



CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER
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ALAN BUTKOVITZ
City Controller

GERALD V. MICCIULLA
Deputy City Controller

February 21, 2014

Members of the School Reform Commission
440 N. Broad Street
Philadelphia, PA 19130

In accordance with the Philadelphia Home Rule Charter, the Office of the Controller conducted an audit of the basic financial statements of the School District of Philadelphia as of and for the fiscal year ended June 30, 2013.

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. Our audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. It also included evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

Attached is our Independent Auditor's Report, signed by my deputy who is a Certified Public Accountant. The report concludes that the School District's 2013 basic financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

We would like to express our thanks to management and staff of the School District of Philadelphia for their courtesy and cooperation in the conduct of the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Alan Butkovitz", written over a horizontal line.

ALAN BUTKOVITZ
City Controller

cc: William R. Hite, Jr., Ed.D., Superintendent of Schools
Matthew E. Stanski, Chief Financial Officer
Marcy F. Blender, CPA, Deputy Chief Financial Officer,
Accounting Services and Audit Coordination



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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, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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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, 2013, 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.

Changes in Accounting Principles

As discussed in Note 1.C. to the financial statements, in 2013 the School District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. Additionally, as discussed in Note 1.D.(12) to the financial statements, in 2013 the School District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, Financial Reporting of Outflows of Resources, Deferred Inflows of Resources, and Net Position.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 16 through 32, and the major funds budgetary comparison schedules, the other postemployment life insurance benefits schedule of funding progress, and the related notes to required supplementary information on pages 88 through 92 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit for the year ended June 30, 2013 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, 2013, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Other Supplementary Information has been subjected to the auditing procedures applied in the audits of the basic financial statements for the year ended June 30, 2013, 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, 2013.

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

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the School District's basic financial statements as of and for the year ended June 30, 2012 (not presented herein), and have issued our report thereon dated February 11, 2013, which contained unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the

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aggregate remaining fund information. The 2012 amounts included in the Comparative Schedule by Source of Capital Assets Used in the Operation of Governmental Funds for the year ended June 30, 2012 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 2012 financial statements. The 2012 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 2012 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 2012 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, 2012.



GERALD V. MICCIULLA, CPA
Deputy City Controller
Philadelphia, Pennsylvania
February 19, 2014