

**Chicago Public Schools**  
**Office of School Financial Services**  
*For the fiscal year ended June 30, 2006*

# Annual Financial Report

**Richard M. Daley**  
Mayor  
City of Chicago, Illinois



## **Board of Education of the City of Chicago**

Rufus Williams, President  
Clare Muñana, Vice President  
Norman R. Bobins  
Tariq H. Butt, M.D.  
Alberto A. Carrero, Jr.  
Peggy A. Davis  
Roxanne Ward



## **Chicago Public Schools**

Arne Duncan, Chief Executive Officer  
Barbara Eason-Watkins, Ed.D.,  
Chief Education Officer  
David J. Vitale, Chief Administrative Officer  
Pedro Martinez, Executive Finance Officer  
John Maiorca, Chief Financial Officer  
Daryl J. Okrzesik, Controller

# CPS at a Glance

<b>Schools</b>	Total: 623 (FY2006-07)
<b>Students</b>	Total: 420,982 (FY2005-06)

## Elementary Schools (481)

- 409 traditional elementary schools
- 39 magnet schools
- 16 middle schools
- 8 gifted centers
- 9 special schools

## High Schools (115)

- 37 general/technical
- 12 vocational/career schools
- 12 magnet schools
- 8 math & science academy
- 4 military academy
- 21 small schools
- 9 achievement academy
- 3 alternative schools
- 9 special ed schools

## Charter Schools

### (27 schools with 47 campuses)

- 31 Elementary campuses
- 16 High School campuses

## Student Enrollment

- 19,471 Pre-School
- 1,734 Pre-School special education
- 29,502 kindergarten
- 261,143 elementary (1-8)
- 109,982 secondary

## Student Racial Breakdown

- 48.6% African-American
- 37.6% Latino
- 8.1% White
- 3.2% Asian/Pacific Islander
- 2.4% Multi-Racial
- 0.1% Native American

## Additional Student Information

- 85.6% of students from low-income families
- 19.9% of Illinois public school students attend CPS
- 13.7% are limited-English-proficient
- 94.0% attendance rate for elementary schools
- 86.0% attendance rate for high schools
- 92.1% citywide attendance rate
- 13% of students have Individual Education Plans (IEP)

## Total Employee Positions (FY2006-07)

- 39,205 (public schools)
- 47 (non-public schools)
- 3,583 (citywide)
- 1,582 (central/regional)

## Pupil/Teacher Information

- 20.2 pupils per teacher in elementary schools
- 16.9 pupils per teacher in high school
- \$61,178 average teacher salary
- \$104,605 average administrator salary

## Operating Budget

- \$4.406 billion (FY2006-07)
- Local sources: \$1.882 billion
- State sources: \$1.584 billion
- Federal sources: \$0.835 billion
- Appropriated Fund Balance: \$0.105 billion



December, 2006

Dear Colleagues and Friends:

Last year Chicago Public Schools (CPS) saw the largest one year increase in test scores in its history. In 2000, only 36 percent of our students met or exceeded state standards; this year a remarkable 62.5% of all students met or exceeded state standards. This is truly an extraordinary achievement and one that should make our entire community proud.

As we began reflecting on what changed at CPS to account for this success, we knew it certainly wasn't one person, one program, or one department. It was a collective effort by our teachers, administrators, students, parents and community supporters. It wasn't a one-year effort but a culmination of many years of planning, implementing, evaluating, re-aligning, and re-prioritizing every aspect of our organization.

It began by putting the education of our children first, focusing on learning the basics in the classroom and staying the course. It began with a commitment to ensure that every child in every school is on track at every stage in his or her CPS career to graduate prepared for success in life. It began with the belief that all children can learn up to their ability with the right support and the right resources.

Several years ago, we started focusing on three core strategies: advancing literacy, improving human capital, and creating more learning opportunities. We have since built on these strategies and added two new supporting strategies – managing performance and aligning resources. These core strategies have served us well and are the cornerstones for all our new programs and initiatives.

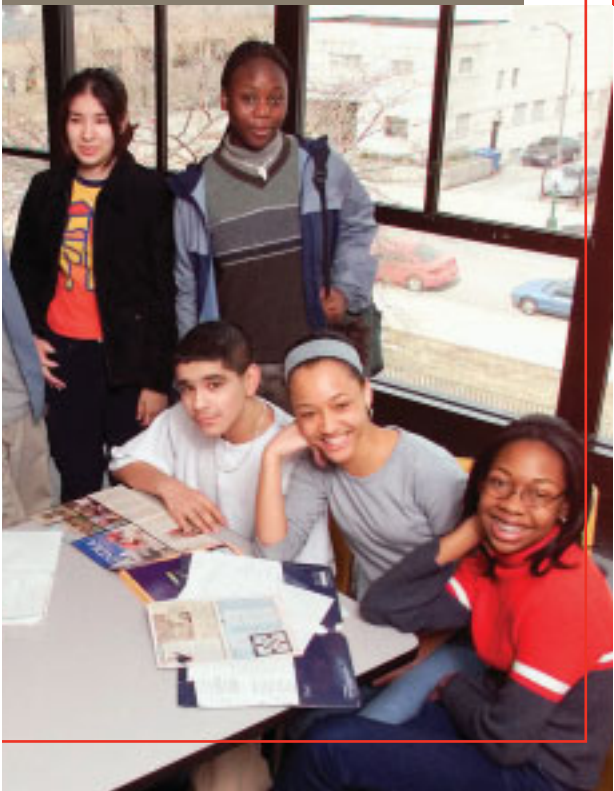
Our administrative areas keep improving as well. CPS ended the fiscal year in good financial condition, with revenues moderately higher and expenditures slightly reduced. CPS is implementing the CPS@Work human resources and payroll system this spring to provide more accurate staffing information. Our Capital Improvement Program got a major boost when Mayor Daley announced the Modern Schools Across Chicago program, a partnership between the City of Chicago and CPS to generate over \$1 billion for new construction and major renovations.

While all the indicators are up, showing that we are making regular, steady progress, there is still more work to be done. Our students and their families deserve the highest quality instruction, outstanding academic programs, and comprehensive student development supports to prepare them for the challenges of the world of tomorrow. We will continue to do our best to serve them.

Respectfully Submitted,

Rufus Williams  
President, Chicago Board of Education

Arne Duncan  
Chief Executive Officer,  
Chicago Public Schools



## CHICAGO BOARD OF EDUCATION AND CHICAGO PUBLIC SCHOOLS

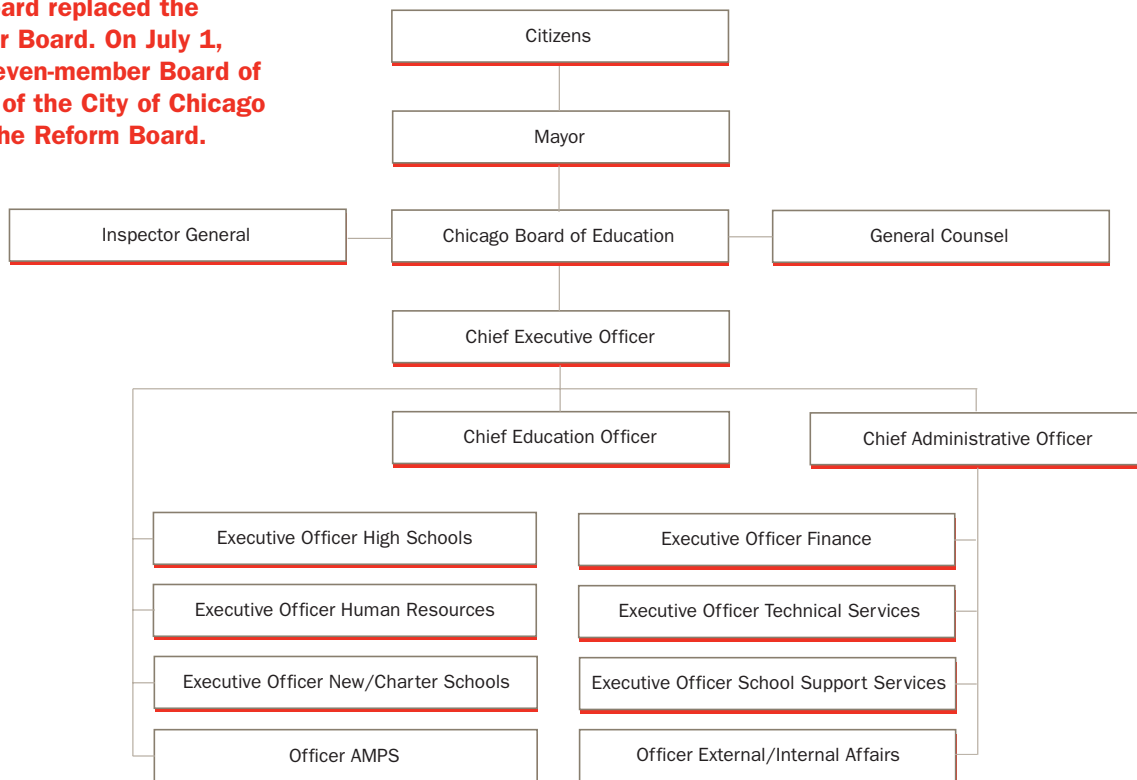
The Chicago Public Schools is the third largest school district in the nation. It serves approximately 421,000 students in 623 attendance centers with a staff of over 44,000.

The Chicago Public Schools is a body politic and corporate as well as a school district of the State of Illinois. CPS boundaries are coterminous with the City of Chicago. The Chicago Board of Education is established under and governed by the Illinois School Code and is not a home rule unit of government. The Chicago Board of Education operates a system of schools primarily for grades kindergarten through twelve.

The Chicago Public Schools is governed by a seven-member Board of Education that is appointed by the Mayor of the City of Chicago. The Board elects one of the members to serve as President of the Board. Additionally, pursuant to amendments to the Illinois School Code initially enacted in 1988, elected school councils, composed of parents, teachers, principals and community representatives, exercise certain powers relating to the operation of the individual schools in the Chicago Public Schools system, including selection of principals.

The Chicago Public Schools  
serves approximately  
**421,000** students  
in **623** attendance  
centers with a staff of  
over **44,000**.

**In 1995 when the City of Chicago took control of CPS, a five-member Reform Board replaced the 15-member Board. On July 1, 1999, a seven-member Board of Education of the City of Chicago replaced the Reform Board.**





## INTRODUCTION / FINANCIAL OVERVIEW

### Introduction

This popular version of our annual financial report is designed to give our readers a snapshot of Chicago Public Schools' (CPS) financial condition and to highlight information that our parents, teachers, supporters, and community and state leaders should find helpful to improving their understanding of our operations. This report does not provide all the detailed financial information that is contained in our Comprehensive Annual Financial Report (CAFR). The CAFR includes all of the audited financial statements and disclosures. Please visit our website at [http://www.cps.k12.il.us/AboutCPS/Financial\\_Information/CAFR/cafr.html](http://www.cps.k12.il.us/AboutCPS/Financial_Information/CAFR/cafr.html) for more details. If you would like a copy of the CAFR, please contact us through one of the options located on the back cover of this report and we will gladly fulfill your request.

The primary function of the Office of School Financial Services is to ensure the financial integrity of the organization and to accurately report on the Board's financial condition in accordance with all state and federal legislation, governmental regulations and Board policies. While the auditors focus primarily on verifying the accuracy of the information presented, they also assess the financial risks to the organization and review the processes that CPS has in place to reduce these risks. As highlighted throughout this report, CPS has focused on improving its financial foundation and funding those activities that will improve the educational achievement of our students.

### How Did We Do Last Year?

In general, CPS ended the fiscal year better than budgeted, primarily due to one-time increases in revenues and moderately reduced expenditures. As in past years, CPS instituted strong fiscal discipline and budgeted prudently, reducing administration costs by \$25 million. At the end of fiscal year 2006, CPS again maintained a strong cash position.

### Noteworthy events include:

- Fiscal year 2006 operating revenues were \$4.2 billion with operating expenditures totaling \$4.1 billion. The capital improvement budget was \$596 million and about \$233 million was appropriated for debt service for a total appropriation of over \$5 billion.
- CPS increased revenues by an additional \$297 million from FY05 from multiple sources including an additional \$79 million from property taxes, an additional \$96 million in general state aid due to an increase in the foundation level, \$39 million in higher replacement taxes due to a rebounding economy, and more private, non-governmental resources.
- General operating fund balance increased by \$104.9 million and the undesignated amount increased by \$59 million. In spite of rising health care costs, CPS' hospitalization costs were flat, due to decreased enrollment and savings from plan redesign and fee structure changes.
- Looking forward, CPS' fiscal year 2007 budget of \$5.3 billion represents a 5% increase from last year. The budget reflects more than \$25 million in administrative cost savings, a decrease in state funds of \$19.4 million and a property tax increase of approximately \$45 million. Despite cost cutting measures, CPS has budgeted \$105 million from the prior year fund balance.

## FINANCIAL REPORTING AWARDS

**CPS has received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting since 1996 for its CAFR and since 2000 for the popular version. Since 1998 CPS also has received the Association of School Business Officials (ASBO) Certificate of Excellence in Financial Reporting.**

### Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

**Chicago Public Schools  
Illinois**

for the Fiscal Year Ended

**June 30, 2005**



*Thomas J. Blanton*  
President  
*Jeffrey L. Eaves*  
Executive Director

## FINANCIAL ACTIVITIES

### What's Going on in the Finance Department?

#### We Balanced the Budget

The 2006-2007 budget was the twelfth consecutive balanced budget presented to the Chicago Board of Education. This balanced budget reflected total resources, including \$105 million of available reserved fund balances, and appropriations of \$4.41 billion for the General Operating Fund.

#### We Funded the Capital Improvement Program

Using new debt issues, refundings, and Tax Increment Financing (TIF) dollars, CPS continues to fund its necessary capital improvement projects. In fiscal year 2006, CPS issued approximately \$384.4 million in net proceeds from new bonds. For the second year, CPS did not receive state funding for school construction, costing Chicago \$110 million in much needed school improvements. This year we have been working with the City of Chicago to fund the Modern Schools Across Chicago program, a joint effort to renovate and build 27 schools.

#### We Implemented New Accounting Standards

Once again, during fiscal year 2006, CPS led the way with early adoption of the following Government Accounting Standards Board Statements:

- GASBS 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions
- GASBS 46, Net Assets Restricted by Enabling Legislation
- GASBS 47, Accounting for Termination Benefits

For the first time, CPS recorded a post-employment benefits liability of \$213 million.

For the first time in ten years, CPS was required to make an additional annual contribution to the Teachers Pension fund. In recent past years, due to good investment returns, CPS' teacher pension had adequate funding ratios so that CPS was not required to make a contribution.

#### We Promoted Financial Literacy

From the Stock Market Game to Junior Achievement to Financial Fitness for Kids, CPS has been actively promoting financial literacy at our schools. The programs have been growing in popularity as students learn while having fun. CPS also sponsors five Finance Academies at our high schools, where financial issues are incorporated into the nationally endorsed curriculum.



The 2006-2007 budget was the twelfth consecutive balanced budget presented to the Chicago Board of Education.

## IMPROVING BUSINESS PROCESSES

### Does Improving our Business Processes Impact Education?

We think so. CPS continues to simplify the business processes for schools and administrators. CPS has invested in new systems, technology and modern business practices to help our educational leaders focus on education. By reducing the time and effort to manage routine administrative functions, principals and school staffs can focus on the children and teachers.

### We've Given Our Best Performing Schools More Autonomy

Our Autonomous Management and Performance Schools (AMPS) program is in its second year, going strong, and growing. Allowing these top schools to have fewer reviews of administrative activities frees up instructional time and resources for school managers. Schools are evaluated and selected based on specific indicators of student performance, asset management, special education, and recommendations made by the Chief Education Officer.

### We've Opened Up Business Service Centers Across the City

CPS has opened three regional Business Service Centers (BSCs) to improve the quality of school support. The BSCs provide training, monitoring and on-demand support for schools related to the activities of the departments of Management and Budget, Finance, Purchasing, Operations, Safety and Security, and Human Resources. Through improved proximity to schools, cross-functional problem resolution, and clear accountability for customer service, the BSCs enable principals to spend more of their time focused on instruction.

**Last year there were 81 AMP schools; this year 90 schools are participating in the program.**

### We've Started Revamping our Human Resources – Payroll Processes

CPS@Work, an initiative to install an integrated Human Resources and Payroll system, began in 2006 and is scheduled to roll out in phases with final completion set for 2008. This project will provide a new set of tools for users of human resources, benefits, and payroll services to increase the level of service to all employees. CPS will automate many functions currently being done manually and at the end, the district will have a fully integrated administrative system.

### We've Realigned our Resources

A lot of changes have been implemented at the central administrative office, including the development of annual plans for each division, understanding the goals, core functions, activities, and milestone to track progress, aligning the process for individual and departmental performance planning and evaluations to the district's goals, revamping the compensation system to create a merit-based system, and creating a new organizational chart for the entire administration. Additionally nine Governance Councils are being created to facilitate cross-functional communication and collaboration.

**CPS has invested in new systems, technology and modern business practices to help our educational leaders focus on education.**





## FUNDING FOR EDUCATIONAL PROGRAMS

**CPS** faces financial challenges in the year ahead as revenue struggles to keep pace with increasing costs and declining enrollments. In the next few years, pension funding will become a substantial expense for CPS, with expenditures expected to increase significantly each year.

### How Does the Budget Focus on Educational Priorities?

The budget for FY2007 increases total funding by 5%. Revenue enhancements include \$70 million from increased property taxes, \$100 million in state aid funds, and \$10 million from higher personal property taxes.

In spite of the increase in funding, CPS projected a \$328 million deficit that resulted in reducing administrative staff, education program reductions, and use of reserve funds to close the gap. Almost 2,000 school-based positions were cut due to declining enrollments, across the board reductions in programs, and a review of the Special Education staffing formulas.

### Is There an Over Reliance on Local Revenues in Chicago?

Chicago taxpayers fund a disproportionate amount of the costs of educating our students. Local property taxes have risen every year for ten years and Federal support for mandated programs has been declining annually. Local resources have paid for 90% of the \$4.5 billion capital program, with the state not contributing anything during the last three years. Education funding reform has had limited political support at the state and Federal levels and no significant change is imminent.

The Chicago Teachers Pension Fund (CTPF) is primarily supported by Chicago taxpayers and some state revenues. Chicago taxpayers also contribute to the downstate teachers' pension funds through their state income tax dollars. The state has been contributing only \$65 million per year to CTPF. In 2007 the state will contribute an additional \$10.2 million, which is still significantly below the state's original commitment to the CTPF.

### How Does the State Help Fund Education?

In Illinois, the state provides funds to compensate for differences in local property wealth, referred to as the foundation level. While statewide K-12 education has received an increase in the foundation levels of school funding, rising from \$4,560 in FY2003 to \$5,334 in FY2007, the state share of funding is very low compared to other states. Over the last 20 years, state spending has increased from \$9.3 billion to \$30.5 billion, but the funding for schools has only increased \$2.3 billion to \$7.5 billion.

The result in Illinois is significant inequity in school funding with some school districts spending more than \$22,500 per student and others spending less than \$4,300. The gap between well-funded schools and poorly funded schools continues to widen. In high-spending districts, the local taxpayer bears the greatest burden.

### What About No Child Left Behind Act (NCLB)?

Enacted in 2002, the No Child Left Behind Act gives schools educational reform based on stronger accountability for results, encouragement of proven educational methods, and more choices for parents. Recent NCLB studies of state achievement data show that reading and mathematics scores are up, and achievement gaps among racial and ethnic groups have begun to narrow.

Recently, CPS was awarded a \$27.5 million teacher incentive grant from the Federal government to boost teacher quality and reward achievements.



**Illinois ranks 49th out of 50 states in terms of the state share of education funding. 33% of CPS' operating budget comes from the state; the national average is 50%.**



## REVENUE ENHANCEMENTS

### Increasing Attendance Improves Academic Performance and Increases CPS' Revenues

The goal of CPS' Attendance Improvement Initiative is to increase the district's year-long attendance rate by at least 1% annually until CPS reaches an overall attendance rate of 95%. This year, 92.8% of the 421,000 enrolled students showed up on the first day. Working with several community partners, athletes and celebrities to spread the word to families that there is a clear connection between attendance and academic performance, CPS' back-to-school kickoffs and outreach efforts, which lead up to the first day of school, were much to credit for the attendance increase.

### Enrolling Families in Benefit Programs Improves Children's Health and Increases CPS' Resources

The Children and Family Benefits Unit (CFBU) promotes increased access, enrollment, and renewal of CPS students and families in food stamps, All Kids health insurance (formerly called Kid Care), Family Care, and TANF. Liaisons are located in schools throughout the city to enroll families in income support programs and advocate on their behalf. By increasing enrollment of CPS' 90,000 potentially eligible students in these health and welfare programs, CPS may receive increased state aid based on the Poverty Grant.

Revenues from non-traditional sources have increased steadily from 1995.

### Working with Outside Organizations Generates Funds for Special Programs

Civic interest in helping CPS has dramatically increased. Through Principal for a Day, many business and civic leaders have broadened their understanding of the accomplishments and challenges of the students, teachers and principals. Participants are encouraged to develop year-round, long-term relationships with their school.

The Bill and Melinda Gates Foundation has been a generous supporter of the high school transformation process by donating grants to support the business planning process, create new small schools, implement strategic planning efforts, and tracking post-secondary experiences of CPS students.



### What Would CPS Do with Additional Funding?

- **Improve teacher quality** – CPS wants to encourage more of our teachers to become Nationally Board Certified, a proven indicator of teacher excellence. CPS is also exploring merit pay for improved student performance, another proven method of increasing student achievement.
- **Smaller class sizes in the early grades** – Reducing class size in the early years allows teachers to focus on learning the basics and developing good study habits. CPS would like to reduce the average elementary school class size of 20 to less for the primary grades.
- **Universal community schools** – Community schools are those that stay open evenings and weekends to provide both academic and recreational programs for students, as well as programs and classes for parents and neighborhood residents. This year, thanks to our corporate partners, CPS now operates over 100 community schools serving over 20,000 students.
- **More early childhood classrooms** – This school year over 35,000 children are participating in early childhood programs, about two-thirds of the eligible population of 50,000. CPS is currently serving 21,500 children in our early childhood programs, while agency programs serve another 13,500, an increase of 3,500 students from last year. There is still strong demand for more program availability, which is limited due to lack of space and funding.

**"There is nothing more important at our schools than quality teachers."**

**Mayor Richard M. Daley**

## CORE STRATEGIES

**CPS** has become a national model for urban education. School districts across the country are turning to Chicago for lessons in making public education effective once again.

### CPS' Goal:

**To ensure that every child in every school is on track at every stage in his or her CPS career to graduate prepared for success in post-secondary education and employment.**

### How Will CPS Achieve Its Goal?

CPS has three core strategies. These strategies encompass planning and program development in specific areas – teacher excellence and professional development, reading, and creating more learning opportunities.

In addition to the three core strategies, CPS has identified two supporting strategies: performance management and resource alignment. The district has developed five year goals, school score cards, benchmark assessments, and is implementing new information systems in human resources and payroll and a comprehensive student information to make tracking and reporting easier. CPS recently realigned its resources by cutting central office staff, enhancing budget transparency, and improving services to the schools.

### Strategy One: Focusing on Instructional Excellence

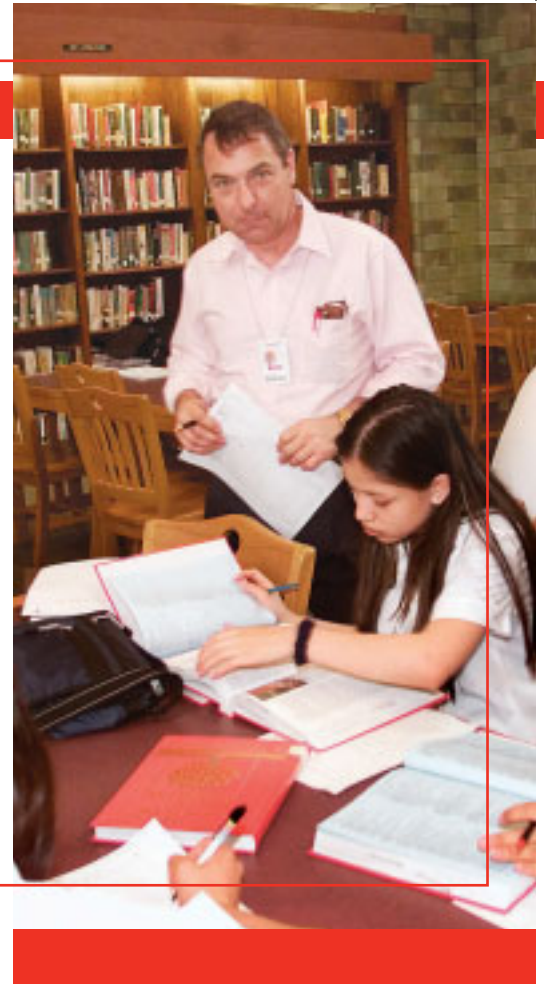
CPS' vision is that all its students will function as readers, writers and critical thinkers in a technologically advancing global society. The mission is to provide a framework for high quality literacy instruction at all grade levels. CPS is training an elite corps of reading specialists to ensure that teachers are trained to use books and materials appropriately. In 2006, schools with reading specialists showed higher gains in test scores than other schools.

### How is CPS Transforming High Schools?

In every area of the city, CPS is working to provide a range of educational options at the high school level to raise overall performance and to close minority and gender achievement gaps. Transformation focuses on improving classroom instruction; making school performance across a range of indicators more transparent; bringing greater accountability across the system; and keeping more students in school. To measure success, school report cards are being created to track student achievement, post-secondary outcomes, teacher qualification, and operational efficiency.

### Are Student Concerns Part of the Transformation Process?

One aspect of the high school score card tracks data from students through the Student Connection Survey. This survey records student perceptions of safety, educational expectations, school support, social and emotional skills, and extra-curricular participation, all of which have been shown as necessary conditions for learning. The 2006 survey showed that 9th and 10th graders wanted more support and higher expectations, while a safe and respectful climate was important to all grades.



### Strategy Two: Attracting and developing talented employees

CPS continues ongoing efforts to improve teacher quality by actively recruiting from a diverse group of top universities and streamlining the hiring process. Too many good teachers leave within five years because they feel unsupported or overwhelmed. This year, CPS received over 20,000 resumes, or 10 resumes for every open teacher position. CPS had the lowest teacher vacancy rate that we ever recorded for the opening of schools.

Merit pay for teachers is an initiative that is being evaluated at CPS. The program focuses on additional and ongoing professional development, multiple career paths for teachers, and instructional focus evaluations as well as pay. A goal of implementing a Teacher Advancement Program (TAP) in 40 schools by 2010 has been set. TAPs have led to a decrease in teacher turnover by as much as 55%.

### Strategy Three: Expanding Options and Opportunities

CPS' vision encompasses a comprehensive, coordinated and collaborative delivery of services jointly created and operated by the school, community organizations and parents as equal partners based on each school's needs.

### What is Renaissance 2010?

Mayor Daley challenged all of Chicago to take our schools to the next level by converting low-enrollment and low-performing elementary and high schools into new schools. Renaissance 2010 schools are a combination of CPS-run, contract and charter schools. The program has three main objectives: to provide 100 high quality schools by 2010, to expand and diversify options and to address priority communities. In the fall of 2006, CPS had 30,600 seats available in 62 Renaissance 2010 schools, up from 22,400 in 2005. Our goal is 68,400 seats by 2010.

Early indications are that these schools are working. Attendance rates are 24% higher than the district's average, 62% of the students meet or exceed state standards, student satisfaction outperforms the district average in 3 out of 4 categories, the transfer out rate is 7.7% compared to 14.1% for the district, and thousands of students are on waiting lists.

CPS continually evaluates options for focused educational opportunities. Last year CPS opened its first all-boys public charter school, its first virtual public school, its first manufacturing school, and the country's first turnaround elementary school.

Three years ago CPS identified 25 priority communities, areas of the city where the schools are below the CPS average in reading or math. In 2006 students in 16 of 25 priority communities are performing at higher levels.

### Three Types of Schools

#### Charter

Charter Schools are independent public schools. Free from many state laws, district initiatives, and Board policies, charter school teachers and staff are employees of the nonprofit governing board or an education management organization hired by the nonprofit. Charters have existed in Chicago since 1997.

#### Contract

Contract Schools are a newly created public school model established as a part of Renaissance 2010. These schools are managed by independent nonprofit organizations in accordance with Performance Agreements. Contract School teachers and staff are employees of the nonprofit agency.

#### Performance

Performance Schools are CPS-run schools with freedom from and flexibility on many district initiatives and policies. Teachers and school staff are employees of CPS.

Last year CPS opened its first all-boys public charter school, its first virtual public school, its first manufacturing school, and the country's first turnaround elementary school.

### What's the Future for Education to Careers?

Education to Careers (ETC) prepares students for their lives beyond the classroom by equipping them with the skills and knowledge needed to succeed in postsecondary education. CPS' ETC department is creating a closer connection to employers to increase work-based opportunities for ETC students and to increase the number of career academies and industry-recognized certifications.



# 68,400

**CPS goal by 2010 is to have 68,400 seats available in Renaissance 2010 schools, up from 22,400 in 2005.**



## EDUCATIONAL OUTCOMES

### CPS Records the Largest One-Year Jump in Test Scores

#### 62.5 % of all elementary students meet or exceed state standards

Test results show the district's system wide composite score for reading, math and science rose to a new high of 62.5% of all students meeting or exceeding state standards. That is up 15.2 % from the previous all-time high of 47.3 % of all students meeting or exceeding state standards reached in 2005. Significantly, these gains were reflected across the entire 600-plus school system with 96% of all schools showing improvement.

### What Achievement Tests Are Used at CPS?

CPS elementary students take the Illinois Standards Achievement Tests (ISAT). This year a new ISAT test was built on the Illinois Assessment Frameworks, was in color, was more engaging for the students, and allowed students more time. This was the first year that all students in grades 3-8 took the ISAT reading and math tests in March. Previously only students in 3rd, 5th, and 8th grades took these tests. Along with being a component of CPS' accountability system, the ISAT also determines sanctions under the Federal "No Child Left Behind Act."

### What Strategies Are Working to Improve Test Scores?

The ISAT gains come after CPS put a high priority on reading by launching the Reading Initiative in 2001 and placing over 400 reading specialists in poorly performing schools. Significantly, the gains were reflected across the entire system with 96.3% of schools improving in math and 92% improving in reading and science.

CPS has emphasized getting pre-schoolers ready to learn and providing support to older students in after-school settings. CPS also expanded a kindergarten reading assessment into 1st grade last year. All kindergartners were assessed at least twice and all first-graders were assessed three times. These assessments help identify learning issues at a much earlier stage.

"The focus on reading and classroom learning, investing to build new schools, providing after-school and summer-school learning opportunities and creating new education options are all making a difference."

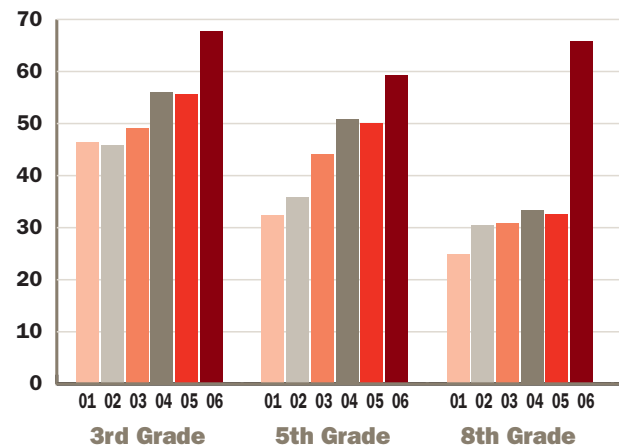
**Arne Duncan,**  
Chief Executive Officer

### 2006 Key Statistics

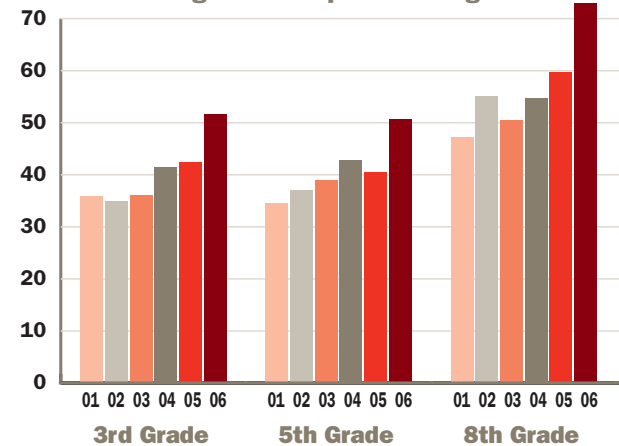
- In math **64.7%** of all students met or exceeded state standards, up 19% from 2005
- In science **64%** of all students met or exceeded state standards, up 14.8% from 2005
- Elementary school attendance is rising, with 2006 recording a **94.4%** rate.
- Math scores for students with Individual Education Plans (IEPs) **increased** at all levels.

### ISAT Test Scores Rise Dramatically

#### ISAT math scores improve in all grades



#### ISAT reading scores improve in all grades





## How Are CPS' High Schools Progressing?

- More students are taking Advanced Placement (AP) courses and more students are passing AP tests. In 2001, 4,126 students took an AP course, while 8,915 took one in 2006.
- CPS is improving its ACT scores faster than the state and the nation.
- ACT scores for graduating seniors are up in English, reading, and math and steady in science.
- This year's CPS graduating class posted a composite ACT score of 17.4, up from last year's score of 17.1.
- High school attendance is slipping, down to 85.9 percent of students from 86.2% last year.
- One year drop out rates are declining and the gaps between ethnic groups are declining also.
- The good news is that 5-year cohort graduation rates are rising, up from 46.9% of students in 2001 to 51.9% in 2005.

# 62.5%

**Chicago Public Schools composite test scores rose to a new high of 62.5 percent of all students meeting or exceeding state standards.**

## What Challenges Does CPS Face?

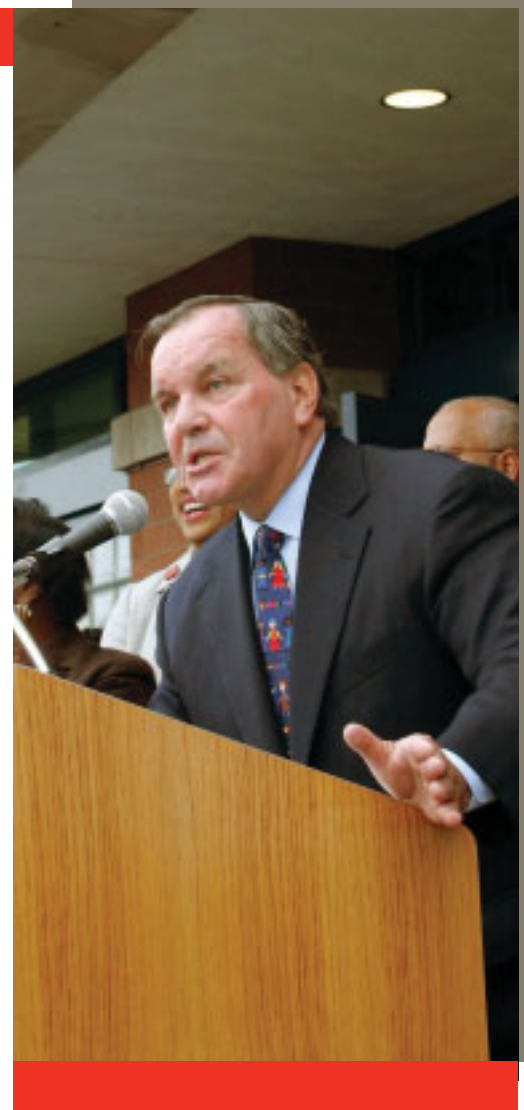
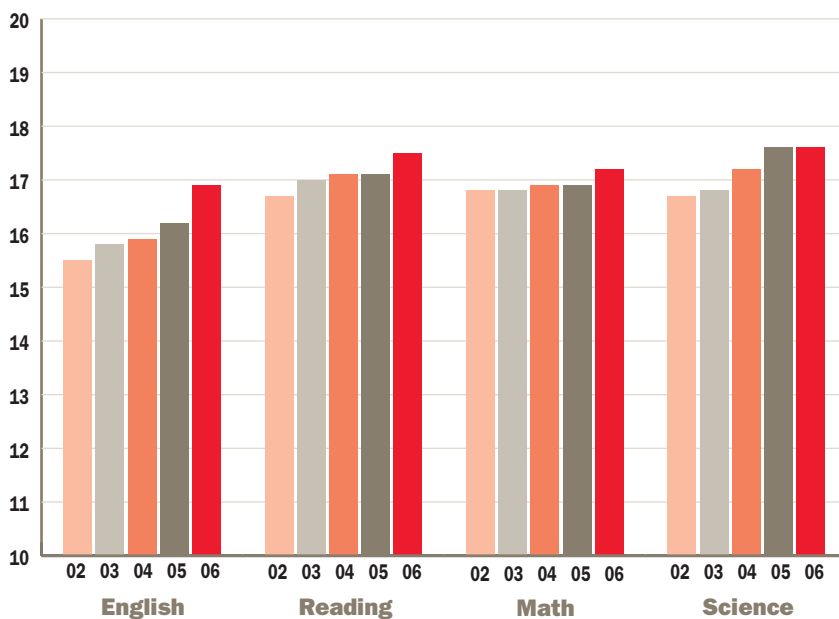
While some progress has been made in reducing the percent of students in the lowest quartile, more efforts are needed to focus on this underachieving group, which consistently accounted for 24 to 28% of our students.

There are still significant gaps in achievement for African American and Hispanic students compared to white and Asian/Pacific students in both reading and math. This gap is most pronounced at the top test scores.

Last year we reduced the gap between CPS and state wide results, but we need more progress here as well.

To solve these gaps and meet our goals, we need to start in the early grades to make sure our students are ready for future success.

**ACT scores are improving.**



“By putting the education of our children first, focusing on learning the basics in the classroom and staying the course year by year, we’re delivering on our commitment to give every child in every school the same opportunity for a good life.”

**Mayor Richard M. Daley**

## CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program (CIP) is designed to relieve overcrowding and renovate school buildings to enhance the educational environment. Chicago Public School's CIP uses a phased prototype renovation process that allows us to restore buildings while minimizing the impact on students and maximizing the benefit to the community. Since the inception of the CIP in 1995, the CIP has made a significant impact on the physical quality of our schools, which in turn has made a significant impact on our students' learning environment.

**From 1998 - 2006, CPS has been the recipient of \$462 million for various city wide E-rate eligible contracts from funding commitments from the Schools and Libraries Division of the Universal Service Administrative Company.**

### Modern Schools Across Chicago Program

In June 2006, Mayor Richard Daley announced the Modern Schools Across Chicago (MSAC) program, a partnership between the City and CPS to provide \$1 billion in school construction. The program includes city-wide projects representing Chicago's highest priority needs: new high schools to increase capacity, major high school renovations to provide modern facilities and new elementary schools to relieve overcrowding. CPS is contributing \$400 million and the City is issuing bonds to cover an additional \$600 million using tax increment financing funds.

"These funds will build something far more important than new structures. They will go toward creating great new learning environments that make our children feel valued."

**Reverend Albert Tyson, President, Clergy Speaks Interdenominational**



**To date the following projects have been completed or are underway:**

### NEW CONSTRUCTION

- 16** new schools <sup>1</sup>
- 20** replacement schools
- 37** additions
- 27** annexes
- 2** links
- More than **1,515** new permanent classrooms
- Additional capacity for **42,600** students

### RENOVATIONS

- 453** schools with new roofs
- 414** schools with new windows
- 382** schools that have masonry repairs
- 2,664** renovation projects
- 58** state-of-the-art science labs
- 205** ADA projects
- 14** schools converted to career academies
- 1,049** local area network projects
- 865** electrical wiring projects
- 45** schools received new lockers
- 93** schools received new doors
- 27** gymnasium renovations
- 342** play lots
- 16** athletic fields and stadium renovations
- 94** campus parks <sup>2</sup>

**1** New school construction projects are in partnership with the Public Building Commission of Chicago.

**2** Campus parks and play lots are a joint effort between CPS, the City of Chicago, the Chicago Park District and the Public Building Commission of Chicago.

## FUNDING THE CAPITAL IMPROVEMENT PROGRAM

**F**inding resources to fund the Capital Improvement Program (CIP) is an ongoing effort. Since the CIP began in 1996, the program has grown in scope to over \$4.2 billion. Local resources have been the primary source of funds for this program. The State of Illinois and the Federal government also contribute, but to a lesser extent.

### Capital Assets

As of June 30, 2006, CPS had \$6.5 billion invested in a broad range of capital assets, including land, buildings and improvements and equipment. Capital assets increased from last year by \$255 million before depreciation.

### Long-term Debt

As of June 30, 2006, CPS had \$4.58 billion in total long-term debt, including accreted interest and capitalized lease obligations outstanding versus \$4.2 billion last year, an increase of 9.1%.

### Bond Issuances

In FY2006, CPS issued the following bonds as part of CPS' Capital Improvement Program, to pay capitalized interest, and to pay costs of issuance of the bonds:

**November 2005:** \$53,750,000 in Unlimited Tax General Obligation Bonds (Series 2005C) at a premium of \$4,124,158. As a result of the issuance, CPS recorded net proceeds of \$54,261,685.

**December 2005:** \$325,000,000 in Unlimited Tax General Obligation Bonds (Series 2005DE). As a result of the issuance, CPS recorded net proceeds of \$323,793,169.

**June 2006:** CPS issued \$6,852,800 in Unlimited Tax General Obligation Bonds (Series 2006A) at a discount of \$325,508. As a result of the issuance, CPS recorded net proceeds of \$6,385,392.

### Debt Ratings

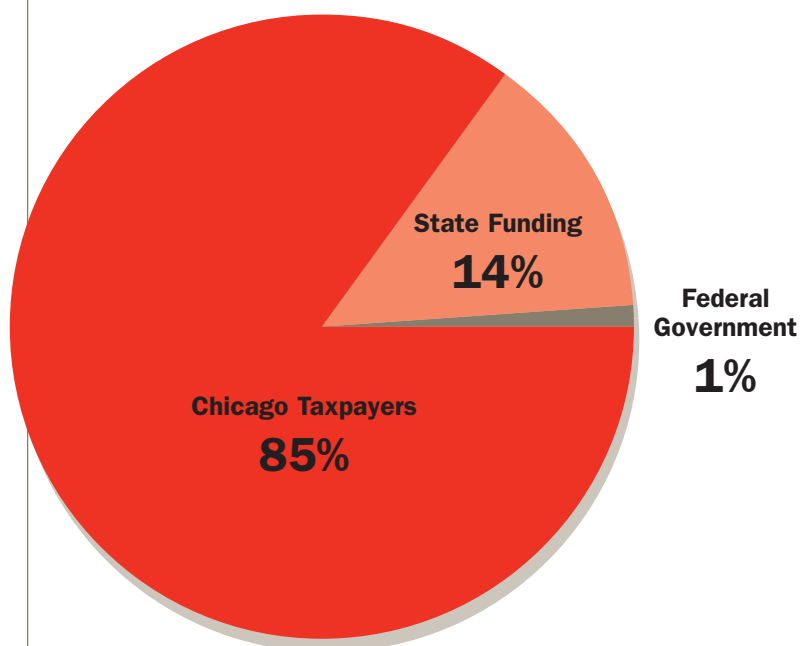
In the past ten years, Chicago Public Schools' debt ratings significantly improved. In recent years, the ratings have remained constant, reflecting the financial community's confidence in our fiscal policies and practices. The debt ratings are used as a guide to the financial stability of an organization and as an indication of the safety and security of debt issued by that organization. The Board's debt ratings indicate a medium investment grade obligation with adequate security features.

### CPS Debt Ratings as of June 2006

Fitch Ratings	A+
Moody's Investor Service	A2
Standard and Poor's	A+

The Board benefits from these increased ratings through reduced interest costs, reduced bond insurance costs, reduced cost of credit on non-bond debt, additional funds for CIP and wider market acceptance for all CPS bonds.

**2006 Capital Improvement Program Funding**



“No other city in the nation is undertaking this major step to assure that our children learn in modern, up-to-date environments. Our taxpayers have been generous beyond words.”

**Mayor Richard M. Daley**

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

### What is included in the CPS Comprehensive Annual Financial Report (CAFR)?

Each year, in addition to this popular version of the annual report, CPS produces a Comprehensive Annual Financial Report (CAFR). The CAFR is prepared using a reporting combination of both government-wide financial statements and fund financial statements. These financial statements consist of three major components:

- Government-wide financial statements including the Statement of Net Assets and the Statement of Activities which provide both short-term and long-term information on CPS' financial status
- Fund financial statements including the balance sheets that provide a greater level of detail of how services are financed in the short-term as well the remaining available resources for future spending
- Notes to the basic financial statements

### What is the Management's Discussion and Analysis (MD&A)?

In the MD&A section of the CPS' annual report, management discusses numerous aspects of the organization, both past and present. Among other details, the MD&A provides an overview of the previous year of operations and how the CPS fared in that time period. Management also touches on the upcoming year, outlining future goals and approaches to new projects.

### What's New This Year?

New this year is the inclusion of a Statutory Reporting Section which presents information related to OMB Circular A-133, the Federal Single Audit for all federally-funded programs. Constituents and stakeholders now have all financial data relevant to the Chicago Public Schools.

### Highlights from the Government-Wide Financial Statements

- **Total assets** increased to \$7.7 billion due to larger year end cash balances and new school construction and other improvement projects as part of the CPS' Capital Improvement Program.
- **Capital assets**, net of depreciation increased \$108 million or 2.5% over the prior fiscal year. This net increase represents \$263.6 million of additions and other increases less \$156.4 million of current year depreciation. The increase is due to the continued progress of the Capital Improvement Program.
- **Long-term debt** increased by \$385.6 million, or 9.1%. The total long-term portion of debt outstanding and capitalized leases was \$4.20 billion in fiscal year 2005 and \$4.58 billion in fiscal year 2006.
- **Accrued pension liability** increased to \$1.51 billion in fiscal year 2006 from \$1.26 billion in fiscal year 2005, an increase of \$256.9 million, or 20.4%. The year-end balance reflects the increase in the net pension obligation related to the Public School Teachers' Pension and Retirement Fund of Chicago.
- **Other post-employment benefit liabilities** of \$213.3 million were recognized for the first time as CPS early adopted GASBS 45. This liability represents actuarially determined health care costs associated with the Public School Teachers' Pension and Retirement Fund of Chicago.
- **Other long-term liabilities** decreased to \$312.3 million in fiscal year 2006 from \$322 million in fiscal year 2005, a decrease of \$9.6 million, or 3%. The year-end balance reflects decreases in accrued sick pay, vacation pay and tort of \$2.3 million, \$3.8 million and \$2.9 million, respectively, and increased accrued workers' compensation liabilities of \$3.2 million.





## STATEMENT OF NET ASSETS

As Reported in Government-Wide Financial Statements

This Statement of Net Assets is aimed at citizens who are interested in a government's finance, but do not have direct access to the detailed accounting data. The government-wide financial statements are designed to provide readers with a broad overview of the school district's finances in a manner similar to a private sector business. Government-Wide Financial Statements are available in CPS' Comprehensive Annual Financial Report (CAFR).

The Statement of Net Assets presents information on all of CPS' assets and liabilities, with the difference between the two reported as net assets. Increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

All of CPS' services are reported in the government-wide financial statements, including instruction, pupil support services, instructional support services, administrative support services, facility support services and food services. Property taxes, replacement taxes, state aid, interest and investment earnings finance most of these activities. Additionally, all capital and debt financing activities are reported here.

### Condensed Statement of Net Assets

(Millions of dollars)

	Governmental Activities			
	2006	2005	Difference	% Change
Current Assets	\$ 3,288	\$ 2,918	\$ 370	12.7%
Capital Assets, Net	<u>4,384</u>	<u>4,276</u>	<u>108</u>	<u>2.5%</u>
<b>Total Assets</b>	<b><u>\$ 7,672</u></b>	<b><u>\$ 7,194</u></b>	<b><u>\$ 478</u></b>	<b><u>6.6%</u></b>
Current liabilities	\$ 877	\$ 883	\$ (6)	-0.7%
Long-term liabilities	<u>6,622</u>	<u>5,779</u>	<u>843</u>	<u>14.6%</u>
<b>Total Liabilities</b>	<b><u>\$ 7,499</u></b>	<b><u>\$ 6,662</u></b>	<b><u>\$ 837</u></b>	<b><u>12.6%</u></b>
Net Assets:				
Invested in capital assets				
Net of related debt	\$ 268	\$ 413	\$ (145)	-35.1%
Debt service	357	299	58	19.4%
Specific purposes	86	45	41	91.1%
Unrestricted	<u>(538)</u>	<u>(225)</u>	<u>(313)</u>	<u>139.1%</u>
<b>Total Net Assets</b>	<b><u>\$ 173</u></b>	<b><u>\$ 532</u></b>	<b><u>\$ (359)</u></b>	<b><u>-67.5%</u></b>



## RESOURCES AND EXPENDITURES

As Reported in the Fund Financial Statements

### How Are Chicago Public Schools Funded?

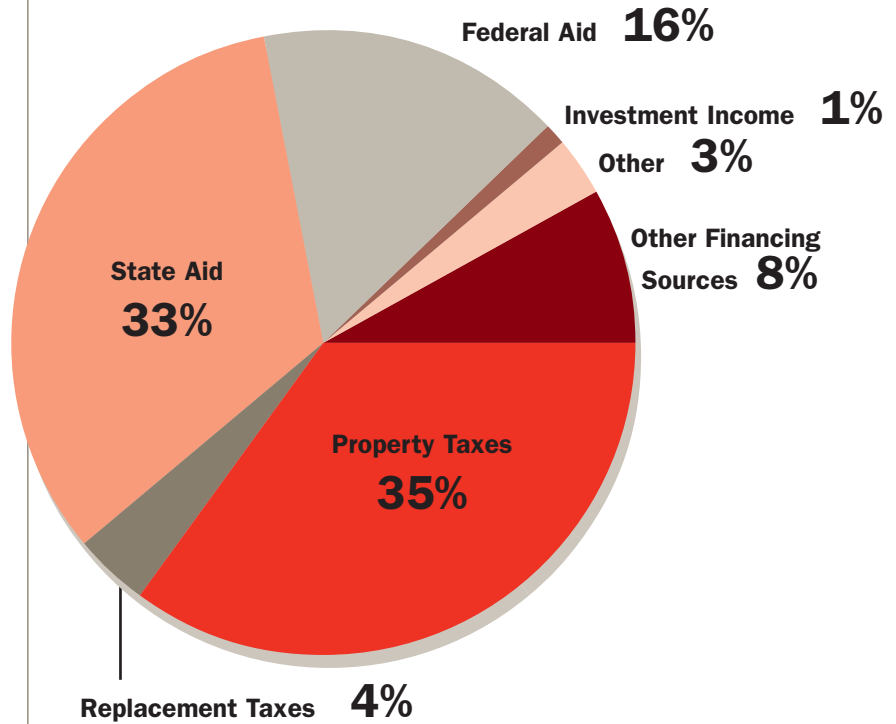
The Chicago Public Schools are financed through a combination of Federal, State and local revenues. CPS uses fund accounting to ensure and to demonstrate compliance with government accounting and legal requirements.

Resources from all sources totaled \$4,918 million for fiscal year 2006. The Federal government contributed 16% of all revenues for CPS in fiscal year 2006, while the State's contribution was 33%. The remaining 51% of the revenue was raised locally in Chicago. In addition, for fiscal year 2006, net proceeds from the bonds issued for the capital improvement program were \$385.6 million.

Fund Financial Statements are available in CPS' Comprehensive Annual Financial Report (CAFR).

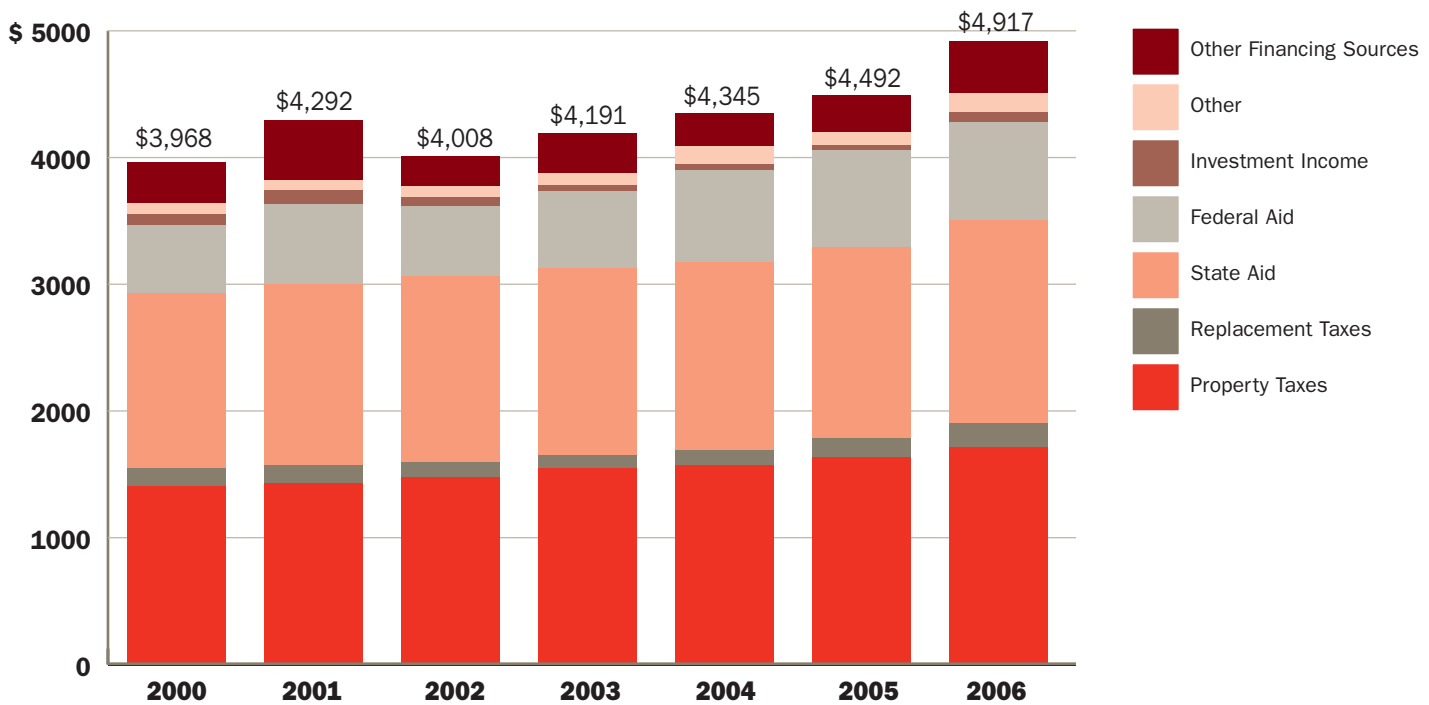
### 2006 Resources by Sources

All funds



### 2006 Resources by Sources

(Millions of dollars)  
All funds



## RESOURCES BY TYPE

The following schedule presents a summary of revenues and other financing sources by type for the general operating fund, capital projects fund and debt service fund for the fiscal year ended June 30, 2006. It also depicts the amount and percentage changes in relation to prior year revenues and other financing resources.

Local taxes provide approximately 38% of all revenues. The other local revenues come from personal property replacement taxes, interest income, lunchroom fees and miscellaneous items. Property taxes increased by \$79 million from fiscal year 2005 due to a growing tax base and increases in tax levies (which are subject to state legislated caps). Personal property replacement taxes increased \$39 million from fiscal year 2005 due to an improving economy. State aid increased \$96 million due to an increase in per pupil funding levels. Federal aid increased by \$13 million and investment income increased by \$29 million due to rising interest rates.

# 38%

**Local taxes provide approximately 38% of all revenues.**

### Resources and Other Financing Sources

(Millions of dollars)

	2004 Amount	2005 Amount	2006 Amount	Percent of Total	Increase (Decrease) from 2005	Percent Change from 2005
Property Taxes	\$ 1,571	\$ 1,639	\$ 1,718	34.9%	\$ 79	4.8%
Replacement Taxes	120	146	185	3.8%	39	26.7%
State Aid	1,481	1,507	1,603	32.6%	96	6.4%
Federal Aid	731	763	776	15.8%	13	1.7%
Investment Income	40	43	72	1.5%	29	67.4%
Other	<u>149</u>	<u>103</u>	<u>144</u>	<u>2.9%</u>	<u>41</u>	<u>39.8%</u>
<b>Subtotal</b>	<b>\$ 4,092</b>	<b>\$ 4,201</b>	<b>\$ 4,498</b>	<b>91.5%</b>	<b>\$ 297</b>	<b>7.1%</b>
Other Financing Sources	<u>253</u>	<u>291</u>	<u>420</u>	<u>8.5%</u>	<u>129</u>	<u>44.3%</u>
<b>Total</b>	<b><u>\$ 4,345</u></b>	<b><u>\$ 4,492</u></b>	<b><u>\$ 4,918</u></b>	<b>*</b>	<b><u>\$ 426</u></b>	<b><u>9.5%</u></b>

\*Minor differences in percentages occur due to rounding.

## EXPENDITURES

As Reported in the Fund Financial Statements

### Where Does the Money Go?

These graphs display fiscal year 2006 expenditures across specific program areas. Fund Financial Statements are available in CPS' Comprehensive Annual Financial Report (CAFR).

**Instruction** includes basic education and special education for students with physical, mental, emotional and/or learning disabilities. Also included are vocational education, summer school, supplementary bilingual education and education for economically deprived students.

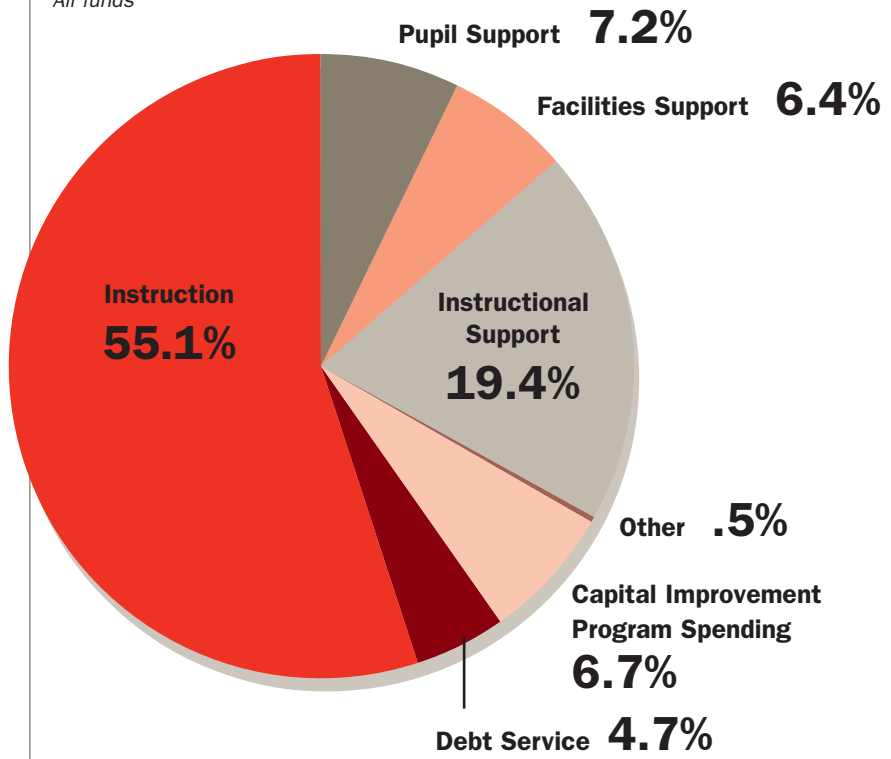
**Instructional support** includes programs designed to enhance curriculum development, educational staff training and library services.

**Pupil support services** include programs necessary for the instruction of special needs students and compliance with various local, state and Federal laws.

**Facilities support expenditures** are associated with central and regional offices, operational maintenance, food services and community services. School administration includes expenditures for school principal and assistant principal compensation.

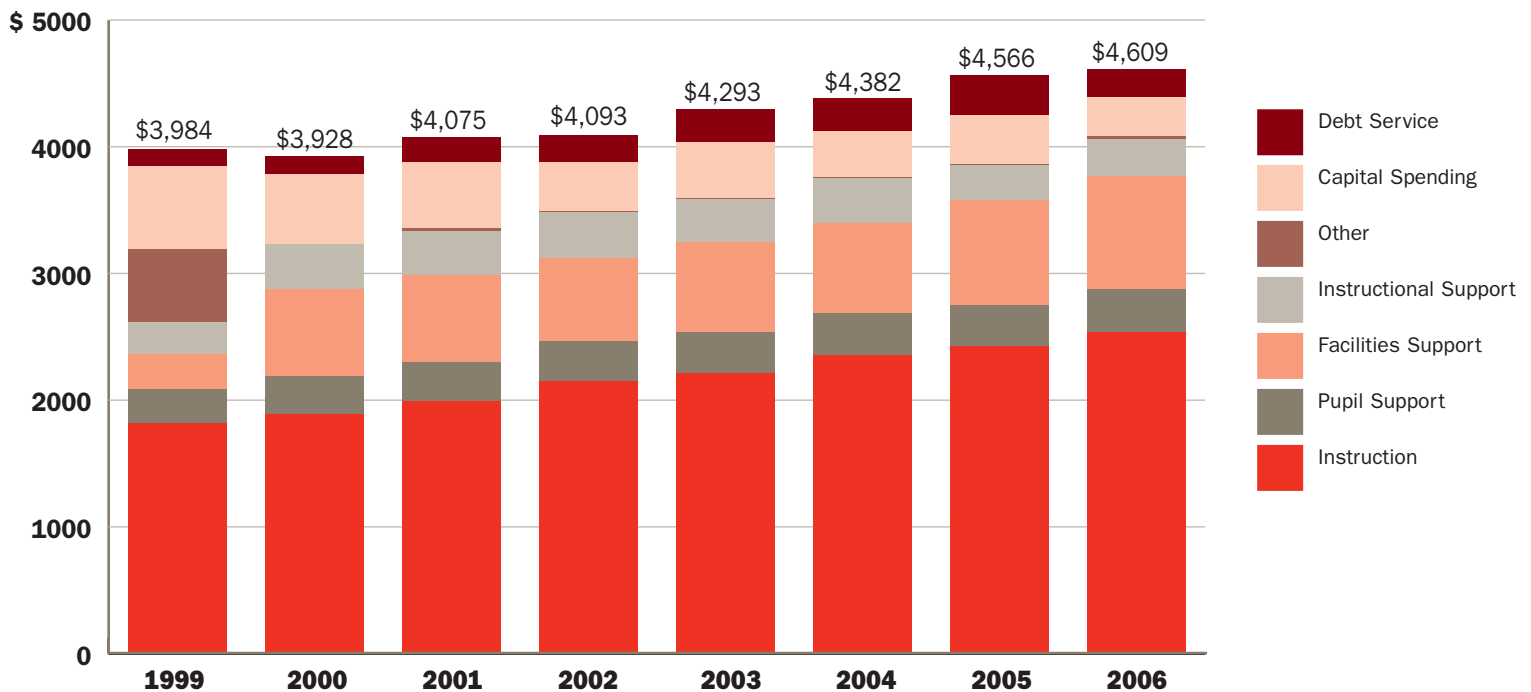
### 2006 Expenditures by Function

All funds



### 2006 Expenditures by Function

(Millions of dollars)  
All funds





## EXPENDITURES BY FUNCTION

The following schedule represents a summary of the general operating fund, capital projects fund and debt service fund expenditures for the fiscal year ended June 30, 2006, as well as the percentage change in relation to prior year amounts.

Instruction expenditure increased slightly due to teacher salary step increases and cost of living adjustments. Capital outlay decreased by 20% or \$78 million due to a slow down in capital improvement projects for renovation and new facilities. Debt service expenditures have decreased as well due to debt restructuring.

### Expenditures

(Millions of dollars)

	2006 Amount	Percent of Total	Increase (Decrease) from 2005	Percent Change from 2005
Instruction	\$ 2,539	55.1%	\$ 110	4.5%
Pupil Support Services	334	7.2%	11	3.4%
General Support Services	895	19.4%	73	8.9%
Food Services	173	3.8%	(1)	-0.6%
Cpmunity Services	46	1.0%	4	9.5%
Teachers' Pension	75	1.6%	10	15.4%
Capital Outlay	311	6.7%	(78)	-20.1%
Debt Service	213	4.6%	(103)	-32.6%
Other	<u>23</u>	<u>0.5%</u>	<u>17</u>	<u>283.3%</u>
<b>Total</b>	<b><u>\$ 4,609</u></b>	<b>*</b>	<b><u>\$ 43</u></b>	<b><u>0.9%</u></b>

\*Minor differences in percentages occur due to rounding.



**CPS employs about 24,689 teachers at an average teacher salary of \$61,178.**

# \$9,758

**CPS per pupil operating expenses were \$9,758 in FY05, the most recent data available.**

## FINAL THOUGHTS

The changes throughout Chicago Public Schools' organization are dramatic. Student performance is up by every measure. The physical condition of buildings is improving and new schools are opening up every year to provide better opportunities for our students. Our financial condition remains stable, our work force is better prepared and more focused, and CPS is leaner and more productive.

While we applaud the progress that many of our schools have made in recent years, our work is not finished. Despite the best efforts of everyone involved in educating our children, the challenge remains that some schools continue to under-perform. The children who attend these schools need our help and support. No major urban school system in America has yet developed the blueprint that fully addresses this challenge. No system is working harder to improve our schools than we are in Chicago.

### What Financial Challenges Does CPS Face in the Future?

In general CPS is forecasting that the increase in expenditures will exceed our projected growth in revenues. Even though CPS has cut administrative expenses, tightened up funding formulas, refunded outstanding debt to reduce interest costs, re-negotiated major contracts with vendors, and spent frugally, increasing costs for salaries and salary-related costs, utilities, health care, and Federal mandates will impact CPS' ability to continue the positive trends in education. Specifically there are five major areas that concern us.

**Negotiating union contracts** – The current labor contracts with the Chicago Teachers Union and other bargaining units expire in June 2007. With revenues projected to grow more slowly than expenditures, the outcome of these labor negotiations will have considerable impact on our future years' budgets. CPS is working hard to ensure schools open on time for the thirteenth consecutive year.

### Funding for Chicago Teachers Pension –

Illinois statutes require pensions to be funded based on specific guidelines. CPS made its first additional pension payment of \$26 million in 2006, is required to make another additional payment of \$80 million in 2007, and an estimated 2008 payment of an additional \$131.5 million. Until last year, the state's contribution to the teachers pension had not increased in over 10 years. If the state kept its original commitment to fund Chicago teachers pension at a rate of 20-30% of the downstate teachers pension fund, CPS would be receiving an additional \$150–\$225 million per year, enough to reduce many of the financial concerns for the near future.

**Inadequate state funding** – The State of Illinois provides one of the lowest educational funding levels of any state in the country. CPS continues to work aggressively on state funding reform for our operating expenses and for state support of our capital improvement program. The state's commitment to increase the foundation level has fallen short of what the Education Funding Advisory Board (EFAB) has recommended, further impacting CPS' ability to plan and budget appropriately. The state has also not kept its commitment to fund school capital construction.

**Inadequate Federal funding** – Federal NCLB and special education mandates have been put in place, but Federal funding is insufficient to cover the costs of these mandates.

**Local tax caps** – The local tax cap limitation severely restricts CPS' ability to increase our revenues. CPS needs a reliable revenue stream that can increase along with increasing expenses.



### Where Do We Go From Here?

With strong business and community partnerships and continuing support from Mayor Daley and the City of Chicago, CPS will strive to be the premier urban school district in the country by providing all our students and their families with high quality instruction, outstanding academic programs and comprehensive student development to prepare them for the challenges of the world of tomorrow. This is our continuing commitment to the citizens of Chicago.

**Credits**

**Creative Direction:** A&H Lithoprint

**Design:** Kathryn Brewer, Brewer Communications, Inc.

**Photography:** Victor Powell, Powell Photography

**Content:** Controller's Office, Department of Finance



## **Chicago Public Schools**

Office of School Financial Services

125 S. Clark

Chicago, IL 60603

773-553-2710 Phone

773-553-2711 Fax



Please contact us if you would like additional copies of this report or copies of our Comprehensive Annual Financial Report (CAFR).

### **Comprehensive Annual Financial Report for the Year Ended June 30, 2006**

[http://www.cps.k12.il.us/AboutCPS/Financial\\_Information/CAFR/FY2006\\_CAFR.pdf](http://www.cps.k12.il.us/AboutCPS/Financial_Information/CAFR/FY2006_CAFR.pdf)

### **Annual Financial Report for the Year Ended June 30, 2006**

[http://www.cps.k12.il.us/AboutCPS/Financial\\_Information/CAFR/FY2006\\_PAFR.pdf](http://www.cps.k12.il.us/AboutCPS/Financial_Information/CAFR/FY2006_PAFR.pdf)

Don't forget to visit CPS' website for further information or to learn about our educational, operational and employment opportunities!

Please visit the CPS website at <http://www.cps.k12.il.us/>

Prior year comprehensive and popular annual financial reports are also available online.

