

Finance and Audit Committee

JANUARY 23, 2019



CHICAGO PUBLIC SCHOOLS ANNUAL FINANCIAL AUDIT & FEDERAL SINGLE AUDIT RESULTS

**FOR FISCAL YEAR ENDING JUNE 30, 2018
BOARD PRESENTATION
JANUARY 23, 2019**

DEPARTMENT OF FINANCE



ANNUAL EXTERNAL AUDIT COMPONENTS

ANNUAL FINANCIAL AUDIT:

- ❑ Statutorily required audit performed by independent certified public accountants and covers all CPS policies, procedures and Board Rules, as well as the District's financial and non-financial records.
- ❑ The audit culminates in the preparation and issuance of the District's Comprehensive Annual Financial Report (CAFR), and continuing our efforts to increase financial transparency, the District will also issue a Popular Annual Financial Report (PAFR), which gives real world explanations of the District's financial condition and initiatives.
- ❑ The deliverable is an Unmodified Audit Opinion on the District's financial statements.

FEDERAL SINGLE AUDIT (FEDERAL GRANTS):

- ❑ Simultaneously conducted audit of all the District's major Federal grant programs and in Fiscal Year 2018, the major programs tested included Nutrition, 21st Century CCLC's and the SSAE programs.
- ❑ Expenditure and compliance-based, which includes all CPS charter schools, as they are considered subrecipients of CPS due to the "pass-thru" of Federal funding to these entities.
- ❑ The audit culminates in the preparation and issuance of the Schedule of Expenditures of Federal Awards (SEFA), which we include in the CAFR document for easier reference.
- ❑ Deliverables include Unmodified Audit Opinions on the SEFA, the District's internal controls over financial reporting and compliance and the major Federal programs (in relation to the Uniform Guidance).

ANNUAL EXTERNAL AUDIT COMPONENTS CONT'D

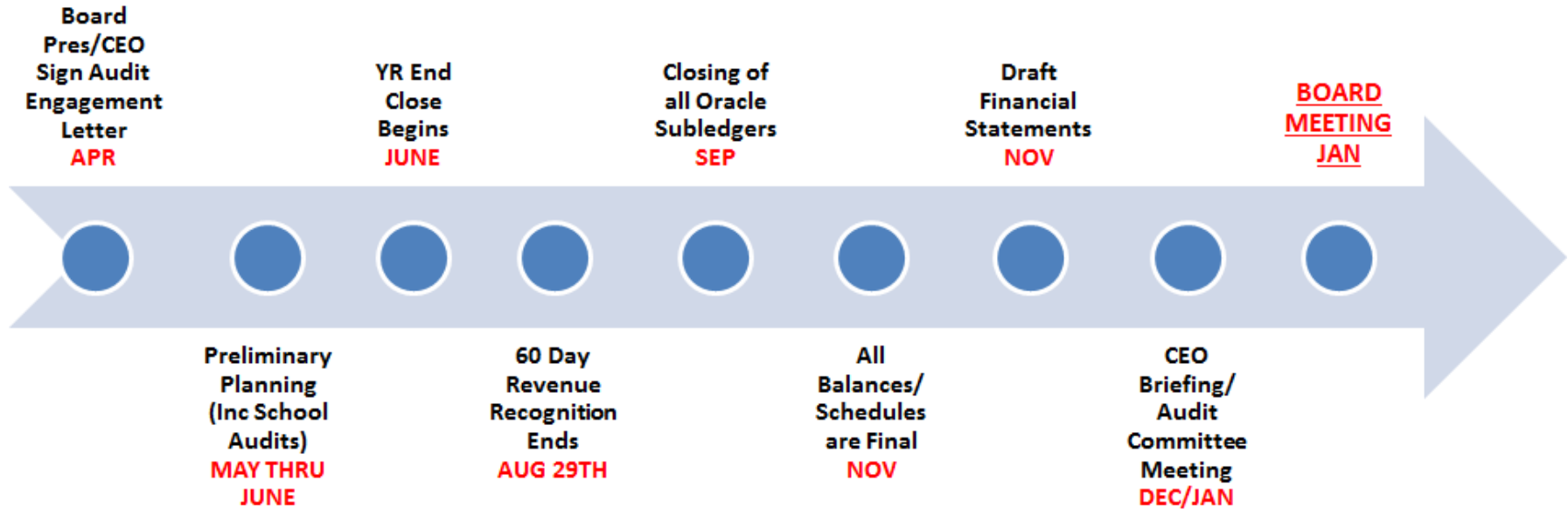
ILLINOIS STATE BOARD OF EDUCATION ANNUAL FINANCIAL REPORT (AFR):

- Statutorily required report of the District's financial activities converted from the CAFR format to the ISBE format.
- The deliverable is a separate Audit Opinion issued by the external auditors on the information contained in the AFR.
- Due to the sheer size and complexity of Chicago Public Schools and the level of effort involved in the preparation of the report, the annual deadline is February 15th.

FEDERAL ANNUAL FINANCIAL REPORT ("FAFR") OR SITE-LEVEL REPORTING:

- New reporting requirement for site or school/department level reporting for all school districts nationwide under the Federal Every Student Succeeds Act (ESSA).
- The first required report is due no later than September 30, 2019 and will contain information that has not yet been audited.

CHICAGO PUBLIC SCHOOLS' ANNUAL EXTERNAL AUDIT PROCESS



ANNUAL FINANCIAL AUDIT

AUDIT FINDINGS FOR THE LAST FIVE YEARS

WHAT IS AN AUDIT FINDING?

- 1. Material Weakness**-An internal control deficiency(ies) which has a material effect(s) on the financial statements.
- 2. Significant Deficiency**-Less severe than a material weakness, but important enough to communicate to those in charge of governance.

Total Audit Findings By Year*:	2014	2015	2016	2017	2018
	24	19	14	0	0

**Includes all material weaknesses, significant deficiencies and control deficiencies reported to the Board of Education.*

There were no prior year Federal Single Audit findings or questioned costs to resolve as of June 30, 2018.

Major programs audited this year:

- Child Nutrition Cluster & Child/ Adult Care Food Program (“Nutrition”)
 - Twenty-First Century Community Learning Centers (“21st Century”)
 - Student Support and Academic Enrichment Program (“SSAE”)
- For both the Financial and Federal Single Audit, immaterial issues will be submitted to CPS management for review.

FINANCIAL HIGHLIGHTS (UNAUDITED)

YEAR OVER YEAR COMPARISON

Chicago Public Schools is required to issue two sets of financial statements. The first set is similar to financials issued by the private sector and the second set is preferred by government officials and our citizenry and ties directly to our annual budgets.

<i>Revenues and Other Financing Sources</i> <i>(In Millions)</i>	2018 Amount	2017 Amount	\$	%
			Increase (Decrease) from 2017	Increase (Decrease) from 2017
General Operating Fund	\$ 6,113	\$ 5,150	\$ 963	18.7%
Capital Projects Fund	445	926	(481)	-51.9%
Debt Service Fund	2,467	638	1,829	286.7%
All CPS Funds	\$ 9,025	\$ 6,714	\$ 2,311	34.4%

<i>Expenditures and Other Financing Uses</i> <i>(In Millions)</i>	2018 Amount	2017 Amount	\$	%
			Increase (Decrease) from 2017	Increase (Decrease) from 2017
General Operating Fund	\$ 5,514	\$ 5,298	\$ 216	4.1%
Capital Projects Fund	342	241	101	42.1%
Debt Service Fund	2,259	531	1,728	325.5%
All CPS Funds	\$ 8,115	\$ 6,070	\$ 2,045	33.7%

1. Revenues increased in the General Operating Fund due to increased State Aid as a result of the new EBF formula, State teacher's pension on-behalf payments and excess funds received from debt restructurings.
 2. In the Capital Projects Fund, Other Financing Sources decreased from lower bond issuance proceeds.
 3. In the Debt Service Fund, Other Financing Sources increased from higher debt issuance proceeds.
1. Expenses increased in the General Operating Fund due to increased instructional personnel, professional services from continued outsourcing of facilities management and telecom costs related to E-Rate.
 2. In the Capital Projects Fund, expenses were higher from increased spending for capital projects.
 3. In the Debt Service Fund, Other Financing Uses increased from debt restructuring transactions and bond refundings.

FINANCIAL HIGHLIGHTS (UNAUDITED)

YEAR OVER YEAR COMPARISON CONT'D

Net Change in Fund Balance <i>(In Millions)</i>			\$	%
	2018 Rev-Exp	2017 Rev-Exp	Increase (Decrease) from 2017	Increase (Decrease) from 2017
General Operating Fund	\$ 599	\$ (148)	\$ 747	504.7%
Capital Projects Fund	102	685	(583)	-85.1%
Debt Service Fund	208	107	101	94.0%
All CPS Funds	<u>\$ 909</u>	<u>\$ 644</u>	<u>\$ 265</u>	<u>41.1%</u>

Ending Fund Balance <i>(In Millions)</i>			\$	%
	2018 Amount	2017 Amount	Increase (Decrease) from 2017	Increase (Decrease) from 2017
General Operating Fund	\$ 324	\$ (275)	\$ 599	217.8%
Capital Projects Fund	895	793	102	12.9%
Debt Service Fund	785	577	208	36.0%
All CPS Funds	<u>\$ 2,004</u>	<u>\$ 1,095</u>	<u>\$ 909</u>	<u>83.0%</u>

- *In Fiscal Year 2018, the District is reporting a positive ending fund balance amount in the General Operating Fund for the first time since Fiscal Year 2015.*
- *Though the cumulative fund balance in the General Operating Fund increased to \$324MM in Fiscal Year 2018, \$80MM is restricted and/or unavailable for general use, leaving an "Unassigned" or available ending fund balance of \$244MM.*
- *The change is primarily attributable to the change in the State funding formula from 2017. Payments were received later in prior years and in some cases, the District was unable to recognize the revenue due to its 60 Day revenue recognition policy. One time debt structuring results also directly contributed \$287MM to the year over year change.*

BUDGETARY HIGHLIGHTS (UNAUDITED)

GENERAL OPERATING FUND

*Revenues, Other Financing Sources & Expenditures
General Operating Fund
Budget to Actual Comparison
(In millions)*

Total Budgeted
Revenues:
\$5.64B

Total Budgeted
Expenses:
\$5.70B

Total Actual
Revenues:
\$6.11B

Total Actual
Expenses:
\$5.51B

	FY2018 Original Budget	Supplemental Appropriations & Transfers In/(Out)	Final Appropriations	Fiscal FY2018 Actual	Over (under) Budget
Revenues:					
Property taxes.....	\$ 2,809	\$ -	\$ 2,809	\$ 2,795	\$ (14)
Replacement taxes.....	90	-	90	110	20
State aid.....	1,699	-	1,699	1,860	161
Federal aid.....	773	-	773	723	(50)
Interest and investment earnings.....	1	-	1	6	5
Other.....	270	-	270	332	62
Subtotal.....	\$ 5,642	\$ -	\$ 5,642	\$ 5,826	\$ 184
Other financing sources (uses).....	-	-	-	287	287
Total.....	\$ 5,642	\$ -	\$ 5,642	\$ 6,113	\$ 471
Expenditures:					
Current:					
Salaries.....	\$ 2,410	\$ 26	\$ 2,436	\$ 2,437	\$ 1
Benefits.....	1,400	(11)	1,389	1,399	10
Services.....	1,323	141	1,464	1,320	(144)
Commodities.....	243	41	284	253	(31)
Other.....	323	(197)	126	105	(21)
Total.....	\$ 5,699	\$ 0	\$ 5,699	\$ 5,514	\$ (185)
Change in fund balances.....	\$ (57)			\$ 599	

GENERAL OPERATING FUND

BUDGET TO ACTUAL RESULTS (UNAUDITED)

SUMMARY: Total Revenues were higher than budgeted by \$471 million and Total Expenditures were lower than budgeted by \$185 million.

- ❑ **State aid** received by CPS in fiscal year 2018 was \$161 million greater than anticipated, the result of the one-time change and more timely State payments.
- ❑ **Federal aid** revenues were \$50 million below budget due to a lower than expected spend. Lunchroom revenue was roughly \$11 million below budget because fewer meals were served, thus reducing CPS' reimbursement (but with an associated cost reduction). Title I and Title II were roughly \$39 million below budget due to historic underspend at the school and district level.
- ❑ **Other** local revenues included miscellaneous or one-time receipts such as TIF surplus funds (including Transit TIF funds), rental income and flow-through employer contributions to the Municipal Employees' Annuity and Benefit Fund of Chicago. This category was \$62 million higher than budget for fiscal year 2018.
- ❑ **Services** expenditures from student transportation, professional services and consulting, equipment rental, etc. ended \$144 million below budget. Declining enrollment was a contributing factor.
- ❑ **Commodities** expenditures for utilities, food purchases for school breakfast and lunch, textbooks, etc. were \$31 million under budget mostly due to lower than expected utilities costs and decreased spending on software.
- ❑ **Other** expenditures were \$21 million under budget from lower spending on insurance, repairs, etc.

Questions?

