

FINANCIAL POLICIES

The Board has set the following financial policies (the full text of the resolution follows):

Budget Standards: Annual budgets are prepared on a basis consistent with accounting principles generally accepted in the United States. Each budget must be balanced such that in each fund total resources are greater than or equal to appropriations. These policies reflect the Board's commitment to preparing its budget on a basis consistent with the highest financial standards and to balancing its budget every year.

Discretionary Funds: Funding for certain programs, such as high school Lighthouse and elementary After School Matters, are allocated to the schools but are not always budgeted by-object and by-school units at the time the budget is adopted. Such allocations are included in Other Charges for the purpose of budgeting. Actual expenditures mirror each school unit's School Improvement Plan for Advancing Academic Achievement (SIPAAA) and are reflected in the appropriate object classifications.

Reserve Fund Balance: The Board has reserved a fund balance as noted in the "Budget Resolution" section of this document in the General Fund, which will provide operating funds for future financial needs.

Capital Budgeting Process: The Board must prepare an annual five-year Capital Improvement Program (CIP). Public hearings will be held each year to receive comments with respect to the CIP.

Personnel Policies: All appointments of management-level personnel shall be subject to Board approval. All other appointments shall be reported to the Board in a quarterly report. The Unit Department Head, the Director of Human Resources, and the Director of Management and Budget must approve all salary increases of less than 10%. The Board must approve all salary increases of 10% or more.

Settlement Agreements and Judgments: The Corporation Counsel must approve agreements and judgments for amounts up to \$50,000. The Board must approve agreements and judgments for amounts over \$50,000.

Accounting Policies

The governmental fund types are accounted for using a current financial resources measurement focus and the modified accrual basis of accounting described below. Revenues are recognized in the accounting period in which they are measurable and available to finance expenditures; thus, they are susceptible to accrual. Measurable means the amount of the transaction can be determined. Available means collectible within the current period or soon enough to be used to pay liabilities of the current period.

Property tax revenues are recognized as those which have been levied, are due and collected within the fiscal year, and are available for that fiscal year. The current calendar year's second-

half installment collections of property taxes are excluded from current-year revenues and are not available until the subsequent fiscal year.

Deferred property tax revenue represents property tax levies, net of an allowance for loss, which have not yet been recognized as revenues.

Replacement taxes are not subject to accrual until such amounts have been collected by the State, and are available for distribution to local governmental units. Accordingly, the CPS does not recognize replacement tax revenue until such amounts are deposited by the State in the State of Illinois Replacement Tax Fund for distribution to the CPS. As each calendar year's cash distribution is received, it is first distributed to the trustee for payments on the Unlimited Tax General Obligation Bonds to the extent required by the debt agreement.

Most state and federal aid revenues are susceptible to accrual when eligible expenditures or applicable encumbrances are incurred.

Debt services expenditures are recognized in the accounting period when they are due. All other expenditures are recognized in the accounting period in which the liability is incurred.

Encumbrances outstanding at fiscal year-end represent the amount of commitments from purchase orders or contracts for which goods and services have not yet been received. Encumbrances outstanding at year-end are recorded as reservations of fund balance.

Appropriations for all operating funds lapse at year-end. Any excess revenues over expenditures at the end of the fiscal year are put into the fund balance.

An encumbrance system is used to reserve appropriations, which have been obligated through purchase orders. A purchase order cannot be generated unless the requested appropriation is available.

The Comprehensive Annual Financial Report (CAFR) reports the status of the Chicago Public Schools finances on the basis of "generally accepted accounting principles" (GAAP) of the United States. This conforms to the way the Chicago Public Schools prepares its budget with one exception. For budgetary purposes, certain fund reservations are treated as sources and the budget is based on the assumption that total encumbrances do not change from the previous year.

Internal Control/Funds Transfer Policy

The Chicago Public Schools financial management officials are responsible for implementing and enforcing a system of internal controls to protect the assets of the CPS from loss, theft, or misuse and to ensure that reliable accounting data are available for the timely preparation of all financial statements.

The Transfer of Funds Policy is intended to streamline management processes while emphasizing the importance of budget management and control. While transfers are not allowed between funds, funds may be transferred within a fund, between units, programs or objects. This allows flexibility

and provides budgetary control for managing supervisors. Certain transfers require approval from the Director of Management and Budget, the Chicago Board of Education, and/or the Area staff, depending on the transfer type.

Central Office Units and Citywide Units are allowed to transfer funds between objects with approval of the Director of Management and Budget or his/her designee and/or the Chicago Board of Education depending upon the transfer requested. For example, a funds transfer between objects of the same series requires approval of the Director of Management and Budget. A funds transfer between objects of a different series requires approval of both the Director of Management and Budget and the Chicago Board of Education. Any transfer of funds between units, whether within an object series or between objects, must be approved by the Director of Management and Budget and the Chicago Board of Education. The department head or his/her designee must approve all Central Office and Citywide unit fund transfers.

Schools can transfer funds between objects in different object series with the approval of the Area staff and/or the approval of any special program coordinator/director. In the case of transfers from a Citywide unit to any school, only the Director of Management and Budget's approval is necessary. The Principal and/or a special program coordinator/director, as necessary, must approve school funds transfers. All new local funds allocated to schools and not originally approved by the Local School Councils (LSC), are to be approved by the LSC.