in the aggregate amount of \$128,620,000 which were used to advance refund certain General Obligation Bonds Series A of 2005 with a net premium of \$3.6 million. Bond proceeds of \$1,003,271 were utilized for underwriting fees, and other bond issuance costs.

Securities for the issue along with \$3,596,625 of sinking fund proceeds were deposited in a separate irrevocable trust with an escrow agent to provide for all future debt service payments for the refunded notes.

The cash flow required to service the new debt for the refunding is \$32.8 million less than the cash flow required to service the old debt. In addition, there was an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$25.2 million to the School District.

For accounting purposes, the current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$ 0.3 million the advance refunding resulted in a difference

between the reacquisition price and the net carrying amount of the old debt of \$ 16.0 million. This difference is being amortized through the operations in the District-wide statements until the year 2022.

- (iii) *Defeasements:* As in prior years, the School District defeased certain general obligation bonds by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded debt. As such, the trust account assets and liability for the defeased bonds are not included in the School District's financial statements. This includes the following:

- (a) As of June 30, 2015, \$271.5 million of bonds outstanding are considered to be defeased and the liability has been removed from long-term liabilities.
- (b) In addition, as of June 30, 2015, the Defeasance Accounts from the Sale of SDP Property had \$6.2 million of bonds outstanding considered to be defeased and the liability was removed from long-term liabilities.

(d) General Obligation Bonds Refunded and Defeased with SDP Property Sales Proceeds

- (i) Whenever School District properties sold during FY2014 and FY2015 were financed with outstanding general obligation bonds, Internal Revenue Code and the federal arbitrage rebate regulations dictated distinguishing between current and advance refundings by using the 90-day repayment threshold cited in these. Principal and interest on all callable bonds on the properties sold were defeased. A defeasance depository account was established for the use of proceeds to pay principal and interest with the 90-day period (current refunding) and for the use of proceeds to be placed with an escrow agent until they are used to pay principal and interest at a future time (advance refunding).

- (ii) During FY2015, School District of Philadelphia reported the following transaction for the defeasance accounts related to Internal Revenue Code and the federal arbitrage rebate regulations to current and advance refunding:

(a) Current Refunding:

- (1) On September 30, 2014, the School District used \$1,160,585 of SDP Property Sales Proceeds to current refund \$845,000 of principal under GOB Series 2004D, 2009C, 2010B, and 2011A.
- (2) On November 3, 2014, the School District used \$182,744 of SDP Property Sales Proceeds to current refund \$155,000 of principal under GOB Series 2004D, 2009C, and 2010B.
- (3) and on April 1, 2015, the School District used \$112,523 of SDP Property Sales Proceeds to current refund \$100,000 of principal under GOB Series 2004D, 2009C, and 2010B.

(b) Advance Refunding:

- (1) On September 30, 2014, the School District used \$4,744,605 of SDP Property Sales Proceeds to advance refund \$4,160,000 of principal under GOB Series 2005A, 2006A, 2008E, and 2008F.
- (2) On November 3, 2014, the School District used \$1,895,668 of SDP Property Sales Proceeds to advance refund \$1,710,000.00 of principal under GOB Series 2006A, 2008E, and 2008F.
- (3) and on April 1, 2015, the School District used \$421,775 of SDP Property Sales Proceeds to advance refund \$385,000 of principal under GOB Series 2005A, 2006A, 2008E, and 2008F.

(e) 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, 2015, the non-electoral and lease rental borrowing capacity or debt limit for the School District was \$1,973.4 million.

(f) 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, 2015, the arbitrage rebate calculation indicates a liability totaling \$693,425. Of this amount, \$265,947 related to the Series A and B Bonds of 2006 issued through the State Public School Building Authority while the remaining \$427,477 related to GOB Series 2010E, 2010F and 2010G. This year's liability is higher than last year's liability of \$265,706.

The School District's current liability representing 90 percent of the \$427,477 minimum payment required for the GOB Series 2010E, 2010F and 2010G debts is \$384,729 payable on August 31, 2015. The School District will continue to perform an annual rebate calculation until all funds have been expended. The actual amount payable for SPSBA debt may be less than the amount recorded as a liability as of June 30, 2015.

The School District has reserved as of June 30, 2015 \$693,425 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, 2015 amounted to \$5,212,529. Future minimum lease payments for these leases are as follows:

Fiscal Year Ending June 30	Lease Payments (Dollars in Millions)
2016	\$ 3.2
2017	3.1
2018	<u>2.8</u>
Total	<u>\$ 9.1</u>

(4) General Obligation Bonds/Lease Rental Payable

The ending balance for bonded debt was \$3,099.6 million with net adjustment for bond premiums and discounts of \$118.3 million. As of June 30, 2015, the total bonded debt was \$3,218.0 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 1D (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, 2015, was \$125.7 million under the governmental activities. July and August 2015 salaries for ten (10) month employees who had not terminated were budgeted and will be paid for from Fiscal Year 2016 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, 2015. 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, 2015, the Incurred But Not Reported Payable amounted to \$15.8 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, 2015, the DHS liability was \$1.0 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, 2015, the District had an OPEB obligation of \$1,221,930. 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, 2015, the remaining NSF liability was \$0.8 million.

(12) Other Liabilities

Other liabilities consist of \$109.6 million for Workers’ Compensation, \$5.9 million for Unemployment Compensation Claims and \$8.2 million for Claims & Judgments.

(13) Pension (PSERS) Liability

SDP implemented GASB 68 during fiscal year 2015. The FY2014 outstanding obligation balance was restated by \$3,449.5 million. As of June 30, 2015, the Net Pension Liability for SDP was \$2,937.3 million. Refer to Note 4K(1)(a) for further Pension Plan information.

(14) Redemption of General Obligation Bonds, Series A of 2011 in Error

On December 20, 2011, the School District issued its General Obligation Bonds, Series A of 2011 (Qualified School Construction Bonds-Federally Taxable-Direct Subsidy) (the “Bonds”) in the principal amount of \$144,625,000. The Bonds mature in the full principal amount thereof on September 1, 2030.

The Bonds were issued pursuant to a Resolution of the School Reform Commission adopted November 21, 2011 (the “Resolution”). Pursuant to the Resolution, the School District appointed The Bank of New York Mellon Trust Company, N.A. to serve as Sinking Fund Depository and Fiscal Agent for the Bonds (the “Fiscal Agent”), and on December 20, 2011, the School District and the Fiscal Agent entered into an agreement (the “Fiscal Agent Agreement”) under which the Fiscal Agent accepted the trusts created by the Resolution and the duties and obligations of the Fiscal Agent as set forth in the Resolution and the Fiscal Agent Agreement.

The Resolution provides that mandatory sinking fund installments be paid annually into the Sinking Fund for the Bonds (the “Sinking Fund”) commencing September 1, 2014, to be held to pay the principal of the Bonds at maturity. Pursuant thereto, the School District transferred to the Fiscal Agent for deposit into the Sinking Fund on or before September 1, 2014, the sum of \$7,415,000.

In violation of its duties and obligations under the Fiscal Agent Agreement and the Resolution, the Fiscal Agent caused Bonds in the principal amount of \$7,415,000 to be erroneously redeemed on September 1, 2014.

The Fiscal Agent acknowledged that the redemption of the Bonds was made in error and initiated procedures through the clearing house for the Bonds, to reverse the redemption and reinstate the Bonds as of the date of their redemption.

Holders of \$6,860,000 in principal amount of the Bonds have agreed to and have reinstated the Bonds owned by such holders, as of their date of redemption.

The School District has made claim and demand on the Fiscal Agent for the erroneous redemption of the Bonds and for all costs and expenses incurred by the School District as a result thereof.

E. Interfund Receivables, Payables and Transfers

(1) The composition of Interfund balances as of June 30, 2015 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Capital Projects Fund	\$ 215,163
General Fund	Capital Projects Fund	13,432
General Fund	Debt Service Fund	299,932

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 \$215,163 under the Capital Projects Fund represents an accrual for cash paid on June 29, 2015 by the General

Fund for General Construction Services. These services will be reimbursed through the Capital Projects Fund in Fiscal Year 2016. This amount was reclassified as an internal balance on the District-wide financial statements.

The balance of \$13,432 under the Capital Projects Fund represents a reclassification of a negative equity in pooled cash and investments.

The balance of \$299,932 under the Debt Service Fund represents a reclassification of a negative equity in pooled cash and investments.

(2) Interfund transfers at June 30, 2015 were as follows:

<u>Interfund Transfers Out</u>					
<u>Interfund Transfers In</u>	<u>General Fund</u>	<u>Categorical Funds</u>	<u>Capital Fund</u>	<u>Enterprise Fund</u>	<u>Total</u>
General	\$ -	\$ 758,948	\$ -	\$ -	\$ 758,948
Intermediate Unit	226,099,872	-	-	-	226,099,872
Categorical	1,677,425	-	-	-	1,677,425
Debt Service	272,096,924	-	446,369	289,437	272,832,730
Print Shop	466,176	-	-	-	466,176
Total	<u>\$ 500,340,397</u>	<u>\$ 758,948</u>	<u>\$ 446,369</u>	<u>\$ 289,437</u>	<u>\$ 501,835,151</u>

Interfund transfers are used to: (a) move revenues from the fund that statute or budget requires for collection to the fund that statute or budget requires for expenditure; (b) move receipts to the Debt Service Fund from the Enterprise Fund as a transfer to cover Fiscal Year 2015 allocations of cafeteria renovations; and (c) to move General Fund revenues to the Capital Project Fund as a transfer to cover renovations and improvements to various schools' infrastructures in accordance with the strategic plan.

F. Commitments

(1) Capital Projects Fund Construction and Equipment Purchase Commitments

The School District's outstanding contractual commitments at June 30, 2015 are summarized as follows:

New Construction and Land	\$ 8,282,431
Environmental Management	1,017,219
Alterations and Improvements	<u>47,488,206</u>
Total	<u>\$ 56,787,856</u>

(2) Operating Fund Services and Supplies Commitments

Outstanding contractual commitments in the School District's operating funds at June 30, 2015 are as follows:

	<u>General Fund</u>	<u>Intermediate Unit Fund</u>
Services and Supplies	\$ 18,296,706	\$ 1,377,921

(3) Categorical Fund Commitments

Categorical Funds encumbrances totaled \$12.4 million at June 30, 2015.

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, International Education and Community Initiatives-One Bright Ray, Inc., Catapult Learning LLC, and The Fund for the School District of Philadelphia (formerly Children First Fund) are nonprofit corporations and are funded by grants, contributions and approximately \$30.7 million in contract revenue from the School District during Fiscal Year 2015. These organizations, in cooperation with the School District, administer various programs to enhance the education of School District students. These corporations are governed by independent boards which, in some instances, include representatives of the School District. Management of these organizations is not designated by the School District nor does the School District have the ability to significantly influence their operations. The School District does not subsidize the operations of these corporations. In addition, the School District does not guarantee any of their debt service. These organizations are not considered component units of the School District because there is no accountability for fiscal matters to the School District.

H. Intermediate Unit

As previously noted, the School District is also an Intermediate Unit established by the Commonwealth to provide programs for special education and certain non-public school services. Conceptually, the cost of operating an Intermediate Unit for a fiscal year is partially financed by state appropriations. In certain instances (i.e. transportation), the School District reimburses the Commonwealth for the funds advanced in the previous fiscal year. The amount advanced for transportation of special education students is reimbursed in full less the

Commonwealth's share of such cost as determined by a formula based on the number of students transported, route distances and efficiency of vehicle utilization.

I. Litigation and Contingencies

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

- (1) ***Special Education and Civil Rights Claims*** – There are four hundred forty-five (445) various claims against the School District, by or on behalf of students, which aggregate to a total potential liability of \$4.0 million.

Of those, four hundred twenty-seven (427) 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 fourteen (214) unfavorable outcomes are deemed probable and one hundred and eighty (180) are considered reasonably possible, in the aggregate of \$1.9 million and \$1.1 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 for two lawsuits in the aggregate amounts of approximately \$0.4 million.

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 \$27.0 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 \$4.9 million and \$11.2 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 \$3.3 million and \$4.0 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, 2015 and continuing until January 31, 2016, 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.

The U.S. Department of Education ("DOE") 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 December 29, 2014, the Secretary affirmed the liability, although he did not adopt the standard used by the ALJ. The School District’s petition for review of the Secretary of Education’s decision was submitted to a panel of three Judges of the United States Court of Appeals for the Third Circuit on December 12, 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.

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 eliminated based on the application of the statute of limitations and equitable offset. In the opinion of the School District, with regard to the March PDL and the September PDL, the likelihood of a recovery by DOE in the amount of \$9.7 million is remote.

(5) **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 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.

(6) **Appeals Related to the State Tax Equalization Board Assessment of Real Estate**

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. This matter has now been resolved at a total cost to the School District of \$7.8 million.

J. Other Post Employment Life Insurance Benefits

From an accrual accounting perspective, the cost of postemployment life insurance benefits, like the cost of pension benefits, generally should be associated with the periods in which the costs occurs, rather than in the future when it will be paid. 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 year.

Plan Description:

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

Funding Policy:

The School District is not required by law or contractual agreement to provide funding for the life insurance benefits other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible disabled employees. 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

Annual OPEB Cost and Net OPEB Obligation:

The School District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount that was actuarially determined by the Entry Age Normal Actuarial Cost Method (one of the actuarial cost methods in accordance with the parameters of GASB Statement No. 45). Under this method, a contribution is determined that consists of the normal cost and the unfunded actuarial liability payment. The normal cost for each employee is derived as a level contribution from entry age to assumed retirement age. The accumulation of normal costs for service already completed is the actuarial accrued liability (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.

The following table shows the elements of the School District's annual OPEB cost for the year, the amount paid on behalf of the plan, and changes in the School District's net OPEB obligation to the plan:

Normal Cost	\$ 82,021
Amortization of Unfunded Actuarial Accrued Liability (UAAL)	916,182
Annual Required Contribution (ARC)	998,203
Interest on Net OPEB Obligation	26,354
Adjustment to the ARC	(42,720)
Annual OPEB Cost	<u>\$ 981,837</u>
Net OPEB Obligation as of June 30, 2014	\$ 810,906
Annual OPEB Cost	981,837
Employer Contributions	(570,813)
Increase/(Decrease) in net OPEB Obligation	<u>\$ 411,024</u>
Net OPEB Obligation as of June 30, 2015	<u>\$ 1,221,930</u>

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, 2015 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
2015	981,837	58.2%	1,221,930

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:

<u>If less than 5 years of Service</u>		<u>If 5 or more Years of Service</u>	
<u>Years of Service</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
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

<u>Age</u>	<u>Male</u>	<u>Female</u>
55	15%	15%
60	12%	15%

Sample Superannuation Retirement Rates

<u>Age</u>	<u>Male</u>	<u>Female</u>
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:

<u>Attained Age</u>	<u>Percentage Disability Incidence</u>	
	<u>Male</u>	<u>Female</u>
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.
- Special Data Adjustments: None

K. Pension Plan

(1) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

- (a) At June 30, 2015, the District reported a liability of \$2,980,467,547 for its proportionate share of the net pension liability of which \$2,937,341,151 was recognized under the Government-wide Statements including Internal Service (Print Shop) Fund while the remaining amount was included in the Proprietary Fund- Enterprise (Food). The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2013 to June 30, 2014. The District's proportion of the net pension liability was calculated using the employer's one-year covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2014, the District's proportion was 7.5301 percent, which was a decrease of 1.0203 percent from its proportion measured as of June 30, 2013.
- (b) For the year ended June 30, 2015, the District recognized pension expense of \$180,187,615 of which \$177,580,359 was recognized under the Governmental Activity section of the Government-wide Statements while the remaining amount of \$2,607,256 was under the Business-type Activity section of the Government-wide Statements.
- (c) At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

(Dollars Amounts in Thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ -	\$ 213,070
Change in proportions	-	336,571
Difference between employer contributions and proportionate share of total contributions	-	3,229
Contributions subsequent to the measurement date	180,188	-
	<u>\$ 180,188</u>	<u>\$ 552,870</u>

Deferred outflows of resources for contributions made subsequent to the measurement date was \$180,187,615, and will be recognized as a reduction of net pension liability in the *actuarially* year ended June 30, 2015.

The \$552,870,304 reported as deferred inflows related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2016	\$135,147,091
2017	135,147,091
2018	135,147,091
2019	135,147,091
2020	<u>12,281,940</u>
Total	<u>\$552,870,304</u>

Of the \$552,870,304 reported as deferred inflows, \$544,628,814 was reported under the Government-wide statements while the remaining amount was reported under the Enterprise (Food) Service and Internal (Print Shop) at \$7,999,854 and \$241,636 respectively.

Actuarial assumptions

The total pension liability as of June 30, 2014 was determined by rolling forward the System's total pension liability as of June 30, 2013 actuarial valuation to June 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.50%, includes inflation at 3.00%
- Salary increases – Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

The actuarial assumptions used in the June 30, 2013 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Public School Employees' Retirement System (PSERS) Board at its March 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Public markets global equity	19%	5.0%
Private markets (equity)	21%	6.5%
Private real estate	13%	4.7%
Global fixed income	8%	2.0%
U.S. long treasuries	3%	1.4%
TIPS	12%	1.2%
High yield bonds	6%	1.7%
Cash	3%	0.9%
Absolute return	10%	4.8%
Risk parity	5%	3.9%
MLPs/Infrastructure	3%	5.3%
Commodities	6%	3.3%
Financing (LIBOR)	(9%)	1.1%
	<u>100.0%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2014.

Discount rate: The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the net pension to changes in the discount rate:

The following presents the net liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage point higher (8.50%) than the current rate:

(Dollars in Thousands)			
	1% Decrease <u>6.50%</u>	Current Discount Rate <u>7.50%</u>	1% Increase <u>8.50%</u>
District's proportionate share of the net pension liability	3,717,720	2,980,468	2,351,056

Pension plan fiduciary net position:

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on the System's website at www.psers.state.pa.us.

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, and Weekly Indemnity (salary continuation during employee illness) 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 \$0.5 million except for losses incurred from windstorm, fire, flood and earthquake which has 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. Also, certain insurance coverages including employee performance bonds and fire insurance are obtained.

The School District reported the long-term portion of its risk management obligations totaling \$139.5 million 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 when the amount of the loss can be reasonably estimated. Losses include an estimate of claims that have been incurred but not reported, the effects of specific incremental claims adjustment expenditures, salvage and subrogation, and unallocated claims adjustment expenditures.

At June 30, 2015, the amount of these liabilities totaled \$139.5 million. Changes in the balances of claims and liabilities during the past two (2) years are as follows:

	(Dollars in Millions)				
	Beginning <u>Liability</u>	Claims & <u>Adjustments</u>	Claim <u>Payments</u>	Ending <u>Liability</u>	Due Within <u>One Year</u>
Fiscal Year 2014	\$ 176.4	\$ 208.6	\$ 226.6	\$ 158.4	\$ 68.9
Fiscal Year 2015	\$ 158.4	\$ 205.4	\$ 224.3	\$ 139.5	\$ 52.1

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 year for any risk category. The School District has not entered into any annuity contracts as part of claims settlements.

M. Prior Period Adjustment

Government-wide statements: District-wide net position beginning balances were increased by \$519,245. The \$519,245 capital assets adjustment involved: (1) an increase in Land for the new West Philadelphia High School by \$1,133,681, (2) a decrease in Construction of Progress by \$614,550 for items deemed not capitalizable, (3) a decrease in the value of personal property by \$2,746 and (4) the removal of depreciation of \$2,860 for personal property.

Governmental Funds Statements: Adjustment of Mandatory Sinking Fund Deposits for Quality Zone Academy Bonds increase the investment and liabilities under the Debt Service Fund and restored the prior years' QZABs principal expenditure of \$17,863,639 as a prior period adjustment.

The School District of Philadelphia (SDP) issued Quality Zone Academy Bonds (QZABs) under GOB Series 2004, 2007C, and 2007D which required annual mandatory sinking fund deposits or cash to be held in trust with its fiscal agent until the debt under these instruments was fully matured at the end of the depository period. The liability under: (1) QZAB bond Series 2004E of \$19.3 million was due September 1, 2018, (2) QZAB bond Series 2007C of \$13.5 million was due December 28, 2022 and (3) QZAB bond Series 2007D of \$28.2 million was due December 28, 2022.

Beginning in Fiscal Year 2006 through Fiscal Year 2014, the SDP applied the accounting and financial reporting practice of considering these types of transactions as "partially defeased in substance" under Government Accounting Standard Board Statement (GASBS) 7, par.4.

In Fiscal Year 2015, in determining the accounting and financial reporting for GOB Series for Quality Zone Academy Bonds and Qualified School Construction Bonds-Federally Taxable-Direct Subsidy (QSCBs) 2011A, which also required that annual deposits to a mandatory sinking fund be held in trust until maturity, it was determined that the deposit of funds into a mandatory sinking fund until the debt becomes fully matured did not qualify as a "partially defeased in substance" transaction for accounting and financial reporting purposes under GASBS 7, par.4 because it did not relate to a refunding.

In order to correct this accounting practice, a prior period adjustment for Fiscal Year 2015 was established. The adjustment under the Debt Service Fund: (1) increased the asset values for the investments and cash defeased on the Balance Sheet; (2) increased the reported principal fund balance for the adjustments of the cumulative deposits* held by fiscal agent on the Balance Sheet; and (3) reported a Prior Period Adjustment to the Fiscal Year 2014 Debt Service Fund Balance on the Income Statement for the mandatory deposits of \$17,863,639* that were previously reported as expenditures. In addition, the outstanding bond liability for these QZABs that had been defeased in substance was re-established. The increase to the outstanding liability for the QZABs is reflected in our Fiscal Year 2015 Note 4D Obligations,

Schedule of Bonds Outstanding as of June 30, 2015, and Statistical pages related to applicable debt capacity retro-actively restated when necessary.

The following schedule identifies the prior period amounts partially defeased in substance for accounting and financial reporting purposes under GASBS 7, par.4 which were adjusted as discussed above:

<u>Fiscal Year</u>	<u>2004E September 1st</u>	<u>2007C December 28th</u>	<u>2007D June 30th</u>	<u>Total *</u>
2006	1,381,071.00	-	-	1,381,071.00
2007	1,381,071.00	-	-	1,381,071.00
2008	1,381,071.00	-	-	1,381,071.00
2009	1,381,071.00	900,666.67	5,000.00	2,286,737.67
2010	1,381,071.00	900,666.67	5,000.00	2,286,737.67
2011	1,381,071.00	900,666.67	5,000.00	2,286,737.67
2012	1,381,071.00	900,666.67	5,000.00	2,286,737.67
2013	1,381,071.00	900,666.67	5,000.00	2,286,737.67
2014	<u>1,381,071.00</u>	<u>900,666.67</u>	<u>5,000.00</u>	<u>2,286,737.67</u>
Total	<u>\$12,429,639.00</u>	<u>\$5,404,000.02</u>	<u>\$30,000.00</u>	<u>\$ 17,863,639.02</u>

The QZABs additions to the Restricted Debt Service Fund Balance can only be used upon maturity of the bonds to pay the accumulated principal amount due. For operating fund balance available determination, the QZABs Restricted Debt Service Fund Balance is not reported as part of the budgetary unrestricted operating fund balance.

N. Prior Period Restatement

The District has restated its July 1, 2014 net position in its governmental activities to record the net pension liability and deferred outflows at June 30, 2015 in accordance with the requirements of GASB Statement No. 68 and GASB Statement No. 71 as discussed in Note 1D (12). The net result of this change is a decrease of \$3,305,680,596 in governmental activities net position and a decrease of \$48,534,402 in business-type activities net position.

The District restated the long-term obligation balances as of July 1, 2014 under Note 4D (2) Long-term Obligations related to this pension liability recognition.

O. Subsequent Events

In preparing the accompanying financial statements, the School District has reviewed events that have occurred subsequent to June 30, 2015 to and including February 17, 2016. Other than as described below, there were no subsequent material events affecting the District:

(1) Commonwealth of Pennsylvania State Operating Budget Impasse

The District receives approximately 49% of its governmental and proprietary funds revenues from state and federal sources which are subject to annual appropriation by the Pennsylvania Legislature. Prior to December 24, 2015 an operating budget (known as the General Appropriations Act) for the Commonwealth's 2016 fiscal year was not in effect and as a result, those governmental and proprietary funds were not appropriated or paid to school districts, including the District. In late December, 2015, the Pennsylvania Legislature enacted and sent to the Governor, a general appropriations act for fiscal year 2016. On December 29, 2015, the Governor signed the act but also exercised his line item veto power to veto in whole or in part certain appropriations made in that act. Among those line item vetoes was a veto of approximately 55% of the basic education subsidy paid to school districts. In his veto message, the Governor requested that the Pennsylvania Legislature take further action to adopt an operating budget for the full 2016 fiscal year, which included full year appropriations of the basic education subsidy and additional appropriations for public education. As a result of the Governor's action, the District has or will receive approximately 45% of the basic education subsidy which it received in the District's 2015 fiscal year and has or will receive various other amounts equal to the sums it received in fiscal year 2015. Amounts of basic education subsidy, in excess of the 45% will not be paid to the District unless and until further action is taken by the Pennsylvania Legislature on appropriations legislations which are approved by the Governor and funding is released to school districts. Under the current appropriations act for Fiscal Year 2016, the District estimates that it has or will receive \$825.2 operating fund appropriations and \$104.7 million in state grant appropriations (including \$62.1 million for the Ready to Learn grant and \$5.8 million for ACCESS reimbursements).

As a result of the budget impasse, the School District of Philadelphia took the following actions:

- To ensure consistency and comparability in financial reporting, receivables from the Commonwealth which would normally have been received within 60 days of fiscal year end, but have not yet been received due to the budget impasse, are considered available under the modified accrual basis of accounting as permitted by GASB. Revenues of approximately \$3.1 million and \$22.6 million, representing delayed State reimbursements for nursing, medical and dental costs and PSERS retirement costs respectively, have been accrued using this criterion.
- In July 2015 as part of the annual process to obtain short term financing (in anticipation of the receipt of taxes and revenues) through the issuance of tax and revenue anticipation notes (TRANS), the District borrowed up to \$575,000,000, consisting of

\$275,000,000 at a fixed rate of interest (Series A Notes) and \$300,000,000 at a variable rate of interest (Series B notes). The Series A Notes and the Series B Notes mature on June 30, 2016, but the Series B Notes may be prepaid by the School District at par at its option prior to maturity. The Series B Notes were structured as a draw down facility, to be advanced, as needed, if funding from the Commonwealth was not forthcoming. Interest on the Series A Notes was fixed at .77%. Interest on the Series B Notes is a variable rate calculated at 70% of 1 month LIBOR plus a spread of 33 basis points. Interest on the Series A Notes to maturity on June 30, 2016 will be \$2.11 million. The Series B Notes were drawn in three (3) installments. The initial interest rate on the first \$25 million of the Series B Notes, drawn was .46%, on the second draw of \$150,000 was .47%, and the third draw of \$125,000 was .47%. The School District has estimated that the interest cost of the Series B Notes, if outstanding to maturity, will be \$1.41 million. All of the Series A and B Notes were issued privately to one bank.

- In November 2015 the District issued additional TRANS of \$250,000,000 (Series C Notes) privately to two (2) banks. The Series C Notes mature on June 30, 2016, but may be prepaid by the School District at par at its option prior to maturity. The Series C Notes were structured as a draw down facility, to be advanced, as needed, if funding from the Commonwealth was not forthcoming. Interest on the Series C Notes is a variable rate calculated at 67% of 1-month LIBOR + 76 basis points. The Series C Notes were drawn in two (2) installments. The initial interest rate on the first \$125,000,000 of Series C Notes drawn was .894%. The initial interest rate on the second \$125,000,000 of Series C Notes drawn was .894%. The School District prepaid the Series C Notes, in full, on February 1, 2016. The interest cost of the Series C Notes was \$483,000.

(2) Rating Agency Actions Due to Budget Impasse

On December 11, 2015, Standard & Poor's Ratings Services ("S&P") withdrew its ratings on Pennsylvania school districts and community colleges that are based on Pennsylvania's State Aid Intercept Program and on December 22, 2015, Moody's Investors Service ("Moody's") downgraded the ratings on Pennsylvania School District Enhancement Programs to the underlying rating of the school district plus one notch, with a floor of B1 and a ceiling of Baa1. As a result, the School District's bonds (including bonds issued by the State Public School Building Authority for the benefit of the School District) have (i) no rating from S&P (the School District's bonds do not have an unenhanced underlying rating from S&P), and (ii) an enhanced rating from Moody's of Ba2 and a Moody's underlying rating of Ba3.

The School District has approximately \$350,000,000 of bonds outstanding in four series which bear interest at variable rates. Each series of bonds is supported by a direct pay Letter of Credit issued by a bank in the stated amount equal to the principal of the bonds plus interest for a specified number of days, and each Letter of Credit provides for the direct draw thereon for payment of principal and interest on the bonds and for the purchase price of any bonds which are tendered by the holders thereof for purchase. The obligations of the School District to each of the letter of credit banks are set forth in separate Letter of Credit Reimbursement Agreements between the School District and each bank. In addition, the School District pays quarterly fees to each of the letter of credit banks in connection with the respective bank's Letter of Credit, and the amount of those fees is subject to adjustment when ratings are reduced or withdrawn, as is the case with the actions that were taken by S&P and Moody's.

The actions taken by S&P and Moody's constitute an event of default under each of the Letter of Credit Reimbursement Agreements. Upon the occurrence of an event of default, the respective bank is entitled to exercise certain remedies, which include directing the Fiscal Agent for the related bonds to call the bonds for mandatory tender and make drawings on the Letters of Credit, with the School District having an obligation to immediately reimburse the bank for the full amounts of those draws for principal and interest on the bonds. No bank has exercised any remedies which it has under its Letter of Credit Reimbursement Agreement,

The School District requested that each of the banks waive the event of default occasioned by the actions of S&P and Moody's and the School District has entered into a waiver agreement with each bank with respect to its Letter of Credit Reimbursement Agreement, which waives the event of default which occurred as a result of the actions taken by S&P and Moody's through June 1, 2016. Each of the waivers requires the School District to pay fees for the Letters of Credit which are significantly higher than the fees which were being paid by the School District prior to the occurrence of the actions of S&P and Moody's which gave rise to the event of default. The School District estimates that the annual increase in fees, based upon the waiver agreements with the banks, will result in an estimated additional \$5,091,430 in Fiscal Year 2016. All payments on the related bonds have been timely made in full by the School District and no event of default has occurred with respect to the bonds.

(3) Petition of West Philadelphia Achievement Charter Elementary School

On February 16, 2016, a majority of the Supreme Court of Pennsylvania (4-2) held that Section 696(i)(3) of the Public School Code, which authorized the School Reform Commission to suspend the requirements of the Public School Code "... if unconstitutional as it violates the non-delegation rule of Article II, Section 1 of the Pennsylvania Constitution. The Court held that the SRC's actions taken pursuant to that provision, including its suspension in Resolution SRC-20 of February 16, 2011 of the "corrective action" requirement in Section 1729-A(a.1) of the Public School Code as it applies to West Philadelphia, and its suspension in Resolution SRC-1 of August 15, 2013 of: (a) provisions in Section 1729-A regarding charter revocations (including provisions relating to appeals to the Charter Appeals Board and relating to continuation of a charter while an appeal is ongoing), (b) the "corrective action" requirement of Section 1729-A(a.1), and (c) the charter cap provision in Section 1723-A(d), are null and void. The School District and the SRC are permanently enjoined from taking further action under the authority it confers. Two Justices dissented from the Decision, stating that Section 696(i)(3) "does not delegate legislative power, but rather delegates the authority to suspend legislation that affects the economic stability of a school district in financial distress, which is constitutionally permissible under Article I, Section 12," and that the statute contained adequate standards and safeguards to be constitutional. The financial impact of this Decision cannot be estimated at this time.

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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 B to the City’s Official Statement dated October 6, 2016, for the City of Philadelphia, Pennsylvania, Water and Wastewater Refunding Bonds, Series 2016. The information speaks as of its date (October 6, 2016, 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 School District’s General Obligation Bonds, Series D of 2016, General Obligation Bonds, Series E of 2016 (Qualified School Construction Bonds – Federally Taxable – Direct Subsidy) or General Obligation Refunding Bonds, Series F of 2016. More information about the City 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 by population, and is at the center of the United States’ seventh largest metropolitan statistical area, according to 2015 American Community Survey estimates. The Philadelphia MSA (further described below) includes a substantial retail sales market 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 and employment skills among Philadelphians, attracting real estate 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 2015, the City increased its population by 2.56 percent to 1.57 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, low estimated General Fund balances in Fiscal Years 2016-2020, high rates of poverty, and the School District of Philadelphia’s (the “School District”) ongoing fiscal challenges, the City benefits from its strategic geographical location, relative affordability, cultural and recreational amenities, and its growing strength in key industries.

Geography

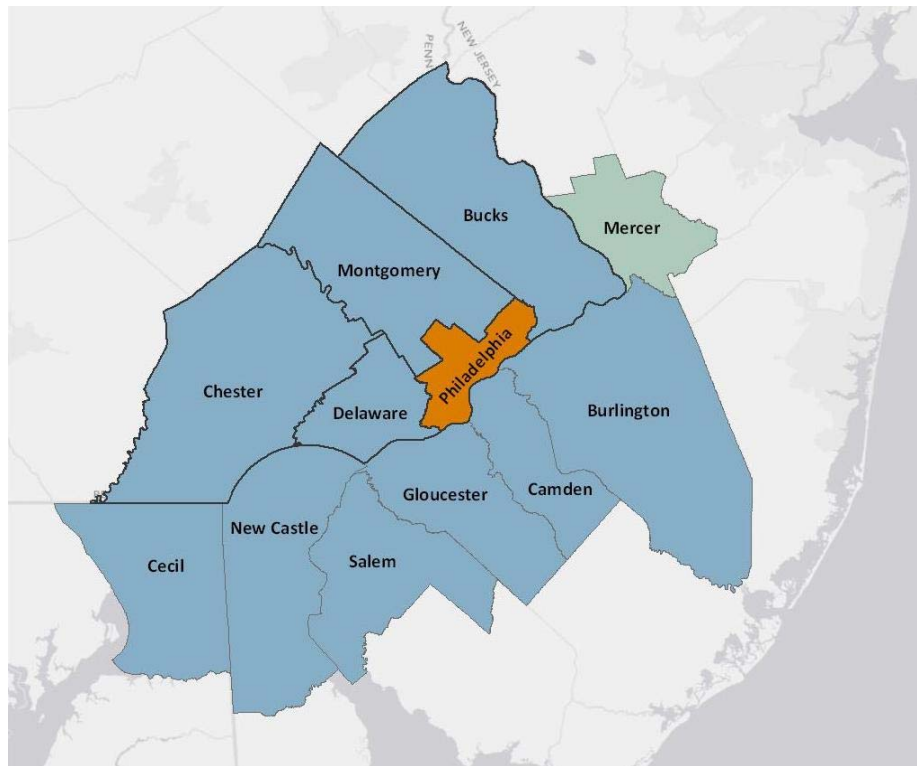
The City has an area of approximately 134 square miles, and is located along the southeastern border of the Commonwealth of Pennsylvania (the “Commonwealth”), at the confluence of the Delaware and Schuylkill Rivers. The City, highlighted in orange in Figure 1, lies at the geographical and economic center of the MSA and PMSA (described below). Philadelphia is both the largest city and the only city of the first class in the Commonwealth, and is 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 6,069,875 residents according to 2015 estimates by the U.S. Census Bureau.²

Philadelphia Primary Metropolitan Statistical Area (the “PMSA”), outlined in black 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.

² 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. Due to the transportation infrastructure centered in the City, Philadelphia is accessible to regional and international markets, and is within a day's drive of 50 percent of the nation's population. 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 26.5 percent of Philadelphians used public transit to commute to work in 2014. SEPTA regional rail service had record ridership in Fiscal Year 2015, and SEPTA public transit modes collectively had an average annual aggregate ridership increase of 1.2 percent from fiscal years 2006-2015.

Challenges

As evidenced by the City's development and population growth, Philadelphia has made progress in transforming itself into a vibrant, attractive city over the past two and a half decades. However, challenges still exist, including (i) the poverty rate, which is 26% according to the 2014 American Community Survey and is the highest of the nation's ten largest cities, (ii) persistent budget deficits for the School District, stemming from funding reductions by the Commonwealth and the growth in charter school enrollment, among other factors, and resulting in local spending cuts and the closure of 23 School

District schools in June 2013, (iii) underfunded pension liabilities, and (iv) low estimated General Fund balances in Fiscal Years 2017-2021.

A related potential challenge is Philadelphia's ability to retain young families in the future. Philadelphia's cultural amenities and quality of life attract millennials, generally defined as those born between 1980 and 2000, which now comprise 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 numerous challenges and most notably the real and perceived state of Philadelphia's public schools. 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. Conversely, 56 percent responded they would not recommend the City as a place to raise children.

POPULATION AND DEMOGRAPHICS

Philadelphia is the nation's fifth most populous city, with 1.57 million residents, based on 2015 U.S. Census estimates. The 2000 and 2010 U.S. Census reflect the City's first population gain in 60 years. The City's population reached its nadir in 2006 with 1.49 million residents. Philadelphia's population has increased by nearly 79,000 residents from 2006 – 2015, or 5.3 percent.

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 2014, 39.2 percent of 25- to 34-year-olds in Philadelphia held a bachelor's degree or higher, while only 33.5 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 161.4 percent and the Hispanic or Latino population growing by 164.6 percent from 2000 to 2014, according to the US Census Bureau.

Table 1
Population
City, MSA, Pennsylvania & Nation

	1990	2000	2010	2015	Percent Change 2000-2010	Percent Change 2010-2015
Philadelphia	1,585,577	1,517,550	1,526,006	1,567,442	0.6%	2.7%
Philadelphia-Camden-Wilmington MSA	5,437,468	5,687,147	5,965,343	6,069,875	4.9%	1.8%
Pennsylvania	11,881,643	12,281,054	12,702,379	12,802,503	3.4%	0.8%
United States	248,709,873	281,421,906	308,745,538	321,418,820	9.7%	4.1%

Source: U.S. Census Bureau, Population Estimates 2015, Census 2010, Census 2000, Census 1990.

Nearly 27 percent of Philadelphia's population is school-aged (aged 5-17) and, in 2015, Philadelphia exceeded many selected peer cities in its share of students who are enrolled in an undergraduate, graduate or professional education program. Selected peer cities (as shown in Table 2) reflect characteristics consistent with Philadelphia, such as geography, socio-economic statistics, industrial legacies, or port facilities. Among these cities, while Boston had the highest percentage of its population enrolled in higher education, Philadelphia had over 40,000 more students total 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.

Table 2
2015 Total Number of Students, as a Percent of Total Population of Selected Cities,
Ranked by Total Number of Students Enrolled in Higher Education

	Total Number of Students Enrolled in School (all years)	Total Number of Students Enrolled in Higher Education	Percent of All Students Enrolled in Higher Education	Percent of Total Population Enrolled in Higher Education
Los Angeles, CA	1,038,559	349,274	33.6%	9.0%
Chicago, IL	716,732	235,270	32.8%	8.7%
Houston, TX	580,250	158,500	27.3%	7.3%
San Diego	376,850	151,123	40.1%	11.3%
Philadelphia, PA	416,404	149,309	35.9%	9.7%
San Antonio, TX	400,885	115,474	28.8%	8.3%
Boston, MA	196,461	109,297	55.6%	17.1%
Phoenix, AZ	410,064	100,234	24.4%	6.7%
Washington, DC	160,085	74,625	46.6%	11.8%
Baltimore, MD	163,549	61,535	37.6%	9.9%
Milwaukee, WI	186,920	60,014	32.1%	10.0%
Detroit, MI	196,294	52,600	26.8%	7.6%
Memphis, TN	179,757	52,217	29.0%	8.0%
Cleveland, OH	103,805	29,643	28.6%	7.6%
United States	82,735,509	23,628,485	28.6%	7.5%

Source: 2014 American Community Survey, 1-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 2013, approximately 182,600 residents of the Philadelphia region's four suburban counties (Bucks, Chester, Delaware, and Montgomery), and an additional 129,000 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.

As shown in Table 13 further in this report, the cost of living in the City is relatively moderate and affordable compared to other major metropolitan areas along the East Coast. Philadelphia's cost of living is 20 percent less than the Washington DC metropolitan area and 61 percent less than Manhattan. 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; arts, entertainment, and recreation; finance and insurance; professional and technical services; other services, and transportation and warehousing.³ Of these eight sectors, the City has a higher concentration of employment than the Commonwealth in six sectors: educational services; health care and social assistance; arts, entertainment and recreation; finance and insurance; professional and technical services; 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	4.32	1.51
Health Care and Social Assistance	1.73	1.22
Management of Companies and Enterprises	1.27	1.42
Arts, Entertainment, and Recreation	1.20	1.01
Finance and Insurance	1.16	1.05
Professional and Technical Services	1.13	0.92
Other Services	1.12	1.06
Transportation and Warehousing	1.10	1.18

Source: Bureau of Labor Statistics: 2015 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. In a 2014 Campus Philly report "Choosing Philadelphia," 51 percent of non-native students, and 76 percent of native graduates from the region, chose to live in Philadelphia directly after graduation.

The City is also 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, University City Science Center, University of Pennsylvania, Children's Hospital of Philadelphia, Jefferson Hospital, Drexel University, and Wistar Institute. The University of Pennsylvania's Penn Center for Innovation and Temple University's Office of Technology Development and Commercialization are two of several organizations driving tech transfer and commercialization of innovations developed at Philadelphia's major research institutions.

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 dry cleaning and laundry services, personal care services, death care services, pet care services, photofinishing services, temporary parking services, and dating services.

Employment

Table 4 shows non-farm payroll employment in the City over the last decade by industry sectors. In the past 10 years, growth has occurred in Trade, Transportation, and Utilities; Professional and Business Services; Education and Health Services; and Leisure and Hospitality. These sectors provide stability to the City's overall economy. Despite a 10 percent contraction within the sector over the last decade, Government remains the second largest sector by number of employees.

Table 4
Philadelphia Non-Farm Payroll Employment⁽¹⁾
(Amounts in Thousands)

Sector	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	% Change in 2006- 2015	Average Annual % Change
Leisure and Hospitality	58.0	58.0	57.9	56.9	58.4	60.6	63.2	64.8	66.9	68.1	17.4%	1.9%
Education and Health Services	187.7	192.4	196.7	199.5	202.3	206.4	208.1	209.3	212.7	217.2	15.7%	1.7%
Professional and Business Services	84.2	85.8	85.3	80.1	81.6	83.0	84.1	86.4	88.3	90.3	7.2%	0.8%
Trade, Transportation, and Utilities	88.5	87.8	87.6	85.9	86.6	87.4	88.9	89.5	90.9	92.9	5.0%	0.6%
Other Services	28.2	28.0	27.8	26.6	26.5	26.4	26.8	26.9	26.8	27.4	-2.8%	-0.3%
Mining, Logging, and Construction	12.4	11.9	12.1	10.1	10.0	10.0	10.2	10.4	11.0	11.5	-7.3%	-0.8%
Information	12.8	12.6	12.5	12.6	12.2	12.0	12.0	11.5	11.5	11.8	-7.8%	-0.9%
Financial Activities	47.7	47.1	46.5	44.9	42.6	41.6	41.0	41.1	41.7	42.4	-11.1%	-1.2%
Manufacturing	29.9	28.5	27.8	25.7	24.7	23.7	22.9	21.8	21.5	21.1	-29.4%	-3.3%
Private Sector Total	549.4	552.1	554.2	542.3	544.9	551.1	557.2	561.7	571.3	582.7	6.1%	0.7%
Government	113.2	110.6	109.2	110.4	112.1	109.0	105.3	103.5	102.2	101.8	-10.1%	-1.1%
Total	662.6	662.7	663.4	652.7	657.0	660.1	662.5	665.2	673.5	684.5	3.3%	0.4%

Source: Bureau of Labor Statistics, 2015.

⁽¹⁾ Includes persons employed within the City, without regard to residency.

Table 5
Philadelphia Change in Share of Employment Sectors⁽¹⁾, ranked by Percent Change of Share

Sector	Share of Total Employment 2006	Share of Total Employment 2015	Percent Change of Share 2006 – 2015
Leisure and Hospitality	8.8%	9.9%	13.7%
Education and Health Services	28.3%	31.7%	12.0%
Professional and Business Services	12.7%	13.2%	3.8%
Trade, Transportation, and Utilities	13.4%	13.6%	1.6%
Other Services	4.3%	4.0%	-5.9%
Mining, Logging, and Construction	1.9%	1.7%	-10.2%
Information	1.9%	1.7%	-10.8%
Financial Activities	7.2%	6.2%	-14.0%
Manufacturing	4.5%	3.1%	-31.7%
Private Sector Total	82.9%	85.1%	2.7%
Government	17.1%	14.9%	-12.9%

Source: Bureau of Labor Statistics, 2015.

⁽¹⁾ Includes persons employed within the City, without regard to residency.

Preliminary Bureau of Labor Statistics data show that in 2015, the Education and Health Services, Professional and Business Services, Financial Activities, and Leisure and Hospitality sectors collectively represented 61.1 percent of total employment in the City for the year, and 76.9 percent of total private sector wages. From 2010 to 2015, Philadelphia has recovered 40,000 private sector jobs since losing nearly 12,000 private jobs at the peak of the recession in 2009.

Unemployment

Although Philadelphia narrowed the gap between its unemployment levels and the national unemployment levels throughout the 1990s and as late as 2009, the effects of the recession on unemployment endured longer in Philadelphia than in many other parts of the country.

As shown in Table 6, employment gains in the latter part of 2013 through 2015 have resulted in a decline in Philadelphia's unemployment rate from a high of 10.9 percent in 2012 to 6.9 in 2015.

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 2006-2015)

Geographical Area	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Change in rate from 2006-2015
United States	4.6	4.6	5.8	9.3	9.6	8.9	8.1	7.4	6.2	5.3	0.7
Pennsylvania	4.7	4.3	5.3	7.9	8.5	7.9	7.9	7.4	5.9	5.1	0.4
Philadelphia-Camden- Wilmington MSA	4.5	4.3	5.3	8.3	8.8	8.5	8.4	7.7	6.2	5.3	0.8
Philadelphia	6.2	6.1	7.1	9.7	10.6	10.7	10.9	10.3	8.1	6.9	0.7

Source: Local Area Unemployment Statistics, Bureau of Labor Statistics

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.

Fortune 500 companies headquartered or maintaining a major presence in Philadelphia include: the Comcast Corporation, Cigna Corporation, Aramark Corporation, Crown Holdings Inc., and Lincoln National. Four Fortune 1000 companies are also headquartered within the City: FMC Corporation, Urban Outfitters Inc., Pep Boys, 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	21,193
University of Pennsylvania Health System	Health	15,956
Children's Hospital of Philadelphia	Health	11,895
Temple University Hospital, Inc.	Health	9,030
Temple University	Education	8,674
Comcast Corporation	Media/IT	8,000
Thomas Jefferson University Hospitals	Health	7,825
Drexel University	Education	6,291
Aramark Corporation	Food Service	6,207
Albert Einstein Medical	Education	5,323
Thomas Jefferson University	Education	4,547
Independence Blue Cross	Insurance	3,554
PNC Bank N.A.	Finance	1,883
Ace Insurance Company	Insurance	1,512
GlaxoSmithKline LLC	Bio-tech	1,376
Total		113,266

Source: City of Philadelphia Department of Commerce

*As of October 2015

†Employment data for Comcast Corporation are an estimate provided by Comcast Corporation, May 2015. This estimate includes approximately 2,000 contract workers.

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 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 and medical schools: Children's Hospital of Philadelphia, the Hospital of the University of Pennsylvania, The Wistar Institute, the Fox Chase Cancer Center, and the University City Science Center. 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).

Children's Hospital of Philadelphia Expansion. Top-ranked Children's Hospital of Philadelphia ("CHOP") is the oldest children's hospital in the nation and one of the largest 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. Most recently, phase one of the \$500 million, 700,000 square foot Buerger Center for Advanced Pediatric Care opened in fall of 2015; phase two will open in 2017. 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. In 2014, the Institute completed construction of a \$100 million expansion and renovation project, the Robert and Penny Fox Tower. Currently, Wistar has 180 doctorate-level researchers and scientists on staff, which will expand to 350 over the next seven years, significantly increasing Wistar’s ability to carry out biomedical research and make advancements in the fields of genetics, cancer biology, translational research, immunology and virology.

Table 8 lists the top ten recipients of funding from the National Institutes of Health (“NIH”) in fiscal year 2015, in order of total funding received. The University of Pennsylvania, located in Philadelphia, was the fourth largest recipient of NIH funding in 2015 and consistently places near the top of this list.

Table 8
Largest Recipients of National Institutes of Health Funding, FY2015

Organization	City	State	Awards	Funding
Johns Hopkins University	Baltimore	MD	973	\$567,666,828
University of California, San Francisco	San Francisco	CA	948	\$557,140,709
University of Michigan	Ann Arbor	MI	836	\$449,440,199
University of Pennsylvania	Philadelphia	PA	902	\$448,051,440
University of Pittsburgh	Pittsburgh	PA	798	\$425,603,684
University of Washington	Seattle	WA	716	\$422,917,954
Stanford University	Stanford	CA	694	\$421,175,041
University of California San Diego	La Jolla	CA	678	\$387,576,202
Washington University	Saint Louis	MO	686	\$377,643,762
Univ. of North Carolina Chapel Hill	Chapel Hill	NC	689	\$375,543,736

Source: National Institutes of Health, 2015

Table 9 lists the number of licensed and staffed beds in certain hospitals and medical centers in the City, as of June 30, 2015, and does not reflect any mergers, consolidations or closures that have occurred since that date.

Table 9
Hospitals and Medical Centers as of June 2015

Institution Name	Total Licensed Beds	Total Staffed Beds
Aria Health ¹	480	480
Belmont Center for Comprehensive Treatment	147	147
Chestnut Hill Hospital	129	129
Eastern Regional Medical Center	74	56
Einstein Medical Center-Philadelphia	772	444
Fairmount Behavioral Health Systems	239	239
Fox Chase Cancer Center	100	100
Good Shepherd Penn Partners Specialty Hospital	38	38
Hahnemann University Hospital	496	496
Hospital of the University of Pennsylvania	788	788
Jeanes Hospital	176	146
Kensington Hospital	45	45
Kindred Hospital - Philadelphia	52	52
Kindred Hospital – South Philadelphia	58	58
Kirkbride Center	74	25
Magee Rehabilitation Hospital	96	96
Mercy Philadelphia Hospital	178	157
Nazareth Hospital	203	173
Penn Presbyterian Medical Center	328	328
Pennsylvania Hospital	496	397

Roxborough Memorial Hospital	141	141
Shriners Hospitals for Children - Philadelphia	53	39
St. Joseph's Hospital ²	184	184
St. Christopher's Hospital for Children	189	189
Temple University Hospital ³	850	818
The Children's Hospital of Philadelphia	535	520
Thomas Jefferson University Hospital ⁴	951	893
VA Medical Center ⁵	0	0
Wills Eye Hospital	4	4

Source: PA Department of Health Annual Hospital Questionnaire, Reports 1A and 1B, June 30, 2015.

¹Aria Health System includes data for all three divisions - Frankford, Torresdale and Bucks County.

²St. Joseph's Hospital includes data for Girard Medical Center/Continuing Care Hospital of Philadelphia.

³Temple University Hospital includes data for Episcopal Hospital.

⁴Thomas Jefferson University Hospital includes data for the Methodist Hospital Division.

⁵The Veterans Administration Medical Center is not considered a public hospital by the PA Department of Health because its beds are not available for the general public; therefore, the number of licensed and staffed beds reflected in Reports 1A and 1B are zero. According to the VA Medical Center, the facility supports 145 acute care beds and a 135-bed Community Living Center.

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 434,000 full and part-time students. Approximately 149,000 students lived within the geographic boundaries of the City in 2015. 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 Princeton University, 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, is located 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 40,577 combined staff in the region 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 2014, Penn unveiled a master plan for a 23-acre Innovation and Research Park called Pennovation Works. In fall 2016, Penn formally opened the first project within the complex, a \$26 million rehabilitation of an existing building 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 and Drexel University.

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 also completed construction of a \$92 million facility for its LeBow School of Business in October 2013 and a new mixed use residential and retail project, Chestnut Square, on Chestnut Street in 2014. 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 14 acres of underutilized land near Philadelphia's 30th Street Station into a transit-oriented live/learn/work neighborhood, called Schuylkill Yards. In March, 2016, Drexel announced a partnership with Brandywine Realty Trust to facilitate redevelopment; phase one commences in fall 2016 with the creation of Drexel Square, a public park that is currently a parking lot, and streetscape improvements along John F. Kennedy Boulevard.

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. The \$22 million dollar project is currently under construction.

Median and Average Household Income

Table 10 shows median family income, which includes related people living together, and Table 11 shows median household income, which includes unrelated individuals living together, for Philadelphia, the MSA, the Commonwealth and the United States. Table 12 shows the average household income for the same areas, which is based on a more comprehensive measure of total income. Over the period 2006-2014, median family income for Philadelphia increased by 9.30 percent (see Table 10), while average household income increased by 32.4 percent over the period 2006-2014 as a result of an influx of higher income households (see Table 12).

Table 10
Median Family Income* for Selected Geographical Areas, 2006-2014
(Dollar Amounts in Thousands)

Year	Philadelphia	Philadelphia-Camden-Wilmington MSA	Pennsylvania	United States	Philadelphia as a percentage of the US
2006	\$43.0	\$70.8	\$58.1	\$58.5	73.50%
2007	\$44.1	\$73.5	\$60.2	\$60.4	73.01%
2008	\$46.4	\$77.0	\$63.1	\$63.2	73.42%
2009	\$45.8	\$76.8	\$62.8	\$62.4	73.40%
2010	\$45.1	\$76.7	\$63.0	\$62.1	72.62%
2011	\$45.0	\$78.1	\$64.3	\$62.7	71.77%
2012	\$44.6	\$77.8	\$65.1	\$63.1	70.68%
2013	\$44.7	\$78.5	\$66.1	\$63.8	70.06%
2014	\$47.0	\$80.6	\$67.9	\$65.9	71.32%
Change 2006-2014	\$4.0	\$9.8	\$9.8	\$7.4	

* Includes related people living together.

Source: American Community Survey, Annual and 1-Year Estimates

Table 11
Median Household Income* for Selected Geographical Areas, 2006-2014
(Dollar Amounts in Thousands)

Year	Philadelphia	Philadelphia-Camden-Wilmington MSA	Pennsylvania	United States	Philadelphia as a percentage of the US
2006	\$32.8	\$53.6	\$44.5	\$46.2	71.00%
2007	\$33.2	\$55.6	\$46.3	\$48.5	68.45%
2008	\$34.8	\$57.8	\$47.9	\$50.0	69.60%
2009	\$36.2	\$60.3	\$50.3	\$52.2	69.35%
2010	\$36.7	\$60.2	\$50.0	\$51.4	71.40%
2011	\$36.0	\$60.0	\$50.3	\$51.2	70.31%
2012	\$36.0	\$60.6	\$51.0	\$51.5	69.90%
2013	\$35.6	\$60.4	\$51.4	\$51.8	68.73%
2014	\$36.2	\$60.7	\$52.0	\$52.2	69.35%
Change 2006-2014	\$3.4	\$7.1	\$7.5	\$6.0	

* Includes unrelated people living together.

Source: American Community Survey, Annual and 1-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 149,309 according to the 2014 American Community Survey, or approximately 9.5 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 12
Average Household Income for Selected Geographical Areas, 2006-2014
(Dollar Amounts in Thousands)

Year	Philadelphia	Philadelphia-Camden-Wilmington MSA	Pennsylvania	United States	Philadelphia as a percentage of the US
2006	\$82.3	\$117.2	\$96.9	\$99.5	82.71%
2007	\$86.6	\$121.3	\$101.2	\$103.6	83.59%
2008	\$93.3	\$125.1	\$104.0	\$106.9	87.28%
2009	\$95.1	\$123.5	\$102.7	\$103.8	91.62%
2010	\$99.2	\$126.1	\$105.4	\$106.1	93.50%
2011	\$103.8	\$132.3	\$111.0	\$111.6	93.01%
2012	\$107.1	\$137.8	\$115.4	\$116.2	92.17%
2013	\$106.1	\$140.5	\$117.5	\$117.4	90.37%
2014	\$109.0	\$145.4	\$121.9	\$121.5	89.71%

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 13 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 13
2015 Cost of Living Index* of Cities in the Northeastern U.S.

Metropolitan Area	Cost of Living Index
New York (Manhattan)	225.8
Washington-Arlington-Alexandria	145.9
Boston-Cambridge-Quincy	142.6
Philadelphia-Camden-Wilmington	119.6
Baltimore-Towson	112.2

*Data reflects Q3 2014 – Q3 2015

Source: 2016 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 is a post-industrial city located in the northeast corridor of the U.S. between New York and Baltimore. Its housing stock is among the oldest of any city in the country, and has suffered from decades of depopulation and abandonment during the postwar era. However, like many U.S. cities, it has also undergone a significant revitalization in the past 25+ years, particularly in and around its downtown core of Center City. Philadelphia experienced a net population increase in the most recent Census for the first time since 1950, which was overwhelmingly due to new household growth in these aforementioned neighborhoods. In the last year, total city population grew by approximately 14,000 people, from 1.553 million to 1.567 million.

As population has continued to increase, many neighborhoods have undergone significant new construction and investment, leading to significant increases in the value of its housing stock. Significant parts of the rest of the city, however, still face significant challenges caused by the persistent problems of poverty, crime, underperforming schools and lack of employment opportunities. But, most housing indicators for Philadelphia indicate a positive outlook for the near future. 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:

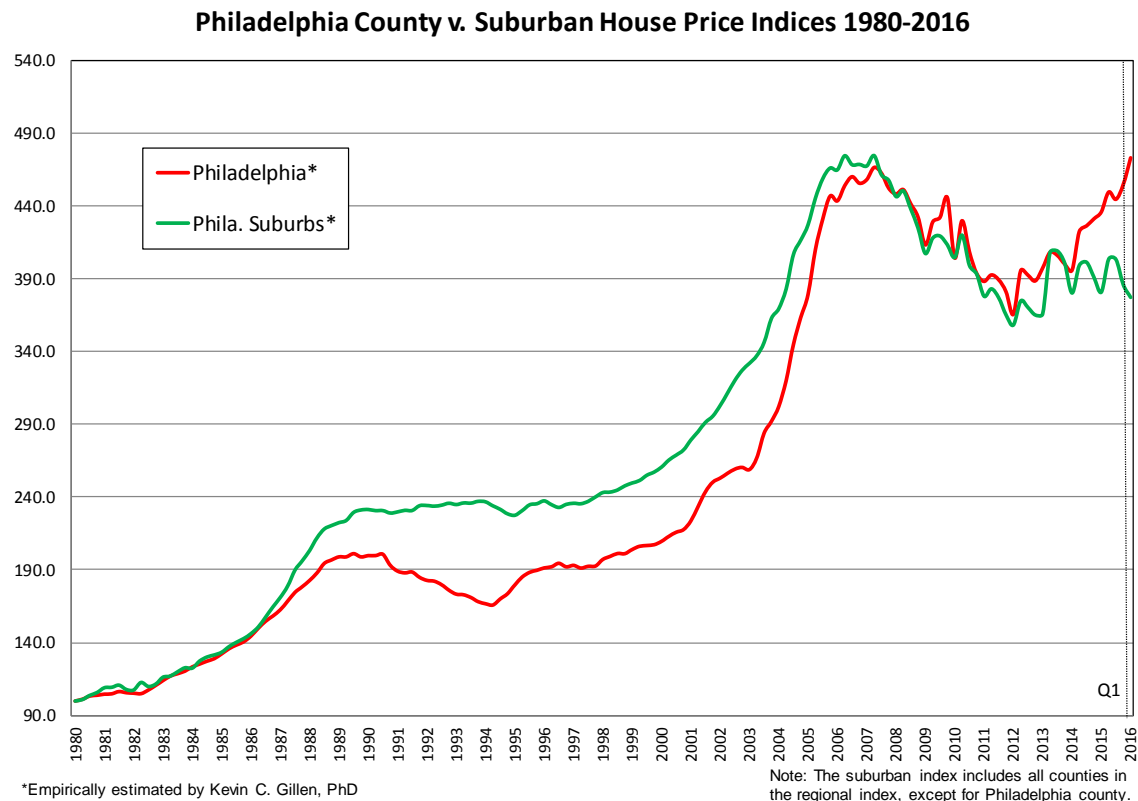
Table 14
Housing Market Metrics⁽¹⁾

Housing Market Metrics	2015	%Change from 1 Year Ago	%Change from 5 Years Ago	Trend
Total Housing Stock (# of properties)	500,374	0.13%	3.30%	
# of Single-Family Units ⁽²⁾	459,230	0.13%	1.44%	
# of Multifamily Units ⁽³⁾	41,144	-56.33%	6.70%	
Median House Price	\$143,000	14.40%	43.00%	
# of House Sales	15,601	9.40%	31.81%	
Months' Supply of Inventory	3.81	-59.89%	-55.03%	
Avg. Days-on-Market	61	-29.89%	-9.40%	
# of New Units Permitted	3,666	-7.73%	136.21%	
Avg. Housing Rent (Monthly)	\$1,209	1.26%	10.71%	
Homeownership Rate	52.9%	1.34%	-7.19%	

Source: Philadelphia Recorder of Deeds, Philadelphia Office of Property Assessment, U.S. Census, National Multifamily Housing Council, TrEND MLS.

1. Table 14 shows housing market metrics for 2015.
2. Structures with 1-4 dwelling units.
3. Structures with 5 or more dwelling units.

After nearly ten years of house price deflation and sluggish recovery, 2015 proved to be the best year for Philadelphia housing since the recession. Both the median house price and the house price index for Philadelphia hit new all-time highs. 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 red line) and a similar house price index for Philadelphia's suburbs (the green line). The index is computed via regression, using a hybrid hedonic repeat-sales specification, which is very similar to the same 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 1980 Q1, with its percent change over time reflecting the average price appreciation (or depreciation) rate of the average Philadelphia home. After hitting a peak in mid-2007, the index began a 5-year decline of 23% before hitting bottom in early 2012. Since then, Philadelphia has lagged both other cities and the nation as a whole in its house price recovery. But, after making significant gains in the latter half of 2015 and early 2016, the current index stands at a value that is slightly higher than its peak in 2007, thus indicating that the aggregate loss in the value of Philadelphia's housing stock from the Great Recession has been erased.

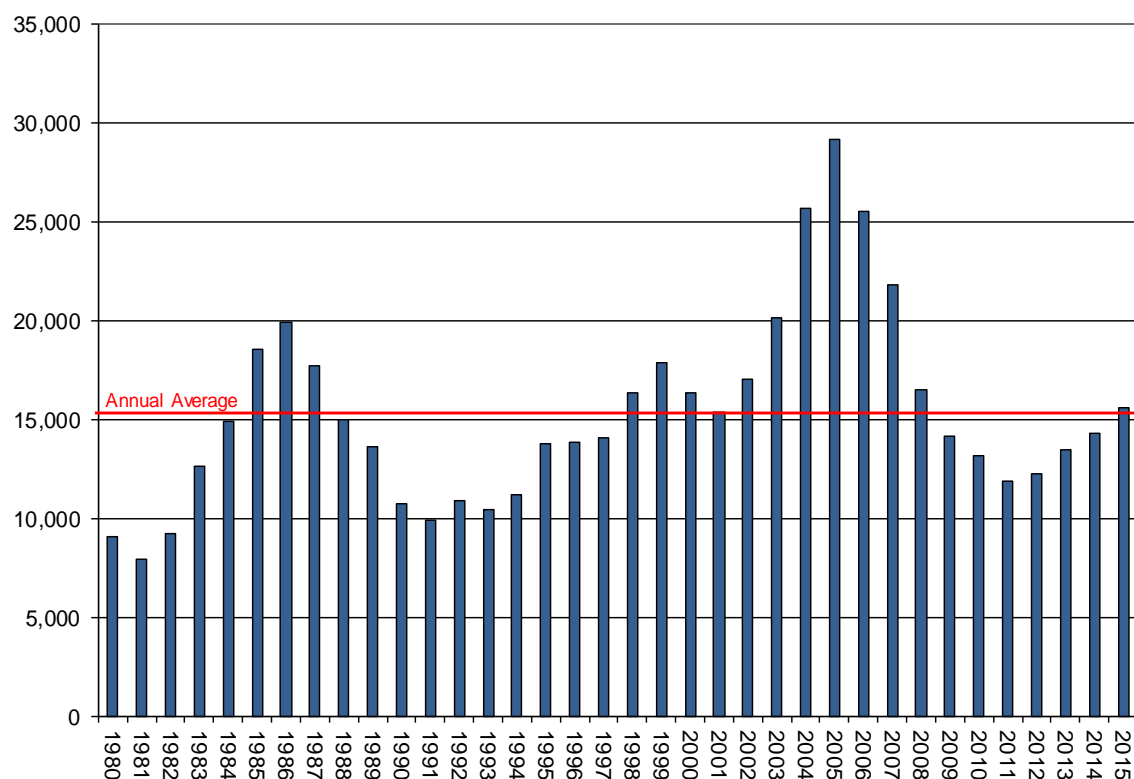
Many households who purchased a home at or near the peak of the Housing Bubble had been locked into a negative equity position in their homes in the wake of the Bubble's bursting. Because they could not sell their home at a price that would simultaneously allow them to pay off their mortgage, these households were essentially "locked into" their existing dwellings. This has important implications both upstream and downstream in the housing market: since these "underwater" households were unable to sell, this restricted the supply of homes that many potential first-time and move-up homebuyers could either buy or sell to, thus reducing overall home sales in the City's economy. But, with prices restored to their pre-bubble levels, these households have been liberated from their negative equity positions, which should increase housing mobility and overall home sales activity throughout the City, with obvious positive fiscal implications.

Moreover, Philadelphia's housing recovery has been both faster-paced and of greater magnitude than its suburbs. As indicated by the current spread between the red line and green line, Philadelphia's housing values have appreciated faster than those of its suburbs, despite hitting bottom at exactly the same time in early 2012. While Philadelphia has since erased its aggregate losses in house values, its suburbs have only regained only about a third of its lost values since the recession.

Lastly, their positions are reversed since the last serious recession of the early 1990s. As indicated by the spread between the indices in the 1990-1995 period, suburban house prices held their value during that recession, while the City's house values dropped significantly. In addition to the depopulation that was occurring in the City at the time, the loss in house values was amplified by a fiscal crisis that was specific to the City, which saw the Commonwealth of Pennsylvania to impose a fiscal oversight board to guide the City back to economic balance. The fact that the position of these indices are now reversed—with the City outperforming its suburbs—is strongly indicative of how much progress Philadelphia has made since those events.

Another positive indicator of the housing market's recovery is the current level of home sales. The following chart shows the annual number of single-family house sales in Philadelphia since 1980. Only arms-length home sales at market-rate prices are counted in the following chart.

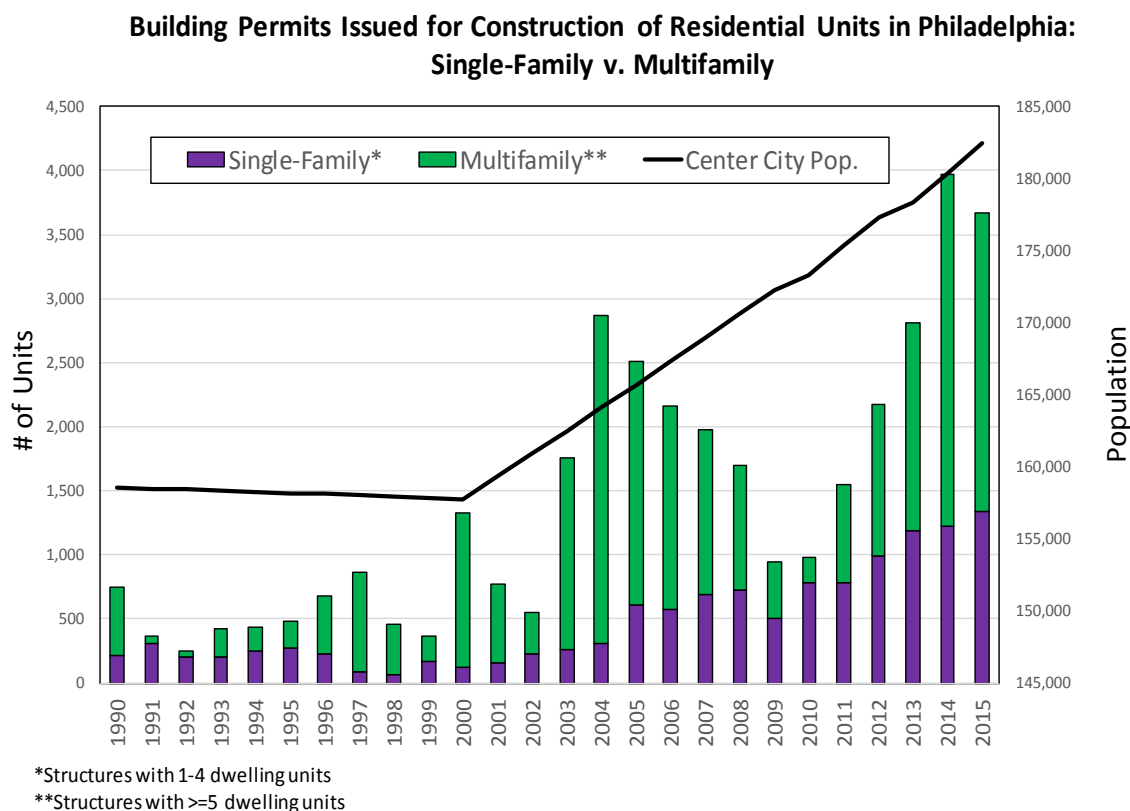
Number of Philadelphia House Sales Per Year: 1980-2015



Source: Philadelphia Recorder of Deeds

Like prices, home sales dropped significantly following the bursting of the housing bubble, and after hitting bottom in 2011 have only sluggishly recovered. However, in 2015, total home sales were just above 15,000 units in Philadelphia, which is back to its historic long-run annual average, and is at its highest level since 2008. As such, the current level of home sales activity further supports the conclusion that Philadelphia's housing market has fully recovered.

Homebuilding activity in Philadelphia has also 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 2015.



Source: U.S. Census

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.

Prior to 2000, construction of new housing units in Philadelphia was low by both absolute and relative measures, averaging only 400 units per year, while population growth during this period was actually slightly negative. Following passage of a ten-year property tax abatement program⁴ 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 the previous decade. In 2014, permits were issued to approve the construction of nearly 4,000 new housing units in Philadelphia—an all-time high. Although total permitting activity declined in 2015 from the previous year, total residential development activity still remains quite high, and appears justified by continued population growth. An easing in development activity could actually be taken as a positive sign, since it gives the market time to allow recently finished projects to be

⁴Under the 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.

absorbed by the current population, rather than having the flow of supply (new units) exceed the flow in demand (new households).

Going forward, Philadelphia's housing recovery would appear to be sustained by continued positive—albeit modest—population growth that has been driven by a combination of a positive birthrate, foreign immigration and domestic in-migration. But, since it is recognized that much of this growth (especially in revitalizing neighborhoods) has been due to an influx of millennials, it remains to be seen whether these gains can be sustained as this group ages and becomes more sensitive to Philadelphia's issues of high taxes, struggling schools and overall sluggish economic growth. However, reasons for optimism include the prospects of Generation Z, who could be attracted to Philadelphia's strong concentration of top-tier institutions of higher education, especially those that excel in the STEM fields.

The following summarizes the information under this “Housing” subheading:

- After significant price deflation that ended in 2012, Philadelphia's aggregate housing stock has since recovered all of its lost value.
- The post-recession house price recovery has been faster-paced and more substantial in the City of Philadelphia than in its suburban counterparts.
- Home sales have also recovered from their recessionary levels to be restored to their long-term historic average.
- Although construction of new housing units in 2015 declined for the first time since the housing recovery began, they still remain near an all-time high and appear rationalized by continued population growth.
- While the short-term outlook remains bullish, the longer-term outcome will be significantly influenced by how many millennial households choose to stay versus leave as they age, and how many of those who leave will be replaced by the younger members of Generation Z.

Office Market and New Development

The City currently has approximately 44.8 million square feet of office space in the central business district (“CBD”), with an additional 2.1 million square feet under construction according to Jones Lang LaSalle’s Q2 2016 Office Insights. Although total vacancy eased slightly in University City with the delivery of the new 49-story, 861,000 square foot FMC Tower at Cira South, Jones Lang LaSalle also reports that total vacancy in the City’s other CBD submarkets remain tight at 9.4 percent. This low vacancy and the delay of delivery of other Class A office towers, have driven trophy rent in University City to surpass \$50 per square foot and the conversion of Class B office space into Class A across the CBD. Properties undergoing redevelopment, especially those in the Market East submarket, are well positioned in current market conditions.

The latest average direct asking rental rates in the City’s CBD rose to \$29.75 per square foot in the second quarter of 2016. Markedly, the City’s CBD enjoys rising rents with low overall total vacancy, the second lowest vacancy rate among peer CBDs across the nation, while its suburban counterparts have higher overall total vacancy and lower rents during the same period, at 14.2 percent and \$25.46 per square foot.

Table 15 shows comparative overall second quarter 2016 office vacancy rates for selected office markets.

Table 15
Total Office Vacancy Rates of Selected Office Markets Central Business Districts
Second Quarter 2016

Market	Vacancy Rate
New York (Midtown South)	6.7%
Philadelphia	9.4%
Boston	9.6%
New York (Midtown)	10.3%
Washington DC	10.6%
Chicago	11.0%
New York (Downtown)	11.2%
United States CBD, All Markets	12.1%
Detroit	14.5%
Houston	14.5%
Los Angeles	16.4%
San Diego	16.4%
Baltimore	17.7%
Phoenix	21.4%
Cleveland	21.6%
San Antonio	24.1%

Source: Jones Lang LaSalle, National CBD Data, Second Quarter 2016

Most notably, 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 222 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

Based on strong employment, residential, and hospitality growth, Philadelphia continues to establish itself as a retail destination. The Center City District reports that more than \$1 billion in retail demand for goods and services is now generated from the downtown core and its surrounding neighborhoods. According to CBRE's "Surging Demand for Urban Retail," Center City's prime retail rents grew second fastest of ten major U.S. cities, rising 87.5 percent from Q1 2008 to Q4 2014. The Center City District also reports that pedestrian volumes along West Chestnut now match and surpass pedestrian volumes along West Walnut, the City's traditional "high street." In January 2015, Philadelphia was named the second of 24 "Best Shopping Cities in the World," by Condé Nast Traveler Magazine, behind Barcelona.

While Center City's prime retail district has been centered west of Broad Street near Rittenhouse since the 1980s, both local boutiques seeking lower rents and national tenants looking for larger footprints, are looking east of Broad Street. A number of key developments in the East Market submarket are creating opportunities for retailers to expand.

Most notably, the planned redevelopment of The Gallery at Market East, a 430,000 square foot, 130-store retail mall complex at 907 Market Street, continues to forge ahead. In April 2013, Pennsylvania Real Estate Investment Trust (PREIT) acquired single entity ownership of The Gallery at Market East. In July 2014, the Macerich Company, which owns 55 shopping centers across the nation, acquired a 50 percent interest in The Gallery. In December 2015, Macerich and PREIT closed on their agreement for the \$325 million redevelopment of the shopping center. Interior demolition of The Gallery at Market East began in 2016 with an estimated completion date of Q4 2018.

Recent improvements along East Market Street also include the 2014 opening of New York-based department store Century 21, the chain's first store outside of New York City, in a 95,000 square foot space that was previously vacant. Also, 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. In September 2015, East Market secured its first corporate tenant, the Design Center, a well-known group of interior designers and showrooms, taking 48,000 square feet. The Design Center is currently located in Center City and will be moving from 2400 Market Street. Another future tenant of East Market is Mom's Organics, a Maryland-based grocery chain. Just one block south of Market Street, as of July 2016, Brickstone Co. has completed construction of a mixed-use redevelopment project on the 1100 block of Chestnut Street. The project is a mix of new construction and historic preservation and includes up to 115 apartments and 90,000 square feet of retail space. Tenants include Target Express, one of two Center City locations Target Corporation, which opened in 2016.

Complementing the rise of retail in Philadelphia, the City has experienced a revival of 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 2015, the same area had 412 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 show that about 50,000 people were employed in retail trades in Philadelphia in 2015, a slight decrease from 50,115 in 2014. Employment in retail trades grew .5 percent annually from 2005 to 2015. Preliminary data reports that food service and drinking establishments employed about 48,800 people in 2015, representing an average annual growth of

2.4 percent since 2005. The number of private retail establishments and private food services and drinking establishments have recovered from pre-recession levels; the number of retail trade establishments grew six percent between 2007 and 2015, and the number of food services and drinking places grew by nine percent in the same time period, according to the Bureau of Labor Statistics' Quarterly Census of Employment Wages.

Table 16 reflects taxable retail sales for the City from Fiscal Years 2007 to 2013.

Table 16
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 nineteenth busiest airport in the United States, serving 30.7 million passengers in calendar year 2014 (i.e. total passengers enplaned and deplaned), and was ranked the twelfth busiest in the nation based on aircraft operations. PHL consists of approximately 2,410 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). The 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, an American Airlines aircraft maintenance hangar, and a former United States Postal Service building located at the western end of PHL. On July 2, 2015, PHL purchased an adjacent property to PHL known as International Plaza, which has two fully leased buildings with approximately 500,000 square feet of rentable space on a 27-acre tract of land. This property was acquired for future PHL expansion.

The outside terminal area consists of a 15-story, 419-room hotel (414 rooms and 5 suites), 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 the 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 175 general aviation aircraft based at PNE.

Airport Capital Projects. Since 2000, PHL has constructed more than \$1.7 billion of capital improvements, including construction of new terminals, expansion and renovation of existing terminals, and an extension of runways (17-35 and 9L/27R) and taxiways (TW K) . PHL continues to upgrade its existing facilities under its Capital Improvement Program (“CIP”), which focuses primarily on repair and rehabilitation of PHL facilities. Recently, PHL embarked on the Capacity Enhancement Program (“CEP”), which is PHL’s long range plan to improving efficiency, modernizing airport facilities and providing additional capacity for future growth. The CEP will enable PHL to enhance the Greater Philadelphia region's position by providing more efficient access and increased competitive stature.

In September 2011, the Federal Aviation Administration issued a Letter of Intent to contribute \$466.5 million toward the CEP over the 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 and other key stakeholders regarding the phasing and timing of the projects.

New Use and Lease Agreement. Effective July 1, 2015, PHL and American Airlines, Inc. (“American Airlines”), which operates a majority of the flights to and from PHL, executed a new Airport-Airline Use and Lease Agreement (the “New Airline Agreement”). Certain other airlines are expected to execute the New Airline Agreement, which will have the same effective date of July 1, 2015 (American Airlines and such other airlines, the “Signatory Airlines”). The New Airline Agreement has a term of five years with two one-year extensions upon mutual agreement. The financial structure of the New Airline Agreement is relatively the same as the previous agreement and provides for a residual rate-making structure for the recovery of rentals and fees from the airlines. In a residual rate-making structure, PHL sets rates and charges to recover the net budgeted operating cost or requirement after crediting all budgeted revenues from sources other than airlines. At the end of each Fiscal Year, the actual net operating requirement is calculated and compared with the actual airline revenues. Any surplus or deficit resulting from this comparison is included in the net operating cost or requirement for the following year. The New Airline Agreement also requires that the Signatory Airlines approve any new capital projects over \$500,000, in excess of an aggregate annual total of \$5,000,000. Concurrent with the New Airline Agreement, the Signatory Airlines approved \$173.25 million in new capital projects. These new capital projects will provide for the repair and rehabilitation of PHL infrastructure to enhance and improve the existing facility.

PHL will continue to study, plan, and modularly execute the mission to ensure its full potential benefit to PHL and its stakeholders. Table 17 provides the total project amounts approved since 2007.

Table 17
Ongoing Capital Projects Approved since 2007

Capital Projects	Current Project Amount (millions \$)
Capacity Enhancement Program (CEP) ⁽¹⁾	\$1,125.90
2007-2015 Capital Improvement Program (CIP) ⁽²⁾	\$309.92
2016 Capital Improvement Program (CIP) ⁽³⁾	\$173.25

Source: City of Philadelphia, Division of Aviation.

1. Includes redevelopment of existing terminals; relocations of on-airport and off-airport facilities; environmental commitment start-up; Runway 9R-27L (future 9C-27C) extension and associated eastside taxiway work; stage 1 airfield site work and fuel line work; automated people mover (design); and ground transportation center.
2. Includes repair, rehabilitation and upgrade programs for roofs, restrooms, windows, passenger loading bridges, mechanical and electrical systems, and security and access control systems; airfield civil improvements; and landside infrastructure improvements.
3. Includes airfield repavement, emergency operations center, repair, rehabilitation and upgrade programs for curb doors, roofs, loading bridges, air handling units, HVAC and fire protection systems; emergency operations center; and LED conversion program.

PHL Passenger Traffic and Cargo. Beginning in the early part of Fiscal Year 2000, PHL began serving significantly more passengers. From Fiscal Year 2000-2015, the total number of passengers traveling through PHL increased 27.1%. Passenger traffic for PHL for Fiscal Years 2006-2015 is summarized in Tables 18 and 19 below. Table 20 summarizes cargo transported through PHL, segmented into mail and freight, from Fiscal Years 2006-2015.

Table 18
PHL Enplanements and Deplanements
Fiscal Years 2006-2015

Fiscal Year	Deplaned	Enplaned	Total	Percent Change over Prior Year
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%
2015	15,289,247	15,312,738	30,601,985	0.2%

Source: City of Philadelphia, Division of Aviation.

Table 19
PHL Domestic and International Passenger Traffic
Fiscal Years 2006-2015

Fiscal Year	Domestic	International	Total	Percent Change over Prior Year
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%
2015	26,088,976	4,513,009	30,601,985	0.2%

Source: City of Philadelphia, Division of Aviation.

Table 20
PHL Cargo Tonnage
Fiscal Years 2006-2015

Fiscal Year	Air Mail Tons (US)	Air Freight Tons (US)	Total	Percent Change over Prior Year
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%
2015	26,681	402,194	428,875	0.9%

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 2016 operating budget totals \$1.365 billion. This is supported by \$829 million in federal, state, and local subsidies, as well as \$535 million of operating revenue. As noted in Table 21 below, a significant segment of the region relies on SEPTA for public transportation and annual SEPTA ridership totaled more than 330 million in Fiscal Year 2015.

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 generally trended upward over the last decade with exceptions in Fiscal Years 2010, 2013, 2014, and 2015 (see Table 21). 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 Years 2014 and 2015, SEPTA suspended some of its services 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 and in Fiscal Year 2015, SEPTA experienced its highest ridership ever for regional rail.

Table 21
Annual SEPTA Ridership by Division

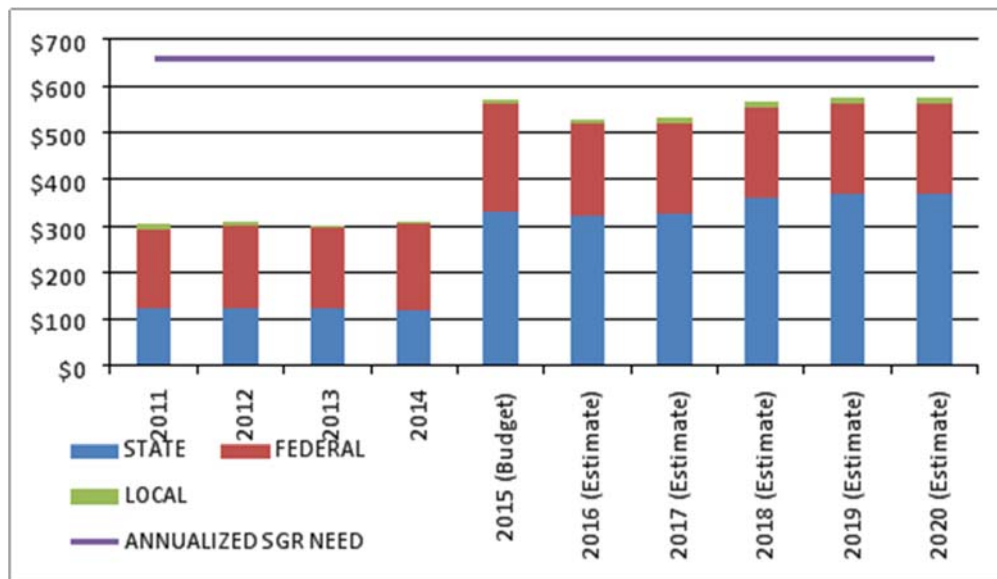
Fiscal Year	City Transit	Regional Rail	Suburban	Total
2006	247,957,108	30,433,631	18,196,551	296,587,290
2007	256,120,000	31,712,000	19,356,000	307,188,000
2008	269,556,000	35,450,000	20,112,000	325,118,000
2009	273,890,000	35,443,000	20,248,000	329,581,000
2010	266,296,000	34,955,000	19,733,000	320,984,000
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
2015	270,737,000	37,413,000	21,969,000	330,119,000

Source: SEPTA.

Beginning in Fiscal Year 2015, SEPTA’s annual capital budget and 12-year capital program have increased significantly. The Fiscal Year 2016 capital budget is \$534.5 million, representing an 74 percent increase over the Fiscal Year 2014 budget of \$308 million. The Fiscal Year 2016-2027 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. Table 22 below shows the increase in capital program funding over the previous year, beginning in Fiscal Year 2015.

SEPTA’s increased capital budget will enable it to address a variety of needs. First, SEPTA will address its State of Good Repair (“SGR”) 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 22
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”) PRPA reported approximately 6,092,787 metric tons of cargo moved through the Port in 2015, the first time the Port handled more than 6 million tons of cargo in a single calendar year, representing a 2.3 percent increase over 2014. 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 December 2015, the PRPA secured a new shipping service that will link directly with burgeoning port operations on the Gulf of Mexico at Veracruz and Altamira. This service will target commodities include goods such as avocados, lemons, tomatoes and commercial cargo.

The PRPA is working to increase the Port’s competitiveness by increasing capacity with three major capital projects: a channel deepening project and the construction of additional port facilities. The deepening of the main navigation channel of the Delaware River from 40 to 45 feet is on schedule to be completed in early 2017. 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 fall 2015, the Port announced it is pursuing public-private partnerships to develop the Southport terminal, releasing a Request for Qualifications to develop the site. The first component of the terminal project is projected to begin operating in 2018.

In July 2016, the PRPA announced a public-private partnership with Holt Logistics Corp. and Greenwich Terminals, LLC, for the purchase of two new Super Post-Panamax container cranes for installation at the Packer Avenue Marine Terminal. With the expansion of the Panama Canal and an expected increase of in volume for ports along the East Coast, the cranes will allow the PRPA to service vessels 22 or more containers wide. These container cranes are expected to be delivered and fully operational by late 2017.

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 Director of Commerce manages and collaborates with 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 partnership with the Department of Commerce, PIDC plans and implements real estate and financing transactions that attract investment, jobs and tax ratables to the City.

The City has also actively worked to raise its profile in the international business community. In October 2015, Philadelphia received the designation of the first World Heritage City in the United States by the Organization of World Heritage Cities. In summer 2015, the City entered into a “sister city” agreement with Frankfurt, Germany, considered the largest financial center in continental Europe. This agreement is Philadelphia’s first sister city since 1992. In September 2016, a delegation of City officials and business leaders participated in a trade mission to Frankfurt and Berlin, further enhancing Philadelphia’s relationship to Germany. In fall 2014 and 2015, Philadelphia hosted delegations of Israeli high-tech companies following a 2013 Israeli trade mission. Additionally, by participating in the Global Cities Initiative with multiple private stakeholders, the City of Philadelphia is supporting the development of a metro export growth plan, which launched in spring 2016.

Lending, Land Use and Employer-Based Strategies to Expand Business and Investment. PIDC, a non-profit economic development corporation founded by the City of Philadelphia and the Greater Philadelphia Chamber of Commerce, partners with the City to spur investments. PIDC serves as the landholding entity for the City and acquires and improves commercial and industrial properties, positioning them for industrial redevelopment.

PIDC attracts, manages, and invests public and private resources that are used to leverage even greater investments into Philadelphia. Since its founding in 1958, PIDC has settled over 6,700 transactions with a diverse range of clients – including \$14 billion of financing and more than 3,100 acres of land sales – which have leveraged over \$25 billion in total investment and have assisted in retaining and creating hundreds of thousands of jobs in Philadelphia.

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 Improvement 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 as well as through contracts to support Commercial Corridor Managers on select commercial corridors located in

low to moderate income areas. With the growth of Philadelphia's immigrant population, the City has implemented multilingual business outreach programming.

Land Use and Planning. The Philadelphia City Planning 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.

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.

A new institutional partner in land use 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: (i) consolidate properties owned by multiple public agencies into single ownership to speed property transfers to new, private owners; (ii) acquire tax-delinquent properties through purchase or by bidding the City's lien interests at a tax foreclosure; (iii) with consent of the City, clear the title to those properties so that new owners are not burdened by old liens; and (iv) assist in the assemblage and disposition of land for community, non-profit, and for-profit uses.

On October 30, 2014, the PLB approved its first proposed strategic plan (the "Strategic Plan"), which identifies market conditions across the City, identifies inventory of vacant and tax delinquent properties that the PLB could take in, and sets goals to guide PLB activity. Such goals include priority acquisition areas and annual targets against which to measure progress. On December 11, 2014, City Council approved the Strategic Plan. In December, the Mayor and City Council appointed their respective members to the PLB's permanent board of directors, replacing the interim board that was named in the authorizing ordinance. This board of directors convened for the first time in late January 2015, appointed the final member of the board, and elected officers.

On December 9, 2015, then-Mayor Nutter announced the transfer of 150 properties into the PLB's inventory from the Philadelphia Housing Development Corporation ("PHDC"). Such properties are the first properties in the PLB's inventory. Approximately 550 PHDC properties were transferred to the PLB at the end of December 2015. On December 10, 2015, City Council adopted resolutions authorizing the transfer of 833 vacant, City-owned properties to the PLB.

As of the end of June 2016, approximately 1,100 properties have been transferred into the PLB's inventory from PHDC, the City, and PRA. Once in the PLB's inventory, the properties are expected to be packaged and marketed for repurposing with no outstanding tax liability for the purchaser.

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. 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.

Over 93% of PHA’s annual budget is funded directly or indirectly by the U.S. Department of Housing and Urban Development, and most of the balance of PHA’s budget is derived from resident rent payments. Neither PHA’s funds nor its assets are available to pay City expenses, debts or other obligations, and the City has no power to tax PHA or its property. Neither the City’s funds nor its assets are subject to claims for the expenses, debts, or other obligations of PHA.

Historic Preservation and Public Art. 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, and approves the design of all construction projects located on City property or funded with City money. 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 and a half 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, 290,664 riders took public transportation into Center City on the average weekday in 2015. 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 2013, 42.3 percent of all jobs in Philadelphia were located in Greater Center City and Center City together, and accounted for 184,998 residents in 2015, a 17% increase from 2000.
- **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 approximately 11 percent of the City’s employment in 2015. 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 1,200-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 12,000 employees in January 2016, making the Navy Yard a growing employment area with close to 2 percent of the City’s jobs.

As of June 2016, Philadelphia had 48 major projects under construction concurrently, representing over \$7.3 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. Residential and mixed use developments represent \$3.2 billion in investment across 32 projects are under construction across various neighborhoods throughout the City. Commercial developments, represent over \$1.9 billion invested across 11 projects, the majority of which are concentrated in Center City and the Navy Yard. Projects from higher education and health care institutions in the University City district represent over \$1.9 billion in investment. Table 23 reflects select major real estate developments under construction as of June 2016. From 2013 through the second quarter of 2016, 84 projects representing more than a \$4.3 billion investment were completed.

Table 23
Selected Major Development Investments Under Construction
(As of December 2015)

Project Name, by Neighborhood	Project Type	Cost in Millions	Est. Completion Date
Center City		\$4,114.0	
The Griffin - 1346 Chestnut Street	Residential	-	Q3 2016
1919 Market Street	Mixed Use	\$148.0	Q3 2016
1116-28 Chestnut	Mixed Use	\$75.0	Q3 2016
Rodin Square, Whole Foods	Mixed Use	\$160.0	Q3 2016
1601 Vine Street	Residential	\$120.0	Q4 2016
American Revolution Center	Arts & Culture	\$101.0	Q4 2016
Mormon Temple	Religious	\$70.0	Q4 2016
The Sterling - Redevelopment	Residential	\$75.0	Q1 2017
205 Race Street	Residential	\$65.0	Q1 2017
500 Walnut	Residential	\$174.0	Q1 2017
National Building	Residential	\$23.0	Q1 2017
East Market (formerly Girard Square)	Mixed Use	\$250.0	Q2 2017
218 Arch	Mixed Use	\$58.0	Q2 2017
One Riverside	Residential	\$90.0	Q3 2017
View 32 - 3201 Race Street	Residential	\$55.0	Q3 2017
1213 Walnut	Residential	\$125.0	Q3 2017
Comcast Innovation and Technology Center	Commercial/Hotel	\$1,200.0	Q4 2017
Eastern Tower Community Center	Mixed Use	\$76.0	2017
Park Towne Place - Redevelopment	Residential	\$200.0	Q1 2018

Project Name, by Neighborhood	Project Type	Cost in Millions	Est. Completion Date
401 Race	Residential	-	Q2 2018
W Hotel/Element	Hotel	\$359.0	Q2 2018
The Gallery	Commercial	\$100.0	Q4 2018
1900 Chestnut	Mixed Use	-	2018
1911 Walnut	Mixed Use	\$300.0	2018
Hanover North Broad	Mixed Use	\$50.0	2018
SLS Hotel and Residences	Residential and Hotel	\$240.0	Q1 2019
Navy Yard		\$184.2	
4701 League Island Blvd	Commercial	\$34.5	Q3 2016
1200 Intrepid	Commercial	\$47.7	Q3 2016
Adaptimmune	Commercial	\$23.5	Q4 2016
Axalta R & D Facility	Commercial	\$67.5	Q4 2017
Pavilion	Commercial	\$11.0	Q4 2018
Other Neighborhoods		\$472.0	
Broad Street Armory	Residential	-	Q3 2016
One Water Street	Residential	\$65.0	Q3 2016
Philadelphia Mills	Commercial	\$34.0	Q4 2016
Divine Lorraine	Residential	\$43.0	Q1 2017
Ridge Flats	Mixed Use	-	Q1 2018
Lincoln Square	Mixed Use	\$130.0	Q1 2018
1222 N 2nd Street	Residential	-	2018
1300 Fairmount	Mixed Use	\$200.0	2018
University City		\$2,588.0	
New College House at Hill Field	University Residential	\$127.0	Q3 2016
FMC Tower at Cira Centre South	Mixed Use	\$385.0	Q3 2016
The Study at University City	Hotel	\$50.0	Q3 2016
University of Pennsylvania Pennovation Works	Commercial	\$26.0	Q4 2016
CHOP Schuylkill Ave Expansion	Health Care	\$250.0	Q2 2017
4601 Market - Public Safety Services Campus	Public	\$250.0	Q2 2018
4224 Baltimore Avenue	Mixed Use	-	Q2 2018
Penn Health Tower	Health Care	\$1,500.0	2018
3675 Market	Mixed Use	-	2018
Total		\$7,358.2	

Source: Philadelphia Department of Commerce

Navy Yard. The Navy Yard is a 1,200 acre mixed-use office, research and industrial park with over 12,000 people working on site across 152 companies. The Navy Yard has diverse tenants such as the Philly Shipyard, one of the world's most advanced commercial shipbuilding facilities, the corporate

headquarters for retailer Urban Outfitters, a 208,000 square foot, LEED Platinum office building for pharmaceutical company GlaxoSmithKline, and a LEED Silver facility for the Tasty Baking Company. More than 7.5 million square feet of space is currently occupied or in development with significant additional capacity available for office, industrial, retail and residential development.

PIDC and its partners released an updated Navy Yard master plan in 2013, 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 30,000 employees and over \$3 billion in private investment. Currently, PIDC is negotiating changes to deed restrictions with the U.S. Navy to allow the construction of housing at Philadelphia's Navy Yard.

The Navy Yard attracted 22 new tenants in 2013, 10 new tenants in 2014, and attracted 12 new businesses and over 500 employees in 2015, bringing the Navy Yard closer to its strategic targets. Recently completed construction projects include: 201 Rouse Blvd, an 80,050 square foot headquarters for Franklin Square Capital Partners, an investment firm; 4701 League Island Blvd, the third facility on campus for WuXi AppTec, a leading pharmaceutical and biotechnology company; and in 2015 Central Green, a new five-acre, \$9.4 million park. Most recently, in October, 2015, UK-based life sciences company, Adaptimmune, announced it will locate its U.S. headquarters and Clinical and Manufacturing Operations at the Navy Yard. This was in addition to the City's announcement in September that Axalta Coating Systems, an advanced coatings manufacturer, will also develop a 175,000 square foot Global Innovation Center at the Navy Yard. Since 2000, the Navy Yard has leveraged more than \$150 million in publicly funded infrastructure improvements to spur more than \$750 million in new private investment.

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. According to the University City District, there are approximately 75,000 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 that did not sign the agreement. In February 2016, the Convention Center announced that 2015 was its highest booking year ever with 856,663 bookings, a 1.2 percent increase from 2014, representing an estimated \$1.1 billion in future economic impact.

Over 4.2 million hotel room nights were sold in Philadelphia in 2015, a 1 percent increase over 2014, resulting in over \$716 million in room sales. Contributing to these sales, the Philadelphia Convention and Visitors Bureau (the "PHLCVB") attracted more than two million visitors, filling 558,000 hotel room nights. The total Convention and Group segment of travelers, which includes smaller conferences and meetings not held in the Convention Center, purchased 33.1 percent of all hotel rooms booked in Center City in 2015. With increased convention and group bookings comes a heightened profile and increases in leisure tourism due in part to the City's hosting of high profile, global events such as the 2015 World Meeting of Families, culminating in a papal visit from Pope Francis, the 2016 Democratic National Convention, and the 2017 National Football League Draft.

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. In 2015, the City's hotel room inventory was 11,119 rooms, with occupancy at 75.0 percent. Several hotel projects are currently under development, which will increase hotel room inventory by more than 1,300 rooms. 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, the City 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; however, the project is currently stalled. The Logan Hotel, a luxury brand of Hilton, opened in 2015, redeveloping the building vacated by the Four Seasons Hotel; the 222-room Four Seasons Hotel will reopen in 2017 on the top 12 floors of the Comcast Innovation and Technology Center. Currently in planning are the SLS Lux, a 152 room hotel and residential tower, and the SLS Hyde, a 76-room boutique hotel, both located on South Broad Street.

Table 24 lists notable hotel developments since 2008, representing over \$1 billion in investment.

Table 24
Notable Hotel Developments since 2008, in Millions

Project Name	Cost (millions)
Four Points by Sheraton	\$14.00
Le Meridien	\$61.00
Kimpton Hotel Palomar	\$94.00
Homewood Suites University City	\$43.00
Marriott Courtyard, Navy Yard	\$31.00
Hotel Monaco, by Kimpton	\$88.00
Hilton Home2 Suites	\$60.00
Residence Inn by Marriott, Airport	\$26.00
The Logan Hotel (2015)	-
101 N. Broad Street Hotel (Opening 2016)	-
The Study at University City (2016)	\$50.00
Four Seasons Hotel in Comcast Tower (Opening 2017)	-
SLS Hotel and Residences (2017)	\$220.00
Aloft by Starwood (2017)	-
W Hotel/Element Hotel (Opening 2018)	\$280.40
1801 Vine Street	\$85.00
Total	\$1,052.40

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 far exceeded pre-recession levels in 2015 with over 68,100 employed. The Bureau of Labor Statistics reports that employment in this sector grew 17.4 percent from 2006 to 2015, 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 2014 report by Visit Philadelphia, the region's leisure tourism and marketing corporation, since 1997, the number of overnight leisure hotel stays has grown 90 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 2014 numbered more than 620,000, a decrease of 8 percent over 2013. Table 25 shows the Greater Philadelphia Region's visitation growth from 1997 to 2014.

Table 25
Greater Philadelphia[†] Visitation Growth, 1997-2014
(in millions)

	1997	2014	Net Change	Percent Growth
Total Visitation	26.7	39.7	13.0	49%
Day - Leisure	15.5	21.0	5.5	35%
Overnight - Leisure	7.3	13.9	6.6	90%
Day - Business	2.5	2.6	0.1	4%
Overnight - Business	1.4	2.2	0.8	57%

[†]Bucks, Chester, Delaware, Montgomery and Philadelphia counties.

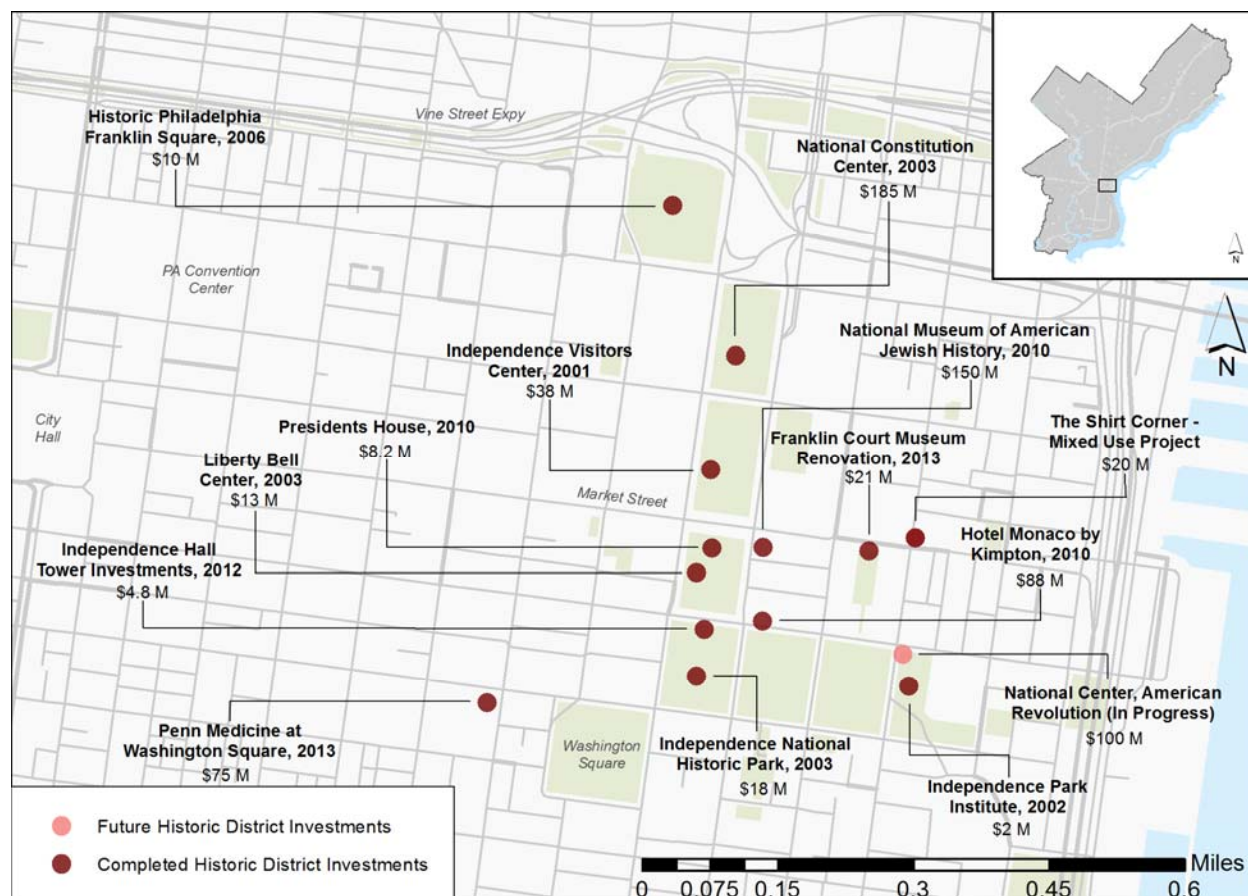
Source: Visit Philadelphia, Tourism Economics, Longwoods International.

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 2016, *Lonely Planet* named Philadelphia on its top-10 best list of "unexpectedly exciting places to see." In 2015, the top attractions in Philadelphia, including the

Independence National Park, the Philadelphia Zoo, and the Philadelphia Museum of Art, had over 14.5 million visitors according to the Philadelphia Business Journal.

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.

Figure 2
Map of Select Historic District Development Projects
Representing \$733 Million in Selected Completed and Future Investment



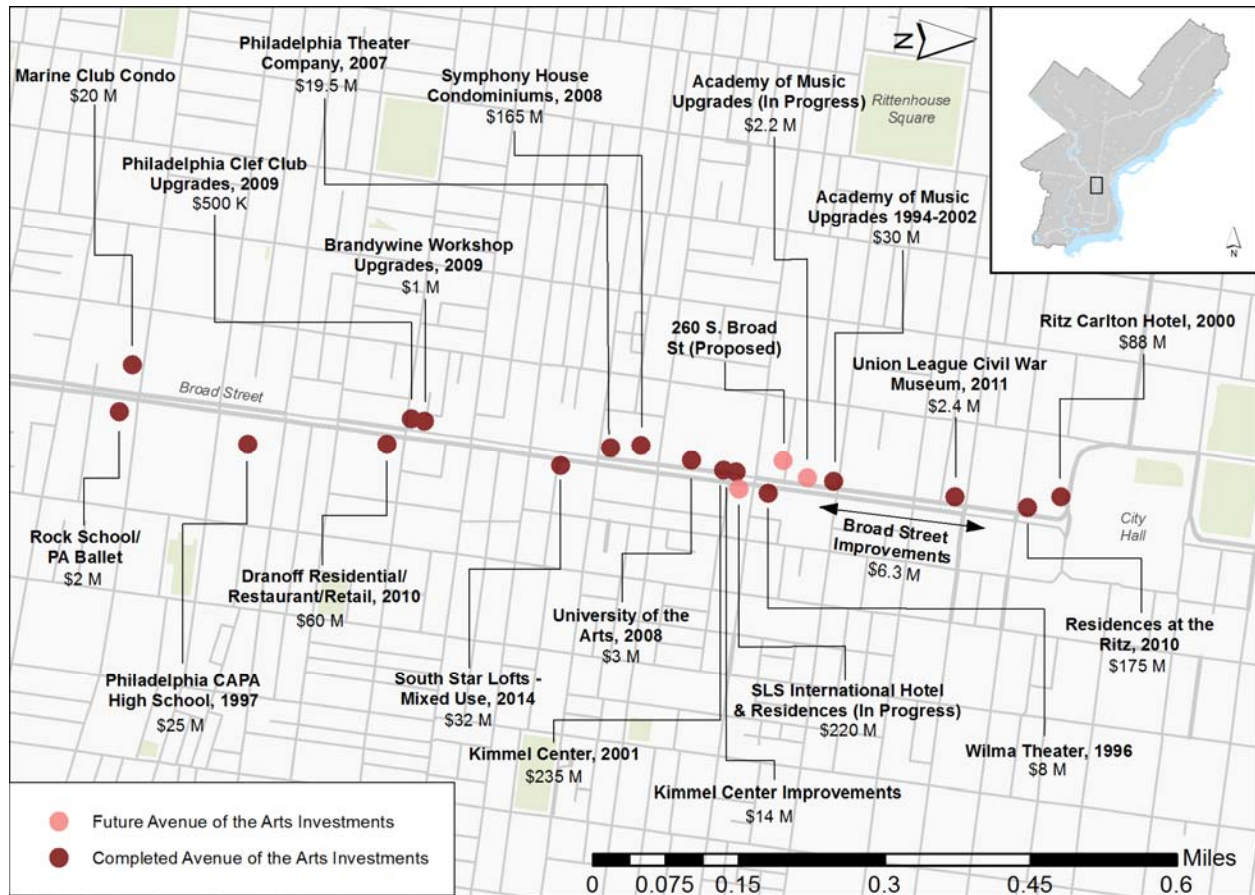
Source: City of Philadelphia Department of Commerce

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.

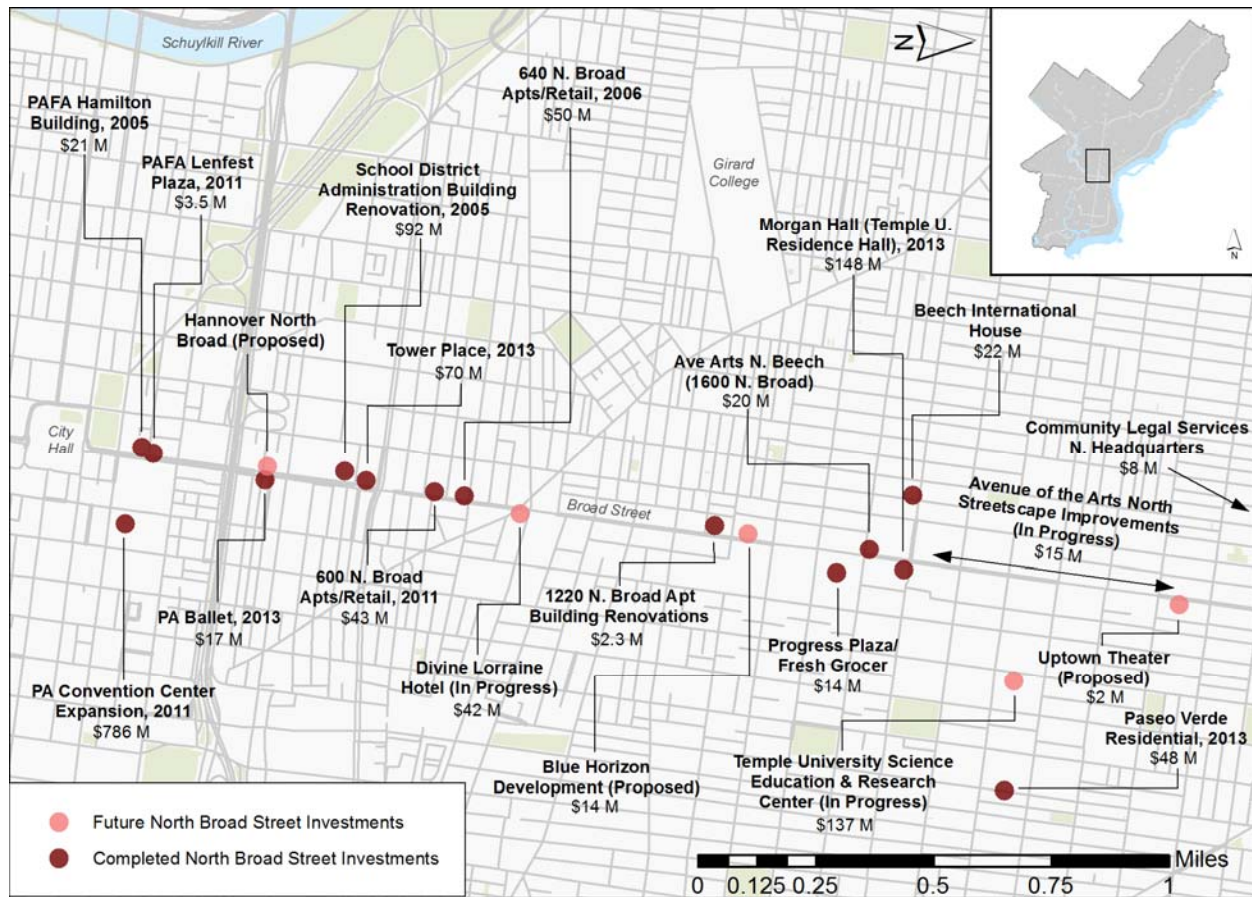
Figure 3
Map of Selected Avenue of the Arts (South Broad Street) Development Projects
Representing \$1.11 Billion in Selected Completed and Future Investments



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 more than 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



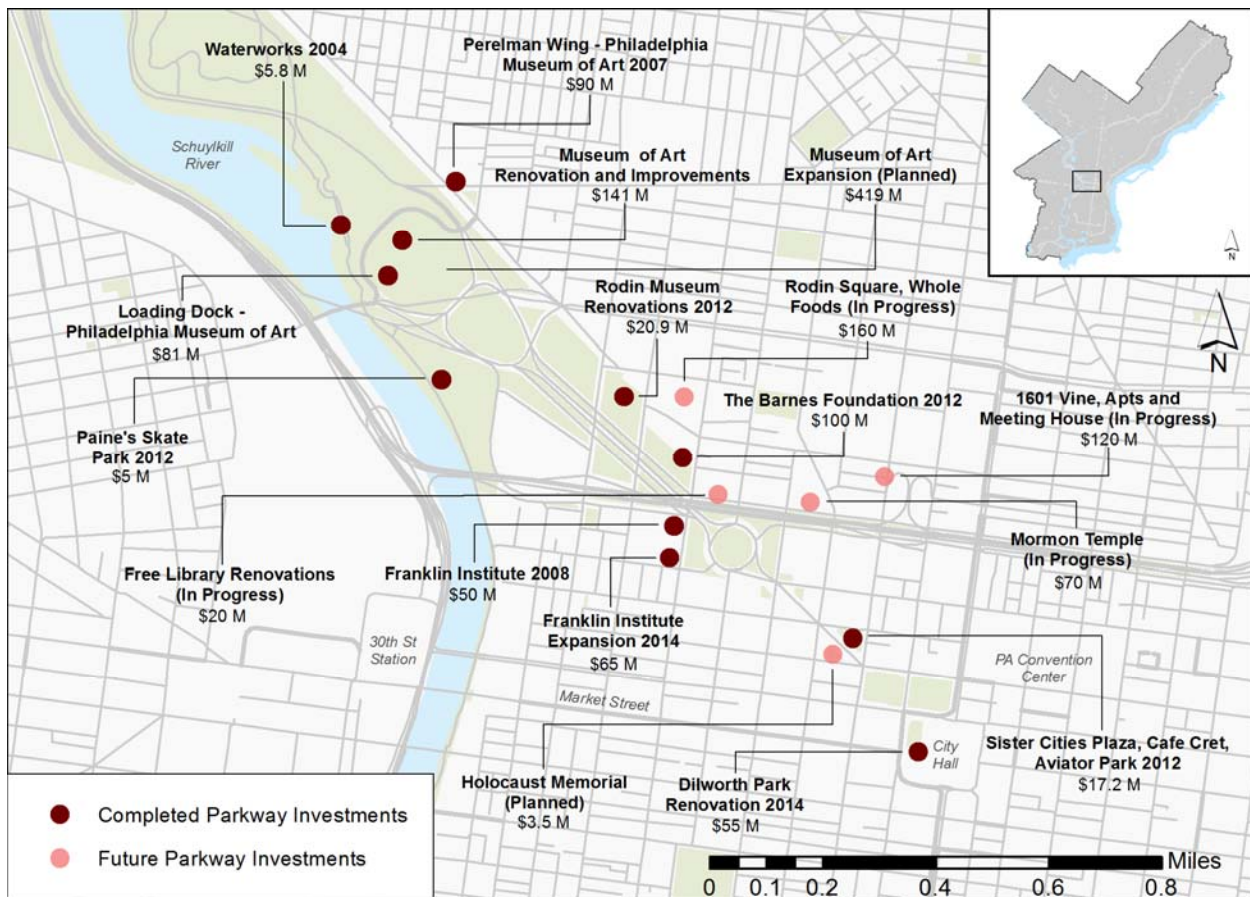
Source: City of Philadelphia Department of Commerce

North Broad Street Investments. The 2011 expansion of the Pennsylvania Convention Center reignited development efforts along this 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. Adjacent to the Convention Center, a 178-room Aloft Hotel by Starwood is under construction and expected to open in 2017.

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

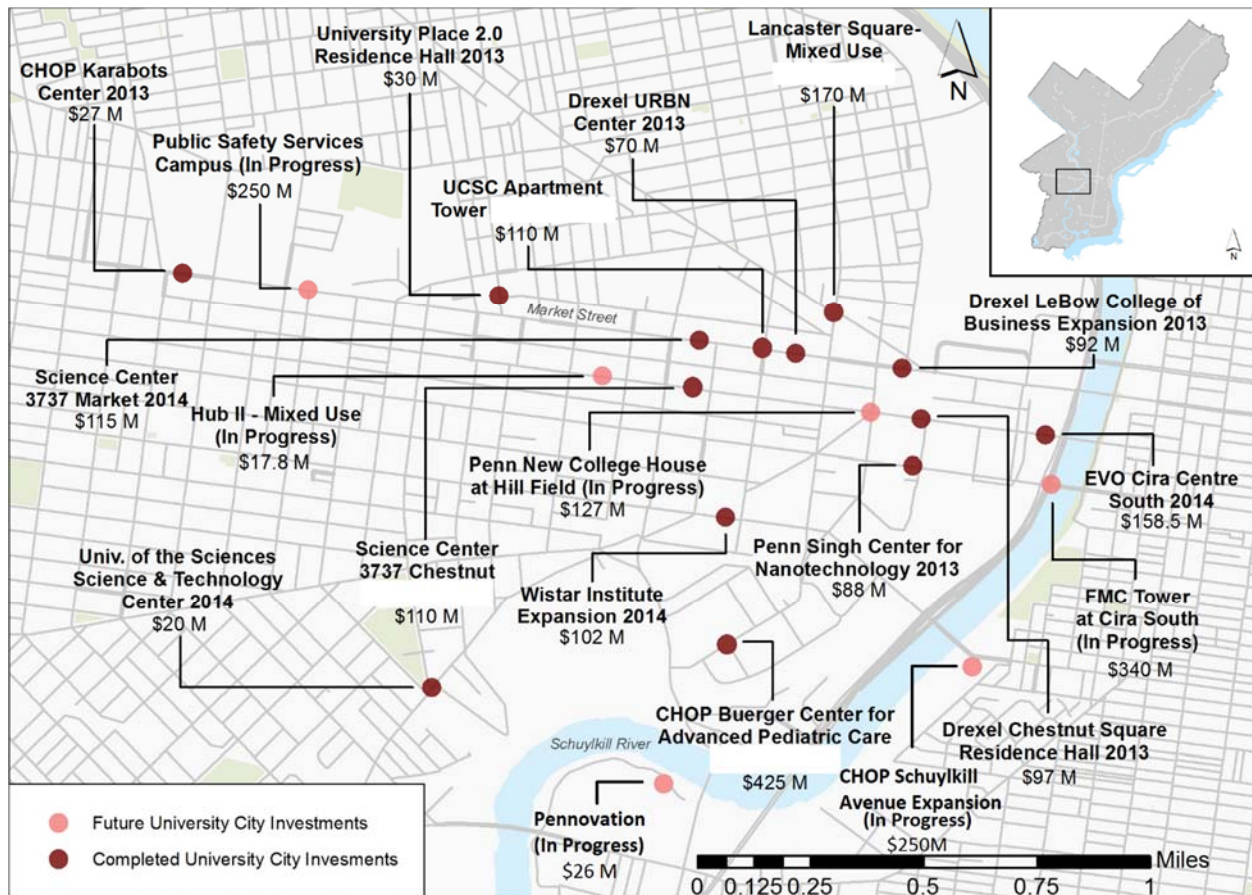
Parkway Investments. Complementing the Avenue of the Arts theater district developments, the Benjamin Franklin Parkway is a signature public investment. Conceived as early as 1871, and opened in 1929, the Benjamin Franklin Parkway was originally designed to ease traffic and beautify the City. It runs 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 Sciences, 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 October 2015, the Barnes welcomed its one millionth visitor since opening on the Parkway. With membership over 85,000, 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.

Figure 6
Map of Selected University City Development Projects
Representing \$2.35 Billion in Selected Completed and Future Investments



Source: City of Philadelphia Department of Commerce

University City Investments. In addition to public and private investment occurring in Center City Philadelphia, the University City District on the west side of the Schuylkill River is experiencing a real estate development boom, driven in large part by the neighborhood's university and research institutional anchors. The University of Pennsylvania built the \$88 million Singh Center for Nanotechnology in 2013 and is investing \$127 million in a new residence hall called New College House at Hill Field. Drexel University invested nearly \$300 million into University City in 2013, and is planning for an additional \$3.5 billion over 20 years in the development of Schuylkill Yards. The Science Center completed a new 334,000-square-foot building in summer 2014 and is currently investing \$115 million in another space. As highlighted in Figure 6, a number of these development projects represent investments exceeding \$100 million each.

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, Washington Avenue Green in 2014, and Pier 68 in September 2015. All three parks are adaptive reuse projects built on former pier structures. 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 2015, \$60 million was invested by SRDC, the City, and their partners along the tidal Schuylkill 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. In October 2015, Philadelphia was awarded \$10.265 million in federal TIGER grants, split between three projects across the City. The City will use \$3.265 million of the grant to convert an abandoned swing rail bridge over the Schuylkill River near Grays Ferry into a bridge trail.

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, completed in 2015, added 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 operational, current revenue levels are expected to remain relatively unchanged. In fiscal year 2015, the casino's total revenue was \$271,201,316, an increase of 0.6 percent from 2013, and it employed 1,204 people in 2015, up from 1,128 in 2013.

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 the 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, team performance has contributed to a significant decline in overall attendance, dropping the Phillies attendance ranking to 16 out of 30 teams in 2014 and 25 out of 30 in 2015.

In 2012, Xfinity Live! Philadelphia, a 50,000 square foot sports entertainment and dining complex, opened within the sports complex. 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. Cordish is currently in early conceptual planning stages of a phased expansion of the complex that could include retail, hotel and theater space. 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. The \$425 million, 200,000-square-foot casino will 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. The license award has been challenged by several court appeals; in March 2016, the Pennsylvania Supreme Court ruled that the Pennsylvania Gaming Control Board must take a closer look at the company's ownership structure. Cordish was granted zoning approval in December 2015 and plans to complete the project in 2018, pending further approvals.

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 20 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 launched the Indego bike share program, sponsored by Independence Blue Cross, in April 2015. The system launched with 600 bicycles and 70 stations throughout the City from Temple University in North Philadelphia to Tasker Street in South Philadelphia and from the Delaware River to 44th Street in west Philadelphia. Indego is the first bike share system in the United States to launch with a cash payment option for members. In 2016, the City expanded Indego to 1,000 bicycles and 103 bike share stations.

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 Department"). The water and wastewater systems are referred to herein individually as the "Water System" and "Wastewater System," respectively.

The Water System's service area includes the City of Philadelphia and has one wholesale water contract. Based on the 2015 U.S. Census Bureau estimate, the Water System served approximately 1,567,442 individuals.

As of June 30, 2015, the Water System served approximately 480,000 active retail customer accounts using approximately 3,100 miles of mains and approximately 25,000 fire hydrants. The City obtains approximately 56% of its water from the Delaware River and the balance from the Schuylkill River. The City is authorized by the Pennsylvania Department of Environmental Protection (the "PaDEP") to withdraw up to 423 million gallons per days ("MGD") from the Delaware River and up to 258 MGD from the Schuylkill River. The Water Department and PaDEP are in the process of renewing the Water Department's water allocation permits. Once the permits are renewed, the Water Department will begin discussions with the Delaware River Basin Commission to ratify it.

Water treatment is provided by the Samuel S. Baxter Water Treatment Plant on the Delaware River and by the Belmont and Queen Lane Water Treatment Plants on the Schuylkill River. The combined rated treatment capacity of these plants under the Water Department's Partnership for Safe Water procedures is 546 MGD, and their combined maximum treatment capacity is 680 MGD. The storage capacity for treated and untreated water in the combined plant and distribution system totals 1,065.5 million gallons ("MG"). In Fiscal Year 2016, the Water System distributed 81,687 MG of water at an average daily rate of 223.8 MGD. In Fiscal Year 2016, the maximum water production experienced by the Water System in one day was 258.2 MG.

The Wastewater System's service area is the City of Philadelphia and ten wholesale contracts with municipalities in the Philadelphia metropolitan area. Based on the 2015 U.S. Census Bureau estimate, the Wastewater System served approximately 1,567,442 individuals that live in the City and ten wholesale contracts.

As of June 30, 2016, the Wastewater System served approximately 545,000 accounts, including approximately 50,000 stormwater-only accounts, and ten wholesale contracts with neighboring municipalities and authorities.

The Wastewater System consists of three water pollution control plants ("WPCPs"), 19 pumping stations, approximately 3,700 miles of sewers, and a privately managed centralized biosolids handling facility. It includes 1,850 miles of combined sewers, 760 miles of sanitary sewers, 740 miles of stormwater sewers, 13 miles of force mains (sanitary and storm) and 349 miles of appurtenant piping. The three WPCPs processed a combined average of 379 MGD of wastewater in Fiscal Year 2016, have a 522 MGD combined average daily design capacity and a peak capacity of 1,059 MGD.

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 Kenney continues the City's commitment to make Philadelphia the greenest and most sustainable city in America. To aid in achieving this goal, the 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. The City introduced its new bicycle sharing system, Indego, in 2015, as further described in "TRANSPORTATION." Bicycle share programs have been successfully implemented in other cities worldwide.

APPENDIX D - FORMS OF OPINIONS OF BOND COUNSEL

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[FORMS OF OPINIONS OF BOND COUNSEL]

_____, 2016

Re: \$92,345,000, The School District of Philadelphia,
General Obligation Bonds, Series D of 2016

To the Purchasers of the Within-Described Series D Bonds:

We have served as Bond Counsel in connection with the issuance by The School District of Philadelphia (“School District”) of \$92,345,000, aggregate principal amount, General Obligation Bonds, Series D of 2016 (“Series D Bonds”). The Series D Bonds are issued pursuant to the Local Government Unit Debt Act, 53 Pa. C.S.A. §§ 8001 et seq. (“Act”), and an authorizing resolution duly adopted on October 20, 2016 (“Resolution”), by the School Reform Commission of the School District (“Commission”). The Series D Bonds are issued for the purpose of providing funds to pay: (i) the costs of the certain capital projects to be undertaken by the School District; and (ii) the costs of issuance of the Series D Bonds.

As Bond Counsel for the School District, we have examined: (a) the relevant provisions of the Constitution of the Commonwealth of Pennsylvania (“Commonwealth”); (b) the relevant provisions of the Public School Code of 1949, as amended; (c) the Act; (d) the Debt Statement of the School District filed with the Pennsylvania Department of Community and Economic Development (“Department”); (e) the proceedings of the Commission with respect to the authorization, issuance and sale of the Series D Bonds; and (f) certain statements, certifications, affidavits and other agreements and documents and matters of law which we have considered relevant, including, without limitation, a certification of officials of the School District having responsibility for the issuance of the Series D Bonds (“Tax Compliance Certificate”), given pursuant to the Internal Revenue Code of 1986, as amended (“Code”), and the other documents and instruments listed on the Closing Agenda in respect of the Series D Bonds dated the date hereof. We have also examined a fully executed and authenticated Series D Bond and we assume all other Series D Bonds are in such form and are similarly executed and authenticated.

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 upon the opinion of the General Counsel to the School District of even date herewith as to the absence of any litigation or other challenge to actions taken by the School District in connection with the authorization, issuance and sale of the Series D Bonds and other matters incident to, inter alia, the execution and delivery by the School District of the Series D Bonds, and such other documentation as the School District, or members or officers of the

Commission or officials of the School District, were required to execute in connection with the issuance of the Series D Bonds.

Except with respect to paragraph 6 below, our opinion is given only with respect to the laws of the Commonwealth as enacted and construed on the date hereof.

On the basis of the foregoing, we are of the opinion that:

1. The School District is authorized under the provisions of the Constitution and laws of the Commonwealth to issue the Series D Bonds for the purposes therein set forth; the School District has duly authorized the issuance thereof and the Department has duly approved such issuance.

2. The present net non-electoral debt of the School District (including the debt evidenced by the Series D Bonds and all other bonds issued by or on behalf of the School District concurrently with the issuance of the Series D Bonds) and the present net lease rental debt of the School District do not exceed the limitations imposed by the Act.

3. The School District has established a sinking fund for the Series D Bonds with The Bank of New York Mellon Trust Company, N.A., as paying agent, registrar, transfer agent and sinking fund depository ("Fiscal Agent"), and has covenanted to deposit into the sinking funds amounts sufficient to pay the principal of and interest on the Series D Bonds as the same becomes due and payable and to apply the amounts so deposited to the payment of such principal and interest.

4. The School District has effectively covenanted (i) to include the amount of debt service for the Series D Bonds for each fiscal year in which such sums are due and payable in its budget for that year, (ii) to appropriate such amounts from its general revenues for the payment of such debt service, and (iii) to duly and punctually pay, or cause to be paid, from its sinking funds or any other of its revenues or funds, the principal of and the interest on the Series D Bonds on the dates and in the places and in the manner stated in the Series D Bonds according to the true intent and meaning thereof; for such budgeting, appropriation and payment the School District has pledged, with respect to the Series D Bonds, its full faith, credit and taxing power.

5. The Series D Bonds have been duly authorized, executed, authenticated, issued and delivered, and are the legal, valid and binding general obligations of the School District, payable from the revenues of the School District from whatever source derived, which revenues at the time of the issuance and sale of the Series D Bonds include (within the limits prescribed by law) ad valorem taxes levied upon all the taxable property within the School District, and are enforceable in accordance with the terms thereof, except as enforcement may be affected by bankruptcy, insolvency, reorganization, moratorium or other similar laws or legal or equitable principles affecting the enforcement of creditors' rights.

6. Under existing statutes, regulations, rulings and court decisions, interest on the Series D Bonds will not be includible in gross income of the holders thereof for federal income tax purposes, assuming continuing compliance by the School District with the requirements of

the Code. Interest on the Series D Bonds will not be a specific preference item for purposes of computing the federal alternative minimum tax ("AMT"); however, interest on the Series D Bonds held by corporations is included in the computation of "Adjusted Current Earnings," a portion of which is taken into account in determining the AMT imposed on corporations.

In rendering this opinion, we have assumed compliance by the School District with its covenants contained in the Resolution and the representations in the Tax Compliance Certificate relating to actions to be taken by the School District after the issuance of the Series D Bonds necessary to effect or maintain the exclusion from federal gross income of the interest on the Series D Bonds and rebate to the United States Treasury of specified arbitrage earnings, if any. Failure to comply with such covenants and representations could result in interest on the Series D Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Series D Bonds.

7. Under the laws of the Commonwealth, as enacted and construed on the date hereof, interest on the Series D Bonds is exempt from Pennsylvania personal property taxes and interest on the Series D Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax; however, any profits, gains or income derived from the sale, exchange or other disposition of the Series D Bonds will be subject to Commonwealth taxes and local taxes within the Commonwealth.

We express no opinion on 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 any changes in fact or law that may hereafter occur or changes in facts or circumstances that 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 Series D Bonds, and make no representation that we have independently verified the contents thereof.

Very truly yours,

_____, 2016

Re: \$147,245,000, The School District of Philadelphia,
General Obligation Bonds, Series E of 2016 (Qualified
School Construction Bonds – Federally Taxable – Direct Subsidy)

To the Purchasers of the Within-Described Series E Bonds:

We have served as Bond Counsel in connection with the issuance by The School District of Philadelphia (“School District”) of \$147,245,000 aggregate principal amount, General Obligation Bonds, Series E of 2016 (Qualified School Construction Bonds – Federally Taxable-Direct Subsidy) (“Series E Bonds”). The Series E Bonds are issued pursuant to the Local Government Unit Debt Act, 53 Pa. C.S.A. §§ 8001 et seq. (“Act”), and an authorizing resolution duly adopted on October 20, 2016 (“Resolution”), by the School Reform Commission of the School District (“Commission”). The Series E Bonds are issued for the purpose of providing funds to pay: (i) the costs of the certain capital projects to be undertaken by the School District that constitute “qualified expenditures” under Section 54F of the Internal Revenue Code of 1986, as amended (the “Code”); and (ii) the costs of issuance of the Series E Bonds, not to exceed two percent of the proceeds of the Series E Bonds.

As Bond Counsel for the School District, we have examined: (a) the relevant provisions of the Constitution of the Commonwealth of Pennsylvania (“Commonwealth”); (b) the relevant provisions of the Public School Code of 1949, as amended; (c) the Act; (d) the Debt Statement of the School District filed with the Pennsylvania Department of Community and Economic Development (“Department”); (e) the proceedings of the Commission with respect to the authorization, issuance and sale of the Series E Bonds; and (f) certain statements, certifications, affidavits and other agreements and documents and matters of law which we have considered relevant, including, without limitation, a certification of officials of the School District having responsibility for the issuance of the Series E Bonds, given pursuant to the Code, and the other documents and instruments listed on the Closing Agenda in respect of the Series E Bonds dated the date hereof. We have also examined a fully executed and authenticated Series E Bond and we assume all other Series E Bonds are in such form and are similarly executed and authenticated.

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 upon the opinion of the General Counsel to the School District of even date herewith as to the absence of any litigation or other challenge to actions taken by the School District in connection with the authorization, issuance and sale of the Series E Bonds and other matters incident to, inter alia, the execution and delivery by the School District of the Series E Bonds, and such other documentation as the School District, or members or officers of the

Commission or officials of the School District, were required to execute in connection with the issuance of the Series E Bonds.

Except with respect to paragraph 6 below, our opinion is given only with respect to the laws of the Commonwealth as enacted and construed on the date hereof.

On the basis of the foregoing, we are of the opinion that:

1. The School District is authorized under the provisions of the Constitution and laws of the Commonwealth to issue the Series E Bonds for the purposes therein set forth; the School District has duly authorized the issuance thereof and the Department has duly approved such issuance.

2. The present net non-electoral debt of the School District (including the debt evidenced by the Series E Bonds and all other bonds issued by or on behalf of the School District concurrently with the issuance of the Series E Bonds) and the present net lease rental debt of the School District do not exceed the limitations imposed by the Act.

3. The School District has established a sinking fund for the Series E Bonds with The Bank of New York Mellon Trust Company, N.A., as paying agent, registrar, transfer agent and sinking fund depository ("Fiscal Agent"), and has covenanted to deposit into the sinking funds amounts sufficient to pay the principal of, mandatory sinking fund installments and interest on the Series E Bonds as the same becomes due and payable and to apply the amounts so deposited to the payment of such principal and interest.

4. The School District has effectively covenanted (i) to include the amount of debt service for the Series E Bonds (including the amount of required mandatory sinking fund installments) for each fiscal year in which such sums are due and payable in its budget for that year, (ii) to appropriate such amounts from its general revenues for the payment of such debt service (including the amount of required mandatory sinking fund installments), and (iii) to duly and punctually pay, or cause to be paid, from its sinking funds or any other of its revenues or funds, the principal of and the interest on the Series E Bonds on the dates and in the places and in the manner stated in the Series E Bonds according to the true intent and meaning thereof; for such budgeting, appropriation and payment the School District has pledged, with respect to the Series E Bonds, its full faith, credit and taxing power.

5. The Series E Bonds have been duly authorized, executed, authenticated, issued and delivered, and are the legal, valid and binding general obligations of the School District, payable from the revenues of the School District from whatever source derived, which revenues at the time of the issuance and sale of the Series E Bonds include (within the limits prescribed by law) ad valorem taxes levied upon all the taxable property within the School District, and are enforceable in accordance with the terms thereof, except as enforcement may be affected by bankruptcy, insolvency, reorganization, moratorium or other similar laws or legal or equitable principles affecting the enforcement of creditors' rights.

6. Interest on the Series E Bonds is includible in gross income of the holders thereof for federal income tax purposes.

7. Under the laws of the Commonwealth, as enacted and construed on the date hereof, interest on the Series E Bonds is exempt from Pennsylvania personal property taxes and interest on the Series E Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax; however, any profits, gains or income derived from the sale, exchange or other disposition of the Series E Bonds will be subject to Commonwealth taxes and local taxes within the Commonwealth.

We express no opinion on 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 any changes in fact or law that may hereafter occur or changes in facts or circumstances that 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 Series E Bonds, and make no representation that we have independently verified the contents thereof.

Very truly yours,

_____, 2016

Re: \$582,155,000, The School District of Philadelphia,
General Obligation Refunding Bonds, Series F of 2016

To the Purchasers of the Within-Described Series F Bonds:

We have served as Bond Counsel in connection with the issuance by The School District of Philadelphia ("School District") of \$582,155,000 aggregate principal amount, General Obligation Refunding Bonds, Series F of 2016 ("Series F Bonds"). The Series F Bonds are issued pursuant to the Local Government Unit Debt Act, 53 Pa. C.S.A. §§ 8001 et seq. ("Act"), and an authorizing resolution duly adopted on October 20, 2016 ("Resolution"), by the School Reform Commission of the School District ("Commission"). The Series F Bonds are issued for the purpose of providing funds, together with certain other available moneys, to: (i) advance refund a portion of the School District's General Obligation Bonds, Series E of 2008 and Series F of 2008; (ii) currently refund all of the School District's General Obligation Bonds, Series A of 2016, Series B of 2016 and Series C of 2016; and (iii) pay the costs of issuance of the Series F Bonds.

As Bond Counsel for the School District, we have examined: (a) the relevant provisions of the Constitution of the Commonwealth of Pennsylvania ("Commonwealth"); (b) the relevant provisions of the Public School Code of 1949, as amended; (c) the Act; (d) the Debt Statement of the School District filed with the Pennsylvania Department of Community and Economic Development ("Department"); (e) the proceedings of the Commission with respect to the authorization, issuance and sale of the Series F Bonds; and (f) certain statements, certifications, affidavits and other agreements and documents and matters of law which we have considered relevant, including, without limitation, a certification of officials of the School District having responsibility for the issuance of the Series F Bonds ("Tax Compliance Certificate"), given pursuant to the Internal Revenue Code of 1986, as amended ("Code"), and the other documents and instruments listed on the Closing Agenda in respect of the Series F Bonds dated the date hereof. We have also examined a fully executed and authenticated Series F Bond and we assume all other Series F Bonds are in such form and are similarly executed and authenticated.

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 upon the opinion of the General Counsel to the School District of even date herewith as to the absence of any litigation or other challenge to actions taken by the School District in connection with the authorization, issuance and sale of the Series F Bonds and other matters incident to, inter alia, the execution and delivery by the School District of the Series F Bonds, and such other documentation as the School District, or members or officers of the

Commission or officials of the School District, were required to execute in connection with the issuance of the Series F Bonds.

Except with respect to paragraph 6 below, our opinion is given only with respect to the laws of the Commonwealth as enacted and construed on the date hereof.

On the basis of the foregoing, we are of the opinion that:

1. The School District is authorized under the provisions of the Constitution and laws of the Commonwealth to issue the Series F Bonds for the purposes therein set forth; the School District has duly authorized the issuance thereof and the Department has duly approved such issuance.

2. The present net non-electoral debt of the School District (including the debt evidenced by the Series F Bonds and all other bonds issued by or on behalf of the School District concurrently with the issuance of the Series F Bonds) and the present net lease rental debt of the School District do not exceed the limitations imposed by the Act.

3. The School District has established a sinking fund for the Series F Bonds with The Bank of New York Mellon Trust Company, N.A., as paying agent, registrar, transfer agent and sinking fund depository ("Fiscal Agent"), and has covenanted to deposit into the sinking funds amounts sufficient to pay the principal of and interest on the Series F Bonds as the same becomes due and payable and to apply the amounts so deposited to the payment of such principal and interest.

4. The School District has effectively covenanted (i) to include the amount of debt service for the Series F Bonds for each fiscal year in which such sums are due and payable in its budget for that year, (ii) to appropriate such amounts from its general revenues for the payment of such debt service, and (iii) to duly and punctually pay, or cause to be paid, from its sinking funds or any other of its revenues or funds, the principal of and the interest on the Series F Bonds on the dates and in the places and in the manner stated in the Series F Bonds according to the true intent and meaning thereof; for such budgeting, appropriation and payment the School District has pledged, with respect to the Series F Bonds, its full faith, credit and taxing power.

5. The Series F Bonds have been duly authorized, executed, authenticated, issued and delivered, and are the legal, valid and binding general obligations of the School District, payable from the revenues of the School District from whatever source derived, which revenues at the time of the issuance and sale of the Series F Bonds include (within the limits prescribed by law) ad valorem taxes levied upon all the taxable property within the School District, and are enforceable in accordance with the terms thereof, except as enforcement may be affected by bankruptcy, insolvency, reorganization, moratorium or other similar laws or legal or equitable principles affecting the enforcement of creditors' rights.

6. Under existing statutes, regulations, rulings and court decisions, interest on the Series F Bonds will not be includible in gross income of the holders thereof for federal income tax purposes, assuming continuing compliance by the School District with the requirements of

the Code. Interest on the Series F Bonds will not be a specific preference item for purposes of computing the federal alternative minimum tax ("AMT"); however, interest on the Series F Bonds held by corporations is included in the computation of "Adjusted Current Earnings," a portion of which is taken into account in determining the AMT imposed on corporations.

In rendering this opinion, we have assumed compliance by the School District with its covenants contained in the Resolution and the representations in the Tax Compliance Certificate relating to actions to be taken by the School District after the issuance of the Series F Bonds necessary to effect or maintain the exclusion from federal gross income of the interest on the Series F Bonds and rebate to the United States Treasury of specified arbitrage earnings, if any. Failure to comply with such covenants and representations could result in interest on the Series F Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Series F Bonds.

7. Under the laws of the Commonwealth, as enacted and construed on the date hereof, interest on the Series F Bonds is exempt from Pennsylvania personal property taxes and interest on the Series F Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax; however, any profits, gains or income derived from the sale, exchange or other disposition of the Series F Bonds will be subject to Commonwealth taxes and local taxes within the Commonwealth.

We express no opinion on 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 any changes in fact or law that may hereafter occur or changes in facts or circumstances that 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 Series F Bonds, and make no representation that we have independently verified the contents thereof.

Very truly yours,

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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 _____, 2016, by and between The School District of Philadelphia (the “School District”), and The Bank of New York Mellon Trust Company, N.A., having a corporate trust office in Philadelphia, Pennsylvania, as sinking fund depository, transfer agent, registrar and paying agent (the “Fiscal Agent”) under a Fiscal Agent’s Agreement, dated _____, 2016 (the “Fiscal Agent’s Agreement”) in connection with the issuance and sale by the School District of \$92,345,000 General Obligation Bonds, Series D of 2016 (the “Series D Bonds”), \$147,245,000 General Obligation Bonds, Series E of 2016 (Qualified School Construction Bonds - Federally Taxable- Direct Subsidy) (the “Series E Bonds”), and \$582,155,000 General Obligation Refunding Bonds, Series F of 2016 (the “Series F Bonds,” and together with the Series D Bonds, and the Series E Bonds, the “Bonds”). The Bonds are being issued by the School District pursuant to (i) the Local Government Unit Debt Act, 53 Pa.C.S. §§8001 et seq. (the “Act”); and (ii) a Resolution of the School Reform Commission of the School District (the “School Reform Commission”) adopted on October 20, 2016 (the “Resolution”).

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,” “Local Tax Revenues Subject to the Daily Deposit Covenant by Month,” and “Assessed and Estimated Actual Market Value of Taxable Real Estate” in Appendix A annexed to the Official Statement of the School District relating to the Bonds, dated October 20, 2016. The Annual Financial Information will be included in and will be submitted in the form of the School District’s Comprehensive Annual Financial Report (“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 Fiscal Agent 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 Fiscal Agent.

“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 Fiscal Agent for that purpose in accordance with the Resolution 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 Fiscal Agent 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 Fiscal Agent 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.

“Securities Depository” means The Depository Trust Company, New York, New York, or its nominee, Cede & Co., or any successor thereto appointed pursuant to the Resolution.

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 Fiscal Agent’s Agreement, if defined therein, or in the Resolution, 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 pursuant to Section 31 of the Resolution 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, 2016, the Disclosure Representative shall file with the Fiscal Agent

Annual Financial Information for such fiscal year. The Fiscal Agent 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, 2016, the Disclosure Representative shall file the audited financial statements with the Fiscal Agent. The Fiscal Agent shall promptly upon receipt thereof file the audited financial statements with the MSRB via EMMA.

If the Fiscal Agent 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 Fiscal Agent 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 Fiscal Agent, 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.

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

(b) The School District agrees that it shall provide through the Fiscal Agent, in a timely manner not in excess of ten Business Days after the occurrence of the event, and upon determining the materiality 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) 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 Fiscal Agent in writing of such occurrence, specifying the Listed Event or Material Event. Such notice shall instruct the Fiscal Agent to file a notice of such occurrence with the MSRB via EMMA. Upon receipt, the Fiscal Agent shall promptly file such notice with the MSRB via EMMA.

(d) Notwithstanding the foregoing, the Fiscal Agent shall, promptly after obtaining actual knowledge of an event listed in Sections 4(a)(1) 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 Fiscal Agent written instructions not to file such notice because the event has not occurred or the event listed in Section 4(b) above is not material within the meaning of the Rule.

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.

(e) The Fiscal Agent shall provide confirmation of filing for each notice delivered pursuant to Sections 4(a) and (b) hereunder. Such confirmation shall include the date and hour of receipt of such filing by the MSRB and 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 Fiscal Agent.

Section 5. Amendment; Waiver.

(a) Notwithstanding any other provision of this Disclosure Agreement, the School District and the Fiscal Agent 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 Fiscal Agent 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 Fiscal Agent, to the effect that the amendment or waiver satisfies the conditions set forth in clauses (a)(1), (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 Fiscal Agent upon execution of the amendment or waiver and the Fiscal Agent shall promptly file such notice with the MSRB via EMMA. The Fiscal Agent 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 Fiscal Agent).

Section 6. Other Information; Duties Under the Resolution.

(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 Fiscal Agent of any of its duties and obligations under the Resolution or Fiscal Agent's Agreement.

(c) Except as expressly set forth in this Disclosure Agreement, the Fiscal Agent shall have no responsibility for any continuing disclosure to the Registered Owners or the MSRB.

(d) The School District and the Fiscal Agent 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 Fiscal Agent fails to comply with any provision of this Disclosure Agreement, the Fiscal Agent 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 Fiscal Agent, as applicable, to perform each and every term, provision and covenant contained in this Disclosure Agreement. The Fiscal Agent 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 Fiscal Agent'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, the Resolution, the Act or the Public School Code of 1949, as amended, and the sole remedy in the event of a failure by the School District or the Fiscal Agent to comply with the provisions hereof shall be the action to compel performance described in clause (a) above.

Section 8. Concerning the Fiscal Agent.

(a) The Fiscal Agent 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 Fiscal Agent shall not be answerable for the default or misconduct of any attorney, agent, expert or employee selected by it with reasonable care. The Fiscal Agent 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 Fiscal Agent 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 Fiscal Agent and the School District. To the extent permitted by law, the School District will reimburse the Fiscal Agent 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 Fiscal Agent's fees and expenses referred to in the preceding sentence hereof) (collectively, "Expenses") that are imposed on or are incurred by the Fiscal Agent for following any instructions or directions upon which the Fiscal Agent is authorized to rely hereunder. In addition, to the extent permitted by law, the School District agrees to reimburse the Fiscal Agent for Expenses imposed on or incurred by the Fiscal Agent in connection with or arising out of the Fiscal Agent's performance under this Disclosure Agreement; provided that the Fiscal Agent 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 Fiscal Agent.

(c) The Fiscal Agent 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 Fiscal Agent 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. Except as provided in the last paragraph of Section 3 and in Section 4(d) hereof, it is understood and agreed that any information that the Fiscal Agent may be instructed to file with the MSRB shall be prepared and provided to it by the School District. Except as provided in the last paragraph of Section 3 and in Section 4(d) hereof, the Fiscal Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this Disclosure Agreement, and has no liability to any person, including any holder of Bonds, with respect to the content of any such reports, notices or disclosures.

Section 9. 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 10. Beneficiaries.

This Disclosure Agreement shall inure solely to the benefit of the School District, the Fiscal Agent and the Registered Owners from time to time of the Bonds and nothing herein contained shall confer any right upon any other person.

Section 11. 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 Fiscal Agent 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: umonson@philasd.org

- (c) To the MSRB at:

<http://emma.msrb.org>

Section 12. 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 13. Controlling Law.

The laws of the Commonwealth of Pennsylvania shall govern the construction and interpretation of this Disclosure Agreement.

Section 14. Removal and Resignation of Fiscal Agent.

The provisions of Section 13 of the Fiscal Agent's Agreement shall govern resignation or removal of the Fiscal Agent and are hereby incorporated by this reference as if set forth at length herein.

Section 15. 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 Fiscal Agent shall bind and inure to the benefit of their respective successors and assigns, whether so expressed or not. The provisions of Section 14 of the Fiscal Agent's Agreement governing assignment are hereby incorporated by this reference as if set forth at length herein.

Section 16. 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 17. 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 18. 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.

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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 Fiscal Agent**

By: _____
Authorized Officer

[Signature Page to Continuing Disclosure Agreement]

APPENDIX F - BOOK-ENTRY-ONLY SYSTEM

The information in this APPENDIX F has been obtained from The Depository Trust Company (“DTC”), New York, New York for such purpose. The School District and the Underwriters do not assume any responsibility for the accuracy or completeness of such information, and such information is not to be construed as a representation of the School District or the Underwriters. The websites referenced below are included for reference only and the information contained therein is not a representation of the School District or the Underwriters.

DTC, New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds 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 certificate will be issued for each series and maturity of the Bonds, each in the aggregate principal amount of such series and maturity, and will be deposited with DTC or pursuant to its instructions.

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, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, 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 the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each 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 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 the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all 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 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the 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 Bonds (other than the Series E Bonds) within a series and maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such series and maturity to be redeemed. In the case of any partial redemption of the Series E Bonds, DTC will select the Series E Bonds to be redeemed on a pro rata pass through distribution of principal basis.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to an issuer 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 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 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 School District or the Fiscal Agent, 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 Bonds 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, the School District or the Fiscal Agent, 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 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of School District or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners (as defined herein) will be the responsibility of Direct and Indirect Participants.

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

THE SCHOOL DISTRICT AND THE FISCAL AGENT CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE BONDS (1) PAYMENTS OF PRINCIPAL OF, OR INTEREST ON THE BONDS, (2) CONFIRMATION OF BENEFICIAL OWNERSHIP INTEREST IN THE BONDS, OR (3) REDEMPTION OR OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE REGISTERED OWNER OF THE 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 SCHOOL DISTRICT NOR THE FISCAL AGENT 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 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 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 RESOLUTION TO BE GIVEN TO BONDHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER OF THE BONDS.

The School District may determine to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be prepared and delivered as described in the Resolution.

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

In the event that the Book-Entry-Only System is discontinued and the Beneficial Owners become registered owners of the Bonds, the following provisions applicable to registered owners would apply: (i) Bonds may be exchanged for an equal aggregate principal amount of Bonds of the same maturity and series in other authorized denominations, upon surrender thereof at the designated corporate trust office of the Fiscal Agent; (ii) the transfer of any Bonds may be registered on the books maintained by the Fiscal Agent for such purpose only upon the surrender thereof to the Fiscal Agent together with a duly executed assignment in form satisfactory to the School District and the Fiscal Agent; and (iii) for every exchange or registration or transfer of Bonds, the Fiscal Agent may impose a charge sufficient to reimburse it for any tax, fee or governmental charge required to be paid with respect to such exchange or registration of transfer of the Bonds.

