

Chicago Public Schools Popular Annual Financial Report

For the fiscal year ended June 30, 2017



Rahm Emanuel
Mayor, City of Chicago, Illinois



CHICAGO BOARD OF EDUCATION

Frank M. Clark, President
Jaime Guzman, Vice President
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Janice K. Jackson, EdD, Chief Executive Officer
Ronald DeNard, Sr. VP. Of Finance
Melinda M. Gildart, CPA, MBA, Controller

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Students					
Total: 381,349					
<u>Student Enrollment</u>		<u>Student Racial Breakdown</u>		<u>Additional Student Information</u>	
Preschool:	20,673	Latino:	46.5%	Economically Disadvantaged Students:	80.22%
Kindergarten:	26,093	African-American:	37.7%	English Language Learners (ELL):	17.17%
Elementary (1-8):	225,530	White:	9.9%	Students with IEPs:	13.66%
Secondary (9-12):	109,053	Asian/Pacific Islander:	3.9%		
		Multi-Racial/Other:	2.0%		

Local School Councils

Each council consists of:

6 parent representatives

2 community representatives

2 teachers

1 non-teaching staff

1 principal

1 student representative (high school only)

Operating Budget

\$ 5.41 billion (2016-2017)

Local sources: \$ 3.001 billion

State sources: \$ 1.499 billion

Federal sources: \$ 0.830 billion

Appropriated Fund Balance: \$ 81 million

Per Pupil Operating Expenditures (2015-2016)

\$14,973 operating expenditure per pupil

\$12,544 per capita tuition

Schools

Total: 652 schools

Elementary Schools: 480

High Schools: 172

traditional	415	traditional	85
specialty	3	options	6
early childhood center	3	specialty	4
charter	57	charter	68
contract	2	contract	7
		SAFE	2

Employees by Function

Instruction	25,044
Support Services:	12,301
Pupil support services	4,476
Administrative support services	821
Facilities support services	1,417
Instructional support services	2,671
Food services	2,712
Community services	204



Executive Letter

January 24, 2018

Dear Stakeholders,

We are pleased to present you with the Chicago Public Schools (CPS) Fiscal Year 2017 financial results.

As a result of Illinois' historic education funding reform and two years of increased fiscal responsibility, CPS is on firmer financial footing than in prior years.

Due to the courage and diligence of Illinois' lawmakers, CPS and districts throughout the state are now receiving the funding needed to consistently support high quality schools. This dramatic reform will allow CPS to complete the current school year without furloughs or economic layoffs, and the district now has the financial stability to provide schools with 2018-19 budgets far in advance of the coming school year, to allow for effective and thoughtful planning.

In addition to improving the stability of operations, the district's financial turnaround is also attracting the attention of outside experts. In recent months, all major ratings agencies have acknowledged the district's financial improvement, which has allowed CPS to significantly reduce the cost of borrowing.

Despite financial challenges, CPS schools have been making significant progress for many years. A recent study by Stanford University found that Chicago students are progressing in the classroom at a faster rate than 96 percent of school districts in the United States, with gains found across all racial and economic subgroups. This promising research echoes findings from the University of Illinois at Chicago and the University of Chicago's Consortium on School Research, which show CPS students outpacing their peers in Illinois.

We are optimistic that as a result of funding reform and the district's commitment to fiscal responsibility, our schools are entering a new era of stability that will allow Chicago educators to further improve upon what has become one of the finest school districts in the country. As the district looks forward, we are putting an emphasis on stabilizing operations, supporting investments and resources throughout the city, and identifying opportunities to continue investment in high-quality academic programs that help prepare our students for a successful future.

Respectfully submitted,



Frank M. Clark
President
Chicago Board of Education



Janice K. Jackson, EdD
Chief Executive Officer
Chicago Public Schools



Frank M. Clark
Board President



Jaime Guzman
Vice President



Mark F. Furlong
Board Member



Alejandra Garza
Board Member



Mahalia Hines
Board Member

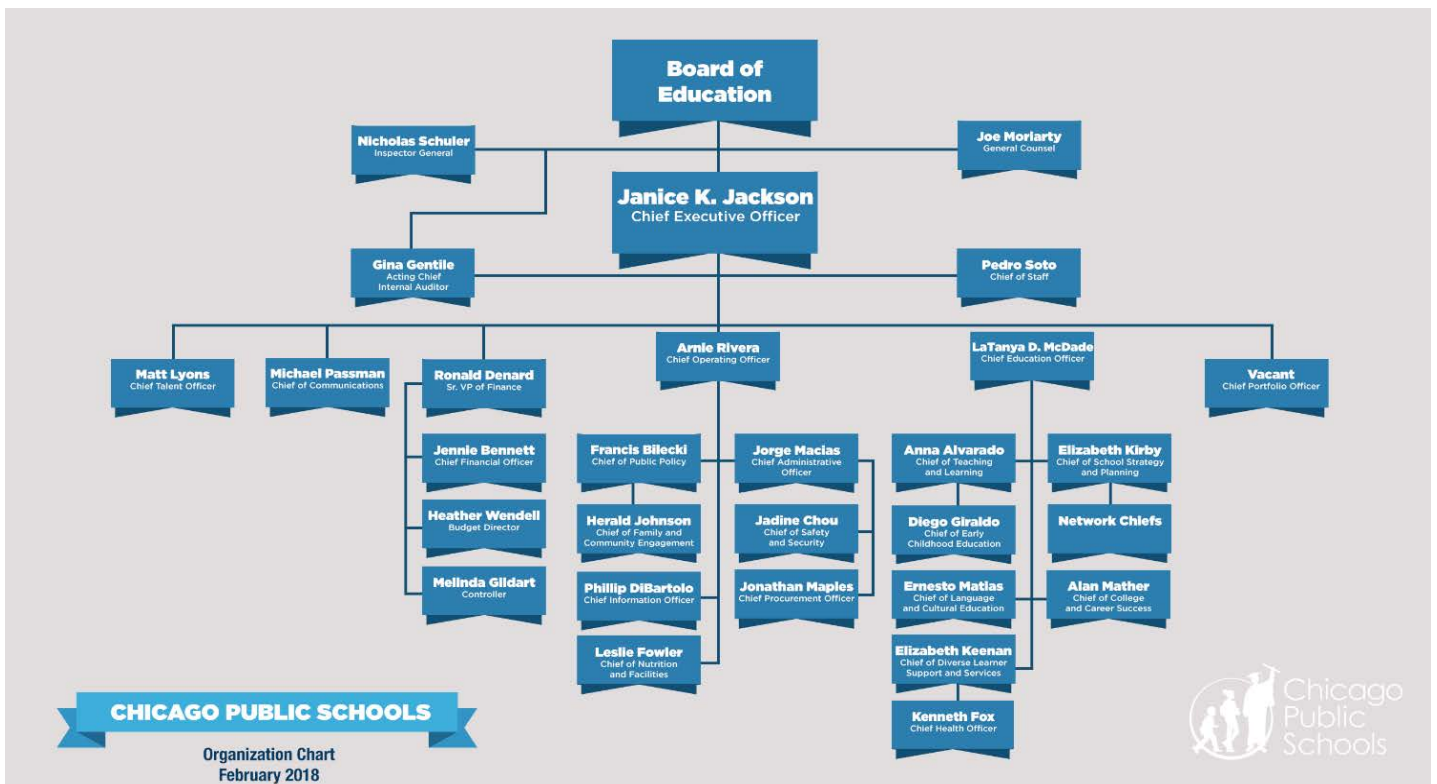


Gail D. Ward
Board Member

CPS Profile

The Chicago Public Schools is a body politic and corporate, and a school district of the State of Illinois having boundaries coterminous with the City of Chicago. The Chicago Board of Education is established under and governed by 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 pre-kindergarten through twelve. As the third largest school district in the nation, our schools and students reflect the broad diversity of our city. In fiscal year 2017, CPS had 652 schools, including district-run traditional and options schools, charter and contract schools. Student enrollment was 381,349, while CPS employs 35,572 workers, including 26,946 teaching positions.

CPS is governed by a seven-member Board of Education appointed by the Mayor of the City of Chicago. Board members elect one member to serve as President of the Board. In addition, pursuant to amendments to the Illinois School Code initially enacted in 1988, elected Local School Councils, composed of parents, teachers, principals and community representatives, exercise certain powers relating to the operation of individual schools, most notably the selection of principals.



Janice K. Jackson, EdD
Chief Executive Officer



LaTanya McDade
Chief Education Officer



Arnaldo Rivera
Chief Operating Officer

Background and Summary of Financial Results

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 for 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.

For a detailed report, please visit our website at [http://www.cps.edu/About CPS/Financial information/Pages/Annualreport.aspx](http://www.cps.edu/About_CPS/Financial_information/Pages/Annualreport.aspx). 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 Department of Finance 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 We Did Last Year

The General Operating Fund ended FY2017 with a deficit of \$148 million, which is a significant improvement from the FY2016 deficit of \$486 million. The main drivers of the operating deficit this year were the delays in State payments and increased teacher pension expenses.

In spite of the significant decline in fund balance, CPS was able to end the fiscal year with a General Operating Fund cash balance of \$120 million, an increase of \$107 million from FY2016. The current unrestricted fund balance deficit of \$355 million increased by \$128 million from FY2016 and represents 7% of General Operating Fund expenditures.

- FY2017 budget totaled \$6.9 billion with the operating fund totaling \$5.4 billion. The capital improvement budget was \$0.9 billion and \$0.6 billion was appropriated for debt service.
- CPS operating revenues increased by \$213 million or 4% from the prior year primarily due to the \$300 million of property tax increase.
- CPS issued \$730 million of capital improvement tax bonds during FY2017 to finance capital improvement projects. The capital outlay expenditure decreased by \$88 million over the prior year for on-going construction and renovation projects.
- CPS issued \$150 million of unlimited GO bonds to provide funds for capital improvements.
- Total fund balance for all funds increased by \$645 million to \$1.1 billion in FY2017.
- Looking forward, CPS' FY2018 budget of \$5.7 billion represents a 5.3% increase or \$228 million from FY2017.

Balanced Budget

Thanks to Chicago taxpayers, Springfield leaders and management at Chicago Public Schools, the District's FY2017 budget established a new foundation for greater fiscal stability. The budget positioned the District to improve educational results and operational efficiency while directing as much funding as possible to classrooms. Above all, this budget allowed CPS and our families to assure our students' continued academic growth, achievement and post-secondary success.

In addition to presenting a stable, balanced budget for the coming year, this budget also provided a roadmap for longer-term stability. CPS will continue to harness the energy and enthusiasm of school communities that pushed for education funding reform, along with our partners in downstate, suburban and rural districts who educate students in poverty.

Capital Improvement Program

CPS continued to fund its Capital Improvement Program with two new bond issues. A total of \$879.6 million was issued for capital improvements. Intergovernmental agreements with the City of Chicago and Tax Increment Financing (TIF) dollars also helped fund capital projects.

New Accounting Standards

Chicago Public Schools is required to comply with governmental accounting standards for financial reporting. These are the new accounting standards adopted by CPS that had an impact in FY2017:

- **GASB 77** Tax Abatement Disclosures for agencies to report their own tax abatement agreements and those entered into by

other government agencies that may reduce the reporting agencies tax revenues.

- **GASB 82** Pension Issues amended GASB Statements 67, 68, and 73, which changed the reporting of payroll-related pension payments made by employers. In connection with the adoption of GASB 82, net position at June 30, 2016 was restated to a deficit of \$12.1 billion from a deficit of 12.0 billion.

School Internal Accounts Management

The Office of the Controller, Disbursements and Business Services Division, has initiated an overhaul of the custom Internal Accounts Management System (IAMS), in order to streamline CPS vendor onboarding, vendor management, increase Oracle functionality and reporting for schools, online credit card payment processing and consolidate procurement spending. The updated IAMS module will provide increased tools for sound financial management for Chicago Public Schools to record, track and maintain Internal Accounts transactions consistent with government accounting standards.

Asset and Inventory Management

In FY2017, Chicago Public Schools began a district-wide initiative for asset and inventory management, which would consolidate the recording, inventorying, maintaining, and disposing of CPS assets valued at \$500 and above (including "walk away" items) at all locations. The District purchased asset and inventory management software which would enable online access to asset inventory and provide a centralized repository for our asset data. A new Board policy was adopted in October 2017 which required the use of the centralized software and re-affirmed the annual inventory count requirement.

Professional Financial Awards

The Government Finance Officers Association (GFOA) has awarded CPS with the Certificate of Achievement for Excellence in Financial Reporting each year since 1996 for its CAFR. Since 1998, CPS has also received the Association of School Business Officials (ASBO) Certificate of Excellence in Financial Reporting. In addition, CPS has received the Award for Outstanding Achievement in Popular Annual Financial Reporting in previous years. It is the highest standard for the preparation and issuance of state and local government popular reports.

Funding Education

Budget Focus on Educational Priorities

The budget for FY2018 increased appropriations by 5%. Revenue changes include an increase of \$234 million in local revenue and \$201 million in budgeted state revenue, offset by a loss of \$57 million in federal revenue.

The majority of funding received by schools is based on the Student Based Budgeting model, which directs a per-pupil dollar amount to each school (with weights assigned for different grade levels). For FY2018, the base SBB rate is increased from last year's rate of \$4,087 per student to \$4,290, or 5%. The increase is intended to cover cost of living salary adjustments for teachers in 2018 and other programmatic expenses.

Overreliance on Local Revenues in Chicago

Through the enactment of a new pension levy in FY2017, securing an increase of that levy rate in FY2018, and taxing to the maximum rate allowable by state law across its multiple levies year-over-year, CPS has made tremendous progress towards securing revenues to pay for its teacher pension liabilities. As a result, local property tax revenues continue to rise, with Chicago taxpayers funding a disproportionate amount of the costs of educating our students. Local resources are expected to pay for over 56% of the operating budget, with the state budgeted to contribute 30% in FY2018, an increase of \$201 million due to a change in the funding formula.

Chicago taxpayers contribute to the Chicago Teachers' Pension Fund (CTPF) through their property tax dollars and also contribute to the downstate teachers' pension fund through their state income tax dollars. Historically, the State of Illinois had contributed funding significantly below the state's original commitment to provide CTPF with between 20 and 30 percent of its annual contribution to the downstate teachers' pension fund. Starting in FY2018, the state has begun to pay for the normal cost of CTPF pursuant to Public Act 100-0465, which represents approximately 28% of the total required employer contribution annually.

Local Pension Assistance

Employees of CPS participate in either the Public Schools Teachers' Pension and Retirement Fund of Chicago ("Pension Fund") or the Municipal Employees Annuity and Benefit Fund of Chicago ("Annuity Fund"). Public Act 100-0465 increased CPS' maximum teacher pension property tax levy rate 48%, from 0.383% to 0.567%. The increase is initially estimated to generate approximately \$130 million in additional revenue annually, which will go directly to the Pension Fund. This tax is not subject to the Property Tax Extension Limitation Law so in the future this portion of CPS' annual employer contribution will not have a negative impact on spending in the classroom. Although this incremental value of approximately \$130 million does not impact CPS' financial statements for the fiscal year ending June 30, 2017, it will have a positive impact on future statements.



Education Programs

Chicago Early Learning

Early childhood education is the cornerstone for future learning and provides individualized supports to families and children. Our early childhood program ensures families are provided access to health, mental health, social service supports, and developmentally appropriate academically rigorous educational programming. As the district moves to providing more full day preschool options that are proven to have more of an impact than half-day programming, CPS is targeting high quality programming that ensure more children are prepared for kindergarten and on the path to success from the start.



All City Performing Arts

Over 400 students from across CPS join together every Saturday during the school year to create ensembles including concert band, choir, dance, theater, modern band, jazz band, orchestra, or student-composed music. These ensembles are directed by exemplary CPS teachers, and are available to all students in the CPS system. This FREE program, going into its 55th year, is designed to provide creative performance opportunities for both beginning and advanced students, culminating in a performance at the Harris Theater in Millennium Park every spring.

In addition to performance opportunities, the CPS All-City Performing Arts program has formed a partnership with Columbia College Chicago. Columbia College provides student and staff support throughout the year, and eligible students can earn a scholarship to attend Columbia College, just by participating in All-City Performing Arts.

All-City Visual Art Exhibitions

This program annually recognizes achievement in visual art, through exhibiting student artwork from

across the city. The three annual events include the Senior Portfolio Exhibition, High School Visual Art Exhibition, and Elementary Visual Art Exhibition. Each exhibition showcases artwork in a gallery setting and, between the three exhibitions, features the work of over 800 students. The All-City Visual Art Exhibitions are a collaborative undertaking, including logistical support from CPS visual art teachers, and local arts organizations including The School of the Art Institute, the City of Chicago Department of Cultural Affairs and Special Events, and the Chicago Park District.

Advanced Arts Program

The Advanced Arts Program (AAP) is a CPS off-campus high school magnet arts program that provides high school juniors & seniors with a year-long, two hour Honors or AP-level arts course. Since 1999, AAP has provided over 2,200 CPS high school students from over 60 high schools opportunities to excel in the arts in a supportive and academically rigorous learning environment. Students participate in a 2-hour, 2-credit Honors, Advanced Placement or Dual Credit College course, team taught by a professional artist affiliated with Chicago's most prestigious arts organizations and institutions, and a certified CPS teacher. Students are engaged in intense project-based learning experiences that include regular field trips to artists' studios, museums, galleries, theaters and concert halls. Students are given opportunities to perform on stage in public and to create art for a variety of public venues. AAP provides career guidance and intensive post-secondary planning. Many prestigious and top ranked colleges and universities recruit directly from AAP.

Arts Essentials

Beginning in 2012, with the adoption of the CPS Arts Education Plan, schools complete the annual Creative Schools Certification survey detailing the landscape of arts education investments across CPS. This includes staffing ratios, students' access to arts instruction, depth of coursework, and partnerships with community arts organizations. In order to encourage participation, every school that completes the survey receives \$1,000 for materials and supplies for their arts classes. This was previously funded by Ingenuity Inc., and starting in SY2017-18 is funded by the District.



Education Outcomes

- In a landmark study of statewide educational outcomes, the University of Illinois – Chicago found that CPS students are outperforming their peers in every major racial and ethnic group throughout the state. UIC analyzed 15 years of Illinois test score data for comparisons.
- In its academic progress report, CPS reported dramatic improvements since 2011 on key metrics including participation in the arts, math and reading growth, graduation rates, freshman on-track to graduate, attendance, and dropout rates.
- CPS students have achieved a record high graduation rate, with 73.5 percent of students earning a diploma. The graduation rate has steadily risen over the past six years, growing more than 16 percentage points since 2011 when just over half of CPS students earned a high school diploma.
- CPS students outpace nationwide peers in graduation rate growth. While students nationally achieved a record high graduation rate of 83.2 percent for the 2014-15 school year, CPS students are outpacing their peers with a graduation rate that is growing more than three times faster than the national rate. The national graduation rate for African American students grew 7.6 points, while CPS' rate went up 12.6 points. The national rate for Hispanic students went up 6.6 points while CPS' rate went up 14.3 points.
- According to a University of Chicago study, roughly 42 percent of CPS graduates enroll in a four-year college or university.
- U.S. News and World Report heralded seven CPS high schools among the top ten schools in Illinois. Five of those schools were also ranked nationally.



- The School Quality Rating Policy (SQRP) measures how well schools perform and results for SY 16-17 show that the number of schools receiving the three highest quality ratings in the District has grown from 451 in the 2015-16 school year to 539 in the 2016-17 school year.
- CPS students achieved a record high average score of 18.4 on the 2015-2016 ACT exam, which represents the highest composite score on record for the District. Scores for this college entrance exam have grown steadily in recent years, increasing by 1.2 points since 2011.
- CPS students have attained record high levels of college and career readiness, as more than 9,200 graduating seniors in the 2015-16 school year earned early college and career credentials. Student participation in programs that award college and career credentials has increased by 1,200 students over the last year, which represents a 9.4 percent increase since 2014.
- The CPS 2016 graduating class received a record high \$1.16 billion in scholarship offers, an increase of more than \$206 million or 20 percent in scholarship dollars over the previous class year. Scholarship money for CPS students has increased eight-fold since 2011.
- Record rates of student participation and proficiency in Advanced Placement (AP) coursework has increased by over 40 percent since the 2010-11 school year. College Board named CPS to its District Honor Roll for a record breaking fourth consecutive year.
- CPS students achieved record scores on the 2015-2016 Northwest Evaluation Association Measures of Academic Progress (NWEA MAP) exam, which measures academic achievement in grades 2-8.

Financial Report: Management's Discussion and Analysis

CPS Annual Financial Report and the Management's Discussion and Analysis (MD&A)

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 include the Statement of Net Position and the Statement of Activities which provide a broad, long-term overview of CPS' finances
- Fund financial statements include the balance sheet and statement of revenue, expenditures, and net changes in fund balances. They provide a greater level of detail of revenues and expenditures and focus on how well CPS has performed in the short term in the most significant funds
- Notes to the basic financial statements

Financial data contained in this report is presented in conformity with Generally Accepted Accounting Principles (GAAP). CPS government funds use the modified accrual basis of accounting.

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.



Highlights from the Government-Wide Financial Statements

- Total assets of \$9.63 billion increased \$922 million or 10.6% primarily due to higher cash and investment balances. Non-current assets increased \$502 million primarily due to the increase of bond proceeds held with a trustee and other long term investments. Capital assets, net of depreciation, for FY2016 totaled \$6.15 billion and \$5.99 billion in FY2017.
- In FY2017, CPS issued \$880 million of new bonds, \$150 million of General Obligation Bonds and \$730 million of Capital Improvement Tax Bonds to fund the Capital Improvement Program. Long-term debt increased \$1.8 billion or 9.2% due to the issuance of new CIT bonds and an increase in the pension liability. The total long-term portion of debt outstanding and capitalized leases was \$7.3 billion in FY2016 and \$8.0 billion in FY2017.
- Accrued pension increased to \$11.01 billion in FY2017 from \$10.02 billion in FY2016, an increase of \$988.1 million or 9.9%. The year-end balance reflects the increase in the net pension obligation related to CTPF.
- Other post-employment benefit (OPEB) liabilities increased to \$2.03 billion in FY2017 from \$1.9 billion in FY2016, an increase of \$139 million, or 7.3%. The year-end balance reflects the increase in net OPEB related to healthcare costs associated with CTPF.
- Other long-term liabilities including current portion decreased to \$493.9 million in FY2017 from \$508.7 million in FY2016, a decrease of \$14.8 million or 2.9%. The year-end balance reflects a decrease in accrued sick pay, vacation pay and workers' compensation of \$21.6 million, \$1.7 million and \$0.6 million respectively, and an increase in auto and general liability of \$7.6 million.
- CPS' net assets decreased \$1,040 million to a deficit of \$13,011 million. Of this amount, \$644 million deficit represents CPS' investment in capital assets, net of depreciation, and related debt. Restricted net assets of \$835 million are reported separately to present legal constraints from debt covenants and enabling legislation. The deficit of \$13,202 million of unrestricted deficit represents the shortfall CPS would experience if it had to liquidate all of its non-capital liabilities as of June 30, 2017.

Financial Report: Management's Discussion and Analysis

Statement of Net Position

As Reported in Government-Wide Financial Statements

This Statement of Net Position 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 Position presents information on all of CPS' assets and liabilities, with the

difference between the two reported as net position. Increases or decreases in net position 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.

Statement of Net Position				
(Millions of dollars)				
	2017	2016	Difference	% Change
Current Assets	\$ 3,137	\$ 2,561	\$ 576	22.5%
Non-current Assets	6,496	6,150	346	5.6%
Total Assets	\$ 9,633	\$ 8,711	\$ 922	10.6%
Deferred Outflows of Resources	\$ 1,388	\$ 952	\$ 436	45.8%
Current Liabilities	\$ 2,513	\$ 1,707	\$ 806	47.2%
Long-term Liabilities	21,342	19,561	1,781	9.1%
Total Liabilities	\$ 23,855	\$ 21,268	\$ 2,587	12.2%
Deferred Inflows of Resources	\$ 176	\$ 365	\$ (189)	-51.8%
Net Position (Deficit)				
Net investment in Capital Assets	\$ (644)	\$ (343)	\$ (301)	87.8%
Restricted for:				
Debt service	630	511	119	23.3%
Capital projects	126	-	126	
Grants and donations	52	65	(13)	-20.0%
Worker's comp/tort immunity	27	35	(8)	-22.9%
Unrestricted	(13,202)	(12,239)	(963)	7.9%
Total Net Position (Deficit)	\$ (13,011)	\$ (11,971)	\$ (1,040)	8.7%

Financial Report: Revenues & Other Financing Sources

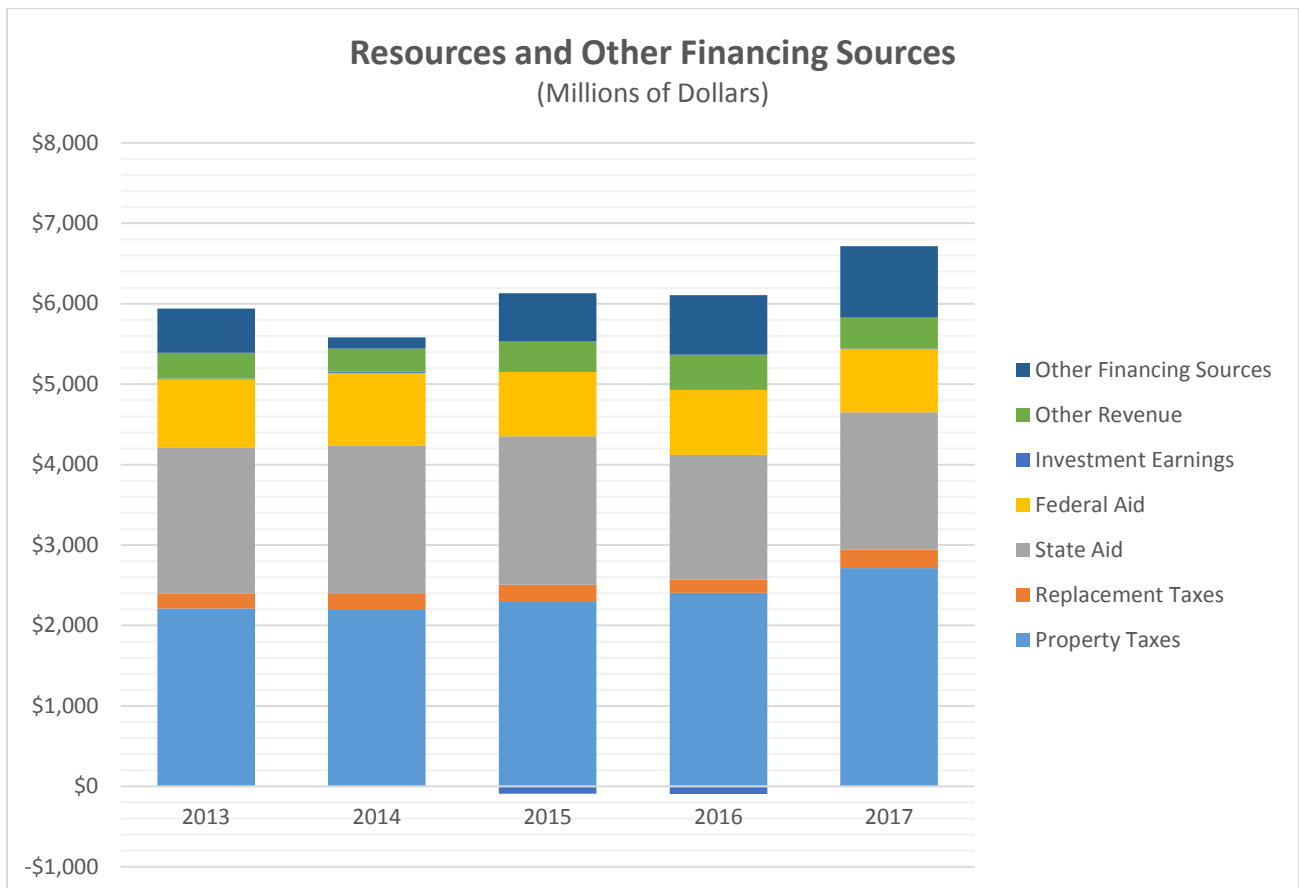
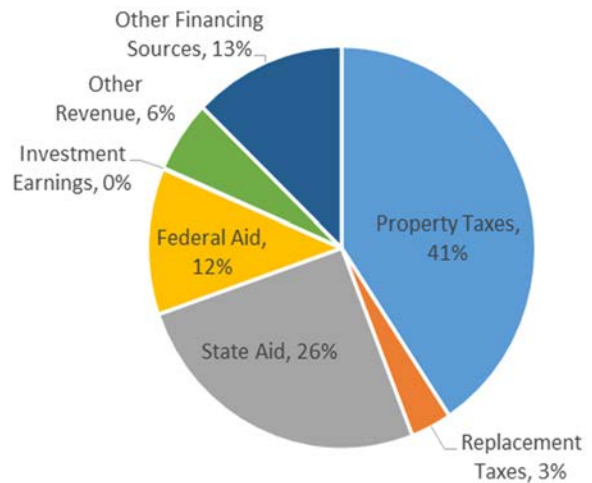
How Are Chicago Public Schools Funded?

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

Resources from all sources totaled \$6.4 billion for FY2017. The Federal government contributed 12% of all revenues for CPS in FY2017, while State Aid was 26%. The remaining 62% of resources are raised locally and include property and replacement taxes.

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

Resources and Other Financing Sources 2017



Financial Report: Revenues & Other Financing Sources

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, 2017. It also depicts the amount and percent change in relation to prior year revenues and other financing resources.

Local property taxes provide approximately 40.4% of all revenues. The other local revenues come from personal property replacement taxes, interest income, and other miscellaneous items.

- Property Taxes increased by \$306 million from FY2016 because a new teacher pension levy approved by state statute, in which collections go directly to the Pension Fund. Also, CPS increased property taxes by 0.7% and captured all property tax growth from new property.
- Replacement Taxes (Personal Property) increased \$66 million from FY2016 due to a state accounting change, providing a one-time increase, and the State releasing municipalities from making requested repayments attributed to the prior years' errors in PPRT distributions.
- State Aid increased by \$157 million from the prior year for the following reasons: 1) aid allocation was considerably higher due to the state's enactment of the hold harmless for General State Aid, creation of a new Equity Grant and an increase in Early Childhood appropriations 2) that increase was offset by a decrease of \$111 million, as a result of the delay in payments by the state, due to the effects of the budget impasse and the bill backlog the State accrues over the past two years.
- Federal Aid decreased \$25 million primarily due to the decrease of 6% of the Title I allocation and smaller allocation decreases in other miscellaneous grants.
- Interest and Investment Earnings increased \$101 million from FY2016 due to moderate increases in the short-term interest rates and higher available cash on hand.
- Other Revenue decreased \$50 million, which is mainly due to a \$42 million decrease in capital project related cash reimbursements from intergovernmental agreement sources with the City of Chicago.
- Other Financing Sources increased \$341 million primarily due to the issuance of capital improvement tax bonds Series 2016 and GO bonds Series 2016B in FY2017.

Resources and Other Financing Sources - All Funds

(Millions of dollars)

	2017	2016	2017 Percent of Total	Increase/ (Decrease) from 2016	Increase/ (Decrease) from 2016
Property Taxes	\$ 2,715	\$ 2,409	40.4%	\$ 306	12.7%
Replacement Taxes	228	162	3.4%	66	40.7%
State Aid	1,709	1,552	25.5%	157	10.1%
Federal Aid	784	809	11.7%	(25)	-3.1%
Investment Earnings	5	(96)	0.1%	101	-105.2%
Other Revenue	387	437	5.8%	(50)	-11.4%
Other Financing Sources	886	740	13.2%	146	19.7%
Total	\$ 6,714	\$ 6,013	100.0%	\$ 701	11.7%

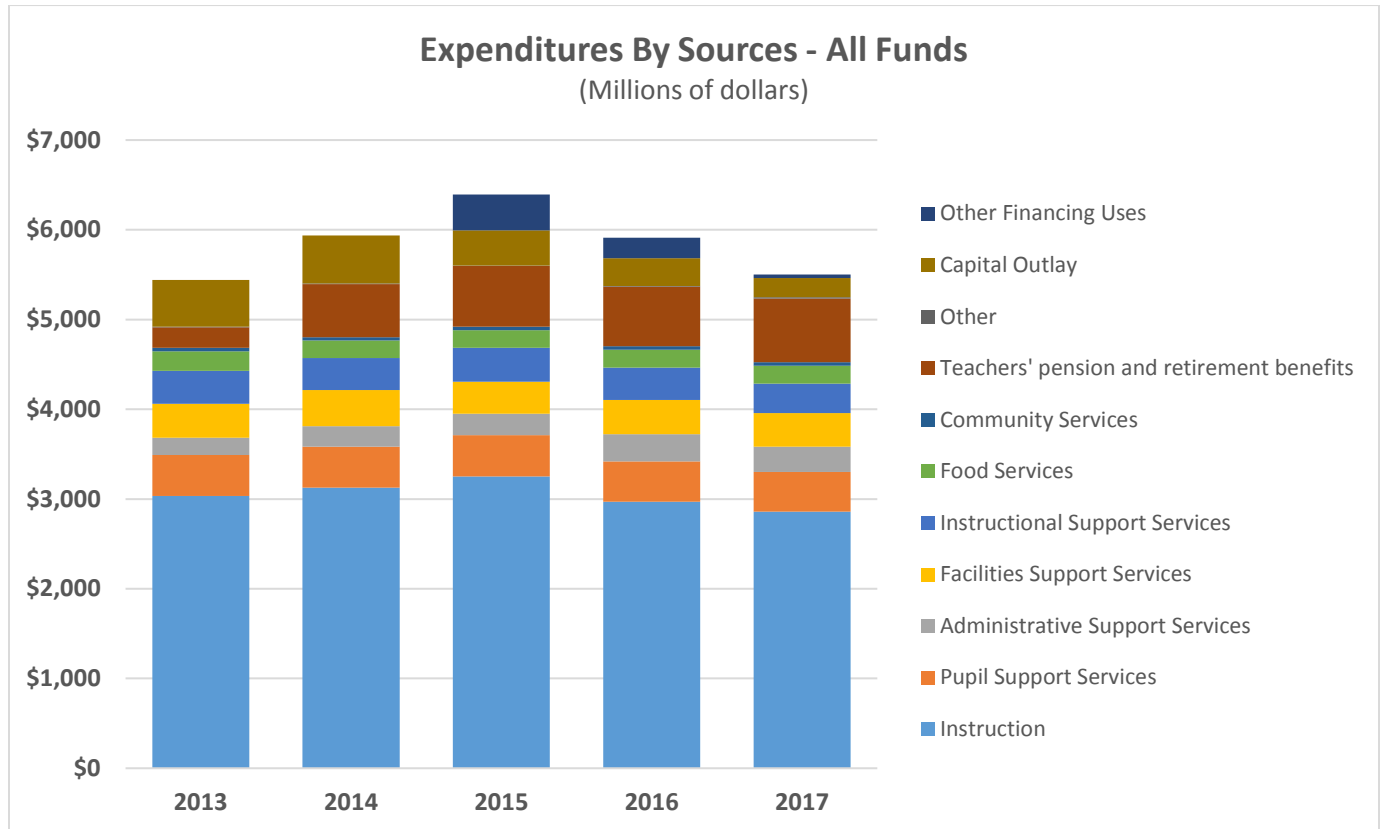
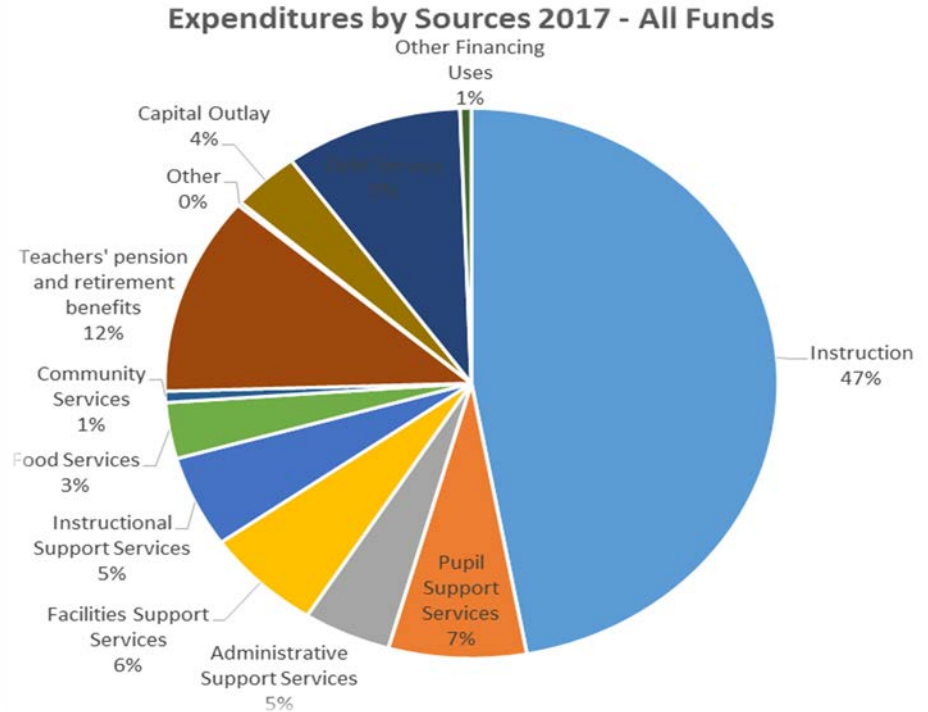
Financial Report: Expenditures by Source and Function

Where Does the Money Go?

These graphs display FY2017 expenditures across specific program areas. Detailed 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.

Pupil Support Services includes guidance counseling, social work, speech pathology, nursing, psychology, occupational and physical therapy services.



Financial Report: Expenditures by Source and Function

General Support includes:

- Instructional Support includes programs designed to enhance curriculum development, educational staff training and library services.
- Facilities Services includes operation and maintenance of plant and student transportation.
- Administrative Support includes school administration such as school principal and assistant principal compensation as well as central and area office administration.

Food Services includes student lunches and breakfasts.

Community Services includes after school programs and programs provided for non-public schools.

Teachers' Pension includes CPS employer share of teacher pension funding.

Capital Outlay includes major new construction and renovation costs.

Debt Service includes the payment of general long-term principal and interest.

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, 2017, as well as the percentage change in relation to prior year amounts.

Instruction has decreased 3.8% or \$112 million due to a reduction in teacher headcount, a healthcare plan change as well as a decrease in payments to Charter and private schools of \$37 million. Teacher Pension increased 6.8% or \$45 million due to rising pension costs and reduced contributions from the state. Capital Outlay decreased 29.5%, or \$91 million, due to continuation of capital improvement projects for renovation and new facilities.

Debt service expenditures increased 18.5% or \$89 million primarily due to principal repayment on new issues.

Expenditures - All Funds					
(Millions of dollars)					
	2017	2016	2017 Percent of Total	Increase/ (Decrease) from 2016	Percent Increase/ (Decrease) from 2016
Instruction	\$ 2,859	\$ 2,971	47.1%	\$ (112)	-3.8%
Pupil Support Services	441	448	7.3%	(7)	-1.6%
Administrative Support Services	282	304	4.6%	(22)	-7.2%
Facilities Support Services	376	381	6.2%	(5)	-1.3%
Instructional Support Services	327	360	5.4%	(33)	-9.2%
Food Services	200	201	3.3%	(1)	-0.5%
Community Services	40	38	0.7%	2	5.3%
Teachers' Pension	709	664	11.7%	45	6.8%
Capital Outlay	217	308	3.6%	(91)	-29.5%
Debt Service	570	481	9.4%	89	18.5%
Other	13	7	0.2%	6	85.7%
Other Financing Uses	36	231	0.6%	(195)	-84.4%
Total	\$ 6,070	\$ 6,394	100.0%	\$ (324)	-5.1%

Financial Report: Capital Improvement

The Capital Improvement Program (CIP) is designed to relieve overcrowding and renovate school buildings to enhance the educational environment. Chicago Public Schools' 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 substantial impact on our students' learning environment.

Chicago Public Schools released FY16 and FY17 supplemental capital budgets to address immediate needs. Under the leadership of Mayor Rahm Emanuel, CPS and the Board of Education have provided over \$3.2 billion since FY2012 to build new schools, provide playgrounds and air conditioning, improve access to technology with new computers and expanded bandwidth, expand academic programs (career and technical education programs, for example), and make core investments in our facilities to repair roofs, fix chimneys, and replace or repair boilers and other mechanical systems. This

has been done to ensure students have a high quality learning environment to support their education.

However, as a result of CPS' financial crises, many of the district's most pressing needs have gone unmet in recent years. Thanks to the newly instituted tax dedicated exclusively to capital, many of the supplemental projects also address critically needed facility repairs, including overcrowding relief, mechanical systems, roofs and completing the Mayor's commitment to provide every school with air conditioning.

Capital Assets

As of June 30, 2017, CPS had \$10.1 billion invested in a broad range of capital assets, including land, buildings, improvements, and equipment. Capital assets increased from last year by \$128 million before depreciation.

New Construction and Renovations

Below are projects in various phases and a quick status snapshot of the FY2017 Capital and Supplemental Capital projects.

PROGRAM SCOPE		No. of Projects						
By Project Stage	Total	Not Started	Pre-Design	Design	Procurement / Bidding	In Construction	Substantial Completion	Closed
New	4	0	0	2	0	2	0	0
Annex	8	0	0	0	0	8	0	0
Modulars	3	0	0	1	0	0	2	0
Air Conditioning	100	0	0	39	0	3	26	32
Building Envelope	27	0	0	0	0	8	11	8
Site Improvements	28	0	0	5	4	1	3	15
Interior Renovations	8	2	0	2	0	0	4	0
TOTAL	178	2	0	49	4	22	46	55

In total, 55 projects were completed, with 178 projects in progress during FY2017. In August, CPS announced an initial list of \$338 million in capital projects that addressed immediate needs.

Previously announced projects include:

- \$173 million in overcrowding relief, including annexes at some of the District's most overcrowded schools. The plan also included modular classrooms at Dawes (138%) and Bridge (231%). The plan also includes new buildings to relieve overcrowding at Dore (170% utilization rate) and South Loop Elementary School (126%). The South Loop Elementary School expansion will be funded entirely by TIF proceeds. These projects are currently under construction.
- \$133 million in technology, architecture and design, programmatic and air conditioning upgrades, including upgrading Internet access, IT infrastructure upgrade, and programming at Dyett HS, Dunbar HS and Brown ES.
- \$32 million in facility needs, including \$20 million for emergency rehabilitation, \$6 million for emergency plumbing rehabilitation, \$6 million for maintenance and \$0.5 million for ADA accommodations.

Financial Report: Capital Improvement

Supplemental Capital Plan

CPS announced a \$600 million supplemental capital plan in December 2016 that included the following:

- \$285 million in roofs, renovations and mechanical projects at schools including Cardenas, Chavez, Clark ES, Clark HS, Curie HS, Franklin, Gary, Goudy, Haley Annex, Hammond, Hefferan, Lake View HS, Lincoln Park HS, Lindbom HS, Perspectives IIT, Rowe, Salazar, Solomon, University of Chicago Donoghue, and Zapata.
- \$243 million in annexes, modulars or potential new school buildings.
- \$37 million in programmatic investments and facility upgrades, including facility renovations at Amundsen and Belding, new classroom and physical education spaces at Sheridan, new labs at Von Steuben, and other renovations to support high quality academic programming.
- \$29 million in site improvements including turf fields, Space to Grow campus parks and other site improvements at schools including Brooks, Clemente, Cook, Nathan Davis, Fernwood, Field, Morton Sauganash, Till, and Wells. This is supplemented by \$6.7 million in outside funding.

Space to Grow – Greening Chicago Schoolyards

Space to Grow is a partnership led by Openlands and Healthy Schools Campaign, and supported by Chicago Public Schools, that transforms Chicago schoolyards into spaces that provide students, their families and the broader community with the opportunity for active play, space for physical education classes, opportunities for outdoor learning, gardening and environmental literacy, and engagement with art. While the main objective of Space to Grow is to build schoolyards that meet the needs of students, these green schoolyards will have the added benefit of reconnecting communities with their local public schools; providing much-needed green space in otherwise heavily urbanized neighborhoods; and, significantly contributing to a reduction in stormwater runoff across the city.



Financial Report: Long-Term Debt

Long-Term Debt

As of June 30, 2017, CPS had \$8.0 billion in total debt, including accreted interest and capitalized lease obligations outstanding versus \$7.3 billion for FY2016 - an increase of 10%. The percentage change in outstanding debt represents the combined effects of new debt issued in FY2017 and low principal retirements.

Bond Issuances

In July 2016, CPS issued its Series 2016B bonds to provide funds for capital improvements, fund capitalized interest, and pay costs of issuance. CPS also issued its Series 2016 Capital Improvement Tax bonds to fund permitted capital improvement projects and an initial deposit to the consolidated reserve account.

Debt Ratings

Investors who purchase municipal bonds use debt ratings as an indicator of the financial stability of an organization and consequently the safety and security of the debt sold by that organization. In general, higher credit ratings often result in lower borrowing costs via reduced interest rates paid on municipal bonds. Strong ratings also promote a wider market by attracting more buyers of municipal bonds.

CPS Debt Ratings

General Obligation Bonds (GO)	Jun. 2017*	Jan. 2016*
Fitch Ratings	B+	B+
Kroll Bond Ratings	BBB-	BBB-
Moody's Investor Service	B3	B2
Standard and Poor's	B	B+

*The rating provided by Kroll for the CPS Series 2016A and Series 2016 B bonds has been BBB since January 2016 and September 2016 respectively. All Other Issues were BBB-.

Capital Improvement Bonds (CIT)	Jun. 2017	Dec. 2016
Fitch Ratings	A	A
Kroll Bond Ratings	BBB	BBB

Highest rating is 'AAA'; lowest is 'D'.

CPS currently has bonds outstanding with credit ratings from Fitch Ratings, Kroll Bond Rating Agency, Moody's Investor Service and Standard and Poor's. Subsequent to the end of FY2017, all rating agencies revised their GO bond rating outlooks from negative to stable or positive. This was primarily a result of additional State and local sources of revenue with the passage of the new State funding formula.

Bond Issuances

Date	Purpose	Amount (in Thousands)	Series	Type of Bonds
Jul. 2016	Capital Improvements	\$ 150,000	2016B	Unlimited General Obligation (GO)
Jan. 2017	Capital Improvements	729,600	2016	Dedicated Capital Improvement Tax
Total		\$ 879,600		

Chicago Public Schools has gained national recognition for its notable academic gains and leadership in urban education, highlights can be found below:

WTTW: Janice Jackson Shares Her Vision for Chicago Public Schools

"Chicago Public Schools students return to the classroom next week, but the district's new chief executive officer is already at her desk, planning for the rest of the school year, and the future of CPS. 'I owe everything in my life to public education,' Jackson said. 'And I believe in it – I'm a big believer in it. And at each level, I've always felt like I can do more. When I was a teacher, I wanted to be a principal because I could have a greater impact. That's why I want to be the chief executive officer for this district. I want to make decisions that I know impact people and make their lives better. I think there is an awesome responsibility that comes along with that, but there is also an awesome opportunity to more equitably distribute resources and opportunities across this city.'"

New York Times: How Effective Is Your School District? A New Measure Shows Where Students Learn the Most

"In Chicago, third graders collectively test below the second-grade level on reading and math. But this data shows that over the next five years, they receive the equivalent of six years of education. By the eighth grade, their scores have nearly caught up to the national average"

Huffington Post Op-Ed: Schools Can Get Better. They Can Also Get Worse

"Chicago is in fact the large urban system that grows its kids the most anywhere, according to an analysis done by Sean Reardon at Stanford University and described in the New York Times last April. That is to say, Chicago students—who are well below average performance in third grade—improve through the grades so that they are more-or-less performing at

national averages in eighth grade, according to Reardon's analysis."

WBEZ: Perception Vs. Reality: Chicago Students Outperform Kids In Rest Of Illinois

"The UIC analysis of 15 years of Illinois test score data finds that in apples-to-apples comparisons between similar groups of elementary students in Chicago and the rest of the state, Chicago kids on average repeatedly outperform their peers outside the city. [...] 'You name the subgroup, and kids in Chicago are doing substantially better than other Illinois kids outside the city' Paul Zavitkovsky, a researcher with the University of Illinois at Chicago's Center for Urban Education Leadership."

ABC7: Chicago Proud: Educator named Counselor of the Year, introduced by Michelle Obama

"A beloved Chicago school counselor is making us Chicago Proud. She was honored and introduced by former first lady Michelle Obama Friday. Kirsten Perry was chosen among six finalists across the country for her work at Lawndale Community Academy on the city's West Side. Perry played a key role in helping lift the school's academic ranking. Since Perry arrived at Lawndale, the percentage of students on track to graduate high school has nearly doubled."

Columbia Chronicle: Two CPS schools recognized nationally for high performance

"Two Chicago public elementary schools on opposite sides of the city have recently been honored for excellence by the U.S. Department of Education. A 2017 National Blue Ribbon School award was granted to Hannah G. Solomon Elementary, 6206 N. Hamlin Ave., and Edgar Allan Poe Classical School, 10538 S. Langley Ave. These schools are two out of only 16 public schools in the state and 342 overall schools nationwide to receive this award. Both Solomon's and Poe's honors are in the 'Exemplary High Performing Schools' category for testing in the top 15 percent in Illinois.

Glossary of Terms

BUDGET Allocation of available revenue in accordance with the spending guidelines and policies of the revenue sources to carry out educational goals of the school district.

BOND A written promise to pay a specified sum of money, called the face value or principal amount, at a specified date in the future (the maturity date), together with periodic interest at a specified rate.

CAPITAL ASSETS All tangible property which cannot easily be converted into cash and which is usually held for a long period, including real estate, equipment, etc.

CAPITAL IMPROVEMENT Any permanent structure or other asset in real estate added to a property that adds to its value, whether through new construction or renovation.

DEBT RATINGS A grade assigned by credit rating agencies that evaluate the credit worthiness of a corporation's debt issues. A rating is specified by a letter classification, such as AAA, B, or CC. This rating is a financial indicator to potential investors of debt securities (i.e. bonds).

DEBT SERVICE FUND Governmental fund type used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

EXPENDITURE The payment of obligation (liability).

FUNCTION A group of activities directed toward a specific service of the school district.

FUND ACCOUNTING Accounting whereby nonprofit organizations and organizations in the public sector are measured by accountability instead of profitability. These organizations have a need for special reporting to financial statements users that show how money is spent, rather than how much profit was earned.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Financial statements that incorporate all of the school district's financial activities into two statements: the statement of net assets and the statement of activities.

LONG-TERM DEBT Loans and obligations with a maturity of longer than one year; usually accompanied by interest payments.

NET ASSETS Resources remaining when the school district deducts all of their financial obligations from the assets they own.

OPERATING FUND The primary fund used to account for all financial transactions relating to current operations.

RESOURCES Funds recognized in the accounting period in which they become susceptible to accrual – that is, when they become both measurable and available to finance expenditures of the fiscal period.

UNRESTRICTED The portion of net assets available to be used or spent in the future.