

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION**

**FINANCIAL AUDIT
For the Year Ended June 30, 2012**

Performed as Special Assistant Auditors for
the Auditor General, State of Illinois

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2012**

| Table of Contents | <u>Page(s)</u> |
|--|-----------------------|
| Agency Officials | 1 |
| Financial Statement Report | |
| Summary | 2 |
| Independent Auditors' Report | 3-4 |
| Basic Financial Statements: | |
| Statement of Net Assets and Governmental Funds Balance Sheet | 5 |
| Reconciliation of Governmental Funds Balance Sheet to | |
| Statement of Net Assets | 6 |
| Statement of Activities and Governmental Revenues, Expenditures and | |
| Changes in Fund Balances | 7 |
| Reconciliation of Revenues, Expenditures and Changes in Fund Balances | |
| of Governmental Funds to Statement of Activities | 8 |
| Notes to the Basic Financial Statements | 9-26 |
| Supplementary Information | |
| Combining Individual Governmental Funds Financial Statements: | |
| General Fund - Balance Sheet | 27 |
| General Fund - Statement of Revenues, Expenditures and Changes in | |
| Fund Balances | 28 |
| Nonmajor Funds - Balance Sheet | 29-32 |
| Nonmajor Funds - Statement of Revenues, Expenditures and Changes in | |
| Fund Balances | 33-36 |
| Independent Auditors' Report on Internal Control Over Financial Reporting | |
| and on Compliance and Other Matters Based on an Audit of Financial | |
| Statements Performed in Accordance with <i>Government Auditing Standards</i> | 37-38 |
| Schedule of Findings | 39-41 |

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AUDIT**

Agency Officials

Board Members of the Illinois State Board of Education:

Gery J. Chico, Chairperson
Steven R. Gilford, Vice-Chairperson (as of 01/26/12)
Dr. Christopher J. Ward, Vice-Chairperson (until 10/11/11)
Dr. Vinni M. Hall, Secretary
James W. Baumann

Dr. Andrea S. Brown
Dr. David L. Fields
Melinda A. LaBarre
Curt Bradshaw

State Superintendent of Education

Dr. Christopher A. Koch, Ed.D.

Cabinet members:

General Counsel/Legal

Nicole Bazer (as of 07/16/12)
Darren Reisberg (until 06/01/12)

Chief Internal Auditor

Melissa Oller

Deputy Superintendent/Chief Education Officer

Susan C. Morrison

Chief Operating Officer and Human Resources Director

Donald Evans

Chief Performance Officer

Peter Godard

Public Information Director/Deputy Superintendent

Matthew Vanover

Chief Financial Officer

Robert Wolfe (as of 08/16/12)
Linda Riley Mitchell (until 06/15/12)

Director of Assessment

Dr. Mary O'Brian

Assistant Superintendents:

Innovation and Improvement
Specialized Instruction Nutrition and Wellness
Center for Language and Early Child Development
Teacher and Leader Effectiveness

Dr. Monique Chism
Elizabeth Hanselman
Reyna Hernandez
Dr. Linda Tomlinson

Agency offices are located at:

Alzina Building
100 North First Street
Springfield, Illinois 62777-0001

James R. Thompson Center
100 West Randolph Street
Suite 14-300
Chicago, Illinois 60601-3268

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AUDIT**

Financial Statement Report

Summary

The audit of the accompanying basic financial statements of the Illinois State Board of Education (the Agency) was performed by E.C. Ortiz and Co., LLP.

Based on their audit, the auditors expressed an unqualified opinion on the Agency's basic financial statements.

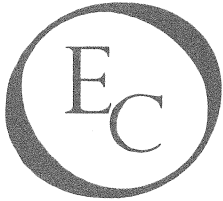
Summary of Findings

The auditors identified a matter involving the Agency's internal control over financial reporting that they considered to be a material weakness. The material weakness is described in the accompanying Schedule of Findings listed in the table of contents as finding 12-1, *Financial Reporting*.

Exit Conference

The Agency waived having an exit conference in a letter dated January 15, 2013, from the Agency's Chief Internal Auditor, Melissa Oller.

The response to the recommendation was provided by Melissa Oller in a letter dated January 22, 2013.



E.C. ORTIZ & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board Members of the
Illinois State Board of Education

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Illinois State Board of Education, as of and for the year ended June 30, 2012, which collectively comprise the Illinois State Board of Education's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Illinois State Board of Education's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the financial statements of the Illinois State Board of Education are intended to present the financial position and changes in financial position of only that portion of the governmental activities, the major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Illinois State Board of Education. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2012, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Illinois State Board of Education, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 24, 2013 on our consideration of the Illinois State Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part

of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted the management's discussion and analysis and budgetary comparison information for the General Fund that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Illinois State Board of Education's basic financial statements. The combining individual governmental funds - General Fund and the combining individual governmental funds - Nonmajor Funds financial statements listed as supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The combining individual governmental funds - General Fund and the combining individual governmental funds - Nonmajor Funds financial statements listed as supplementary information in the table of contents have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining individual governmental funds - General Fund and the combining individual governmental funds - Nonmajor Funds financial statements listed as supplementary information in the table of contents are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, Agency management, and Board members of the Illinois State Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

E. C. Ortiz & Co., LLP

Chicago, Illinois
January 24, 2013

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET
AS OF JUNE 30, 2012
(amounts expressed in thousands)

| | General Fund | Nonmajor Funds | Total Governmental Funds | Adjustments | Statement of Net Assets |
|---|-------------------|-------------------|--------------------------------|------------------|----------------------------|
| ASSETS | | | | | |
| Unexpended appropriations | \$ 796,161 | \$ 8,101 | \$ 804,262 | \$ - | \$ 804,262 |
| Cash and cash equivalents | - | 14,989 | 14,989 | - | 14,989 |
| Securities lending collateral equity | - | 1,139 | 1,139 | - | 1,139 |
| Due from federal government | - | 378,098 | 378,098 | - | 378,098 |
| Due from local governments, net of allowance of \$144 | 314 | 1,500 | 1,814 | - | 1,814 |
| Other receivables | - | 522 | 522 | - | 522 |
| Due from other Agency funds | - | 937 | 937 | (937) | - |
| Due from other State funds | 25 | 1,867 | 1,892 | - | 1,892 |
| Due from component units of the State | - | 82 | 82 | - | 82 |
| Inventories | - | 2,235 | 2,235 | - | 2,235 |
| Loans receivable | - | 1,462 | 1,462 | - | 1,462 |
| Prepaid expenses | - | - | - | 1,494 | 1,494 |
| Capital assets not being depreciated | - | - | - | 6,262 | 6,262 |
| Capital assets net of depreciation | - | - | - | 14,331 | 14,331 |
| TOTAL ASSETS | \$ 796,500 | \$ 410,932 | \$ 1,207,432 | \$ 21,150 | \$ 1,228,582 |
| LIABILITIES | | | | | |
| Accounts payable and accrued liabilities | \$ 18,428 | \$ 2,831 | \$ 21,259 | \$ - | \$ 21,259 |
| Obligations under securities lending | - | 1,139 | 1,139 | - | 1,139 |
| Due to federal government | 1 | 1,352 | 1,353 | - | 1,353 |
| Due to local governments | 2,390,510 | 393,050 | 2,783,560 | - | 2,783,560 |
| Due to other Agency funds | 937 | - | 937 | (937) | - |
| Due to other State funds | 445 | 7,612 | 8,057 | - | 8,057 |
| Due to component units of the State | 1,148 | 3,569 | 4,717 | - | 4,717 |
| Deferred revenue unavailable | - | 24,287 | 24,287 | (24,287) | - |
| Deferred revenue unearned | - | 1,533 | 1,533 | - | 1,533 |
| Compensated absences, current portion | - | - | - | 35 | 35 |
| Installment purchase, current portion | - | - | - | 190 | 190 |
| Compensated absences, long-term portion | - | - | - | 3,283 | 3,283 |
| Total Liabilities | 2,411,469 | 435,373 | 2,846,842 | (21,716) | 2,825,126 |
| FUND BALANCES (DEFICIT)/NET ASSETS (DEFICIT) | | | | | |
| Fund Balances: | | | | | |
| Nonspendable | - | 2,235 | 2,235 | (2,235) | - |
| Restricted | - | 159 | 159 | (159) | - |
| Committed | - | 13,177 | 13,177 | (13,177) | - |
| Assigned | - | 2,101 | 2,101 | (2,101) | - |
| Unassigned | (1,614,969) | (42,113) | (1,657,082) | 1,657,082 | - |
| Invested in capital assets, net of related debt | - | - | - | 20,403 | 20,403 |
| Restricted net assets | - | - | - | 3,959 | 3,959 |
| Unrestricted net assets | - | - | - | (1,620,906) | (1,620,906) |
| Total Fund Deficit/Net Deficit | (1,614,969) | (24,441) | (1,639,410) | \$ 42,866 | \$ (1,596,544) |
| TOTAL LIABILITIES AND FUND DEFICIT | \$ 796,500 | \$ 410,932 | \$ 1,207,432 | | |

The accompanying notes to the basic financial statements are an integral part of this statement.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2012
(amounts expressed in thousands)

Total Fund Deficit - governmental funds \$ (1,639,410)

Amounts reported for governmental activities in the Statement of
Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and, therefore, are not reported in governmental funds. 20,593

Prepaid expenses for governmental activities are current uses
of financial resources for funds. 1,494

Revenues in the Statement of Activities that do not provide
current financial resources are deferred in governmental funds. 24,287

Some liabilities reported in the Statement of Activities do not
require the use of current financial resources and, therefore, are
not reported as liabilities in governmental funds. These
activities consist of:

| | |
|----------------------------------|---------|
| Installment purchase obligations | (190) |
| Compensated absences | (3,318) |
| | <hr/> |

NET DEFICIT FROM GOVERNMENTAL ACTIVITIES \$ (1,596,544)

The accompanying notes to the basic financial statements are an integral part of this statement.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012
(amounts expressed in thousands)

| | <u>General Fund</u> | <u>Nonmajor Funds</u> | <u>Total Governmental Funds</u> | <u>Adjustments</u> | <u>Statement of Activities</u> |
|---|-----------------------|---------------------------|---|--------------------|------------------------------------|
| EXPENDITURES/EXPENSES | | | | | |
| Program expense - education | \$ 6,719,048 | \$ 2,187,531 | \$ 8,906,579 | \$ (1,079) | \$ 8,905,500 |
| Debt service - principal | 74 | 119 | 193 | (193) | - |
| Debt service - interest | 7 | 10 | 17 | (17) | - |
| Capital outlays | 733 | 4,728 | 5,461 | (5,461) | - |
| Total Expenditures/Expenses | <u>6,719,862</u> | <u>2,192,388</u> | <u>8,912,250</u> | <u>(6,750)</u> | <u>8,905,500</u> |
| PROGRAM REVENUES | | | | | |
| Charges for services: | | | | | |
| Licenses and fees | 67 | 3,347 | 3,414 | - | 3,414 |
| Total charges for services | <u>67</u> | <u>3,347</u> | <u>3,414</u> | <u>-</u> | <u>3,414</u> |
| Operating grant revenue: | | | | | |
| Federal | - | 2,179,949 | 2,179,949 | (19,718) | 2,160,231 |
| Refunds | - | (4,459) | (4,459) | - | (4,459) |
| Total operating grant revenue | <u>-</u> | <u>2,175,490</u> | <u>2,175,490</u> | <u>(19,718)</u> | <u>2,155,772</u> |
| Net Program Deficit | <u>(6,719,795)</u> | <u>(13,551)</u> | <u>(6,733,346)</u> | <u>(12,968)</u> | <u>(6,746,314)</u> |
| GENERAL REVENUES | | | | | |
| Interest | - | 204 | 204 | - | 204 |
| Other revenues | 5 | 373 | 378 | 7 | 385 |
| Total General Revenues | <u>5</u> | <u>577</u> | <u>582</u> | <u>7</u> | <u>589</u> |
| OTHER SOURCES (USES) OF FINANCIAL RESOURCES | | | | | |
| Appropriations from State resources | 6,750,386 | 145,455 | 6,895,841 | - | 6,895,841 |
| Reappropriations to future year(s) | - | (109,126) | (109,126) | - | (109,126) |
| Net change in liabilities for reappropriated accounts | - | 2,038 | 2,038 | - | 2,038 |
| Receipts collected and remitted to State Treasury | (8,861) | - | (8,861) | - | (8,861) |
| Capital transfers to other State agencies | - | - | - | (10) | (10) |
| Loss on disposal of capital assets | - | - | - | (14) | (14) |
| Total Other Sources (Uses) | <u>6,741,525</u> | <u>38,367</u> | <u>6,779,892</u> | <u>(24)</u> | <u>6,779,868</u> |
| Change in fund balances/net assets | 21,735 | 25,393 | 47,128 | (12,985) | 34,143 |
| Lapsed appropriations | (7,601) | (376) | (7,977) | - | (7,977) |
| Fund Deficit/Net Deficit, July 1, 2011 | (1,629,103) | (50,281) | (1,679,384) | 56,674 | (1,622,710) |
| Increase for changes in inventories | - | 823 | 823 | (823) | - |
| FUND DEFICIT/NET DEFICIT, JUNE 30, 2012 | <u>\$ (1,614,969)</u> | <u>\$ (24,441)</u> | <u>\$ (1,639,410)</u> | <u>\$ 42,866</u> | <u>\$ (1,596,544)</u> |

The accompanying notes to the basic financial statements are an integral part of this statement.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
RECONCILIATION OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012
(amounts expressed in thousands)

| | |
|--|---------------|
| Net Change in Fund Balances - governmental funds | \$ 47,128 |
| Change in inventories | 823 |
| | <u>47,951</u> |

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation and amortization expense to allocate those expenditures over the life of the assets. This is the amount by which capital outlays exceeded depreciation and amortization in the current period. 4,012

Losses from capital assets no longer in use are not recorded in governmental funds but are reported as other expenses in the Statement of Activities. (14)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 193

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. This amount represents the decrease in unavailable revenue over the prior year. (19,711)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These activities consist of:

| | |
|----------------------------------|-----|
| Increase in prepaid expenses | 943 |
| Decrease in compensated absences | 779 |

Some capital assets were transferred out to other State agencies and, therefore, were disposed of by the Agency without receipt for value. (10)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 34,143

The accompanying notes to the basic financial statements are an integral part of this statement.

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

1. ORGANIZATION

The Illinois State Board of Education (the Agency) is a part of the executive branch of government of the State of Illinois (State) and operates under the authority of and review by the Illinois General Assembly. The Agency operates under a budget approved by the General Assembly in which resources primarily from the State's General Fund and other funds are appropriated for the use of the Agency. Activities of the Agency are subject to the authority of the Office of the Governor, the State's chief executive officer, and other departments of the executive and legislative branches of government (such as the Department of Central Management Services and the State Comptroller's Office) as defined by the Illinois General Assembly. All funds appropriated to the Agency and all other cash received are under the custody and control of the State Treasurer.

The Illinois State Board of Education is organized to provide leadership, assistance, resources and advocacy so that every student is prepared to succeed in careers and postsecondary education, and share accountability for doing so with districts and schools.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Agency have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

FINANCIAL REPORTING ENTITY

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- 1) Appointment of a voting majority of the component unit's board and either a) the primary government's ability to impose its will, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- 2) Fiscal dependency on the primary government.

Based upon the required criteria, the Agency has no component units and is not a component unit of any other entity. However, because the Agency is not legally separate from the State of Illinois, the financial statements of the Agency are included in the financial statements of the State of Illinois. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871.

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

BASIS OF PRESENTATION

The financial activities of the Agency, which consist only of governmental activities, are reported under the education function in the State of Illinois' Comprehensive Annual Financial Report (CAFR). For its reporting purposes, the Agency has combined the fund and government-wide financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. A brief description of the Agency's government-wide and fund financial statements is as follows:

Government-wide Statements: The government-wide Statement of Net Assets and Statement of Activities report the overall financial activity of the Agency. Eliminations have been made to minimize the double-counting of internal activities of the Agency. The financial activities of the Agency consist only of governmental activities, which are primarily supported by taxes and intergovernmental revenues.

The Statement of Net Assets presents the assets and liabilities of the Agency's governmental activities with the difference being reported as net assets. The assets and liabilities are presented in order of their relative liquidity by class of asset or liability with liabilities whose average maturities are greater than one year reported in two components - the amount due within one year and amount due in more than one year.

The Statement of Activities presents a comparison between direct expenses and program revenues for the education function of the Agency's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Agency's funds. The emphasis on fund financial statements is on major governmental funds, which is displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Agency administers the following major governmental funds (or portions thereof in the case of shared funds - see Note 2 Shared Fund Presentation) of the State:

General - This is the State's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund. The services which are administered by the Agency and accounted for in the general fund include, among others, social assistance, education (other than institutions of higher education), and health and social services. Certain resources obtained from federal grants and used to support general governmental activities are accounted for in the General Fund consistent with applicable legal requirements. The Agency's General Fund grouping

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

contains three primary sub-accounts (General Revenue - 001, Education Assistance - 007, and Common School - 412).

Additionally, the Agency administers the following fund types:

Special Revenue - Transactions related to resources obtained from specific revenue sources (other than debt service and capital projects) that are legally restricted to expenditures for specified purposes are accounted for in special revenue funds. All Agency administered State and federal trust funds are included in the Special Revenue Funds grouping.

Capital Projects - Transactions related to resources obtained principally from proceeds of general and special obligation bond issues that are restricted, committed or assigned to the acquisition or construction of major capital facilities.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Agency gives (or receives) value without directly receiving (or giving) equal value in exchange, include federal and State grants. Revenue from grants and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on formal debt issues, claims and judgments, and compensated absences are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Significant revenue sources which are susceptible to accrual include intergovernmental grants. All revenue sources including fees and other miscellaneous revenues are considered to be measurable and available only when cash is received.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of GASB.

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

In governmental funds, when an expenditure is incurred that can be paid using either restricted or unrestricted resources, the Agency's policy is generally to first apply the expenditure toward restricted fund balance and then to other, less restrictive classifications - committed, assigned, and then unassigned fund balances.

SHARED FUND PRESENTATION

The financial statement presentation for the General Revenue Fund (001), Education Assistance Fund (007), Drivers Education Fund (031), Capital Development Bond Fund (141), School Construction Bond Fund (143), Common School Fund (412), School Infrastructure Fund (568), and Build Illinois Bond Fund (971) represents only the portion of the shared funds that can be directly attributed to the operations of the Agency. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' CAFR.

In presenting these financial statements, certain unique accounts are used for the presentation of shared funds. The following accounts are used in these financial statements to present the Agency's portion of shared funds:

Unexpended Appropriations

This "asset" account represents lapse period warrants issued between July and August annually in accordance with the Statewide Accounting Management System (SAMS) records plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year.

Appropriations from State Resources

This "other financing source" account represents the final legally adopted appropriation according to SAMS records.

Reappropriations to Future Year(s)

This contra revenue account reduces current year appropriations by the amount of the reappropriation to reflect the State's realignment of the budgetary needs to the subsequent year and avoid double counting of a portion of the appropriation in more than one fiscal year.

Lapsed Appropriations

Lapsed appropriations are the legally adopted appropriations less net warrants issued for the 14 month period from July to August of the following year and reappropriations to subsequent years according to SAMS records.

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Receipts Collected and Remitted to State Treasury

This “other financing source” account represents all cash receipts received during the fiscal year from SAMS records.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of less than 90 days at the time of purchase and consist principally of deposits held in the State Treasury. Cash and cash equivalents also include cash on hand and in transit.

INVENTORIES

For governmental funds, the Agency recognizes the costs of inventories as expenditures when purchased. At year end, physical counts are taken of significant inventories, consisting primarily of agricultural commodities and paper, printing and office supplies. Inventories are valued at cost, principally on the first-in, first-out (FIFO) method. Inventories reported in governmental funds do not reflect current appropriable resources, and therefore, the Agency reserves an equivalent portion of fund balance. Commodities are valued at the value assigned to the commodities by the donor, the U.S. Department of Agriculture.

PREPAID EXPENDITURES

For governmental funds, prepaid expenditures are recognized when paid.

INTERFUND TRANSACTIONS AND TRANSACTIONS WITH STATE OF ILLINOIS COMPONENT UNITS

The Agency has the following types of interfund transactions between funds of the Agency and funds of other State agencies:

Services provided and used - sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund balance sheets or fund statements of net assets.

Reimbursements - repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Transfers - flows of assets (such as cash or commodities) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers.

The Agency also has activity with various component units of the State of Illinois for professional services received and payments for State and Federal programs.

CAPITAL ASSETS

Capital assets, which include property, plant and equipment, and intangible assets are reported at cost. Contributed assets are reported at estimated fair value at the time received. Capital assets are depreciated and amortized using the straight-line method. Intangible assets (internally generated computer software) are assets that do not have a physical existence, are non-financial in nature, are not in a monetary form, and have a useful life of over one year.

Capitalization thresholds and the estimated useful lives are as follows:

| Capital Asset Category | Capitalization Threshold | Estimated Useful Life |
|---|-----------------------------|--------------------------|
| Land | \$ 100,000 | n/a |
| Land Improvements | 25,000 | n/a |
| Site Improvements | 25,000 | 3-50 years |
| Buildings | 100,000 | 10-60 years |
| Building Improvements | 25,000 | 10-45 years |
| Equipment | 5,000 | 3-25 years |
| Intangible (internally generated computer software) | 1,000,000 | 20 years |

COMPENSATED ABSENCES

The liability for compensated absences reported in the government-wide financial statements consists of unpaid, accumulated vacation and sick leave balances for Agency employees. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., Social Security and Medicare tax).

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Legislation that became effective January 1, 1998 capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997 (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997 will be converted to service time for purposes of calculating employee pension benefits.

FUND BALANCES

In the governmental fund financial statements fund balances are classified as follows:

Nonspendable - Amounts that cannot be spent because they are either not in spendable form or legally required to be maintained intact.

Restricted - Amounts which can be spent only for specific purposes because of state or federal laws, or externally imposed conditions by grantors or creditors.

Committed - Amounts which can be used only for specific purposes determined by formal action through a resolution. Fund Balance commitments can only be removed or changed by action of the General Assembly.

Assigned - Amounts that are constrained by the Agency's intent to be used for specific purposes but are neither restricted nor committed. Fund balance assignment can only be removed or changed by action of the General Assembly.

Unassigned - All amounts not included in other classifications.

NET ASSETS

In the government-wide financial statements, equity is displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted - This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FUTURE ADOPTION OF GASB STATEMENTS

Effective for the year ending June 30, 2013, the State will adopt the following GASB statements:

Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, which modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for reporting component units as though they are a part of the primary government using the blending method.

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the pronouncements issued before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which standardizes the financial statement presentation of deferred outflows of resources and deferred inflows of resources, and their effects on a government's net position.

The Agency has not yet determined the impact of adopting these statements on its financial statements.

3. DEPOSITS

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury.

Deposits in the custody of the State Treasurer, including cash on hand or in transit, totaled \$14.99 million at June 30, 2012. These deposits are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Agency does not own individual securities. Detail on the nature of these deposits is available within the State of Illinois' CAFR.

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

SECURITIES LENDING TRANSACTIONS

The State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank Group to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During fiscal year 2012, Deutsche Bank Group lent U.S. Treasury and U.S. agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregated market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

The State Treasurer did not impose any restrictions during the fiscal year on the amount of the loans available or the eligible securities. In the event of borrower default, Deutsche Bank Group provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank Group is obligated to indemnify the State Treasurer if Deutsche Bank Group loses any securities, collateral or investments of the State Treasurer in Deutsche Bank Group's custody. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or Deutsche Bank Group.

During the fiscal year, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank Group and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent.

In accordance with GASB Statement No. 28, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2012 arising from securities lending agreements to the various funds of the State. The total allocated to the Agency at June 30, 2012 was \$1.14 million.

4. INTERFUND BALANCES AND ACTIVITY

BALANCES DUE TO/FROM OTHER FUNDS

The following balances (amounts expressed in thousands) at June 30, 2012 represent amounts due from other Agency funds and other State of Illinois funds.

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

| Fund | Due from other Agency funds | Due from other State funds | Description/Purpose |
|-----------------------|-----------------------------------|----------------------------------|--|
| General | \$ - | \$ 25 | Grants for educational purposes |
| Nonmajor governmental | 937 | 1,867 | Grants for educational purposes, technology loan programs, and temporary relocation expenses |
| Total | <u>\$ 937</u> | <u>\$ 1,892</u> | |

The following balances (amounts expressed in thousands) at June 30, 2012 represent amounts due to other Agency funds and other State of Illinois funds.

| Fund | Due to other Agency funds | Due to other State funds | Description/Purpose |
|-----------------------|---------------------------------|--------------------------------|---|
| General | \$ 937 | \$ 445 | Grants for educational purposes |
| Nonmajor governmental | - | 7,612 | Grants for educational purposes and for federal food service programs |
| Total | <u>\$ 937</u> | <u>\$ 8,057</u> | |

TRANSFERS TO/FROM OTHER FUNDS

There was no interfund transfer activity during the fiscal year ended June 30, 2012.

5. BALANCES AND ACTIVITY BETWEEN THE AGENCY AND COMPONENT UNITS

Transactions between the Agency and component units of the State of Illinois include payments for professional services and payments for State and federal grant programs.

Amounts due to/from discretely presented component units of the State of Illinois at June 30, 2012 were as follows (amounts expressed in thousands):

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

| Fund | Due from component units | Due to component units | Description/Purpose |
|-----------------------|--------------------------------|------------------------------|---|
| General | \$ - | \$ 1,148 | Grants for educational purposes |
| Nonmajor governmental | 82 | 3,569 | Grants for educational purposes and for education jobs programs |
| Total | <u>\$ 82</u> | <u>\$ 4,717</u> | |

6. LOANS RECEIVABLE

The Agency administers four programs that provide loans to schools for various educational purposes.

- *School District Emergency Financial Assistance Program* - This program is available to provide school districts with emergency financial assistance. As of June 30, 2012, this program had no loans receivable outstanding.
- *Charter Schools Revolving Loan Program* - This program is designed to encourage and financially support high quality charter schools throughout Illinois. Loans are available to charter schools in the initial years of their charters.
- *School Technology Revolving Loan Program* - This program is designed to provide school districts with the technology tools and research-proven software to help all of their students achieve the Illinois Learning Standards, especially in reading and mathematics. Three year loans are available to school districts through this program to assist in achieving these goals.
- *Temporary Relocation Expenses Revolving Grant Program* - This program is available to pay school district emergency relocation expenses incurred as a result of fire, earthquake, tornado, or other natural or man-made disaster or school building condemnation made by a Regional Office of Education and approved by the State Superintendent of Education. The purpose of the program is to assist school districts in providing a safe, temporary environment for learning.

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Loans receivable at June 30, 2012 consisted of the following:

| <u>Program</u> | <u>Balance</u> |
|---|-----------------|
| Charter Schools Revolving Loan Program | \$ 17 |
| School Technology Revolving Loan Program | 1,208 |
| Temporary Relocation Expenses Revolving Grant Program | <u>237</u> |
| Total | <u>\$ 1,462</u> |

7. CAPITAL ASSETS

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2012 was as follows:

| | <u>Balance July 1, 2011</u> | <u>Additions</u> | <u>Deletions</u> | <u>Net Transfers</u> | <u>Balance June 30, 2012</u> |
|--|-------------------------------------|------------------|------------------|--------------------------|--------------------------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 1,063 | \$ - | \$ - | \$ - | \$ 1,063 |
| Total capital assets not being depreciated | <u>1,063</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,063</u> |
| Capital assets being depreciated: | | | | | |
| Buildings | 436 | - | - | - | 436 |
| Equipment | 7,050 | 442 | 555 | (322) | 6,615 |
| Capital leases - equipment | <u>35</u> | <u>-</u> | <u>35</u> | <u>-</u> | <u>-</u> |
| Total capital assets being depreciated | <u>7,521</u> | <u>442</u> | <u>590</u> | <u>(322)</u> | <u>7,051</u> |

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

| | Balance July 1, 2011 | Additions | Deletions | Net Transfers | Balance June 30, 2012 |
|---|----------------------------|----------------|--------------|------------------|-----------------------------|
| Less accumulated depreciation: | | | | | |
| Buildings | 265 | 9 | - | - | 274 |
| Equipment | 5,703 | 466 | 541 | (312) | 5,316 |
| Capital leases - equipment | 24 | 11 | 35 | - | - |
| | <u>5,992</u> | <u>486</u> | <u>576</u> | <u>(312)</u> | <u>5,590</u> |
| Total accumulated depreciation | | | | | |
| Total capital assets being depreciated, net | <u>1,529</u> | <u>(44)</u> | <u>14</u> | <u>(10)</u> | <u>1,461</u> |
| Total capital assets, net | <u>\$ 2,592</u> | <u>\$ (44)</u> | <u>\$ 14</u> | <u>\$ (10)</u> | <u>\$ 2,524</u> |

Depreciation expense for governmental activities for the year ended June 30, 2012 was charged to the Education function for an amount of \$486 thousand.

Intangible asset activity (amounts expressed in thousands) for the year ended June 30, 2012 was as follows:

| | Balance July 1, 2011 | Additions | Deletions | Net Transfers | Balance June 30, 2012 |
|---|----------------------------|--------------|-----------|------------------|-----------------------------|
| Intangible assets not being amortized: | | | | | |
| Internally generated in development | \$ 2,030 | \$ 3,169 | \$ - | \$ - | \$ 5,199 |
| | <u>2,030</u> | <u>3,169</u> | <u>-</u> | <u>-</u> | <u>5,199</u> |
| Total Intangible assets not being amortized | | | | | |
| Intangible assets being amortized: | | | | | |
| Internally generated computer software | 15,997 | 1,850 | - | - | 17,847 |
| | <u>15,997</u> | <u>1,850</u> | <u>-</u> | <u>-</u> | <u>17,847</u> |

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

| | <u>Balance July 1, 2011</u> | <u>Additions</u> | <u>Deletions</u> | <u>Net Transfers</u> | <u>Balance June 30, 2012</u> |
|--|-------------------------------------|------------------|------------------|--------------------------|--------------------------------------|
| Total intangible assets being amortized | 15,997 | 1,850 | - | - | 17,847 |
| Less accumulated amortization: | | | | | |
| Internally generated computer software | 4,014 | 963 | - | - | 4,977 |
| Total accumulated amortization | 4,014 | 963 | - | - | 4,977 |
| Total intangible assets being amortized, net | 11,983 | 887 | - | - | 12,870 |
| Total intangible assets, net | <u>\$ 14,013</u> | <u>\$ 4,056</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 18,069</u> |

Amortization for governmental activities for the year ended June 30, 2012 was charged to the Education function for an amount of \$963 thousand.

8. LONG-TERM OBLIGATIONS

CHANGES IN LONG-TERM OBLIGATIONS

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2012 were as follows:

| | <u>Balance July 1, 2011</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance June 30, 2012</u> | <u>Amounts Due Within One Year</u> |
|-----------------------|-------------------------------------|------------------|------------------|--------------------------------------|--|
| Compensated absences | \$ 4,097 | \$ 2,880 | \$ 3,659 | \$ 3,318 | \$ 35 |
| Installment purchases | 383 | - | 193 | 190 | 190 |
| Total | <u>\$ 4,480</u> | <u>\$ 2,880</u> | <u>\$ 3,852</u> | <u>\$ 3,508</u> | <u>\$ 225</u> |

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Compensated absences have been liquidated by the applicable governmental funds that account for the salaries and wages of the related employees.

INSTALLMENT PURCHASE OBLIGATIONS

The Agency has acquired certain office equipment, computer equipment, and other assets through installment purchase arrangements. Future debt service requirements under installment purchase contracts (amounts expressed in thousands) at June 30, 2012 were as follows:

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|------------------|-----------------|---------------|
| 2013 | <u>\$ 190</u> | <u>\$ 8</u> | <u>\$ 198</u> |
| Total | <u>\$ 190</u> | <u>\$ 8</u> | <u>\$ 198</u> |

9. PENSION PLAN

PLAN DESCRIPTION

Substantially all of the Agency’s full-time employees who are not eligible for participation in another State-sponsored retirement plan participate in either the State Employees’ Retirement System (SERS) or the Teachers’ Retirement System (TRS), which are pension trust funds in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which the State employees participate, except those covered by the State Universities, Teachers’, General Assembly, and Judges’ Retirement Systems. The TRS is a cost-sharing multiple-employer PERS covering individuals employed to provide services for which teacher certification is required.

The financial position and results of operations of the SERS and the TRS for fiscal year 2012 are included in the State of Illinois’ CAFR for the year ended June 30, 2012. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255 or by calling (217) 785-7202. The TRS also issues a separate CAFR that may be obtained by writing to the TRS, P.O. Box 19253, Springfield, Illinois, 62794-9253 or by calling (217) 753-0311. The State of Illinois’ CAFR may be obtained by writing to the State Comptroller’s Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1858 or by calling (217) 782-2053.

A summary of SERS’ and TRS’ benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established, are included as an integral part of the SERS’ and TRS’ CAFRs. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

FUNDING POLICY

For employees covered by the SERS, the Agency pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2012 the employer contribution rate for the SERS was 34.19%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the entire employee portion of retirement for most State agencies, including the Agency, with employees covered by the State Employees' Retirement System. However, effective with the fiscal year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State agencies, including the Agency, for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pickup, when applicable, is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

For employees covered by the TRS, the Agency pays employer retirement contributions based on a statutory based percentage of 0.58%. For employees paid from federal funds, the fiscal year 2012 employer contribution rate to the TRS was 24.91%. In addition, the State of Illinois makes employer contributions "on behalf" of TRS covered employees. For the year ended June 30, 2012, State contributions were based on 9.4% of creditable earnings.

10. POST-EMPLOYMENT BENEFITS

The State provides health, dental and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

However, Public Act 97-0695, effective, July 1, 2012, allows alteration of the contributions to be paid by the State, annuitants, survivors, and retired employees under the State Employees Group Insurance Act. This Act requires the Director of Central Management Services to, on an annual basis, determine the amount that the State should contribute. The remainder of the cost of coverage shall be the responsibility of the annuitants, survivors, or retired employees.

The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois' CAFR. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefits provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

11. FUND DEFICITS

The following funds had deficit balances at June 30, 2012 (amounts expressed in thousands):

| | |
|--|-------------|
| General Revenue Fund (001) | \$1,614,969 |
| Drivers Education Fund (031) | 17,500 |
| SBE Federal Agency Services Fund (560) | 11 |
| SBE Federal Department of Education Fund (561) | 24,460 |
| U.S. Department of Education Jobs Program Fund (857) | 142 |

These deficits are expected to be recovered from future years' State appropriations and federal funds.

12. RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers' compensation and natural disasters. The State retains the risk of loss (i.e. self insured) for these risks.

The Agency's risk management activities for self-insurance, unemployment insurance and workers' compensation are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the General Fund of the State. The claims are not considered to be a liability of the Agency; and accordingly, have not been reported in the Agency's financial statements for the year ended June 30, 2012.

13. COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

The Agency leases various real property and equipment under the terms of a noncancelable operating lease agreement that requires the Agency to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense was \$2.78 million for the year ended June 30, 2012.

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

The following is a schedule of future minimum lease payments (amounts expressed in thousands):

| <u>Year ending June 30,</u> | <u>Amount</u> |
|-----------------------------|-----------------|
| 2013 | \$ 2,340 |
| 2014 | 2,340 |
| 2015 | 2,340 |
| 2016 | <u>2,340</u> |
| Total | <u>\$ 9,360</u> |

FEDERAL FUNDING

The Agency receives federal grants which are subject to review and audit by federal grantor agencies. Certain costs could be questioned as not being eligible expenditures under the terms of the grants. At June 30, 2012, there were no material questioned costs that have not been resolved with the federal awarding agencies. However, questioned costs could still be identified during audits to be conducted in the future. Management of the Agency believes there will be no material adjustments to the federal grants and, accordingly, has not recorded a provision for possible repayment.

LITIGATION

A lawsuit against the City of Chicago and the Agency resulted in a settlement requiring the Agency to pay \$19.25 million over seven years to Chicago Public School District 299 to assist the district in providing special education services to identified eligible children within the least restrictive environment. The settlement, reached in July 1999, required the Agency to pay \$2.75 million per year through January 2006. In fiscal year 2005, a federal judge extended the ruling through the end of the 2009-2010 school year. Subsequently, a second motion to extend the Agency's settlement amount through August 1, 2011 was approved by the federal court.

Due to the district's failure to disburse an adequate amount of the Agency's portion of the settlement for the intended purpose, the Agency had paid only \$12.79 million of the settlement amount through June 30, 2011. The Agency's monitoring obligations under the settlement terminated August 1, 2011. The report of a special education compliance expert was released January 3, 2012. On October 29, 2012, the U.S. District Court issued a final ruling releasing the Agency of any further obligations in this matter.

Also, the Agency is named as a defendant in three separate lawsuits in which the plaintiffs claim personal injury stemming from tainted chicken tenders allegedly consumed by students, a claim regarding breach of a lease agreement, and a claim regarding the calculation of General State Aid by two school districts.

In addition, the Agency is involved in a number of legal proceedings and claims that cover a wide range of matters. The ultimate results of these lawsuits and other proceedings against the Agency cannot be predicted with certainty; however, the Agency does not expect such matters to have a material effect on the financial position of the Agency.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - GENERAL FUND
BALANCE SHEET
AS OF JUNE 30, 2012
(amounts expressed in thousands)

| | General Revenue Fund (001) | Education Assistance Fund (007) | Common School Fund (412) | Total |
|---|---|--|---|--------------------|
| ASSETS | | | | |
| Due from local governments, net of allowance of \$144 | \$ 314 | \$ - | \$ - | \$ 314 |
| Due from other State funds | 25 | - | - | 25 |
| Unexpended appropriations | 796,161 | - | - | 796,161 |
| TOTAL ASSETS | \$ 796,500 | \$ - | \$ - | \$ 796,500 |
| LIABILITIES | | | | |
| Accounts payable and accrued liabilities | \$ 18,428 | \$ - | \$ - | \$ 18,428 |
| Due to federal government | 1 | - | - | 1 |
| Due to local governments | 2,390,510 | - | - | 2,390,510 |
| Due to other Agency funds | 937 | - | - | 937 |
| Due to other State funds | 445 | - | - | 445 |
| Due to component units of the State | 1,148 | - | - | 1,148 |
| Total Liabilities | 2,411,469 | - | - | 2,411,469 |
| FUND DEFICIT | | | | |
| Unassigned | (1,614,969) | - | - | (1,614,969) |
| Total Fund Deficit | (1,614,969) | - | - | (1,614,969) |
| TOTAL LIABILITIES AND FUND DEFICIT | \$ 796,500 | \$ - | \$ - | \$ 796,500 |

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012

(amounts expressed in thousands)

| | General Revenue Fund (001) | Education Assistance Fund (007) | Common School Fund (412) | Total |
|---|---|--|---|-----------------------|
| REVENUES | | | | |
| Licenses and fees | \$ 67 | \$ - | \$ - | \$ 67 |
| Other revenues | 5 | - | - | 5 |
| Total Revenues | 72 | - | - | 72 |
| EXPENDITURES | | | | |
| Education | 2,580,830 | 309,378 | 3,828,840 | 6,719,048 |
| Debt service - principal | 74 | - | - | 74 |
| Debt service - interest | 7 | - | - | 7 |
| Capital outlays | 733 | - | - | 733 |
| Total Expenditures | 2,581,644 | 309,378 | 3,828,840 | 6,719,862 |
| DEFICIENCY OF REVENUES UNDER EXPENDITURES | (2,581,572) | (309,378) | (3,828,840) | (6,719,790) |
| OTHER SOURCES (USES) OF FINANCIAL RESOURCES | | | | |
| Appropriations from State resources | 2,611,914 | 309,632 | 3,828,840 | 6,750,386 |
| Receipts collected and remitted to State Treasury | (8,582) | (279) | - | (8,861) |
| Net Other Sources of Financial Resources | 2,603,332 | 309,353 | 3,828,840 | 6,741,525 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND NET OTHER SOURCES OF FINANCIAL RESOURCES | 21,760 | (25) | - | 21,735 |
| Lapsed appropriations | (7,601) | - | - | (7,601) |
| Fund Balances (Deficit), July 1, 2011 | (1,629,128) | 25 | - | (1,629,103) |
| FUND DEFICIT, JUNE 30, 2012 | \$ (1,614,969) | \$ - | \$ - | \$ (1,614,969) |

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - NONMAJOR FUNDS
BALANCE SHEET
AS OF JUNE 30, 2012
(amounts expressed in thousands)

| | Special Revenue Funds | | | | |
|--|---|------------------------------------|---|--|--|
| | Teacher Certificate Fee Revolving Fund (016) | Drivers Education Fund (031) | School District Emergency Financial Assistance Fund (130) | S.B.E. Special Purpose Trust Fund (144) | S.B.E. Teacher Certification Institute Fund (159) |
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 4,230 | \$ - | \$ 1,177 | \$ 2,271 | \$ 1,881 |
| Securities lending collateral equity | - | - | - | - | - |
| Due from federal government | - | - | - | - | - |
| Due from local governments | - | - | - | - | - |
| Other receivables | - | - | - | - | - |
| Due from other Agency funds | - | - | - | - | - |
| Due from other State funds | - | - | 295 | - | - |
| Due from component units of the State | - | - | - | - | - |
| Inventories | - | - | - | - | - |
| Loans receivable | - | - | - | - | - |
| Unexpended appropriations | - | 6,061 | - | - | - |
| TOTAL ASSETS | \$ 4,230 | \$ 6,061 | \$ 1,472 | \$ 2,271 | \$ 1,881 |
| LIABILITIES | | | | | |
| Accounts payable and accrued liabilities | \$ 68 | \$ - | \$ - | \$ 82 | \$ - |
| Obligations under securities lending | - | - | - | - | - |
| Due to federal government | - | - | - | - | - |
| Due to local governments | - | 23,556 | - | - | - |
| Due to other State funds | - | - | - | 46 | - |
| Due to component units of the State | - | 5 | - | - | - |
| Deferred revenue unavailable | - | - | - | - | - |
| Deferred revenue unearned | - | - | - | - | - |
| Total Liabilities | 68 | 23,561 | - | 128 | - |
| FUND BALANCES (DEFICIT) | | | | | |
| Nonspendable | - | - | - | - | - |
| Restricted | - | - | - | 42 | - |
| Committed | 4,162 | - | 1,472 | - | 1,881 |
| Assigned | - | - | - | 2,101 | - |
| Unassigned | - | (17,500) | - | - | - |
| Total Fund Balances (Deficit) | 4,162 | (17,500) | 1,472 | 2,143 | 1,881 |
| TOTAL LIABILITIES AND FUND BALANCES (DEFICIT) | \$ 4,230 | \$ 6,061 | \$ 1,472 | \$ 2,271 | \$ 1,881 |

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - NONMAJOR FUNDS
BALANCE SHEET
AS OF JUNE 30, 2012
(amounts expressed in thousands)

| | Special Revenue Funds | | | |
|--|---|--|--|---|
| | S.B.E. Federal Dept. of Agriculture Fund (410) | After- School Rescue Fund (512) | S.B.E. Federal Agency Services Fund (560) | S.B.E. Federal Dept. of Education Fund (561) |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 532 | \$ 47 | \$ 7 | \$ 2,226 |
| Securities lending collateral equity | - | - | - | - |
| Due from federal government | 33,586 | - | 147 | 328,947 |
| Due from local governments | - | - | - | 1,500 |
| Other receivables | 521 | - | - | - |
| Due from other Agency funds | - | - | - | 937 |
| Due from other State funds | - | 1 | - | 38 |
| Due from component units of the State | - | - | - | 82 |
| Inventories | 2,235 | - | - | - |
| Loans receivable | - | - | - | - |
| Unexpended appropriations | - | - | - | - |
| TOTAL ASSETS | \$ 36,874 | \$ 48 | \$ 154 | \$ 333,730 |
| LIABILITIES | | | | |
| Accounts payable and accrued liabilities | \$ 384 | \$ - | \$ 46 | \$ 2,249 |
| Obligations under securities lending | - | - | - | - |
| Due to federal government | - | - | - | 1,352 |
| Due to local governments | 33,878 | - | 108 | 318,052 |
| Due to other State funds | 189 | - | - | 7,377 |
| Due to component units of the State | - | - | - | 3,564 |
| Deferred revenue unavailable | 71 | - | 11 | 24,063 |
| Deferred revenue unearned | - | - | - | 1,533 |
| Total Liabilities | 34,522 | - | 165 | 358,190 |
| FUND BALANCES (DEFICIT) | | | | |
| Nonspendable | 2,235 | - | - | - |
| Restricted | 117 | - | - | - |
| Committed | - | 48 | - | - |
| Assigned | - | - | - | - |
| Unassigned | - | - | (11) | (24,460) |
| Total Fund Balances (Deficit) | 2,352 | 48 | (11) | (24,460) |
| TOTAL LIABILITIES AND FUND BALANCES (DEFICIT) | \$ 36,874 | \$ 48 | \$ 154 | \$ 333,730 |

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - NONMAJOR FUNDS
BALANCE SHEET
AS OF JUNE 30, 2012
(amounts expressed in thousands)

| | Special Revenue Funds | | | | |
|--|---|--|---|---|--|
| | Charter Schools Revolving Loan Fund (567) | School Infrastructure Fund (568) | School Technology Revolving Loan Program Fund (569) | Temporary Relocation Expenses Rev. Grant Fund (605) | U.S. Dept. of Education Jobs Program Fund (857) |
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 6 | \$ - | \$ 2,496 | \$ 116 | \$ - |
| Securities lending collateral equity | - | - | 1,139 | - | - |
| Due from federal government | - | - | - | - | 15,418 |
| Due from local governments | - | - | - | - | - |
| Other receivables | - | - | 1 | - | - |
| Due from other Agency funds | - | - | - | - | - |
| Due from other State funds | 4 | - | 1,080 | 449 | - |
| Due from component units of the State | - | - | - | - | - |
| Inventories | - | - | - | - | - |
| Loans receivable | 17 | - | 1,208 | 237 | - |
| Unexpended appropriations | - | 2 | - | - | - |
| TOTAL ASSETS | <u>\$ 27</u> | <u>\$ 2</u> | <u>\$ 5,924</u> | <u>\$ 802</u> | <u>\$ 15,418</u> |
| LIABILITIES | | | | | |
| Accounts payable and accrued liabilities | \$ - | \$ 2 | \$ - | \$ - | \$ - |
| Obligations under securities lending | - | - | 1,139 | - | - |
| Due to federal government | - | - | - | - | - |
| Due to local governments | - | - | - | - | 15,418 |
| Due to other State funds | - | - | - | - | - |
| Due to component units of the State | - | - | - | - | - |
| Deferred revenue unavailable | - | - | - | - | 142 |
| Deferred revenue unearned | - | - | - | - | - |
| Total Liabilities | <u>-</u> | <u>2</u> | <u>1,139</u> | <u>-</u> | <u>15,560</u> |
| FUND BALANCES (DEFICIT) | | | | | |
| Nonspendable | - | - | - | - | - |
| Restricted | - | - | - | - | - |
| Committed | 27 | - | 4,785 | 802 | - |
| Assigned | - | - | - | - | - |
| Unassigned | - | - | - | - | (142) |
| Total Fund Balances (Deficit) | <u>27</u> | <u>-</u> | <u>4,785</u> | <u>802</u> | <u>(142)</u> |
| TOTAL LIABILITIES AND FUND BALANCES (DEFICIT) | <u>\$ 27</u> | <u>\$ 2</u> | <u>\$ 5,924</u> | <u>\$ 802</u> | <u>\$ 15,418</u> |

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - NONMAJOR FUNDS
BALANCE SHEET
AS OF JUNE 30, 2012
(amounts expressed in thousands)

| | <u>Capital Projects Funds</u> | | | <u>Total</u> |
|--|--|--|---|-------------------|
| | <u>Capital Development Bond Fund (141)</u> | <u>School Construction Bond Fund (143)</u> | <u>Build Illinois Bond Fund (971)</u> | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ - | \$ - | \$ - | \$ 14,989 |
| Securities lending collateral equity | - | - | - | 1,139 |
| Due from federal government | - | - | - | 378,098 |
| Due from local governments | - | - | - | 1,500 |
| Other receivables | - | - | - | 522 |
| Due from other Agency funds | - | - | - | 937 |
| Due from other State funds | - | - | - | 1,867 |
| Due from component units of the State | - | - | - | 82 |
| Inventories | - | - | - | 2,235 |
| Loans receivable | - | - | - | 1,462 |
| Unexpended appropriations | - | 2,038 | - | 8,101 |
| TOTAL ASSETS | <u>\$ -</u> | <u>\$ 2,038</u> | <u>\$ -</u> | <u>\$ 410,932</u> |
| LIABILITIES | | | | |
| Accounts payable and accrued liabilities | \$ - | \$ - | \$ - | \$ 2,831 |
| Obligations under securities lending | - | - | - | 1,139 |
| Due to federal government | - | - | - | 1,352 |
| Due to local governments | - | 2,038 | - | 393,050 |
| Due to other State funds | - | - | - | 7,612 |
| Due to component units of the State | - | - | - | 3,569 |
| Deferred revenue unavailable | - | - | - | 24,287 |
| Deferred revenue unearned | - | - | - | 1,533 |
| Total Liabilities | <u>-</u> | <u>2,038</u> | <u>-</u> | <u>435,373</u> |
| FUND BALANCES (DEFICIT) | | | | |
| Nonspendable | - | - | - | 2,235 |
| Restricted | - | - | - | 159 |
| Committed | - | - | - | 13,177 |
| Assigned | - | - | - | 2,101 |
| Unassigned | - | - | - | (42,113) |
| Total Fund Balances (Deficit) | <u>-</u> | <u>-</u> | <u>-</u> | <u>(24,441)</u> |
| TOTAL LIABILITIES AND FUND BALANCES (DEFICIT) | <u>\$ -</u> | <u>\$ 2,038</u> | <u>\$ -</u> | <u>\$ 410,932</u> |

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - NONMAJOR FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012
(amounts expressed in thousands)

| | Special Revenue Funds | | | | |
|---|---|------------------------------------|---|--|--|
| | Teacher Certificate Fee Revolving Fund (016) | Drivers Education Fund (031) | School District Emergency Financial Assistance Fund (130) | S.B.E. Special Purpose Trust Fund (144) | S.B.E. Teacher Certification Institute Fund (159) |
| REVENUES | | | | | |
| Federal government | \$ - | \$ - | \$ - | \$ 2,857 | \$ - |
| Licenses and fees | 2,663 | - | - | - | 684 |
| Interest | - | - | 6 | - | - |
| Other revenues | - | - | - | 319 | - |
| Refunds | - | - | - | - | - |
| Total Revenues | <u>2,663</u> | <u>-</u> | <u>6</u> | <u>3,176</u> | <u>684</u> |
| EXPENDITURES | | | | | |
| Education | 698 | 11,445 | (103) | 3,240 | 3 |
| Debt service - principal | - | - | - | 77 | - |
| Debt service - interest | - | - | - | 6 | - |
| Capital outlays | 12 | - | - | 2 | - |
| Total Expenditures | <u>710</u> | <u>11,445</u> | <u>(103)</u> | <u>3,325</u> | <u>3</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>1,953</u> | <u>(11,445)</u> | <u>109</u> | <u>(149)</u> | <u>681</u> |
| OTHER SOURCES (USES) OF FINANCIAL RESOURCES | | | | | |
| Appropriations from State resources | - | 18,268 | - | - | - |
| Reappropriations to future years(s) | - | - | - | - | - |
| Net change in liabilities for reappropriated accounts | - | - | - | - | - |
| Net Other Sources of Financial Resources | <u>-</u> | <u>18,268</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND NET OTHER SOURCES OF FINANCIAL RESOURCES | <u>1,953</u> | <u>6,823</u> | <u>109</u> | <u>(149)</u> | <u>681</u> |
| Lapsed appropriations | - | (93) | - | - | - |
| Fund Balances (Deficit), July 1, 2011 | 2,209 | (24,230) | 1,363 | 2,292 | 1,200 |
| Increase for changes in inventories | - | - | - | - | - |
| FUND BALANCES (DEFICIT), JUNE 30, 2012 | <u>\$ 4,162</u> | <u>\$ (17,500)</u> | <u>\$ 1,472</u> | <u>\$ 2,143</u> | <u>\$ 1,881</u> |

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - NONMAJOR FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012
(amounts expressed in thousands)

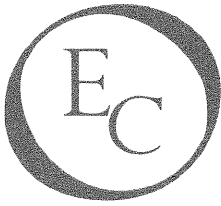
| | Special Revenue Funds | | | |
|--|---|--|--|---|
| | S.B.E. Federal Dept. of Agriculture Fund (410) | After- School Rescue Fund (512) | S.B.E. Federal Agency Services Fund (560) | S.B.E. Federal Dept. of Education Fund (561) |
| REVENUES | | | | |
| Federal government | \$ 695,004 | \$ - | \$ 521 | \$ 1,368,851 |
| Licenses and fees | - | - | - | - |
| Interest | - | - | - | 151 |
| Other revenues | 6 | 48 | - | - |
| Refunds | (127) | - | (2) | (4,330) |
| Total Revenues | <u>694,883</u> | <u>48</u> | <u>519</u> | <u>1,364,672</u> |
| EXPENDITURES | | | | |
| Education | 692,871 | - | 530 | 1,348,868 |
| Debt service - principal | 18 | - | - | 24 |
| Debt service - interest | 2 | - | - | 2 |
| Capital outlays | 905 | - | - | 3,809 |
| Total Expenditures | <u>693,796</u> | <u>-</u> | <u>530</u> | <u>1,352,703</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>1,087</u> | <u>48</u> | <u>(11)</u> | <u>11,969</u> |
| OTHER SOURCES (USES) OF FINANCIAL RESOURCES | | | | |
| Appropriations from State resources | - | - | - | - |
| Reappropriations to future years(s) | - | - | - | - |
| Net change in liabilities for reappropriated accounts | - | - | - | - |
| Net Other Sources of Financial Resources | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND NET OTHER SOURCES OF FINANCIAL RESOURCES | <u>1,087</u> | <u>48</u> | <u>(11)</u> | <u>11,969</u> |
| Lapsed appropriations | - | - | - | - |
| Fund Balances (Deficit), July 1, 2011 | 442 | - | - | (36,429) |
| Increase for changes in inventories | 823 | - | - | - |
| FUND BALANCES (DEFICIT), JUNE 30, 2012 | <u>\$ 2,352</u> | <u>\$ 48</u> | <u>\$ (11)</u> | <u>\$ (24,460)</u> |

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - NONMAJOR FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012
(amounts expressed in thousands)

| | Special Revenue Funds | | | | |
|--|---|--|---|---|--|
| | Charter Schools Revolving Loan Fund (567) | School Infrastructure Fund (568) | School Technology Revolving Loan Program Fund (569) | Temporary Relocation Expenses Rev. Grant Fund (605) | U.S. Dept. of Education Jobs Program Fund (857) |
| REVENUES | | | | | |
| Federal government | \$ - | \$ - | \$ - | \$ - | \$ 112,716 |
| Licenses and fees | - | - | - | - | - |
| Interest | - | - | 47 | - | - |
| Other revenues | - | - | - | - | - |
| Refunds | - | - | - | - | - |
| Total Revenues | - | - | 47 | - | 112,716 |
| EXPENDITURES | | | | | |
| Education | - | 444 | - | 148 | 110,015 |
| Debt service - principal | - | - | - | - | - |
| Debt service - interest | - | - | - | - | - |
| Capital outlays | - | - | - | - | - |
| Total Expenditures | - | 444 | - | 148 | 110,015 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | - | (444) | 47 | (148) | 2,701 |
| OTHER SOURCES (USES) OF FINANCIAL RESOURCES | | | | | |
| Appropriations from State resources | - | 727 | - | - | - |
| Reappropriations to future years(s) | - | - | - | - | - |
| Net change in liabilities for reappropriated accounts | - | - | - | - | - |
| Net Other Sources of Financial Resources | - | 727 | - | - | - |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND NET OTHER SOURCES OF FINANCIAL RESOURCES | - | 283 | 47 | (148) | 2,701 |
| Lapsed appropriations | - | (283) | - | - | - |
| Fund Balances (Deficit), July 1, 2011 | 27 | - | 4,738 | 950 | (2,843) |
| Increase for changes in inventories | - | - | - | - | - |
| FUND BALANCES (DEFICIT), JUNE 30, 2012 | <u>\$ 27</u> | <u>\$ -</u> | <u>\$ 4,785</u> | <u>\$ 802</u> | <u>\$ (142)</u> |

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - NONMAJOR FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012
(amounts expressed in thousands)

| | <u>Capital Projects Funds</u> | | | <u>Total</u> |
|---|--|--|---|--------------------|
| | <u>Capital Development Bond Fund (141)</u> | <u>School Construction Bond Fund (143)</u> | <u>Build Illinois Bond Fund (971)</u> | |
| REVENUES | | | | |
| Federal government | \$ - | \$ - | \$ - | \$ 2,179,949 |
| Licenses and fees | - | - | - | 3,347 |
| Interest | - | - | - | 204 |
| Other revenues | - | - | - | 373 |
| Refunds | - | - | - | (4,459) |
| Total Revenues | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,179,414</u> |
| EXPENDITURES | | | | |
| Education | - | 18,322 | 1,050 | 2,187,531 |
| Debt service - principal | - | - | - | 119 |
| Debt service - interest | - | - | - | 10 |
| Capital outlays | - | - | - | 4,728 |
| Total Expenditures | <u>-</u> | <u>18,322</u> | <u>1,050</u> | <u>2,192,388</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>-</u> | <u>(18,322)</u> | <u>(1,050)</u> | <u>(12,974)</u> |
| OTHER SOURCES (USES) OF FINANCIAL RESOURCES | | | | |
| Appropriations from State resources | 25,000 | 100,000 | 1,460 | 145,455 |
| Reappropriations to future years(s) | (25,000) | (83,716) | (410) | (109,126) |
| Net change in liabilities for reappropriated accounts | - | 2,038 | - | 2,038 |
| Net Other Sources of Financial Resources | <u>-</u> | <u>18,322</u> | <u>1,050</u> | <u>38,367</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND NET OTHER SOURCES OF FINANCIAL RESOURCES | <u>-</u> | <u>-</u> | <u>-</u> | <u>25,393</u> |
| Lapsed appropriations | - | - | - | (376) |
| Fund Balances (Deficit), July 1, 2011 | - | - | - | (50,281) |
| Increase for changes in inventories | - | - | - | 823 |
| FUND BALANCES (DEFICIT), JUNE 30, 2012 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (24,441)</u> |



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board Members of the
Illinois State Board of Education

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Illinois State Board of Education, as of and for the year ended June 30, 2012, which collectively comprise the Illinois State Board of Education's basic financial statements and have issued our report thereon dated January 24, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Illinois State Board of Education is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Illinois State Board of Education's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Illinois State Board of Education's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Illinois State Board of Education's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as item 12-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Illinois State Board of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Illinois State Board of Education's response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit the Illinois State Board of Education's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, Agency management, and Board members of the Illinois State Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

E.C. Ortiz & Co., LLP

Chicago, Illinois
January 24, 2013

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

CURRENT FINDING - GOVERNMENT AUDITING STANDARDS

12-1 *Financial Reporting*

The Illinois State Board of Education (Agency) did not identify or prevent misstatements in the Generally Accepted Accounting Principles (GAAP) Reporting Package or the draft financial statements provided to auditors.

During our review of the GAAP Reporting Package submitted by the Agency to the Office of the State Comptroller and the draft financial statements, we noted the following:

- For 33 subrecipients selected for testing, grant expenditures totaling \$2,982,490 for obligations incurred during fiscal year 2013 were recorded as fiscal year 2012 expenditures. Agency officials stated they recorded the expenditures in fiscal year 2012 based on the assumption that the majority of the expenditures reported by the subrecipients through August 31, 2012 pertained to fiscal year 2012 activities. This assumption was based on the Agency's knowledge that it is normal operating procedure for school districts to pay obligations during the lapse period for items such as payroll and supplies incurred through June 30; however, the Agency did not obtain documentation from subrecipients to determine whether a legal obligation existed at June 30 when charging vouchers to fiscal year 2012 or recording the expenditures and related liability. This resulted in some expenditures not being charged to or reported in the correct fiscal year. When the sample error rate was projected to the population, the total liability overstatement was estimated to be \$4,706,739. Total amounts due to local governments of \$393 million were reported for the Agency's non-major funds as of June 30, 2012.
- The Agency recorded a reorganization incentive liability of \$7,560,607 as due to local governments in the General Revenue Fund (001) as of June 30, 2012 related to reorganized school districts in accordance with the School Code. However, the Agency reported the liability under the governmental fund financial statements instead of reporting it only under the government-wide financial statements. In addition, the Agency did not properly classify the short term and long-term portions of the liability amounting to \$2,667,683 and \$4,892,924, respectively, as other obligations in the government-wide statement of net assets and footnotes. Agency officials stated these reporting issues were due to oversight.

The misstatements noted above were not adjusted since the amounts were determined to be immaterial in relation to the fiscal year 2012 financial statements.

Management has the ultimate responsibility for the Agency's internal control over financial reporting. This responsibility should include an adequate system of review of the completeness and accuracy of the Agency's financial statements to ensure that the financial statements are presented in accordance with accounting principles generally accepted in the United States of America. In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that financial data is properly recorded and accounted for to permit the preparation of reliable financial reports. Statewide Accounting Management System (SAMS)

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

CURRENT FINDING - GOVERNMENT AUDITING STANDARDS, Continued

Procedures 17.20.20 and 17.20.30 require vouchers identify the proper fiscal year and require the agency head's certification.

Generally Accepted Accounting Principles (GAAP) for governmental entities is promulgated by the Governmental Accounting Standards Board (GASB). GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, paragraphs 79 and 82, and SAMS Procedures 03.20.20 and 03.50.10 state that governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting wherein expenditures and related liabilities should be recognized in the accounting period in which the liability is incurred, except for general long-term liabilities which should not be recognized until they are due (mature). Accordingly, the portion of general long-term liabilities that is not matured (due for payment) should not be reported as liabilities in governmental funds but should be reported in the government-wide statement of net assets.

GASB Statement No. 34, paragraph 16, and SAMS Procedure 03.20.20 further states that government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting, wherein expenses are recorded at the time liabilities are incurred regardless of when the related cash flows take place. Additionally, GASB Statement No. 34, paragraph 31 states that liabilities whose average maturities are greater than one year should be reported in two components - the amount due within one year and the amount due in more than one year.

Failure to implement proper internal control procedures over expenditure processing and financial reporting may result in a material misstatement in the Agency's financial statements. (Finding Code Nos. 12-1, 11-1)

Recommendation

We recommend the Agency review its current process for preparation and review of the annual financial statements to ensure that financial information is complete and accurate in accordance with generally accepted accounting principles. We also recommend the Agency establish procedures to determine the proper reporting period for the expenditure amounts reported by its subrecipients through August 31 (lapse period).

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

CURRENT FINDING - GOVERNMENT AUDITING STANDARDS, Continued

Agency Response

Agency management agrees with the finding. The Agency will implement modifications to the Electronic Expenditure Reporting System. Beginning with all fiscal year 2013 federal grant budget based programs, Local Education Agencies (LEAs) will be allowed to enter and confirm outstanding obligations on all June 30 required expenditure reports. Further, as cumulative cash basis expenditure reports are submitted for periods after June 30, LEAs will be required to split and confirm the calculated payment to reflect the portion attributed to the liquidation of obligations as of June 30 and prior from the portion attributed to expenditures for activities and obligations that occur July 1 and later. The fiscal year distinction will also be required and confirmed of any advances that are entered by the LEAs. Preliminary discussions have already occurred to implement these changes. The Agency will modify the State and Federal Grant Administration Policy, Fiscal Requirements and Procedures to reflect these changes as well as communicate the new requirements via webinars and other Agency communication channels to all LEAs that will be submitting June 30 expenditure reports. In addition, the Agency will ensure that the liability for the reorganization incentive liability will be classified properly on future financial statements.