

Finance and Audit Committee

JANUARY 22, 2020



CHICAGO PUBLIC SCHOOLS

**ANNUAL FINANCIAL AUDIT &
FEDERAL SINGLE AUDIT RESULTS**

FOR FISCAL YEAR ENDING JUNE 30, 2019

DEPARTMENT OF FINANCE



AGENDA



ANNUAL EXTERNAL AUDIT COMPONENTS

ANNUAL EXTERNAL AUDIT PROCESS/RESULTS

FINANCIAL AND BUDGETARY HIGHLIGHTS

TREASURY UPDATE: CASH AND TANS

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 in FY19.
- 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).

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.

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.

Annual Financial Audit and Single Audit Act General Findings By Fiscal Year

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Total Audit Findings By Year*:	19	14	0	0	0

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

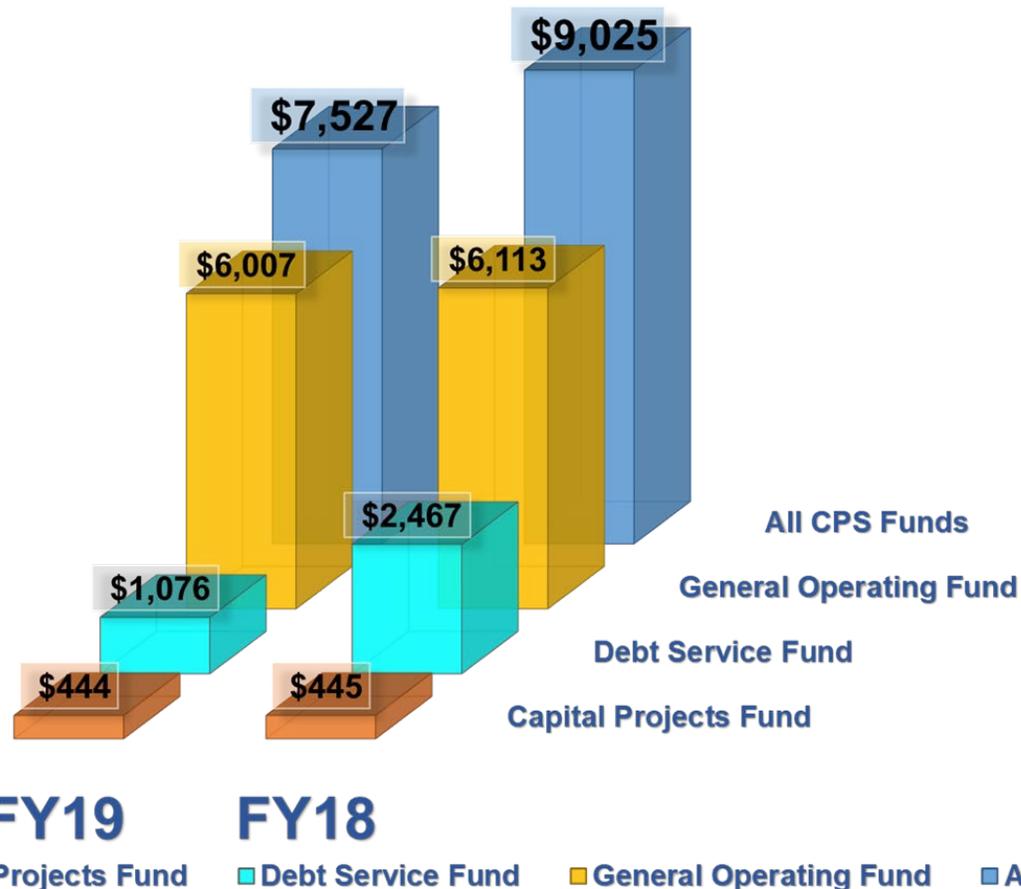
Major programs audited this year:

- Special Education Grants to States
- Special Education – Preschool Grants
- Career and Technical Education – Basic Grants
- School Improvement Grants
- Head Start
- Medical Assistance Program

FINANCIAL HIGHLIGHTS

YEAR OVER YEAR COMPARISON CONTINUED

REVENUES AND OTHER FINANCING SOURCES GOVERNMENTAL FUNDS (AMOUNT IN MILLIONS)

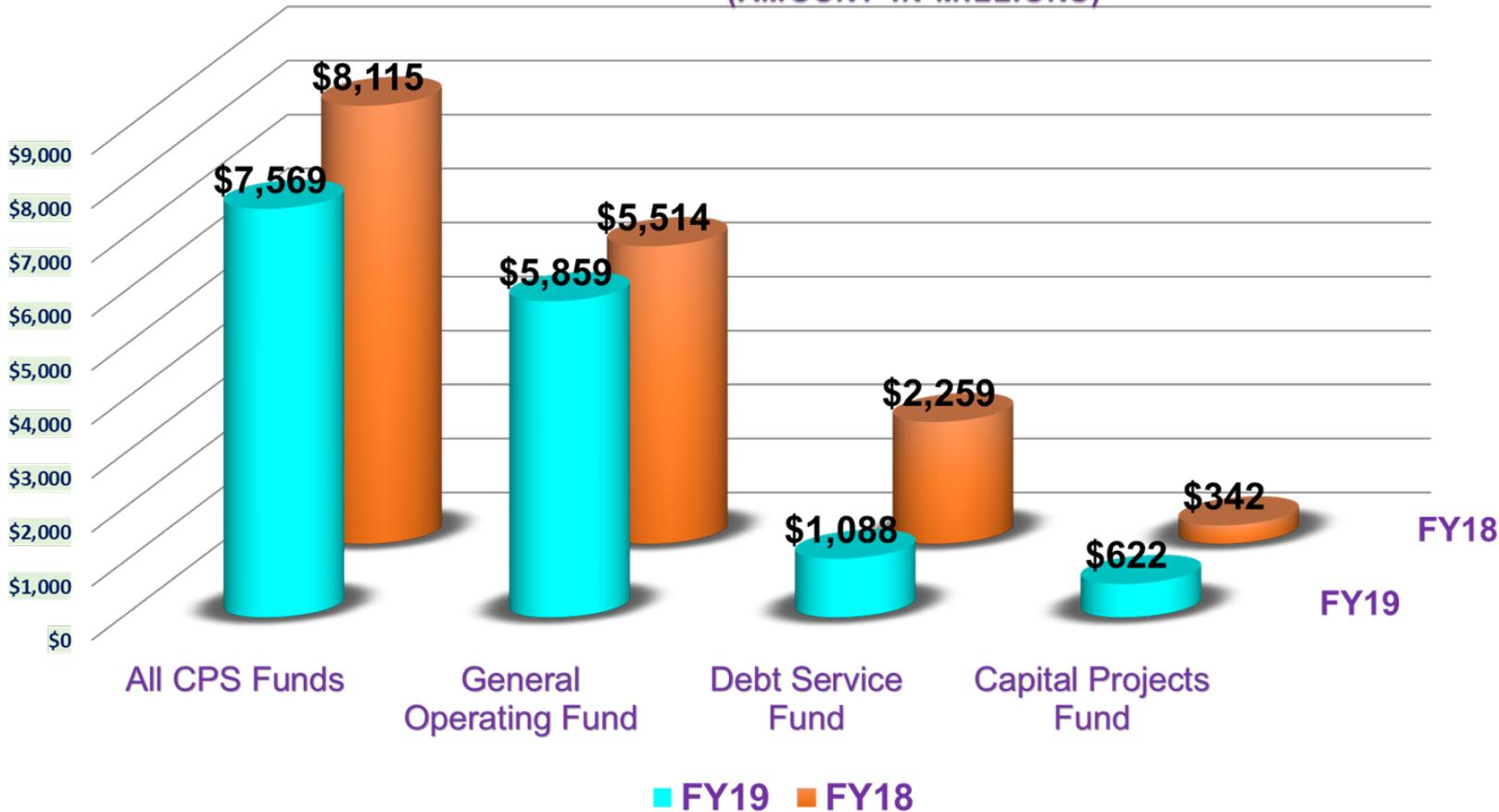


- General Operating Fund’s total revenues and other financing sources in FY19 decreased by \$106 million.
- General Operating Fund’s total revenue in FY19 was \$6.007 billion, which was \$180.3 million or 3.1% higher than \$5.826 billion in FY18. The increase was mainly due to the increased property/replacement taxes, state aid and other revenues. See details in General Operating Fund’s revenue by source slide.
- General Operating Fund’s other financing sources decreased by \$286 million as a result of the decrease of the transfer from debt service fund.
- Debt Service Fund’s total revenue and other financing sources in FY19 decreased by \$1.39 billion, mainly due to net proceeds received from debt issuances of \$487.8 million in FY19 versus \$1.859 billion in FY18.

FINANCIAL HIGHLIGHTS

YEAR OVER YEAR COMPARISON CONTINUED

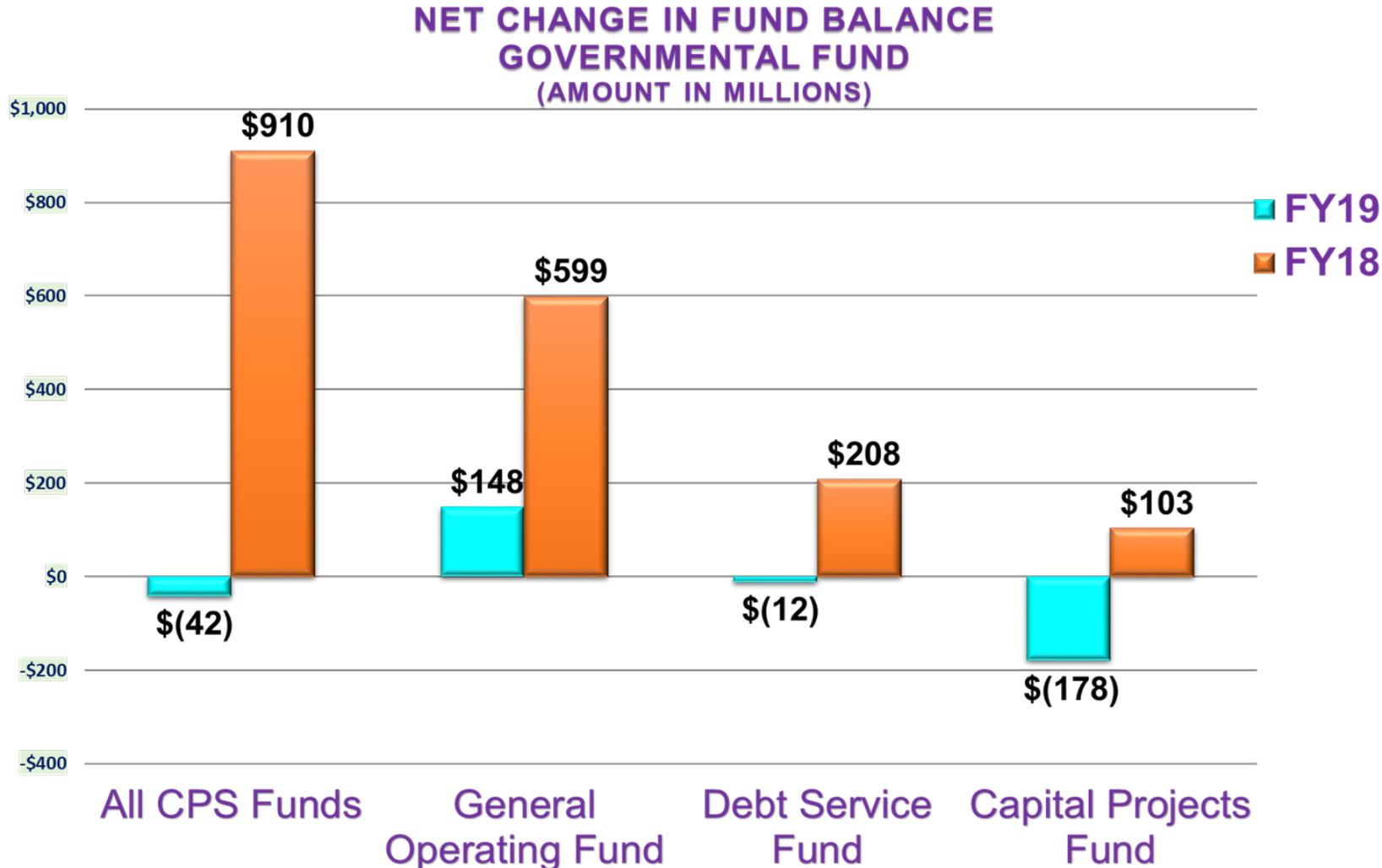
EXPENDITURES AND OTHER FINANCING USES GOVERNMENTAL FUND (AMOUNT IN MILLIONS)



- General Operating Fund's total expenditures in FY19 was \$5.859 billion, which increased by \$345.0 million or 6.3% from \$5.514 billion in FY18. The increase was mainly due to increased salaries and services. See details in General Operating Fund's expenditures slide.
- Capital Projects Fund's expenditures increased \$274 million from \$339 million in FY18 to \$613 million in FY19. The number of projects initiated in FY19 increased and contributed to the higher spending. Capital Projects Fund's other financing uses were \$9 million in FY19 and \$3 million in FY18.
- Debt Service Fund's expenditures and other financing uses was decreased by \$1,171 million from FY18 as fewer bonds were refunded.

FINANCIAL HIGHLIGHTS

YEAR OVER YEAR COMPARISON CONTINUED

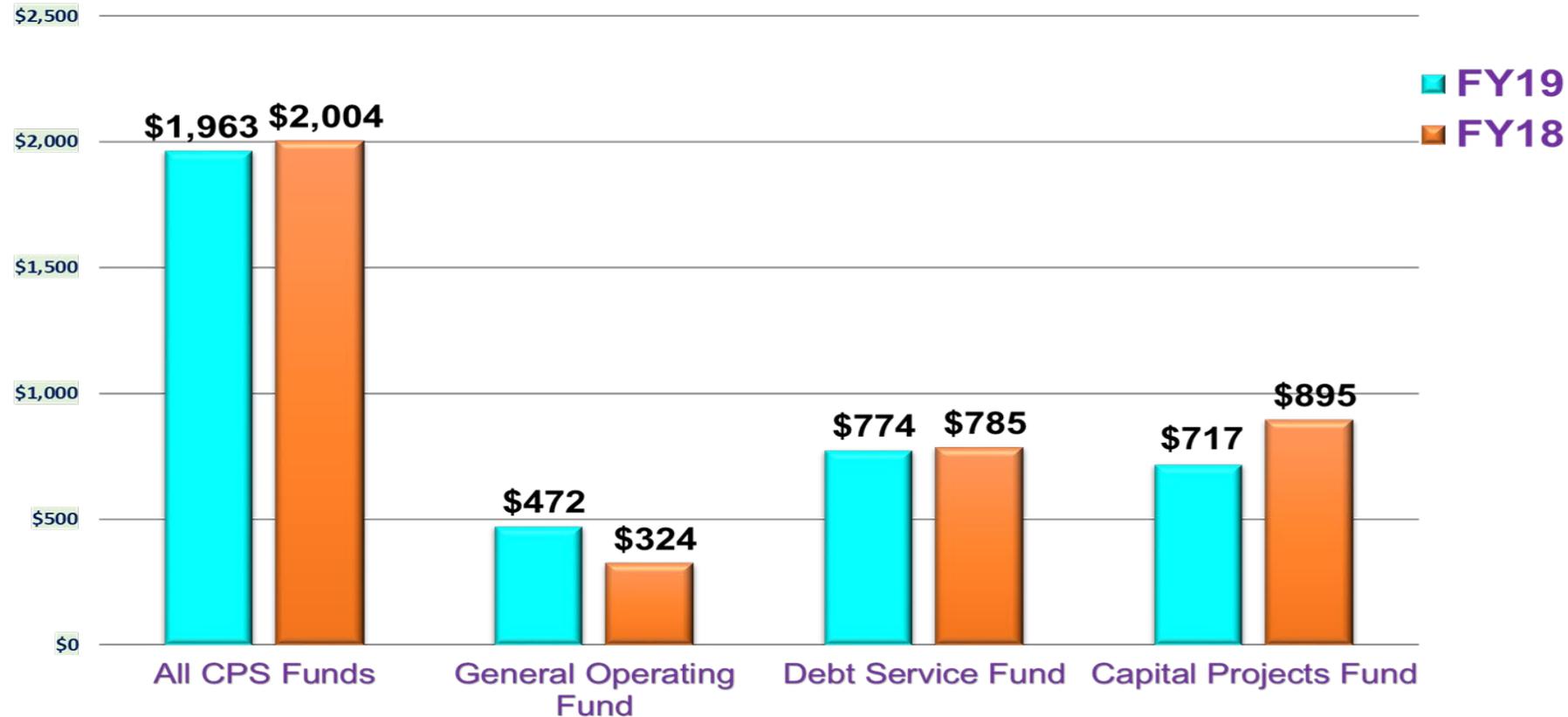


- In FY19, General Operating Fund had a positive net change in fund balance \$148 million.
- Change in General Operating Fund Balance decreased by \$451 million as FY18 change was high due to one time revenue sources
- Capital Projects Fund had a negative net change in fund balance \$178 million in FY19, mainly due to the increase of capital outlay for approved capital projects.

FINANCIAL HIGHLIGHTS

YEAR OVER YEAR COMPARISON CONTINUED

ENDING FUND BALANCE GOVERNMENTAL FUND (AMOUNT IN MILLIONS)

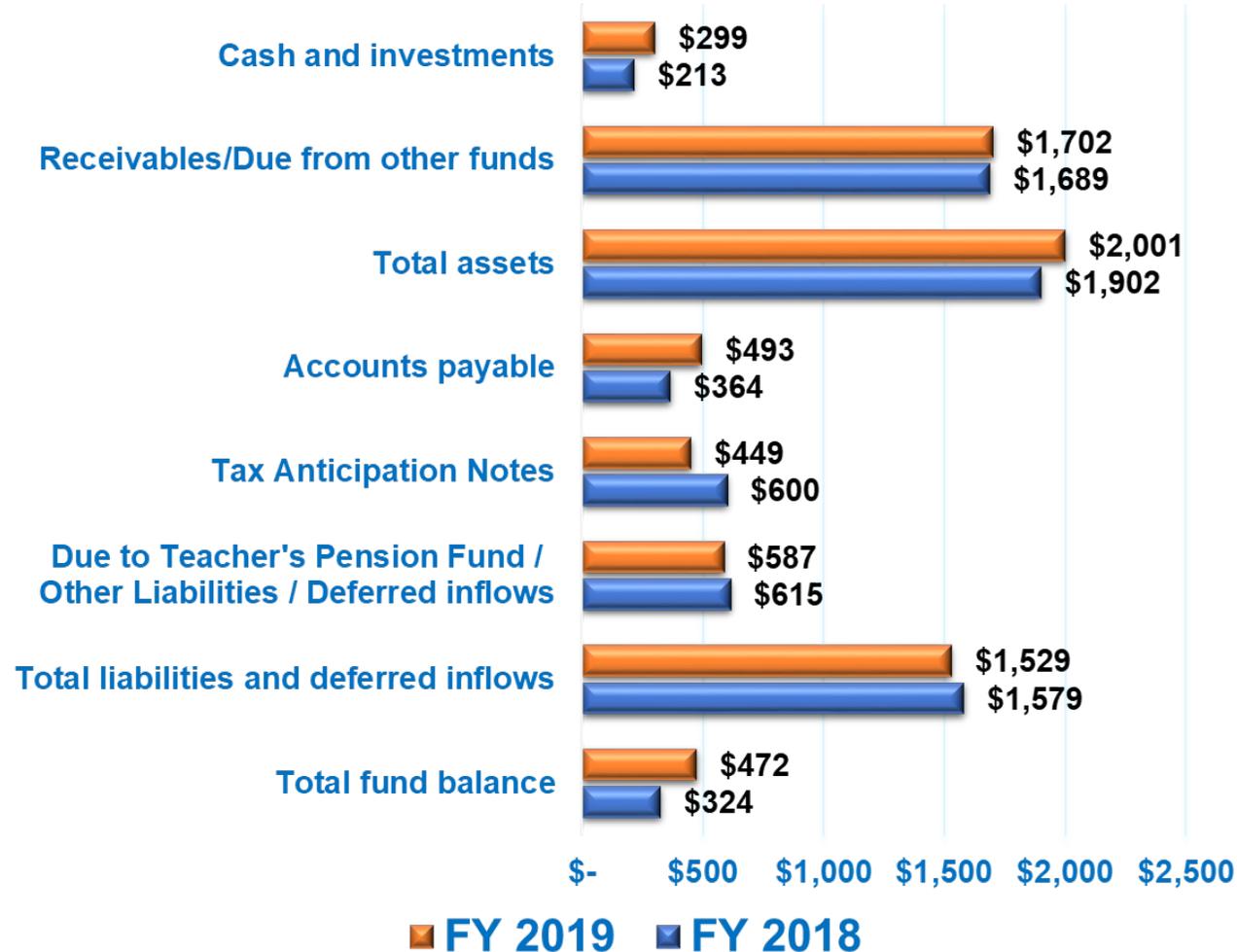


General Operating Fund ended FY19 with a positive fund balance of \$471.8 million, which was CPS' second consecutive year of reporting positive fund balance and increased by \$148.0 million.

FINANCIAL HIGHLIGHTS

YEAR OVER YEAR COMPARISON CONTINUED

BALANCE SHEET GENERAL OPERATING FUND (Amount in Millions)

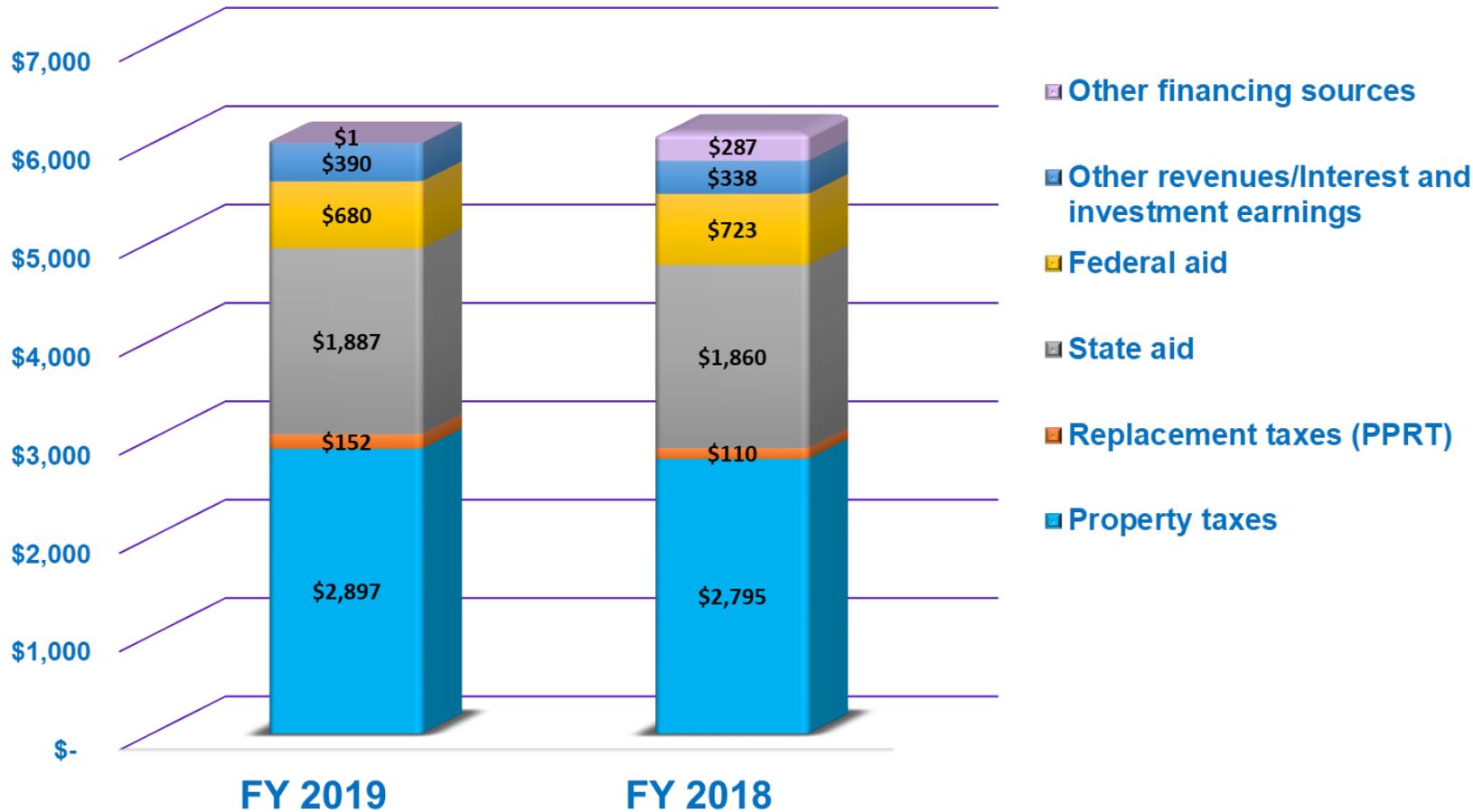


- Total assets increased by \$99 million.
- Account payable increased by \$129 million.
- Tax Anticipation Notes decreased by \$150 million.
- Total Fund balance increased by \$148 million.

FINANCIAL HIGHLIGHTS

YEAR OVER YEAR COMPARISON CONTINUED

REVENUES BY SOURCE - GENERAL OPERATING FUND
(Amount in Millions)

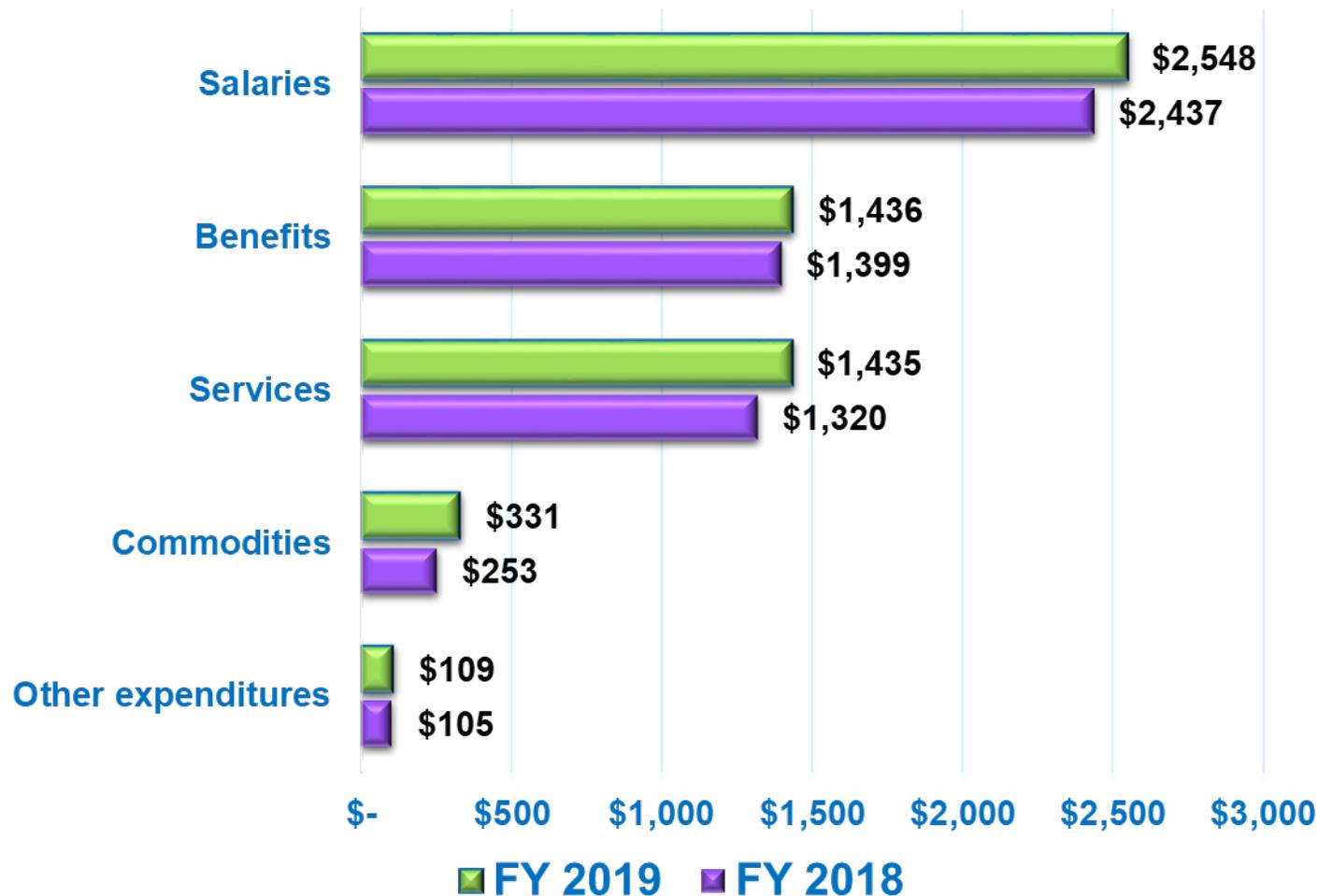


- Property tax increased by \$102.2 million or 3.6% in FY19 as collections from the existing levies were higher due to growth in CPI –U of 2.1% and new property added to the tax bases.
- State aid increased by \$27.2 million, or 1.5% as a result of increased state appropriation of Evidence Based Funding.
- Other revenues increased by \$51 MM, or 15.4%. They derived mainly from intergovernmental revenues, TIF surplus funds and other miscellaneous revenues.

FINANCIAL HIGHLIGHTS

YEAR OVER YEAR COMPARISON CONTINUED

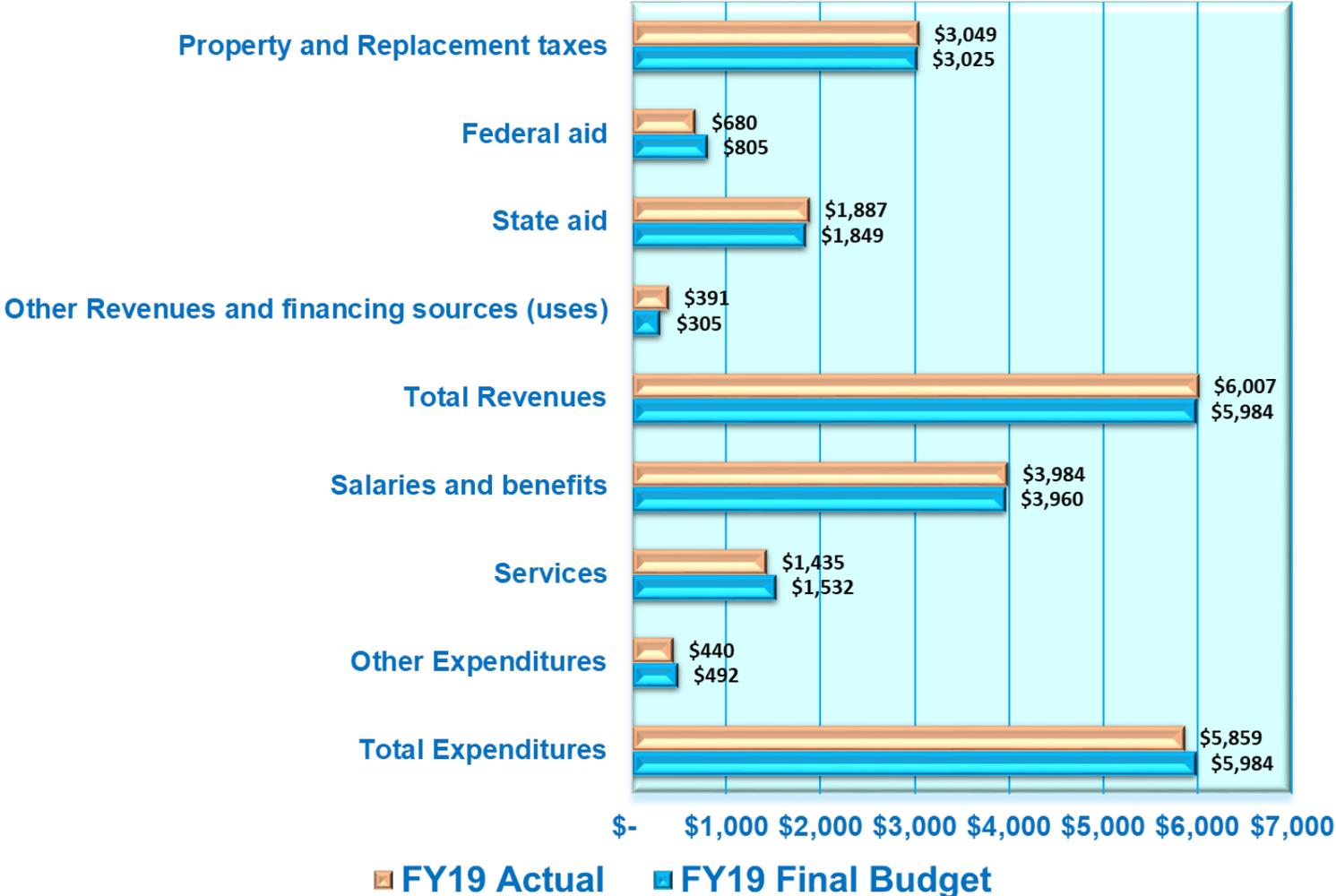
EXPENDITURES BY FUNCTION - GENERAL OPERATING FUND (Amount in Millions)



- Total expenditures in General operating fund increased \$345 million, or 6.3% in FY19 mainly due to the increased salaries and services.
- Salaries increased by \$111.3 million, or 4.6%, mainly due to contractual salary increases.
- Services expenses increased by \$115.1 million, driven mostly by \$60 million in service related to integrated facilities management, \$33.6 million in increased payment to charter schools and \$7.2 million in professional services.

BUDGET TO ACTUAL COMPARISON

BUDGET TO ACTUAL COMPARISON
(Amount in Millions)



BUDGET TO ACTUAL COMPARISON CONTINUED

SUMMARY:

Total Revenues were higher than budgeted by \$23 million.

Total Expenditures were lower than budgeted by \$125 million.

- **State aid** received by CPS in fiscal year 2019 was \$38 million greater than anticipated. This is mostly due to the state accelerating payments of categorical grants, with more falling within the revenue recognition period.
- **Federal aid** revenues were \$125 million below budget due to a lower than expected spend and reimbursements for expenditures falling outside the revenue recognition period.
- **Other** local revenues were \$146 million higher than budget for fiscal year 2019. Transit TIF revenues were \$48 million higher than budgeted, because of quicker than expected growth in property value in the area of the Red Line Transit TIF.
- **Service:** CPS ended the year \$97 million below budget in this category. The two main categories of the variance are contractual and professional services by 43%, tuition for charter schools by 59%.
- **Other** expenditures include equipment, facility rental, insurance, repairs, and for budgetary purposes, contingencies for new grants. In total, spending for the “other” category ended the year \$51 million under budget.

QUESTIONS

