

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AUDIT AND
COMPLIANCE EXAMINATION
FOR THE YEAR ENDED JUNE 30, 2004**

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

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
FOR THE YEAR ENDED JUNE 30, 2004**

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AGENCY OFFICIALS

Members of the State Board of Education at June 30, 2004:

Janet Steiner, Chairperson	Dean Clark
Joyce Karon, Vice-Chairperson	Judith A. Gold
Richard Sandsmark, Secretary	Gregory Kazarian
Ronald Gidwitz	2 Positions Vacant

Senate Bill 3000 was signed into law on September 14, 2004, re-aligning the terms of seven of the nine board members of the State Board of Education, thereby authorizing the Governor to appoint seven new board members. Following are the current members of the State Board of Education:

Jesse H. Ruiz, Chairperson	Brenda J. Holmes
Christopher J. Ward, Vice-Chairperson	Dr. Andrea S. Brown
Dr. Vinni M. Hall, Secretary	Edward J. Geppert
Joyce Karon	Dr. David Fields
Dean Clark	

State Superintendent of Education	Dr. Robert E. Schiller (August 5, 2002 to September 19, 2004)
Interim State Superintendent of Education	Dr. Randy J. Dunn (September 20, 2004 to Present)

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**AGENCY OFFICIALS
Continued**

Cabinet Members at June 30, 2004:

Assistant Superintendent of Operations	Mark Kolaz (September 20, 2004 to Present)
General Counsel/Legal	Respicio Vazquez (Position vacated June 30, 2004) Jonathan Furr (September 20, 2004 to Present)
Chief Internal Auditor	Karl Vogl (Position vacated September 15, 2004)

Directors:

Special Education	Chris Koch
Fiscal/School Support Services	David Wood
Public Information	Karen Craven
Teacher and Learning Services	Ginger Reynolds (Interim)
Information Technology	Lugene Finley
Human Resources	Clay Slagle
Planning and Performance	Vacant
Certification & Professional Development	Lee Patton
Governmental Relations	Peter Leonis

Agency offices are located at:

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

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



Illinois State Board of Education

100 North First Street • Springfield, Illinois 62777-0001
www.isbe.net

Rod Blagojevich
Governor

Jesse H. Ruiz
Chairman

Dr. Randy J. Dunn
State Superintendent of Education (Interim)

MANAGEMENT ASSERTION LETTER

December 20, 2004

PTW & Co.
Certified Public Accountants
2221 Camden Court Suite 300
Oak Brook, Illinois 60523

Ladies and Gentlemen:

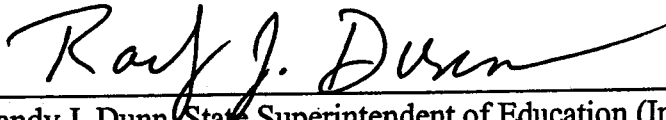
We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grants that could have a material effect on the operations of the Agency. We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Agency's compliance with the following assertions during the period ended June 30, 2004. Based on this evaluation, we assert that during the year ended June 30, 2004, the Agency has materially complied with the assertions below.

- A. The agency has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The agency has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The agency has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the agency are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

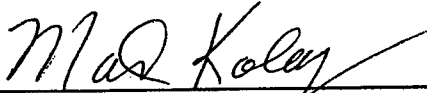
- E. The money or negotiable securities or similar assets handled by the agency on behalf of the State or held in trust by the agency have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

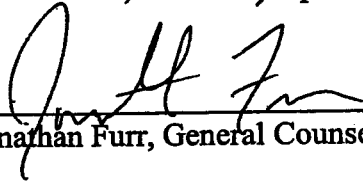
Illinois State Board of Education



Randy J. Dunn, State Superintendent of Education (Interim)



Mark Kolaz, Assistant Superintendent of Operations



Jonathan Furr, General Counsel

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
FOR THE YEAR ENDED JUNE 30, 2004**

COMPLIANCE REPORT

SUMMARY

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

AUDITORS' REPORTS

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

<u>Number of</u>	<u>This</u>	<u>Prior</u>
_____	<u>Report</u>	<u>Report</u>
Findings	15	13
Repeated findings	10	11
Prior recommendations implemented or not repeated	3	3

Details of findings are presented in a separately tabbed report section.

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
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COMPLIANCE REPORT

SUMMARY OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
		FINDINGS (<i>Government Auditing Standards</i>)
04-1	16	Impact of Organizational Structure
04-2	19	Lack of Controls over Accounts Receivable Reporting and Recordkeeping
04-3	23	Failure to Reconcile Cash Receipts and Cash Balances
04-4	25	Inadequate Controls over GAAP and Financial Reporting Process
04-5	28	Lack of Controls over the General Educational Development (GED) Program
		FINDINGS (<i>State Compliance</i>)
04-6	30	Noncompliance with Mandated Duties
04-7	36	Noncompliance with Reporting Requirements
04-8	38	Lack of Controls over Receipts Processing
04-9	40	Lack of Controls over Contract Requirements
04-10	42	Inaccurate Agency Fee Imposition Report Form
04-11	43	Inadequate Oversight of the Regional Offices of Education
04-12	45	Failure to Ensure Premium List Certifications
04-13	47	Failure to Conduct Performance Appraisals in a Timely Manner
04-14	48	Inaccurate Form W-2 Reporting
04-15	50	Follow-up to Financial and Management Audit of the Teachers Academy for Mathematics and Science

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COMPLIANCE REPORT

SUMMARY OF FINDINGS

Continued

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
		PRIOR FINDINGS NOT REPEATED (<i>Government Auditing Standards</i>)
04-16	53	Inadequate Controls over Supplies Inventory
		PRIOR FINDINGS NOT REPEATED (<i>State Compliance</i>)
04-17	53	Failure to Comply with the State Prompt Payment Act
04-18	53	Inadequate Disaster Contingency Plan for Computing Resources

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
FOR THE YEAR ENDED JUNE 30, 2004**

COMPLIANCE REPORT

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on January 27, 2005. Attending were:

Illinois State Board of Education

Dr. Randy J. Dunn	Interim State Superintendent of Education
Mark Kolaz	Assistant Superintendent of Operations
Linda Mitchell	Chief Financial Officer
Joe Klickna	Division Administrator of Fiscal Services
Deborah K. Scheiter	Internal Audit Staff

Office of the Auditor General

Jane Clark	Audit Manager
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PTW & Co.

Steve Topolski (via telephone)	Partner
Chris Mower	Supervisor
Lisa Stinson	Senior

Responses to the recommendations were provided by Deborah K. Scheiter, in a letter dated February 16, 2005.



INDEPENDENT ACCOUNTANTS' REPORT ON STATE COMPLIANCE, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the Illinois State Board of Education's compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2004. The management of the Illinois State Board of Education is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Illinois State Board of Education's compliance based on our examination.

- A. The Illinois State Board of Education has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Illinois State Board of Education has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Illinois State Board of Education has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the Illinois State Board of Education are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Illinois State Board of Education on behalf of the State or held in trust by the Illinois State Board of Education have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation

engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, including examining, on a test basis, evidence about the Illinois State Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Illinois State Board of Education's compliance with specified requirements.

In our opinion, the Illinois State Board of Education complied, in all material respects, with the aforementioned requirements during the year ended June 30, 2004. However, the results of our procedures disclosed instances of noncompliance, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings as findings 04-2, 04-3, 04-4, 04-5, 04-6, 04-7, 04-8, 04-9, 04-10, 04-11, 04-12, 04-13, and 04-14. As required by the Audit Guide, immaterial findings relating to instances of noncompliance excluded from this report have been reported in a separate letter to your office.

Internal Control

The management of the Illinois State Board of Education is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations. In planning and performing our examination, we considered the Illinois State Board of Education's internal control over compliance with the aforementioned requirements in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide issued by the Illinois Office of the Auditor General.

We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Illinois State Board of Education's ability to comply with one or more of the aforementioned requirements. Reportable conditions are described in the accompanying schedule of State findings as findings 04-1, 04-2, 04-3, 04-4, and 04-5.

A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to one or more of the aforementioned requirements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider findings 04-1, 04-2, 04-3 and 04-4 to be material weaknesses. Additionally, the results of our procedures disclosed other deficiencies in internal control, which are required to be reported in accordance with criteria established by the Audit Guide issued by the Illinois Office of the Auditor General and which are described in the accompanying

schedule of State findings as findings 04-8, 04-9, 04-10, 04-11, 04-12, 04-13, 04-14, and 04-15. As required by the Audit Guide, immaterial findings relating to internal control deficiencies excluded from this report have been reported in a separate letter to your office.

Supplementary Information for State Compliance Purposes

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, 2004, which collectively comprise the Illinois State Board of Education's basic financial statements, and have issued our report thereon dated December 20, 2004. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Illinois State Board of Education. The 2004 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2004, taken as a whole. We have also previously audited, in accordance with auditing standards generally accepted in the United States, the Illinois State Board of Education's basic financial statements for the year ended June 30, 2003. In our report dated January 5, 2004, we expressed an unqualified opinion on the respective financial statements of the governmental activities, the major fund, and the aggregate remaining fund information. In our opinion, the 2003 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited" is fairly stated in all material respects in relation to the basic financial statements for the year ended June 20, 2003, 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, and Agency Management, and is not intended to be and should not be used by anyone other than these specified parties.



PTW & Co.

Oak Brook, Illinois
December 20, 2004



**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

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, 2004, which collectively comprise the Illinois State Board of Education's basic financial statements and have issued our report thereon dated December 20, 2004. 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

In planning and performing our audit, we considered the Illinois State Board of Education's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Illinois State Board of Education's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as findings 04-1, 04-2, 04-3, 04-4, and 04-5.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 04-1, 04-2, 04-3, and 04-4 to be material weaknesses. We also noted

certain deficiencies in the design or operation of internal control over financial reporting which do not meet the criteria for reporting herein and which are reported as State compliance findings in the schedule of findings. We also noted certain immaterial instances of internal control deficiencies, which we have reported to management of the Illinois State Board of Education in a separate letter dated December 20, 2004.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 04-1, 04-2, 04-3, 04-4, and 04-5. However, we noted certain matters which are reported as State compliance findings in the schedule of findings. We also noted certain other matters which we have reported to management of the Illinois State Board of Education in a separate letter dated December 20, 2004.

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



PTW & Co.

Oak Brook, Illinois
December 20, 2004



INDEPENDENT ACCOUNTANTS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have performed each of the procedures enumerated below, which were agreed to by the Auditor General, solely to assist the users in evaluating management's assertion about the Illinois State Board of Education's compliance with respect to the reporting during the year ended June 30, 2004, of the statewide high school dropout rate by grade level, sex, race, program categories, and the number of students who graduate from, transfer from, or otherwise leave bilingual programs, by the State Board of Education pursuant to 105 ILCS 5/1A-4. These agreed upon procedures were performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and our findings are as follows:

1. We read 105 ILCS 5/1A-4.
2. We reviewed the State Board of Education procedures for accumulation of dropout data.
3. We reviewed the information submitted by the local school districts submitted via the ISBE Web Application Security (IWAS) System for completion of dropout and other data for a sample of 25 local school districts.
4. We compared dropout data for the 25 selected local school districts on the Agency's Local Area Network (LAN) to the Agency's computerized recap of dropout rates for the 2002-2003 school year. We noted no significant exceptions.
5. We examined the transaction log for the completed "End of Year Reports" for the regional superintendent's approval for the selected districts. We noted no significant exceptions for the 2002-2003 End of Year Reports.
6. We reviewed the State Board of Education procedures for reviewing dropout data provided by school districts.

1. We compared dropout data totals, by grade level and by program category, on the computerized recap to those on the 2003 Annual Report, submitted to the Governor and the General Assembly. All dropout totals, by grade level and by program category, on the computerized recap agreed to the report.
2. We reviewed the State Board of Education procedures for accumulation of transitional bilingual education data as follows:
 - a. Read the form titled "Illinois Bilingual Education Programs Annual Student Report" that is sent to the applicable local school districts.
 - b. Read the State Board of Education procedures for reviewing transitional bilingual education data provided by the school districts.

The results of our tests disclosed no instances of noncompliance which were required to be reported to management.

These agreed upon procedures do not constitute an audit, the objective of which would be the expression of an opinion on management's assertions. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

PTW & Co.

PTW & Co.

Oak Brook, Illinois
December 20, 2004

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
FOR THE YEAR ENDED JUNE 30, 2004**

CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-1 (Impact of Organizational Structure)

The Agency's decentralized organizational structure led to the failure to properly communicate essential financial reporting information such as accounts and loans receivable, and grant program details between the financial reporting division and other divisions. The fragmented organizational structure was not conducive to providing management with the information necessary to determine the financial reporting impact of all events and transactions affecting the Agency.

Throughout the audit process, we noted several instances where the Agency's organizational structure directly impacted the Agency's ability to communicate and process essential information. Examples of those instances include:

- The failure by one division to properly communicate the status of litigation affecting the Agency to another division for reporting in the footnotes to the financial statements.
- The failure by one division to properly communicate to another division the repeal of legislation affecting the Agency's financial transactions. Receipts were deposited into funds subsequent to the repeal of the enabling legislation.
- The failure by management to properly communicate to the division responsible for payroll reporting, the information required to be provided to the Comptroller's Office to ensure accurate Form W-2 reporting.
- The failure by management to ensure controls were in place to properly administer a program. Management did not ensure the program division and the Fiscal Services Division understood the duties each division was responsible for performing; therefore, certain responsibilities were overlooked. In addition, no one possessed a complete understanding of the program and its fiscal administration.
- The failure by one division to communicate receipt details to the division responsible for financial reporting.
- The failure by a program division to timely communicate to the division responsible for quarterly accounts receivable reporting the existence of receivables.
- The failure by the divisions responsible for administering federal and State programs and the division responsible for financial reporting to communicate new programs or those that have ended.

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CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-1 (Impact of Organizational Structure – Continued)

- The failure by management to ensure the Agency's various computer systems and the divisions responsible for maintaining those systems are capable of providing the division responsible for financial reporting the data necessary to timely and accurately meet State reporting requirements.
- The failure to assign a central area the responsibility for monitoring new mandates affecting the Agency. A central area responsible for the communication of new mandate responsibilities could also assist in assessing risk and determining whether sufficient resources are available to ensure compliance.
- The failure to track the changes in individual responsibilities and the location of records during staff reductions, staffing changes and physical moves during the fiscal year.
- The failure by management to ensure all supervisors were effectively supervising Agency activities and that the supervision was taking place on a timely basis.

Strong internal controls require an organizational structure facilitating the communication of essential information among divisions, thereby enhancing the quality and effectiveness of management and the financial reporting process.

Agency management noted several of the underlying issues in this finding have been addressed in other findings. They acknowledged some instances of error; however, they stated the most significant issues were related to low staffing levels and loss of institutional knowledge and key personnel during fiscal year 2004.

The decentralized organizational structure led to several financial reporting errors, noncompliance with mandated duties, the inability to determine the individuals currently or previously responsible for performing duties, the inability to locate records, and many other inefficiencies.

In addition, during the prior audit period, management failed to delegate responsibility for preparing the Quarterly Accounts Receivable Reports for Fund 569 during the third and fourth quarters following the retirement of the individual previously responsible for that task. During the current audit, we noted management delegated responsibility for preparing the Quarterly Accounts Receivable Reports for Fund 569. (Finding Code No. 04-1, 03-1, 02-1)

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CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-1 (Impact of Organizational Structure – Continued)

RECOMMENDATION:

We recommend the Agency establish policies and procedures to ensure effective communication among all divisions to provide management with the information necessary to evaluate the financial reporting impact of all events and transactions affecting the Agency.

AGENCY RESPONSE:

The Agency agrees with the recommendation and the new Agency administration will review policies and procedures in an effort to ensure that more effective communication exists among divisions to provide management with the necessary information.

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
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CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-2 (Lack of Controls over Accounts Receivable Reporting and Recordkeeping)

The Agency did not have sufficient controls over its accounts receivable reporting and recordkeeping. During the audit period, the Agency was required to file quarterly accounts receivable reports with the Comptroller for Funds 130, 410, 544, 567, 569, and 605. At June 30, 2004, accounts receivable for these funds totaled \$17.2 million on the Agency's financial statements. During our testing we noted the following:

- All receivables information was inaccurately reported on the June 30, 2004 Accounts Receivable Activity Report (C-97) and the Aging of Total Gross Receivables Report (C-98) in the School Technology Revolving Loan Program Fund (Fund 569); therefore, the Agency understated loans receivable on the June 30, 2004 generally accepted accounting principles (GAAP) Package by \$353 thousand (3.2%). An adjusting entry was required to increase loans receivable to \$11.007 million.
- The Agency did not provide detailed supporting documentation to facilitate compliance testing of the September 30, 2003, December 31, 2003, March 31, 2004 and June 30, 2004 Fund 569 Reports C-97 and C-98. Summarized documentation was provided and agreed to the Management Information Data Accounting System (MIDAS) to ensure amounts reported in the GAAP Package were materially correct.
- No reconciliations were performed between the Fund 569 loan system and MIDAS during the fiscal year. The Agency provided a reconciliation for the June 30, 2004 Report C-97 subsequent to auditor inquiry; however, unreconcilable differences were noted in the reconciliation. The Agency's GAAP Packages and financial statements were prepared from MIDAS data.
- A new loan system was implemented during the fiscal year to maintain Fund 569 loans. The new loan system did not provide all essential loan information, including payment history and amortization schedules. In addition, the data reported by the new system did not agree to the old system. The Agency did not update the new loan system to include the loan payment/amortization schedules for loans made prior to the implementation of the system.
- The interest and principal in the new loan system was inconsistent with amounts reported in the system used for active loans made prior to the implementation of the new system for Fund 569 loans. The loan agreement requires payments be made based on the payment schedule at the time the loan was approved.

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FINDING 04-2 (Lack of Controls over Accounts Receivable Reporting and Recordkeeping
– Continued)

- The amortization schedule in 1 of 25 (4%) loans tested in Fund 569 was revised due to a lump sum payment, leading to a violation of the loan agreement. The loan agreement requires payments be made based on the amortization schedule at the time the loan was approved and does not allow for a change to that schedule.
- The Agency did not attempt to collect a payment, nor assess late fees, on 1 of 25 (4%) loans tested in Fund 569. A past due balance of \$3,507 was one month late at June 30, 2004. The loan agreement required a 5% late fee assessment on the past due amount totaling \$175.
- The Agency incorrectly reported short-term and long-term receivables in Fund 569 on the June 30, 2004 Report C-97. In 3 of 25 (12%) loans sampled, the long-term receivable was understated by \$6 thousand or 0.007%.
- The Agency failed to ensure adequate training for operation of the new Fund 569 loan system.
- The Agency administered the Illinois Virtual High School Program in the School Technology Revolving Fund (Fund 544) prior to fiscal year 2004, but failed to prepare quarterly accounts receivable reports or to include the receivables in financial reporting. In addition, the Agency failed to maintain documentation to support the beginning balance of accounts receivable for the September 30, 2003 Report C-97. The program was transferred to the Illinois Math and Science Academy on July 1, 2003; however, all receivables due the Agency at June 30, 2003 remained a receivable to be collected by the Agency.
- The Agency did not report the correct number of accounts for gross receivables on the September 30, 2003, December 31, 2003, March 31, 2004 and June 30, 2004 Reports C-97 in the Charter Schools Revolving Loan Fund (Fund 567). The number of accounts, reported as 2, should have been reported as 3, an understatement of 1 (33%). An account reported as uncollectible was not included in the number of gross receivable accounts.
- The Agency incorrectly reported short-term and long-term receivables in the Temporary Relocation Expenses Revolving Grant Fund (Fund 605) on the June 30, 2004 Report C-97. The long-term receivable was overstated and the short-term receivable understated by \$15 thousand.
- The Agency understated interest receivable on the June 30, 2004 Report C-97 in the School District Financial Assistance Fund (Fund 130) by \$1 thousand (.02%).

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FINDING 04-2 (Lack of Controls over Accounts Receivable Reporting and Recordkeeping
– Continued)

- A thorough supervisory review was not performed for accounts receivable reporting. In addition, no Agency-wide system of controls was established to ensure the reporting of all receivables or to ensure the accuracy of the information reported.

Chapter 26 of the Statewide Accounting Management System (SAMS) Manual provides the procedures for State agencies to follow to meet receivables reporting requirements. These procedures include information for determining and reporting gross receivables, net receivables, activity, interest, aging, and complete instructions for proper preparation of the quarterly report forms. Prudent business practices require timely reconciliations with accounting data to ensure the integrity of information reported, and the proper training and placement of personnel to ensure smooth and efficient operations. Strong internal and management controls require clear and timely communication of employee responsibilities, and effective collaboration between divisions to ensure the accurate reporting of all Agency receivables.

Agency personnel stated issues relating to Fund 569 were due to the transition of data to a new loan system and the responsibilities for maintenance and reporting of Fund 569 receivables to Fiscal Services during the fiscal year. All other matters were attributed to clerical errors.

Lack of controls over accounts receivable reporting and recordkeeping could lead to the failure to properly collect amounts owed to the State and inaccuracies in Agency and statewide financial statement reporting.

In addition, during the prior audit period, the division responsible for determining and maintaining the receivable in Fund 410 failed to prepare Comptroller quarterly accounts receivable reports for three quarters and the Agency did not report the proper amount of receivables on the Fund 410 Reports C-97 and C-98 at June 30, 2003; therefore, the amount reported on the GAAP Package was understated by \$54 thousand (44%), requiring an adjusting entry to increase receivables. Also during the prior audit period, Agency management failed to delegate responsibility for preparing the fiscal year 2003 third and fourth quarter Fund 569 Accounts Receivable Reports, and failed to report \$45 thousand in estimated uncollectible receivables in Fund 567 on the fiscal year 2003 quarterly accounts receivable reports, resulting in an adjusting entry to reduce loans receivable to \$13 thousand. During the current audit period, the Comptroller's quarterly accounts receivable report for Fund 410 were prepared for all quarters, the Agency reported the proper amount of receivables in the Fund 410 Reports C-97 and C-98 for all quarters and properly reported receivables in the GAAP Package for Fund 410. Furthermore, Agency management delegated responsibility for preparing the Fund 569 Accounts Receivable Reports, and the Agency properly reported the \$45 thousand in estimated uncollectible receivables in Fund 567 in the fiscal year 2004 reports. (Finding Code No. 04-2, 03-2, 02-7)

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FINDING 04-2 (Lack of Controls over Accounts Receivable Reporting and Recordkeeping
– Continued)

RECOMMENDATION:

We recommend the Agency establish and implement formal policies and procedures to ensure accounts receivable are reported in accordance with SAMS procedures, proper records are maintained, and a supervisory review is performed of the Reports C-97 and C-98 prior to submission to the Comptroller's Office. We further recommend the Agency implement a system encouraging collaboration between divisions to ensure the accurate reporting of all receivables for compliance and financial reporting purposes.

AGENCY RESPONSE:

The Agency agrees to improve its internal procedures to ensure that accounts receivable will be reported as required by SAMS. During the fourth quarter of FY04, the transition to a new accounts receivable system began. Adjustments to the reporting capabilities of the software are being completed.

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CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-3 (Failure to Reconcile Cash Receipts and Cash Balances)

The Agency did not properly perform reconciliations of cash receipts or cash balances. During our testing of reconciliations, we noted the following:

- The Agency did not reconcile amounts in the Management Information Database Accounting System (MIDAS) and the State Comptroller's Cash Report (SB05) to the proper fund balance at June 30, 2004. The fund balance reconciliations for Funds 016, 159, and 161 did not include cash in-transit totaling \$10,198, \$232, and \$2,602, respectively. The fund balance reconciliation for Fund 569 did not include cash on-hand totaling \$1,187,714.
- The Agency did not include cash on-hand in Fund 569 totaling \$1,187,714 or cash in-transit in Fund 161 totaling \$2,602 on the reconciliation between MIDAS and the State Comptroller's Monthly Revenue Status Report (SB04).
- The Agency lacks formal policies and procedures to provide guidance for proper reconciliations.

Statewide Accounting Management System (SAMS) Procedure 25.40.20 (page 1 of 4) requires the Agency to perform a monthly reconciliation of receipt account balances and notify the State Comptroller's Office of any unreconcilable differences. SAMS Procedure 09.40.30 (page 4 of 5) requires the Agency to perform a monthly reconciliation of cash balances and notify the State Comptroller's Office of any discrepancies. Suggested reconciliation methods are provided by SAMS. In addition, prudent business practice requires policies and procedures and proper internal controls be established to ensure the accuracy and reliability of accounting data.

Agency personnel stated they do not believe cash in transit or cash in hand should be acknowledged as receipts or included as reconciling items.

Failure to properly reconcile and review cash receipt and cash balance reconciliations could lead to unresolved differences between Agency and Comptroller records and to inaccurate financial reporting.

In addition, during the prior audit period, the Agency did not adjust or reconcile amounts in MIDAS to agree to the Agency's previous accounting system, did not perform timely reviews of cash balance and cash receipt reconciliations, and did not identify or adjust discrepancies on the June 30, 2003 receipt reconciliations for two funds. During the current audit, we noted the Agency posted adjustments to MIDAS to reconcile to Comptroller records, performed timely reviews of cash balance and cash receipt reconciliations, and identified and adjusted discrepancies on the June 30, 2003 receipt reconciliations. (Finding Code No. 04-3, 03-3, 02-6)

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CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-3 (Failure to Reconcile Cash Receipts and Cash Balances – Continued)

RECOMMENDATION:

We recommend the Agency ensure cash receipt and cash balance reconciliations are performed in accordance with SAMS procedures and a thorough and timely supervisory review of the reconciliations is performed.

AGENCY RESPONSE:

The Agency agrees with the recommendation and is continually improving the process of reconciling cash receipts as required by SAMS. The Agency will review SAMS procedures and Agency processes to ensure that cash receipts are treated appropriately.

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CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-4 (Inadequate Controls over GAAP and Financial Reporting Process)

The Agency did not maintain adequate controls over, nor did it devote the proper time or resources to the generally accepted accounting principle (GAAP) and financial reporting process. The Agency's expenditures materially impact the State's basic financial statements and the State's Schedule of Expenditures of Federal Awards. In fiscal year 2004, the Agency's expenditures totaled \$7.2 billion, \$1.7 billion of which were federal funds.

During our review of the GAAP and financial reporting process, we noted:

- Financial statements and footnotes were not prepared on a timely basis. Final financial statements and footnotes were not received until December 20, 2004, approximately one month subsequent to the November 15, 2004 financial statements submission deadline established by the Comptroller's Office.
- A financial related schedule was not prepared on a timely basis. The final schedule for the financial audit and compliance examination report was not received until November 18, 2004.
- Several errors were noted in the GAAP Package review, necessitating many adjusting entries and revisions. These errors included incorrect Catalog of Federal Domestic Assistance (CFDA) numbers and program titles, receivables or liabilities in closed programs, and vague or incomplete explanations for variances and accounts with significant balances.
- Several errors were noted in the financial statement and footnote review, necessitating many revisions. These errors included incorrect future minimum lease payments under an operating lease in the Commitments and Contingencies footnote, an incorrect interest rate in the Capital Lease Obligations footnote, and the failure to disclose all claims against the Agency that are reasonably possible of loss in the Litigation footnote.
- Employees were not adequately trained to prepare the GAAP Packages and financial statements. The Agency required assistance from the Office of the Auditor General's special assistant auditors for the preparation of the financial statements. Additionally, based on problems described above, it does not appear the Agency's supervisory review is adequate.

Statewide Accounting Management System (SAMS) Procedure 27.10.10 establishes filing timelines for GAAP Reporting Packages and filing deadlines for GAAP basis financial statements. Specific GAAP Package filing deadlines are provided to the Agency in an annual letter from the Comptroller's Office. The Agency received an extension from the Comptroller's Office until September 10, 2004 on its General Revenue Fund and all federal funds' GAAP

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FINDING 04-4 (Inadequate Controls over GAAP and Financial Reporting Process – Continued)

Reporting Packages. No extension was obtained for submission of financial statements. SAMS Chapter 27 provides detailed guidance covering completion of each form required for GAAP reporting purposes and preparation of Agency financial statements. Strong management controls require employees to be adequately trained to perform their duties and the supervision of all fiscal related activities to ensure proper and timely financial reporting.

Agency officials stated the timelines for submitting GAAP Packages and financial statements are unrealistic in light of the cooperative effort required by the many parties involved and several levels of review required to ensure accurate financial reporting.

Failure to maintain adequate controls over the GAAP and financial reporting process led to the posting of 41 modified accrual basis adjusting journal entries, totaling \$48.7 million, in debits and credits subsequent to the auditors' receipt of the GAAP Packages. In addition, lack of adequate controls led to the untimely submission of Agency accounting information to the Comptroller's Office and the auditors. Untimely submission of financial information to the Comptroller's Office could directly impact the Auditor General's ability to opine on the statewide financial statements. (Finding Code No. 04-4, 03-4, 02-2)

RECOMMENDATION:

We recommend the Agency establish and maintain effective controls over the GAAP and financial reporting process to ensure the timely and accurate submission of financial data.

AGENCY RESPONSE:

The Agency agrees with the recommendation and will continue to improve its controls for GAAP and financial reporting processes. The Agency has improved several timelines from the previous year and would like to state the following regarding the process:

- Final financial statements cannot be completed until all adjustments are received from both the Comptroller's Office and the auditors. Those adjustments were received in their entirety on December 17, 2004. Final financial statements were completed the next business day (December 20, 2004).
- Although the Comptroller sent out instructions for the SCO-563, some of the complexities of completing the form were later found to be beyond the scope of the guidance, which necessitated subsequent changes to the original entries made on the GAAP packages. In addition, the Agency had to correct entries that the Comptroller's Office made on their review of the GAAP packages.

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FINDING 04-4 (Inadequate Controls over GAAP and Financial Reporting Process – Continued)

- Agency employees attended all training provided by the Comptroller's Office and participated in the GAAP round table discussions. In addition, SAMS instructions for the completion of GAAP forms were complex. All forms were completed with the best available information. As most packages are due before the fiscal year is over, corrections and revisions are unavoidable.

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FINDING 04-5 (Lack of Controls over the General Educational Development (GED) Program)

The Agency failed to ensure the implementation and maintenance of strong internal controls over the GED testing process and the accounting for program application fees. The Agency, acting as the Cook County Regional Superintendent, contracted with a third party Regional Office of Education (ROE) to serve as fiscal agent for the Cook County GED Testing Program. The Agency also contracted with a financial institution to review and approve GED applications, and to manage the collection of application fees. Approved application fees are deposited into a lockbox and credited to the State Treasury on behalf of the Agency. A Treasurer's draft is provided to the Agency when receipts pass through the Treasurer's clearing account. The third party ROE is responsible for providing the Agency with all information related to the operation of the testing program.

During our testing we noted the following:

- Receipts totaling \$2,602 recorded by the State Treasurer on June 28, June 29, and June 30, 2004 for the S.B.E. GED Testing Fund (Fund 161) were reported as fiscal year 2005 receipts by the Agency. The receipts should have been reported as cash in transit in the June 30, 2004 Fund 161 generally accepted accounting principles (GAAP) Package.
- Fiscal Services did not receive notification of application fees collected by an outside source and deposited into the lockbox; therefore, the Agency was unable to ensure receipts deposited by the Treasurer into Fund 161 included all monies to which they were entitled.
- The Agency received a list of rejected GED applicants, but did not receive a list of approved applicants; therefore, the Agency was unable to determine which individuals had or had not been tested, or whether individuals tested paid the proper fee.
- The Agency was unable to determine whether deferred revenue should have been recorded in the Fund 161 GAAP Package and the financial statements.
- Controls were not in place over Cash Received Listings (CRLs) for Fund 161. The CRLs did not contain a Deposit Authorization Signature or a signature denoting acknowledgement the monies were received by the Central Cashier. No separate procedures were established to ensure these receipts, deposited into the State Treasury by a third party, were properly managed.

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FINDING 04-5 (Lack of Controls over the General Educational Development (GED) Program – Continued)

Statewide Accounting Management System (SAMS) Procedure 27.20.34 states the purpose of the Nonshared SAMS Funds Cash Reconciliation Form (SCO-534) is to reconcile fund balance per SAMS to the balance of cash on deposit with the Treasurer per agency records. All activities during the fiscal year, which have not been recorded in SAMS are required to be identified on the SCO-534. In addition, strong internal and management controls require Agency personnel to obtain all data necessary to fulfill the Agency's fiduciary responsibilities.

Agency personnel stated any errors or possible control weaknesses were caused by oversight.

Lack of controls over the GED testing process and the accounting of application fees could lead to the failure to collect or properly record all amounts due the State and inaccuracies in Agency and statewide financial reporting. (Finding Code No. 04-5)

RECOMMENDATION:

We recommend the Agency implement policies and procedures to establish controls over the GED testing process and collection and accounting of all application fees.

AGENCY RESPONSE:

The Agency agrees with the recommendation and will develop and implement processes and procedures to ensure that adequate controls are in place for the program.

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CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-6 (Noncompliance with Mandated Duties)

The Agency did not comply with duties mandated by State statute. We noted the following:

- The Agency did not initiate and maintain an annual Governor's Recognition Program. The School Code (105 ILCS 5/2-3.92) requires the Agency to initiate and maintain an annual Governor's Recognition Program for premier organizations meeting or exceeding established criteria for a Drug-Free Illinois. Agency personnel attributed the failure to initiate this program to lack of funding and insufficient staff and resources; however, Agency personnel also indicated no funding was requested to fulfill the mandate.
- The Agency did not develop a model curriculum as required by State statute. The School Code (105 ILCS 5/27-23.2) requires the Agency to develop a model curriculum for reduction of self destructive behavior for use in grades 6 through 12 of public schools. Agency personnel stated that due to insufficient staff and resources, the Agency adopted a risk based approach to assessing the critical statutory provisions requiring implementation. This approach allows for non-critical mandates to be implemented as staff and resources become available.
- The Agency did not make computer literacy and high-tech competency grants available to qualifying school districts. The School Code (105 ILCS 5/2-3.43) requires the Agency to make available grants to qualifying school districts. The purpose of the grants is staff development, hardware, software, and teacher training necessary for the implementation of programs designed to achieve computer literacy and high-tech competency in which students and teachers in non-public schools located therein are entitled to equitable participation in the services and activities provided by the grants. Agency personnel stated the mandate is outdated and they have introduced legislation to repeal it.
- The Agency did not prepare or make available all provisions of family life instruction courses and evaluation procedures. The School Code (105 ILCS 5/27-9.2) requires the Agency to prepare and make available to local school districts courses of instruction and procedures for evaluating and measuring the effectiveness of the courses on family life, including the alternatives to abortion. In the prior year, the Agency did not include courses of instruction and procedures for the evaluation of the courses on the prevention, transmission, and spread of AIDS. In the current year, the Agency did make available these courses and procedures. The Agency stated the courses and evaluation procedures on the alternatives to abortion were not prepared or made available due to lack of funding and significant staff reductions; however, Agency personnel also indicated no funding was requested to fulfill the mandate.

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FINDING 04-6 (Noncompliance with Mandated Duties – Continued)

- A State-level Committee of Cooperative Services was not established. The School Code (105 ILCS 5/13B-35.10) requires the State Superintendent of Education to convene a State-level Committee of Cooperative Services and to approve the Committee's by-laws and procedures. The School Code also requires the Committee of Cooperative Services to advise the State Superintendent of Education on the statewide development, implementation, and coordination of alternative learning opportunities programs. Agency personnel stated a committee could not be established because the mandate was not funded by the legislature; however, Agency personnel also indicated no funding was requested to fulfill the mandate.
- The Agency did not timely prepare 10 of 13 (77%) fiscal notes as requested by the General Assembly during the fiscal year. The notes were prepared between four and nine business days late. The Fiscal Note Act (25 ILCS 50/2) requires fiscal notes be prepared and furnished to the sponsor of the bill within 5 calendar days of the request. Agency personnel indicated some legislative requests involve complex issues requiring more preparation time than allowed by statute. In addition, they noted that due to the timing of the requests for fiscal notes and the relative urgency of each matter, as determined by the General Assembly, the preparation of certain fiscal notes takes precedence over others, regardless of due date.
- The Agency did not timely review, approve and process 8 of 15 (53%) Safety Survey Reports and 5 of 10 (50%) amendments of the Safety Survey Reports. The mandate does not stipulate a timeline for processing Safety Survey Reports or amendments. Approval of the Safety Survey Reports requires the Agency to work with schools, contractors, and architects; therefore, 180 days was determined to be an adequate amount of time to process the reports, which were between 22 and 164 days late. The amendments require the Agency to work with architects, engineers, and schools; therefore, 90 days was determined to be an adequate processing time period. The amendments were processed between 54 and 197 days late, including 3 that had not yet been processed. The School Code (105 ILCS 5/2-3.12) requires the State Superintendent of Education to approve or deny Safety Survey Reports including the recommendations to effectuate compliance and, if approved, issue a certificate of approval. In addition, prudent business practice requires the information be reviewed and processed timely. Agency personnel stated Agency downsizing and limited resources resulted in the untimely review, approval and processing of the Reports and amendments.

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FINDING 04-6 (Noncompliance with Mandated Duties – Continued)

- The Agency did not timely issue a Certificate of Approval for the Expenditure of Fire Prevention and Safety Funds for 2 of 25 (8%) schools tested. The mandate does not stipulate a timeline for processing the certificates. Approval of the certificates requires the Agency to work with architects, engineers, and schools; therefore, 90 days was determined to be an adequate processing time period. The certificates were processed 36 and 77 days late. The School Code (105 ILCS 5/17-2.11) requires the State Superintendent of Education to review the Regional Superintendent's approval of each certified estimate of an architect and, when appropriate, to approve the architect's estimate of the costs to be expended from fire and prevention safety funds for the replacement of or addition to a school building. In addition, prudent business practice requires the information be reviewed and processed timely. Agency personnel stated Agency downsizing and limited resources resulted in the untimely review and approval of the certifications.
- The Agency did not adequately assess the performance progress for Reading Improvement Block Grant Programs. No standard or baseline was used by the Agency to assess performance progress and the schools were not held accountable for performance in accordance with the approved method of assessment. In addition, they did not maintain the Performance Report for 1 of 25 (4%) school districts tested. The School Code (105 ILCS 5/2-3.51) requires that districts not demonstrating performance progress using an approved assessment method shall not be eligible for funding in the third or subsequent years until such progress is established. Good business practices require documents be maintained for a period of time sufficient to allow external auditors to evaluate the sufficiency of the supporting documentation and the Agency's compliance with rules and regulations. Agency personnel stated the limited availability of personnel to properly administer the program within the established time constraints resulted in the inadequate assessment of performance progress for the Reading Improvement Block Grant Program.
- The Agency did not maintain documentation demonstrating teacher coordinators of the Work Experience and Career Exploration Program (WECEP) possessed the educational experience in 13 of 18 (72%) teacher coordinators tested or the work experience in 18 of 18 (100%) teacher coordinators tested. In addition, the Agency did not maintain documentation of the Request for Proposal Evaluation Forms for 3 of 5 (60%) school districts tested. The School Code (105 ILCS 5/2-3.66a) requires teacher coordinators to possess one year (2,000 hours) of employment in an occupation directly related to those career or employment areas with respect to which classroom instruction or cooperative work experience is to be provided under the program, and 6 semester hours of formal coursework in the area of organization and administration of work experience and career

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FINDING 04-6 (Noncompliance with Mandated Duties – Continued)

exploration education. Good business practices require documents be maintained for a period of time sufficient to allow external auditors to evaluate the sufficiency of the supporting documentation and the Agency's compliance with rules and regulations. Agency personnel stated their interpretation of the mandate is that there is no requirement to collect or maintain supporting documentation substantiating the educational or work experience of the teacher coordinators. The missing Request for Proposal Evaluation Forms was attributed to misplacement. One form was found approximately 2½ months after it was requested, but appeared to be incomplete.

- The Agency did not notify school districts of a link on the Agency's website to homework assistance websites. The School Code (105 ILCS 5/2-3.131) requires the Agency to notify all school districts about the availability of the information on the Agency's web site. Agency personnel noted the statute was not effective until January 2004 and did not include a timeline for implementation. In addition, they stated no funding was provided for the additional required services; however, Agency personnel also indicated no funding was requested to fulfill the mandate.
- The Agency did not compile data by school district on attacks on school personnel. The School Code (105 ILCS 5/10-21.7) requires the Agency to compile information by school district on attacks on school personnel. Agency personnel stated the information was not compiled due to the fact that the Illinois Department of State Police does not send monthly reports to the Agency detailing this information. However, Agency personnel indicated they did not request this information from the Department of State Police.
- The Agency did not maintain documentation that the behavioral intervention guidelines were reviewed in the last three years. The School Code (105 ILCS 5/14-8.05) requires the Agency to review its behavioral intervention guidelines at least once every 3 years to determine continuing effectiveness and make any modifications deemed necessary. Agency personnel stated a review of the behavioral intervention guidelines was completed, but the review was not formally documented. To ensure alignment with anticipated federal guidelines, the Agency was waiting for reauthorization of the Individuals with Disabilities Education Act before formally revising the guidelines.

Failure to carry out mandated duties is noncompliance with statutory requirements. Failure to preserve State records increases the State's exposure to legal and financial risks.

In addition, during the prior audit, the Agency did not implement a system of rewards to recognize and reward schools whose students perform at high levels or which demonstrate outstanding improvements. During the current audit, the Agency implemented this system of rewards. Also, during the prior audit, the Agency did not schedule a hearing within 60 days from

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FINDING 04-6 (Noncompliance with Mandated Duties – Continued)

the date the appeal on the suspension was taken for 2 of 3 (67%) Teaching Certification suspensions. During the current audit, no hearings were required to be scheduled. Lastly, during the prior audit, it was noted the Agency did not ensure the required number of members served on the Advisory Council on Bilingual Education. During the current audit, the required number of members served on the Advisory Council on Bilingual Education. (Finding Code No. 04-6, 03-6, 02-13, 00-9)

RECOMMENDATION:

We recommend the Agency comply with the above mandated duties.

AGENCY RESPONSE:

The Agency agrees with the recommendation that it should comply with statutory requirements and will implement the following for each of the respective points:

Governor's Recognition Program –

The Agency will review this statute for possible legislative amendment or repeal.

Development of a Model Curriculum for Reduction of Self-destructive Behavior –

The Agency will review this statute for possible legislative amendment or repeal.

Computer Literacy Grants –

The Agency introduced legislation to repeal this statute in FY04 and will follow up on its progress through the legislative process.

Inclusion of Alternatives to Abortion in Family Life Instruction Courses and Evaluation Procedures –

The Agency will make available the Alternatives to Abortion courses and procedures as required by the Statute.

State Committee of Cooperative Services –

The Agency will review this statute for possible legislative amendment or repeal.

Fiscal Notes –

The Agency will review its processes and procedures and continue to strive to meet the statutory requirements and priority Legislative requests.

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FINDING 04-6 (Noncompliance with Mandated Duties – Continued)

Safety Survey Reports and Amendments –

The Agency will continue to prioritize and review the Safety Surveys and amendments in an effort to meet the required mandates and emergency needs of school districts.

Certificates of Approval for the Expenditure of Fire Prevention and Safety Funds –

The Agency will continue to prioritize and process Certificates of Approval for the Expenditure of Fire Prevention and Safety Funds in an effort to meet the required mandates and emergency needs of school districts.

Reading Improvement Block Grant Programs –

The Agency will implement the approved assessment methodology and improve controls over the maintenance of reports and records.

Work Experience and Career Exploration Program (WECEP) –

The Agency has included in the FY05 WECEP Continuation Guidelines a requirement that subrecipients submit documentation of work experience and coursework. The division has also implemented controls to ensure that program documentation is appropriately maintained.

Homework Assistance Website –

The Agency has notified the districts of the existence of the Homework Assistance Website.

Compilation by District of Attacks on School Personnel –

The Agency will consult with the State Police to develop a methodology whereby the data can be presented in the required “compiled by district” format. If an agreeable methodology cannot be implemented, the Agency will seek to amend the legislation.

Behavior Intervention Guidelines Review –

The Individuals with Disabilities Education Act has been reauthorized and the Agency has now presented the Illinois State Advisory Council with the guidelines for review and revision.

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FINDING 04-7 (Noncompliance with Reporting Requirements)

The Agency did not properly report all information as required by the School Code to the Governor and General Assembly. We noted the following:

- The Agency did not report to the Governor all requirements of the Vocational Education Act. The Vocational Education Act under the School Code (105 ILCS 435/2 (e)) requires the Agency to report annually, on or before January 14 each year, to the Governor a statement of the extent to which vocational education has been established and maintained in the State, the existing condition of vocational education, suggestions and recommendations with reference to the development of vocational education, recommendations on programs and policies to overcome sex bias and stereotyping in vocational education programming, and an assessment of the State's progress in achieving such goals prepared by the State vocational education sex equity coordinator pursuant to the Federal Vocational Education Law. The statement must also include an itemization of the amounts of money received from Federal and State sources, and of the objects and purposes to which the respective items of these several amounts have been devoted. We noted the Agency's report to the Governor did not include a statement of suggestions and recommendations with reference to the development of vocational education in the State and did not include a statement of recommendations on programs and policies to overcome sex bias and stereotyping in vocational education programming or an assessment of the State's progress in achieving such goals. Agency personnel stated the statement of suggestions and recommendations regarding the development of vocational education in the State were not included in the report due to oversight. Agency personnel also stated they are seeking repeal of the statutory requirement to include a statement of recommendations or an assessment of the State's progress in achieving such goals. Agency personnel stated if the requirement is not repealed in the fall veto session, the statement will be included in the 2004 report to be submitted to the Governor in January 2005.
- The Agency did not timely submit the Teacher Supply and Demand Annual Report to the Governor, General Assembly and institutions of higher education. The School Code (105 ILCS 5/2-3.11c) requires the Agency to report annually, on or before January 1, on the relative supply and demand for education staff of the public schools to the Governor, General Assembly and institutions of higher education that prepare teachers, administrators, school service personnel, other certified individuals, and other professionals employed by school districts or joint agreements. Agency personnel stated the report was not submitted until July 2004 due to the unavailability of "pipeline data" and the need to do additional analysis of the information.

Failure to report complete information to the Governor and General Assembly is noncompliance with a statutory mandate.

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FINDING 04-7 (Noncompliance with Reporting Requirements – Continued)

In addition, during the prior audit, the Agency did not include information on the dates school districts were notified of their change in recognition status or the course of action taken by the school districts with respect to their change in recognition status or include information on recognized schools in the 2001 Annual Statistical Report. During the current audit, the Agency did include information on the dates school districts were notified of their change in recognition status or the course of action taken by the school district and information on recognized schools in the 2002 Annual Statistical Report. Also, during the prior audit, the Agency did not maintain proper documentation for the submission of the Latch Key Report to the Governor. During the current audit, the Agency provided documentation of submission of the Latch Key Report to the Governor. (Finding Code No. 04-7, 03-7)

RECOMMENDATION:

We recommend the Agency prepare and submit required reports in accordance with provisions of the School Code.

AGENCY RESPONSE:

The Agency agrees with the recommendation and has implemented the following reporting changes:

- The Agency submitted a separate FY2004 Career and Technical Education report to the Governor, Legislative leaders, and others on Jan. 12, 2005. The report incorporates all requirements of 105 ILCS 435/2e.
- The Preliminary 2004 Educator Supply and Demand Report was transmitted prior to the deadline and documentation exists showing the transmission. The Agency anticipates updating information in the report as more data become available. The division responsible for compiling the report will also work closely with the Certification Division, who is responsible for the pipeline data, to ensure that data is collected on a more timely basis.

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FINDING 04-8 (Lack of Controls over Receipts Processing)

The Agency did not maintain proper controls over miscellaneous receipts processing.

During our compliance examination, we noted the following:

- The Agency's Fiscal Procedure: User's Manual sets a cut-off time one hour earlier than that allowed by State statute for deeming single items of receipt exceeding \$10,000 as received on the next working day. The manual allows single items of receipt exceeding \$10,000 to be deemed received on the next working day if received after 1 p.m.
- 20 of 25 (80%) Treasurer's Drafts were not remitted to the Comptroller on a timely basis. The drafts were remitted between 4 and 55 days after receipt of the Treasurer's Draft, or the date of the Treasurer's Draft if not stamped received by the Agency.
- 3 of 25 (12%) receipts tested were not deposited into the State treasury on a timely basis. Receipts were deposited between 1 and 3 days late.
- 13 of 25 (52%) Cash Received Listings (CRLs) tested were not signed and/or dated as received or approved by the central cashier.
- 10 of 25 (40%) CRLs tested did not contain a deposit authorization signature.
- 10 of 25 (40%) CRLs tested were not signed and/or dated by the mail opener.
- Receipts totaling \$3,537 in the SBE Teacher Certification Institute Fund (Fund 159) were posted to an incorrect revenue source code. The receipts were posted to revenue source code 1113 (Transfer/Region Fund Balance), but should have been recorded to revenue source code 1080 (Teacher's Certification).

The State Officers and Employees Money Disposition Act (30 ILCS 230/2) requires any single item of receipt exceeding \$10,000 to be deposited into the State Treasury on the day of actual physical receipt. Receipts received after 2 p.m. are deemed to have been received on the next working day (30 ILCS 230/2(a)). In addition, prudent business practices require the Agency to remit Treasurer's Drafts to the Comptroller's Office on a timely basis and Agency personnel to sign and date CRLs, indicating verification of the receipts listed on the CRL.

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FINDING 04-8 (Lack of Controls over Receipts Processing – Continued)

Agency personnel stated the Agency's Fiscal Procedure: User's Manual was written to provide staff sufficient processing time to adhere to the 2 p.m. statutory requirement. In addition, Agency personnel stated the problems associated with miscellaneous receipts were due to the result of Teacher Certification restructuring during the first part of fiscal year 2004 and the training of new staff due to layoffs.

Lack of proper controls over receipts processing could lead to misappropriation of funds, inaccurate financial reporting, and continued noncompliance. (Finding Code No. 04-8)

RECOMMENDATION:

We recommend the Agency revise its Fiscal Procedure: User's Manual and strengthen its internal controls over receipts processing to ensure compliance with all rules, regulations and statutory requirements.

AGENCY RESPONSE:

The Agency will continue to strengthen its internal controls over receipt processing.

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FINDING 04-9 (Lack of Controls over Contract Requirements)

The Agency did not maintain proper controls over contract requirements. During our contract testing, we noted the following:

- 2 of 11 (18%) professional and artistic contracts sampled were not reduced to writing before services were performed and the Agency did not file a Professional and Artistic Services Affidavit with the Office of the Comptroller and the Office of the Auditor General. The contracts were filed 72 days late.
- 1 of 3 (33%) contracts over \$3 million did not include the Request for Sealed Proposal (RFSP) Routing Record in the contract file and the RFSP Routing Record could not be located by the Agency.
- 1 of 18 (6%) contracts contained disclosures that were not dated by the Vendor.
- 1 of 18 (6%) contracts was not dated by an Agency official.

The Procurement Code (30 ILCS 500/20-80) requires an affidavit, signed by the chief executive officer of the Agency, be filed with the Comptroller and the Auditor General for professional and artistic contracts in excess of \$5,000 if not reduced to writing before services were performed. The Agency's Fiscal Procedure: User's Manual requires a RFSP Routing Record to be attached to the RFSP for all contracts of \$100,000 or more and for all documentation to be retained in the contract file. In addition, good business practices require all contract documents to be dated and maintained.

Agency personnel stated the Professional and Artistic Services Affidavit was not filed due to a misunderstanding of Comptroller requirements. The failure to date the contract and disclosures at the time the documents were signed was attributed to clerical error. Agency personnel further stated the missing RFSP Routing Record was misplaced.

Lack of proper controls over contract documents could lead to misappropriation of funds and continued noncompliance.

In addition, during the prior audit, we noted 3 of 25 (12%) general contracts sampled with alterations to signature dates. The contracts, each of which exceeded \$10,000, were filed with the Office of the State Comptroller subsequent to the altered contract dates. During the current audit, we did not note any contracts with alterations to signature dates for the contracts tested. (Finding Code No. 04-9, 03-8, 02-10)

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FINDING 04-9 (Lack of Controls over Contract Requirements – Continued)

RECOMMENDATION:

We recommend the Agency strengthen its controls to ensure compliance with all contracting rules, regulations and statutory requirements.

AGENCY RESPONSE:

The Agency will continue to enforce its controls to ensure compliance with all contracting rules, regulations and statutory requirements.

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FINDING 04-10 (Inaccurate Agency Fee Imposition Report Form)

The Agency did not properly report the fees collected on the 2004 Agency Fee Imposition Report Form submitted to the Office of the State Comptroller.

During our testing of the Agency Fee Imposition Report Form filed with the Comptroller's Office for the audit period, we noted the School Bus Driver Course Fees were not properly classified. The Agency classified all school bus driver fees as School Bus Driver refresher course fees and recorded no fees for the School Bus Driver initial classroom course in school bus driver safety.

The State Comptroller Act (15 ILCS 405/16.2) requires all State agencies that impose and collect fees to prepare the Agency Fee Imposition Report Form. The form shall list and describe the fees imposed by the Agency, the purpose of the fees, the amount of revenue generated by each fee, and the funds into which the fees are deposited.

Agency personnel stated the division responsible for compiling the data was unable to provide records detailing the type of school bus driver fees collected; therefore, Fiscal Services used summary level information to prepare the report.

Inadequate reporting of fees on the Agency Fee Imposition Report Form could lead to inaccurate information on the Statewide Agency Fee Imposition Report submitted to the General Assembly and lessens governmental oversight.

In addition, during the prior audit, 5 of 6 (83%) Fee Amounts on the Deposit Summary by Fee Number did not agree to the Comptroller's records, supporting documentation did not agree to the Number of Charged data in 1 of 6 (17%) Statewide Accounting Manual System (SAMS) source codes, and a thorough supervisory review was not performed. During the current audit, the Fee Amounts on the Deposit Summary by Fee Number did agree to the Comptroller's records, the Number of Charged data was supported by Agency documentation, and evidence of a supervisory review was provided. (Finding Code No. 04-10, 03-10, 02-8)

RECOMMENDATION:

We recommend the Agency ensure Agency Fee Imposition information is accurately reported.

AGENCY RESPONSE:

The Agency will ensure that Agency Fee Imposition information is accurately reported. The 2004 report was revised and submitted to the Comptroller. The adjustment was for \$264, which the Agency believes to be an immaterial amount.

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CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-11 (Inadequate Oversight of the Regional Offices of Education)

The Agency did not provide adequate oversight of the Regional Offices of Education (ROEs) and Intermediate Service Centers (ISCs). During our audit, we noted the following:

- The Agency did not include language identifying allowable and unallowable expenditures in some grant application material. Management controls require the recipients of State funds be provided sufficient guidance to ensure regulatory compliance in the spending of State monies. Agency personnel stated that specific language identifying allowable and unallowable expenditures was not provided to grant recipients due to limited resources and the lack of a specific requirement to include all allowable and unallowable costs in the grant application.
- The Agency did not properly perform annual record reviews of the 48 ROEs/ISCs. The reviews were not dated; therefore, it could not be determined whether the reviews were performed during the fiscal year. In addition, the Regional Improvement Plan activity statements were not reviewed to ensure the individual responsible for conducting each activity was identified. The Illinois Administrative Code (23 Ill. Adm. Code 525.130) requires the ROE to identify the individual responsible for conducting each activity in its Regional Improvement Plan. Agency personnel stated it was not possible to review the Regional Improvement Plan for all possible detailed items due to limited resources.

Inadequate controls over State funds and financial information could lead to inaccurate financial statements. Weak controls could lead to misappropriation of funds, errors in financial reporting, and noncompliance with mandated duties.

In addition, during the prior audit, the Agency did not maintain documentation of communications with the coordinating council, provide training to the ROEs/ISCs in the use of expenditure codes, perform required biennial site visits to the 48 ROEs and ISCs, monitor the meetings of the ROE/ISC Advisory boards or set guidelines or introduce legislation on additional compensation paid to ROE superintendents or assistant superintendents. During the current audit, the Agency established a system of maintaining communications with the coordinating council. In addition, the Agency performed all but 5 biennial site visits of the 48 ROEs and ISCs prior to June 30, 2004 and monitored the meetings of the ROE/ISC advisory boards. However, the 5 biennial site visits not completed by June 30, 2004 were completed by September 30, 2004. Lastly, expenditure codes and additional compensation paid to ROE superintendents and assistant superintendents is now reviewed during ROE financial statement audits performed by the Office of the Auditor General. (Finding Code No. 04-11, 03-11, 02-11)

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CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

FINDING 04-11 (Inadequate Oversight of the Regional Offices of Education – Continued)

RECOMMENDATION:

We recommend the Agency implement policies and procedures to ensure proper oversight of the ROEs and ISCs. These policies and procedures should include controls designed to strengthen the Agency's oversight of the ROEs/ISCs.

AGENCY RESPONSE:

The Agency agrees with the recommendation and will develop guidelines for allowable and unallowable costs and incorporate them into future ROE grant application materials. The Agency will also disseminate additional guidance on allowable and unallowable costs during FY05.

The Agency has improved the annual record review process to include dates and an additional review step to ensure that individuals responsible for Regional Improvement Plan Activities are identified.

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FINDING 04-12 (Failure to Ensure Premium List Certifications)

The Agency did not comply with a provision of the Agricultural Fair Act. Vocational Agricultural Section Fairs are organized and conducted under the supervision of the State Board of Education.

Each fair supervisor is required to submit a premium list certification and financial statements to the State Board of Education. Premium list certifications providing the fair date and location, name of the fair manager, and amount of prize money to be offered for each award must be submitted at least 10 days in advance of the fair. Financial statements providing the prizes, amounts awarded, and individuals paid must be submitted within 30 days following the fair. Both documents must be signed and notarized. The documents from 13 fiscal year 2004 fairs, or 26 documents, were selected for testing.

We noted the following:

- 3 of 13 (23%) premium list certifications did not contain all required information.
- 2 of 13 (15%) financial statements did not contain all required information.
- 1 of 13 (8%) premium list certifications was neither signed nor notarized by the fair supervisor.
- 1 of 13 (8%) financial statements was not notarized by the fair supervisor. The original financial statement was notarized, but the revised financial statement was not notarized.
- The Agency did not maintain documentation that 13 of 13 (100%) financial statements were forwarded to the Department of Agriculture within 30 days after the close of the fair.
- A thorough supervisory review to ensure compliance with the Agricultural Fair Act was not performed.

The Agricultural Fair Act (30 ILCS 120/16) requires the State Board of Education to supervise the Vocational Agricultural Section Fairs both in certification of premium lists and of financial statements showing all premiums awarded. The State Board of Education is required to certify to the Department of Agriculture a list of all premiums to be offered at that fair. Within 30 days of the close of a fair, fair supervisors are required to certify the financial statements of the fairs and the Agency is to forward the financial statements to the Department of Agriculture.

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FINDING 04-12 (Failure to Ensure Premium List Certifications – Continued)

Agency personnel stated that due to staff reductions during previous fiscal years, the Agency adopted a risk based approach in determining the areas in which to assign personnel. As responsibility for this mandate is shared with another Agency and noncompliance would not interfere with the ability of the State Board of Education to meet its mission, noncompliance with this mandate was considered low risk.

Failure to ensure premium lists and financial statements contain all required information, lists are signed and notarized by fair supervisors, the financial statements are forwarded to the Illinois Department of Agriculture and not performing a thorough supervisory review lessens governmental oversight and is noncompliance with a statutory mandate.

In addition, during the prior audit, the Agency did not ensure premium list certifications and financial statements were filed by fair supervisors in a timely fashion. During the current audit, the Agency ensured premium list certifications and financial statements were filed by fair supervisors in a timely fashion. (Finding Code No. 04-12, 03-12, 02-12)

RECOMMENDATION:

We recommend the Agency ensure its mandated duties are fulfilled by establishing and implementing policies and procedures to ensure compliance with all applicable requirements of the Agricultural Fair Act.

AGENCY RESPONSE:

The Agency agrees with the recommendation and as the program has been jointly administered by the Department of Agriculture, which carries out most of the program's function, both Agencies agreed that it would be appropriate for the Department of Agriculture to have responsibility for the program. Legislation was introduced to amend the statute governing the program and changes to the administrative rules were adopted in August, 2004. ISBE will follow the progress of the legislation and continue to work with the Department of Agriculture to ensure that all issues are resolved.

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FINDING 04-13 (Failure to Conduct Performance Appraisals in a Timely Manner)

The Agency did not complete timely employee performance appraisals in accordance with the Illinois State Board of Education Human Resources Manual.

Our personal services sample included 25 employees requiring performance evaluations during the fiscal year. We noted the following in our testing:

- No performance appraisals were on file for 10 (40%) of the employees.
- The performance appraisals for 2 (8%) employees were untimely. Those appraisals were performed between 22 and 43 days late.
- The performance appraisals for 4 (16%) employees were not filed with Human Resources at least 2 weeks prior to the scheduled due date. Those appraisals were filed between 4 and 57 days late.

The Agency's Human Resources Manual requires each permanent support and professional employee to be evaluated within three months prior to his/her creditable service date. The completed evaluation is to be forwarded to the Human Resource Unit at least two weeks before the scheduled due date.

Agency personnel stated the performance appraisals were not completed by their creditable service date or not filed by the required due date due to oversight. Advance and late reminders are sent to supervisors; however, some either fail to forward a copy of completed performance appraisals or do not perform the appraisal due to work priorities or other concerns.

Failure to ensure all employees receive a performance appraisal on a timely basis and in accordance with Agency policies lessens the Agency's ability to effectively manage its employees. (Finding Code No. 04-13)

RECOMMENDATION:

We recommend the Agency ensure compliance with its policies and procedures and conduct performance appraisals on a timely basis.

AGENCY RESPONSE:

The Agency agrees with the recommendation and will review its processes to ensure that timely completion of performance evaluations is being achieved.

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FINDING 04-14 (Inaccurate Form W-2 Reporting)

The Agency did not properly include the reimbursement of moving expenses in its 2003 Form W-2 reporting. During our personal services testing of the one employee allowed the personal use of a State vehicle, we reviewed the employee's Form W-2 for proper reporting of all fringe benefit and other income items. We noted the following:

- In accordance with an employment contract, the Agency reimbursed the employee \$15,748 for moving and other related expenses. The \$10,932 taxable portion of the reimbursement should have been included with wages in Box 1, but was reported as excludable reimbursement of moving expenses in Box 12. The nontaxable portion of \$4,816 should have been reported as excludable reimbursement of moving expenses in Box 12, but was not reported on Form W-2.
- The information provided to the Comptroller's Office did not include sufficient detail to ensure proper reporting on Form W-2.
- No supervisory review was performed subsequent to the Comptroller's preparation of Form W-2, although the Agency has experienced numerous past problems related to the reporting of fringe benefit and other income items requiring manual adjustment to Form W-2.

According to Treasury Regulation 1.217-2, the taxable portion of moving expense reimbursements must be reported with wages, tips and other compensation on an employee's Form W-2. The nontaxable portion is required to be reported in Box 12 as Code P, Excludable Reimbursement of Moving Expenses. In addition, prudent business practice requires proper internal controls, such as a supervisory review, be established to ensure the accuracy and reliability of data submitted for financial reporting for employees.

Agency personnel stated they reported the moving expense information to the Comptroller's Office and that the Agency is not required to review Forms W-2.

Failure to provide sufficient detail to the Comptroller's Office led to inaccurate reporting of income and excludable reimbursement of moving expenses on the employee's Form W-2 and is non-compliance with U.S. Department of Treasury regulations. (Finding Code No. 04-14)

RECOMMENDATION:

We recommend the Agency implement policies and procedures to ensure Form W-2 reporting complies with Treasury Regulations. In addition to performing a supervisory review of the amounts manually calculated, the Agency should review and approve the correspondence to the Comptroller's Office to ensure the Agency provides sufficient detail for Form W-2 reporting.

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FINDING 04-14 (Inaccurate Form W-2 Reporting – Continued)

We further recommend the Agency perform a subsequent review of any Forms W-2 reporting unusual amounts or amounts requiring manual adjustment.

AGENCY RESPONSE:

The Agency agrees with the recommendation and will implement the necessary controls to ensure accurate W-2 reporting.

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FINDING 04-15 (Follow-up to Financial and Management Audit of the Teachers Academy for Mathematics and Science)

In April 2003, the Office of the Auditor General released a financial and management audit of the Teachers Academy for Mathematics and Science (Academy). The audit contained nine total recommendations, seven of which were directed at the Illinois State Board of Education (Agency) to improve Agency monitoring of taxpayer funds that were provided to the Academy. As part of this compliance attestation engagement, auditors followed-up on the status of these seven recommendations. While the Agency has taken some action to address the recommendations, we found that six of the seven recommendations had not been fully implemented. Below is a summary of the seven recommendations directed to the Agency.

The following four recommendations have not been implemented by the Agency:

- Academy Funding as A Named Entity in the ISBE Budget (Recommendation #1): *The Agency should develop a formal grant agreement with the Teachers Academy for Mathematics and Science that includes information on what are appropriate and inappropriate uses of the funds, program specifications, budget guidelines, and terms for the grant. Since the Academy did not receive funds from the Agency during FY04, the Agency considered this a moot recommendation and had not completed any activities. However, the FY05 State Budget did provide funds from Agency appropriations to the Academy. This recommendation is still open and will be reviewed during the next compliance attestation engagement of the Agency.*
- Academy Goals (Recommendation #3): *The ISBE should provide the Teachers Academy for Mathematics and Science with documented outcome goals prior to the fiscal year in return for funding levels received from the State. In addition, the Agency should monitor the Academy's performance to ensure State resources are being used for the purposes intended. Since the Academy did not receive funds from the Agency during FY04, the Agency considered this a moot recommendation and had not completed any activities. However, the FY05 State Budget did provide funds from Agency appropriations to the Academy. This recommendation is still open and will be reviewed during the next compliance attestation engagement of the Agency.*
- Academy Evaluation and Results (Recommendation #4): *The Agency should establish a system to monitor the performance of the Teachers Academy for Mathematics and Science by developing and implementing procedures governing the review of Academy prepared documents. This should include reconciling proposed services to what is actually delivered. Additionally, the Agency should verify the information presented in the Academy's evaluation reports and determine whether the increases in test scores are commensurate for the funding level received by the*

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FINDING 04-15 (Follow-up to Financial and Management Audit of the Teachers Academy for Mathematics and Science – Continued)

Academy. Since the Academy did not receive funds from the Agency during FY04 the Agency considered this a moot recommendation and had not completed any activities. However, the FY05 State Budget did provide funds from Agency appropriations to the Academy. The Agency noted it received an expenditure report from the Academy for the FY03 funding received from the Agency. Additionally, the Academy provided an explanation of the intended uses for the remaining FY03 funds after the end of the State fiscal year (the Academy fiscal year ends in September). However, this recommendation was directed at monitoring whether the Academy was not only providing the services to the teachers but also verifying that the Academy's evaluation reports show increases commensurate with funding levels. This recommendation is still open and will be reviewed during the next compliance attestation engagement of the Agency.

- Expenditures (Recommendation #5): *The Agency should develop administrative rules that identify what are allowable and unallowable uses of State funds provided to grantees, including the Academy. Further, the Agency should follow up on questioned expenditures to see if there is any need to recover State funds.* The Agency has not developed administrative rules that identify what are allowable and unallowable uses of State funds provided to grantees. Further, while the Agency did question some Academy expenditures in the FY03 closeout expenditure report, the Agency did not follow up on all the questioned expenditures identified in the financial and management audit. The Agency relied on a single reimbursement payment from the Academy for exercise equipment and a boat trip and did not go on-site to the Academy to follow up on our questioned expenditures. It should be noted that the payment identified above was made the day after the release of the financial and management audit.

The following two recommendations have been partially implemented by the Agency:

- Unrestricted Funds (Recommendation #7): *The Agency should monitor the use of interest income on State funds to ensure that these funds are used for the same purpose as the principal of the grant. Additionally, the Agency should examine the Academy's use of interest revenue and recover any funds that were used for non-grant purposes.* The Academy provided the Agency with information to show it had used the accumulated interest monies on renovation to a new facility. The information was prepared in May 2003. While an Agency official stated this documentation satisfied the Agency, the Agency requested, in March 2004, an Attorney General opinion on the uses for interest earned with State funds. As of July 2004 the Agency had not received the opinion. This recommendation is still open and will be reviewed during the next compliance attestation engagement of the Agency.

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FINDING 04-15 (Follow-up to Financial and Management Audit of the Teachers Academy for Mathematics and Science – Continued)

- **Fixed Assets (Recommendation #9):** *The Agency should develop criteria, to be included in formal grant agreements with the Teachers Academy, that returns fixed assets purchased with State funds by the Academy to the State in the event the Agency discontinues funding of the Academy program. After an initial attempt to recover equipment from the Academy in October 2003, the Agency is waiting for an Attorney General opinion, requested in March 2004, on remedies for disposition of fixed assets purchased with State funds. Further, since the Academy did not receive funds from the Agency during FY04 the Agency did not develop criteria addressing fixed assets purchased with State funds. However, the FY05 State Budget did provide funds from Agency appropriations to the Academy. The recommendation is still open and will be reviewed during the next compliance attestation engagement of the Agency.*

The following recommendation has been implemented by the Agency:

- **Additional Grant Funding to the Academy (Recommendation #2):** *The Agency should enter into formal agreements with entities, including the Teachers Academy for Mathematics and Science, which receive grant funding from the Agency and maintain documentation to show how funds were used. Audit testing of 25 agreements in the grant and award area did not disclose any instances where formal agreements were not maintained by the Agency.*

It is important that the Agency continue to implement the recommendations from the financial and management audit to further improve its monitoring of the Academy and other grantees. (Finding Code No. 04-15)

RECOMMENDATION:

We recommend that the Illinois State Board of Education continue to fully implement the remaining six audit recommendations contained in the April 2003 financial and management audit of the Teachers Academy for Mathematics and Science that were either not implemented or were partially implemented.

AGENCY RESPONSE:

The Agency will continue to implement the recommendations as agreed to in the previous Agency responses.

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
FOR THE YEAR ENDED JUNE 30, 2004**

CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

PRIOR FINDINGS NOT REPEATED – (GOVERNMENT AUDITING STANDARDS)

04-16 (Inadequate Controls over Supplies Inventory)

During the prior audit, the Agency did not have adequate controls established over its supplies inventory.

During the current audit, we noted the Agency established and implemented internal controls over its supplies inventory. (Finding Code No. 03-5, 02-4, 00-4, 99-3)

PRIOR FINDINGS NOT REPEATED – (STATE COMPLIANCE)

04-17 (Failure to Comply with the State Prompt Payment Act)

During the prior audit, the Agency did not comply with the State Prompt Payment Act.

During the current audit, we noted the Agency complied with the State Prompt Payment Act by implementing procedures to calculate and pay interest on late payments to vendors. (Finding Code No. 03-9)

04-18 (Inadequate Disaster Contingency Plan for Computing Resources)

During the prior audit, the Agency had not fully established a comprehensive disaster contingency plan and had not performed comprehensive disaster contingency testing to ensure the plan was adequate for recovering the Agency's computer operations.

During the current audit, we noted the Agency established a comprehensive disaster contingency plan. Issues related to testing the plan have not been resolved and are presented in the report on immaterial findings as immaterial finding IM 04-6. (Finding Code No. 03-13, 02-14)

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
FOR THE YEAR ENDED JUNE 30, 2004**

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the Illinois State Board of Education was performed by PTW & Co.

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



INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

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, 2004, 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. An audit also includes assessing the accounting principles used and 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, 2004, and its changes in 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, 2004 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 December 20, 2004 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing over internal control over financial reporting and compliance and 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.

The Illinois State Board of Education has not presented a management's discussion and analysis and budgetary comparison information for the General Fund that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining individual governmental funds – General Fund and the combining individual governmental funds – Nonmajor Funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, 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, and Agency Management, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "PTW & Co." with a stylized flourish at the end.

PTW & Co.

Oak Brook, Illinois
December 20, 2004

State of Illinois
 Illinois State Board of Education
 Statement of Net Assets and Governmental Funds Balance Sheet

June 30, 2004

(amounts expressed in thousands)

	General Fund	Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Net Assets
ASSETS					
Unexpended appropriations	\$ 66,126	\$ 1	\$ 66,127	\$ -	\$ 66,127
Cash and cash equivalents	-	54,473	54,473	-	54,473
Due from other government - federal	184	111,228	111,412	-	111,412
Due from other government - local	-	24	24	-	24
Other receivables	-	169	169	-	169
Due from other State funds	83	645	728	-	728
Due from component units of the State	-	96	96	-	96
Inventories	300	2,037	2,337	-	2,337
Loans receivable	-	17,044	17,044	-	17,044
Prepaid expenses	-	-	-	442	442
Capital assets not being depreciated	-	-	-	1,063	1,063
Capital assets being depreciated, net	-	-	-	2,207	2,207
Total Assets	<u>\$ 66,693</u>	<u>\$ 185,717</u>	<u>\$ 252,410</u>	<u>\$ 3,712</u>	<u>\$ 256,122</u>
LIABILITIES					
Accounts payable and accrued liabilities	\$ 5,453	\$ 15,307	\$ 20,760	\$ -	\$ 20,760
Due to other government - federal	-	178	178	-	178
Due to other government - local	1,323,153	102,389	1,425,542	-	1,425,542
Due to other State funds	1,617	1,220	2,837	-	2,837
Due to component units of the State	148	1,049	1,197	-	1,197
Deferred revenue	-	12,734	12,734	(9,654)	3,080
Compensated absences, current portion	-	-	-	527	527
Compensated absences, long-term portion	-	-	-	4,543	4,543
Capital lease, current portion	-	-	-	14	14
Capital lease, long-term portion	-	-	-	14	14
Other liabilities, current portion	-	10,796	10,796	2,750	13,546
Other liabilities, long-term portion	-	-	-	2,750	2,750
Total Liabilities	<u>1,330,371</u>	<u>143,673</u>	<u>1,474,044</u>	<u>944</u>	<u>1,474,988</u>
FUND BALANCE/NET ASSETS					
Reserved for encumbrances	25,120	4	25,124	(25,124)	-
Reserved for inventories	300	2,037	2,337	(2,337)	-
Reserved for long-term portion of loans receivable	-	9,454	9,454	(9,454)	-
Invested in capital assets, net of related debt	-	-	-	3,242	3,242
Restricted net assets	-	-	-	5,810	5,810
Unreserved, unrestricted	(1,289,098)	30,549	(1,258,549)	30,631	(1,227,918)
Total Fund Balance/Net Assets	<u>(1,263,678)</u>	<u>42,044</u>	<u>(1,221,634)</u>	<u>\$ 2,768</u>	<u>\$ (1,218,866)</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 66,693</u>	<u>\$ 185,717</u>	<u>\$ 252,410</u>		

The accompanying notes to the 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

June 30, 2004

(amounts expressed in thousands)

Total fund balance - governmental funds	\$	(1,221,634)
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 the funds.		3,270
Prepaid expenses for governmental activities are current uses of financial resources for funds.		442
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		9,654
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:		
Capital lease obligations		(28)
Compensated absences		(5,070)
Claims and judgments		(5,500)
		(10,598)
Net assets of governmental activities	\$	(1,218,866)

The accompanying notes to the 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 Balance

For the Year Ended June 30, 2004

(amounts expressed in thousands)

	General Fund	Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Activities
EXPENDITURES/EXPENSES					
Program expense - education	\$ 5,543,830	\$ 1,676,490	\$ 7,220,320	\$ (208)	\$ 7,220,112
Debt service principal	14	-	14	(14)	-
Debt service interest	1	-	1	-	1
Capital outlays	1,075	184	1,259	(1,259)	-
Total Expenditures/Expenses	<u>5,544,920</u>	<u>1,676,674</u>	<u>7,221,594</u>	<u>(1,481)</u>	<u>7,220,113</u>
PROGRAM REVENUES					
Charges for services:					
Licenses and fees	127	2,141	2,268	-	2,268
Total charges for services	<u>127</u>	<u>2,141</u>	<u>2,268</u>	<u>-</u>	<u>2,268</u>
Operating grant revenue:					
Federal	733	1,665,104	1,665,837	(6,601)	1,659,236
Total operating grant revenue	<u>733</u>	<u>1,665,104</u>	<u>1,665,837</u>	<u>(6,601)</u>	<u>1,659,236</u>
Net Program Revenues	<u>(5,544,060)</u>	<u>(9,429)</u>	<u>(5,553,489)</u>	<u>(5,120)</u>	<u>(5,558,609)</u>
GENERAL REVENUES					
Interest	-	871	871	-	871
Other (net)	2	85	87	-	87
Total General Revenues	<u>2</u>	<u>956</u>	<u>958</u>	<u>-</u>	<u>958</u>
OTHER SOURCES (USES)					
Appropriations from State resources	5,482,846	16,117	5,498,963	-	5,498,963
Reappropriations to future year(s)	26,321	-	26,321	-	26,321
Receipts remitted to State Treasury	(843)	(1)	(844)	-	(844)
Capital transfers from (to) other State agencies	-	-	-	(16)	(16)
Loss on disposal of capital assets	-	-	-	(26)	(26)
Operating transfers - in	579	1,028	1,607	(1,607)	-
Operating transfers - out	(65,475)	(8,461)	(73,936)	1,607	(72,329)
Mandatory transfers - out	(579)	-	(579)	-	(579)
Proceeds from capital lease financing	42	-	42	(42)	-
Total Other Sources (Uses)	<u>5,442,891</u>	<u>8,683</u>	<u>5,451,574</u>	<u>(84)</u>	<u>5,451,490</u>
Change in fund balance/net assets	(101,167)	210	(100,957)	<u>\$ (5,204)</u>	(106,161)
Lapsed appropriations	(38,479)	(73)	(38,552)		(38,552)
Fund Balance/Net Assets July 1, 2003	<u>(1,124,032)</u>	<u>41,907</u>	<u>(1,082,125)</u>		<u>(1,074,153)</u>
Fund Balance/Net Assets June 30, 2004	<u>\$ (1,263,678)</u>	<u>\$ 42,044</u>	<u>\$ (1,221,634)</u>		<u>\$ (1,218,866)</u>

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

State of Illinois
 Illinois State Board of Education
 Reconciliation of Revenues, Expenditures and Changes in Fund Balance of
 Governmental Funds to Statement of Activities

For the Year Ended June 30, 2004

(amounts expressed in thousands)

Net change in fund balance - governmental funds	\$	(100,957)
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 expense to allocate those expenditures over the life of the assets. This is the amount by which depreciation exceeded capital outlays in the current period.		(88)
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.		14
Some capital additions were financed through capital lease agreements. In governmental funds, capital lease agreements are considered a source of financing, but in the Statement of Net Assets the lease obligation is reported as a liability.		(42)
Some revenues reported in the Statement of Activities do not provide current financial resources and, therefore, are not reported as revenues in governmental funds. This is the amount by which the prior year revenue adjustment in the Statement of Activities exceeded the amount reported in the current year.		(6,601)
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:		
Decrease in prepaid expenses		(1,952)
Decrease in compensated absences		757
Decrease in other obligations		2,750
Some capital assets were transferred out to other State agencies and, therefore, were disposed of by the Agency without receipt for value.		(16)
Proceeds from sales of capital assets are reported in the governmental funds. However, in the Statement of Activities, losses from the sale of capital assets are also reported. This is the amount by which the losses from the sale of capital assets exceeded proceeds.		(26)
Change in net assets of governmental activities	\$	(106,161)

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

State of Illinois
Illinois State Board of Education

Notes to the Basic Financial Statements

June 30, 2004

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, advocacy, and support for the work of school districts, policymakers, and citizens in making Illinois education *Second to None*.

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 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, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1871.

State of Illinois
Illinois State Board of Education

Notes to the Basic Financial Statements, continued

June 30, 2004

BASIS OF PRESENTATION

The financial activities of the Agency, which consist only of governmental activities, are reported under the general government function in the State of Illinois' Comprehensive Annual Financial Report. 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 activities demonstrates the degree to which the direct expenses of a given function (i.e. general government) are offset by program revenues. 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, each 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 contains three primary sub-accounts (General Revenue – 001, Education Assistance – 007, and Common School – 412) with numerous secondary sub-accounts.

State of Illinois
Illinois State Board of Education

Notes to the Basic Financial Statements, continued

June 30, 2004

Additionally, the Agency administers the following fund types:

Special Revenue – Transactions related to resources obtained from specific revenue sources (other than 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.

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 general long-term debt, claims and judgments, and compensated absences are recorded only when payment is due. General 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.

The Agency has no significant revenue sources which are susceptible to accrual. All revenue sources including federal grants, 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 the Governmental Accounting Standards Board.

State of Illinois
Illinois State Board of Education

Notes to the Basic Financial Statements, continued

June 30, 2004

SHARED FUND PRESENTATION

The financial statement presentation for the General Revenue Fund (001), Education Assistance Fund (007), Drivers Education Fund (031), Common School Fund (412), School Infrastructure Fund (568), Fund for Illinois' Future (611), the Tobacco Settlement Recovery Fund (733) and the Illinois Future Teacher Corps Scholarship Fund (753) represents only the portion of 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' Comprehensive Annual Financial Report.

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 Appropriation

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. The amounts reported are net of any reappropriations to subsequent years and the difference between current and prior year liabilities for reappropriated accounts. Reappropriations reflect the State's realignment of the budgetary needs to the subsequent year and avoid double counting 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.

Receipts Collected and Transmitted 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 consist principally of deposits held in the State Treasury. Cash and cash equivalents also include cash on hand and in transit.

State of Illinois
Illinois State Board of Education

Notes to the Basic Financial Statements, continued

June 30, 2004

INVENTORIES

Inventories, consisting primarily of agricultural commodities and paper, printing and office supplies are valued at cost, principally on the first-in, first-out (FIFO) method. Commodities are valued at the value assigned to the commodities by the donor, the U.S. Department of Agriculture. Inventories of governmental funds are recorded as expenditures when consumed rather than purchased.

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.

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 includes property, plant and equipment, are reported at cost. Contributed assets are reported at estimated fair value at the time received. Capital assets are depreciated using the straight-line method.

State of Illinois
Illinois State Board of Education

Notes to the Basic Financial Statements, continued

June 30, 2004

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

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).

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 fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purposes. Designations of fund balances represent tentative State plans that are subject to change.

State of Illinois
Illinois State Board of Education

Notes to the Basic Financial Statements, continued

June 30, 2004

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."

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.

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 \$54,473 (amount expressed in thousands) at June 30, 2004. 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' Comprehensive Annual Financial Report. At June 30, 2004 cash and cash equivalents included cash on hand of \$1,188 in Fund 569.

State of Illinois
Illinois State Board of Education

Notes to the Basic Financial Statements, continued

June 30, 2004

4. INTERFUND BALANCES AND ACTIVITY

BALANCES DUE TO/FROM OTHER FUNDS

The following balances (amounts expressed in thousands) at June 30, 2004 represent amounts due from other funds of the Agency and other State of Illinois funds.

Fund	Due from other funds of the Agency	Due from other State funds	Description/Purpose
General	\$ 0	\$ 83	Grants for educational purposes
Nonmajor Governmental	0	645	Grants for educational purposes
Total	\$ 0	\$ 728	

The following balances (amounts expressed in thousands) at June 30, 2004 represent amounts due to other funds of the Agency and other State of Illinois funds.

Fund	Due to other funds of the Agency	Due to other State funds	Description/Purpose
General	\$ 0	\$ 1,617	Grants for educational purposes
Nonmajor Governmental	0	1,220	Grants for educational purposes and for federal food service programs
Total	\$ 0	\$ 2,837	

State of Illinois
Illinois State Board of Education

Notes to the Basic Financial Statements, continued

June 30, 2004

TRANSFERS TO/FROM OTHER FUNDS

Interfund transfers in (amounts expressed in thousands) for the year ended June 30, 2004, were as follows:

Fund	Transfers in from other funds of the Agency	Transfers in from other State funds	Description/Purpose
General	\$ 579	\$ 0	Transfers from Agency nonmajor governmental funds for fund closures.
Nonmajor Governmental	1,028	0	Transfer from General fund for loan programs.
Total	<u>\$ 1,607</u>	<u>\$ 0</u>	

Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2004, were as follows:

Fund	Transfers out to other funds of the Agency	Transfers out to other State funds	Description/Purpose
General	\$ 1,028	\$ 64,447	Transfer to Agency nonmajor governmental funds for loan programs and to other State funds for educational purposes and emergency financial assistance
Nonmajor Governmental	579	7,882	Statutory transfers to General fund for fund closures and to other State funds for budget shortfalls.
Total	<u>\$ 1,607</u>	<u>\$ 72,329</u>	

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Illinois State Board of Education

Notes to the Basic Financial Statements, continued

June 30, 2004

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, 2004 were as follows (amounts expressed in thousands):

Fund	Due from component units	Due to component units	Description/Purpose
General	\$ 0	\$ 148	Grants for educational purposes
Nonmajor governmental	96	1,049	Grants for educational purposes and for federal food service programs
Total	<u>\$ 96</u>	<u>\$ 1,197</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.
- *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 Revolving Loan 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.

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Notes to the Basic Financial Statements, continued

June 30, 2004

Loans receivable balances reported by the Agency at June 30, 2004 consist of short-term amounts due (amounts due within one year) and long-term amounts due (amounts due after one year). These amounts are categorized below:

Program	Balance June 30, 2004	Short-Term Balance	Long-Term Balance
School District Emergency Financial Assistance Program	\$ 5,487	\$ 613	\$ 4,874
Charter Schools Revolving Loan Program	76	16	60
School Technology Revolving Loan Program	11,007	6,862	4,145
Temporary Relocation Revolving Loan Program	474	99	375
Total	<u>\$ 17,044</u>	<u>\$ 7,590</u>	<u>\$ 9,454</u>

State of Illinois
Illinois State Board of Education

Notes to the Basic Financial Statements, continued

June 30, 2004

7. CAPITAL ASSETS

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2004 was as follows:

	Balance July 1, 2003	Additions	Deletions	Net Transfers	Balance June 30, 2004
Capital assets not being depreciated:					
Land	\$ 1,063	\$ 0	\$ 0	\$ 0	\$ 1,063
Total capital assets not being depreciated	<u>1,063</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,063</u>
Capital assets being depreciated:					
Buildings	436	0	0	0	436
Equipment	9,002	1,217	(660)	(417)	9,142
Capital leases equipment	0	42	0	0	42
Total capital assets being depreciated	<u>9,438</u>	<u>1,259</u>	<u>(660)</u>	<u>(417)</u>	<u>9,620</u>
Less: accumulated depreciation					
Buildings	193	9	0	0	202
Equipment	6,908	1,324	(634)	(401)	7,197
Capital leases equipment	0	14	0	0	14
Total accumulated depreciation	<u>7,101</u>	<u>1,347</u>	<u>(634)</u>	<u>(401)</u>	<u>7,413</u>
Total capital assets being depreciated, net	<u>2,337</u>	<u>(88)</u>	<u>(26)</u>	<u>(16)</u>	<u>2,207</u>
Total capital assets, net	<u>\$ 3,400</u>	<u>\$ (88)</u>	<u>\$ (26)</u>	<u>\$ (16)</u>	<u>\$ 3,270</u>

Depreciation expense for governmental activities for the year ended June 30, 2004 was charged to the Education function for an amount of \$1.347 million.

State of Illinois
Illinois State Board of Education

Notes to the Basic Financial Statements, continued

June 30, 2004

8. LONG-TERM OBLIGATIONS

CHANGES IN LONG-TERM OBLIGATIONS

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2004 were as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004	Amounts due within 1 year
Compensated absences	\$ 5,827	\$ 2,550	\$ 3,307	\$ 5,070	\$ 527
Capital lease obligations	0	42	14	28	14
Other obligations	8,250	0	2,750	5,500	2,750
Total	\$ 14,077	\$ 2,592	\$ 6,071	\$ 10,598	\$ 3,291

Compensated absences have been liquidated by the applicable governmental funds that account for the salaries and wages of the related employees. Claims and judgments, reported as other obligations, typically have been liquidated from the S.B.E. Federal Department of Education Fund (561).

CAPITAL LEASE OBLIGATIONS

The Agency leases office equipment with a historical cost and accumulated depreciation of \$42 and \$14, respectively, under a capital lease arrangement. The lease is renewable subject to appropriation by the General Assembly. If renewal is reasonably assured, leases requiring appropriation by the General Assembly are considered noncancelable leases for financial reporting. Interest was computed at a rate of 4.2%. Future minimum lease payments (amounts expressed in thousands) at June 30, 2004 were as follows:

<u>Year ended June 30,</u>	<u>Amount</u>
2005	\$ 15
2006	<u>15</u>
Total minimum lease payments	30
Less: amounts representing interest	<u>(2)</u>
Present value of minimum lease payments	<u><u>28</u></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

Illinois State Board of Education

Notes to the Basic Financial Statements, continued

June 30, 2004

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 2004 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2004. 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, Financial Reporting Department, 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.

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 2004, the employer contribution rates for the SERS were 13.439%. 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. For fiscal year 2004, the State paid four percent of the employee portion of retirement for most State agencies, including the Agency, with full-time employees covered by the Teachers' Retirement System. Generally, this "pickup" of employee retirement was part of the fiscal year 2004 budget process and was, in part, a substitute for salary increases. The pickup is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies. Currently, State officers, judges, general assembly members, and State university employees are not eligible for the employee pickup. The fiscal year 2004 employer contribution rate to the SERS for alternative formula employees was 13.439%.

For employees covered by the TRS, the Agency pays employer retirement contributions based on a statutory based percentage of .58%. For employees paid from federal funds, the fiscal year 2004 employer contribution rate to the TRS was 10.5%. In addition, the State of Illinois makes employer contributions "on behalf" of TRS covered employees. For the year ended June 30, 2004, State contributions were based on 13.98% of creditable earnings.

State of Illinois
Illinois State Board of Education

Notes to the Basic Financial Statements, continued

June 30, 2004

10. POST-EMPLOYMENT BENEFITS

The State provides health, dental and life insurance benefits for certain retirees and their dependents. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to \$5,000 per annuitant age 60 and older.

Costs incurred for health, dental and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the year ended June 30, 2004. However, post-employment costs for the State as a whole for all State agencies for dependent health, dental and life insurance for annuitants and their dependents are disclosed in the Illinois Comprehensive Annual Financial Report for the State. Cost information for retirees by individual State agency is not available. Payments are made on a "pay-as-you-go" basis.

11. FUND DEFICITS

The following funds had deficit balances at June 30, 2004 (amounts expressed in thousands):

General Revenue Fund (001)	\$1,263,678
Drivers Education Fund (031)	15,750
S.B.E. Federal Department of Agriculture Fund (410)	1,785
S.B.E. Federal Department of Education Fund (561)	10,621

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, 2004.

State of Illinois
Illinois State Board of Education

Notes to the Basic Financial Statements, continued

June 30, 2004

13. OTHER OBLIGATIONS

A lawsuit against the City of Chicago and the Agency has resulted in a settlement requiring the Agency to pay \$19.25 million over 7 years to the 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, requires the Agency to pay \$2.75 million per year through January 2006. Payments to the district commenced in November 1999, but were frozen in March 2000, when the district failed to disburse the funds. The district's failure to disburse the funds resulted in a refund to the Agency of \$2.449 million. Payments to the district resumed in January 2002. Beginning in FY03, in an effort to eliminate the accumulation of funds by the district, payments were made based on expenditure reports submitted to the Agency. As of June 30, 2004, the Agency had paid \$2.956 million to the district.

The amount of the June 30, 2004 current year portion of the obligation is \$13.546 million, which includes \$2.546 of the fiscal year 2001 obligation and the full fiscal year 2002, 2003, 2004, and 2005 obligations of \$11 million.

14. COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

The Agency leases office space 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 under operating leases was \$3.2 million for the year ended June 30, 2004. The Agency is also purchasing a postage machine under an installment purchase agreement entered into during fiscal year 2003.

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

Year ending June 30,	Amount
2005	\$ 2,813
2006	2,896
2007	2
2008	0
2009	0
Total	\$ 5,711

State of Illinois
Illinois State Board of Education

Notes to the Basic Financial Statements, continued

June 30, 2004

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, 2004, 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

The Agency is named as a defendant in three separate lawsuits in which the plaintiffs allege that the Agency revoked a grant without sufficient reason; claim personal injury stemming from tainted chicken tenders allegedly consumed by students; and, claim the Agency's structure of funding and reimbursement for special education creates a financial incentive for school districts to place students out of the district into private facilities. In each of these lawsuits, it is reasonably possible that the Agency will be found liable for losses estimated to be between \$500,000 and \$600,000.

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.

15. SUBSEQUENT EVENT

Senate Bill 3000 was passed by the General Assembly and signed by the Governor on September 14, 2004. The bill re-aligned the terms of 7 board members and the State Superintendent of Education. The legislation, which became effective upon the Governor's signature, led to the appointment of 7 new members to the State Board of Education and an interim State Superintendent of Education.

State of Illinois
 Illinois State Board of Education
 Combining Individual Governmental Funds - General Fund
 Balance Sheet

June 30, 2004

(amounts expressed in thousands)

	General Revenue Fund (001)	Education Assistance Fund (007)	Common School Fund (412)	Total
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Due from other government - federal	184	-	-	184
Due from other government - local	-	-	-	-
Other receivables	-	-	-	-
Due from other funds	83	-	-	83
Due from component units	-	-	-	-
Inventories	300	-	-	300
Loans receivable	-	-	-	-
Prepaid expenses	-	-	-	-
Unexpended appropriation	66,124	-	2	66,126
Total Assets	\$ 66,691	\$ -	\$ 2	\$ 66,693
LIABILITIES				
Accounts payable and accrued liabilities	\$ 5,453	\$ -	\$ -	\$ 5,453
Due to other government - federal	-	-	-	-
Due to other government - local	1,323,151	-	2	1,323,153
Due to other funds	1,617	-	-	1,617
Due to component units	148	-	-	148
Deferred revenue	-	-	-	-
Other liabilities	-	-	-	-
Total Liabilities	1,330,369	-	2	1,330,371
FUND BALANCE				
Reserved for:				
Encumbrances	25,120	-	-	25,120
Inventories	300	-	-	300
Long-term portion of loans receivable	-	-	-	-
Unreserved:				
Undesignated	(1,289,098)	-	-	(1,289,098)
Total Fund Balance (Deficit)	(1,263,678)	-	-	(1,263,678)
Total Liabilities and Fund Balance	\$ 66,691	\$ -	\$ 2	\$ 66,693

State of Illinois
 Illinois State Board of Education
 Combining Individual Governmental Funds - General Fund
 Statement of Revenues, Expenditures, and Changes in Fund Balance

For the Year Ended June 30, 2004

(amounts expressed in thousands)

	General Revenue Fund (001)	Education Assistance Fund (007)	Common School Fund (412)	Total
REVENUES				
Federal government	\$ 733	\$ -	\$ -	\$ 733
Licenses and fees	127	-	-	127
Interest	-	-	-	-
Other revenues	2	-	-	2
Refunds	-	-	-	-
Total Revenues	862	-	-	862
EXPENDITURES				
Education	2,090,346	681,900	2,771,584	5,543,830
Debt Service:				
Principal	14	-	-	14
Interest	1	-	-	1
Capital outlay	1,075	-	-	1,075
Total Expenditures	2,091,436	681,900	2,771,584	5,544,920
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,090,574)	(681,900)	(2,771,584)	(5,544,058)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	2,029,096	681,900	2,771,850	5,482,846
Reappropriation to fiscal year 2005	26,321	-	-	26,321
Net change in liabilities for reappropriated accounts	-	-	-	-
Operating transfers-in	579	-	-	579
Operating transfers-out	(65,475)	-	-	(65,475)
Mandatory transfers-out	(579)	-	-	(579)
Capital lease	42	-	-	42
Receipts remitted to State Treasury	(843)	-	-	(843)
NET OTHER SOURCES (USES) OF FINANCIAL RESOURCES	1,989,141	681,900	2,771,850	5,442,891
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND NET OTHER SOURCES (USES) OF FINANCIAL RESOURCES	(101,433)	-	266	(101,167)
Lapsed appropriations	(38,213)	-	(266)	(38,479)
Fund Balance (Deficit) July 1, 2003	(1,124,032)	-	-	(1,124,032)
Fund Balance (Deficit) June 30, 2004	\$ (1,263,678)	\$ -	\$ -	\$ (1,263,678)

State of Illinois
 Illinois State Board of Education
 Combining Individual Governmental Funds - Nonmajor Funds
 Balance Sheet

June 30, 2004

(amounts expressed in thousands)

	Special Revenue Funds					
	Teacher Certificate Fee Revolving Fund (016)	Drivers Education Fund (031)	State Board of Education State Trust Fund (110)	School District Emergency Financial Assistance Fund (130)	S.B.E. Teacher Certification Institute Fund (159)	S.B.E. GED Testing Fund (161)
ASSETS						
Cash and cash equivalents	\$ 3,040	\$ -	\$ 45	\$ 1,483	\$ 276	\$ 454
Due from other government - federal	-	-	-	-	-	-
Due from other government - local	-	-	-	24	-	-
Other receivables	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-
Due from component units	-	-	-	-	-	-
Inventories	-	-	-	-	-	-
Loans receivable	-	-	-	5,487	-	-
Unexpended appropriation	-	-	-	-	-	-
Total Assets	\$ 3,040	\$ -	\$ 45	\$ 6,994	\$ 276	\$ 454
LIABILITIES						
Accounts payable and accrued liabilities	\$ 30	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other government - federal	-	-	-	-	-	-
Due to other government - local	-	15,750	-	-	-	-
Due to other funds	-	-	-	-	-	-
Due to component units	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Total Liabilities	30	15,750	-	-	-	-
FUND BALANCE						
Reserved for:						
Encumbrances	3	-	-	-	-	-
Inventories	-	-	-	-	-	-
Long-term portion of loans receivable	-	-	-	4,874	-	-
Unreserved:						
Undesignated	3,007	(15,750)	45	2,120	276	454
Total Fund Balance (Deficit)	3,010	(15,750)	45	6,994	276	454
Total Liabilities and Fund Balance	\$ 3,040	\$ -	\$ 45	\$ 6,994	\$ 276	\$ 454

State of Illinois
 Illinois State Board of Education
 Combining Individual Governmental Funds - Nonmajor Funds
 Balance Sheet

June 30, 2004

(amounts expressed in thousands)

	Special Revenue Funds					
	S.B.E. School Bus Driver Permit Fund (162)	S.B.E. Federal National Community Service Fund (183)	S.B.E. Department of Health and Human Serv. Fund (239)	S.B.E. Federal Dept. of Labor Trust Fund (392)	S.B.E. Federal Dept. of Agriculture Fund (410)	School Technology Revolving Fund (544)
ASSETS						
Cash and cash equivalents	\$ -	\$ 10	\$ -	\$ 20	\$ 335	\$ 194
Due from other government - federal	-	130	307	379	31,053	-
Due from other government - local	-	-	-	-	-	-
Other receivables	-	-	-	-	100	-
Due from other funds	-	-	-	-	-	-
Due from component units	-	-	-	-	-	-
Inventories	-	-	-	-	2,037	-
Loans receivable	-	-	-	-	-	-
Unexpended appropriation	-	-	-	-	-	-
Total Assets	\$ -	\$ 140	\$ 307	\$ 399	\$ 33,525	\$ 194
LIABILITIES						
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 1	\$ -	\$ 9,681	\$ -
Due to other government - federal	-	-	-	-	14	-
Due to other government - local	-	140	141	30	20,140	-
Due to other funds	-	-	147	164	361	125
Due to component units	-	-	18	-	98	-
Deferred revenue	-	-	-	205	5,016	-
Other liabilities	-	-	-	-	-	-
Total Liabilities	-	140	307	399	35,310	125
FUND BALANCE						
Reserved for:						
Encumbrances	-	-	-	-	-	-
Inventories	-	-	-	-	2,037	-
Long-term portion of loans receivable	-	-	-	-	-	-
Unreserved:						
Undesignated	-	-	-	-	(3,822)	69
Total Fund Balance (Deficit)	-	-	-	-	(1,785)	69
Total Liabilities and Fund Balance	\$ -	\$ 140	\$ 307	\$ 399	\$ 33,525	\$ 194

State of Illinois
 Illinois State Board of Education
 Combining Individual Governmental Funds - Nonmajor Funds
 Balance Sheet

June 30, 2004

(amounts expressed in thousands)

	Special Revenue Funds					
	S.B.E. Federal Dept. of Education Fund (561)	Charter Schools Revolving Loan Fund (567)	School Infrastructure Fund (568)	School Technology Revolving Loan Program Fund (569)	Private Business and Vocational Schools Fund (578)	State Board of Education Fund (579)
ASSETS						
Cash and cash equivalents	\$ 831	\$ 1,938	\$ -	\$ 45,387	\$ -	\$ -
Due from other government - federal	79,359	-	-	-	-	-
Due from other government - local	-	-	-	-	-	-
Other receivables	-	-	-	69	-	-
Due from other funds	645	-	-	-	-	-
Due from component units	96	-	-	-	-	-
Inventories	-	-	-	-	-	-
Loans receivable	-	76	-	11,007	-	-
Unexpended appropriation	-	-	1	-	-	-
Total Assets	\$ 80,931	\$ 2,014	\$ 1	\$ 56,463	\$ -	\$ -
LIABILITIES						
Accounts payable and accrued liabilities	\$ 5,593	\$ -	\$ 1	\$ -	\$ -	\$ -
Due to other government - federal	164	-	-	-	-	-
Due to other government - local	66,130	58	-	-	-	-
Due to other funds	423	-	-	-	-	-
Due to component units	933	-	-	-	-	-
Deferred revenue	7,513	-	-	-	-	-
Other liabilities	10,796	-	-	-	-	-
Total Liabilities	91,552	58	1	-	-	-
FUND BALANCE						
Reserved for:						
Encumbrances	-	-	-	-	-	-
Inventories	-	-	-	-	-	-
Long-term portion of loans receivable	-	60	-	4,145	-	-
Unreserved:						
Undesignated	(10,621)	1,896	-	52,318	-	-
Total Fund Balance (Deficit)	(10,621)	1,956	-	56,463	-	-
Total Liabilities and Fund Balance	\$ 80,931	\$ 2,014	\$ 1	\$ 56,463	\$ -	\$ -

State of Illinois
 Illinois State Board of Education
 Combining Individual Governmental Funds - Nonmajor Funds
 Balance Sheet

June 30, 2004

(amounts expressed in thousands)

	Special Revenue Funds						Total
	State Board of Education Special Purpose Trust Fund (591)	Temporary Relocation Expenses Rev. Grant Fund (605)	Fund for Illinois' Future (611)	Tobacco Settlement Recovery Fund (733)	Illinois Future Teacher Corps Scholarship Fund (753)	Nat'l Center for Education Statistics Fund (791)	
ASSETS							
Cash and cash equivalents	\$ -	\$ 290	\$ -	\$ -	\$ -	\$ 170	\$ 54,473
Due from other government - federal	-	-	-	-	-	-	111,228
Due from other government - local	-	-	-	-	-	-	24
Other receivables	-	-	-	-	-	-	169
Due from other funds	-	-	-	-	-	-	645
Due from component units	-	-	-	-	-	-	96
Inventories	-	-	-	-	-	-	2,037
Loans receivable	-	474	-	-	-	-	17,044
Unexpended appropriation	-	-	-	-	-	-	1
Total Assets	\$ -	\$ 764	\$ -	\$ -	\$ -	\$ 170	\$ 185,717
LIABILITIES							
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1	\$ 15,307
Due to other government - federal	-	-	-	-	-	-	178
Due to other government - local	-	-	-	-	-	-	102,389
Due to other funds	-	-	-	-	-	-	1,220
Due to component units	-	-	-	-	-	-	1,049
Deferred revenue	-	-	-	-	-	-	12,734
Other liabilities	-	-	-	-	-	-	10,796
Total Liabilities	-	-	-	-	-	1	143,673
FUND BALANCE							
Reserved for:							
Encumbrances	-	-	-	-	-	1	4
Inventories	-	-	-	-	-	-	2,037
Long-term portion of loans receivable	-	375	-	-	-	-	9,454
Unreserved:							
Undesignated	-	389	-	-	-	168	30,549
Total Fund Balance (Deficit)	-	764	-	-	-	169	42,044
Total Liabilities and Fund Balance	\$ -	\$ 764	\$ -	\$ -	\$ -	\$ 170	\$ 185,717

State of Illinois
 Illinois State Board of Education
 Combining Individual Governmental Funds - Nonmajor Funds
 Statement of Revenues, Expenditures, and Changes in Fund Balance

For the Year Ended June 30, 2004

(amounts expressed in thousands)

	Special Revenue Funds					
	Teacher Certificate Fee Revolving Fund (016)	Drivers Education Fund (031)	State Board of Education State Trust Fund (110)	School District Emergency Financial Assistance Fund (130)	S.B.E. Teacher Certification Institute Fund (159)	S.B.E. GED Testing Fund (161)
REVENUES						
Federal government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and fees	1,365	-	-	-	157	427
Interest	-	-	-	36	-	-
Other revenues	-	-	-	-	-	-
Refunds	-	-	-	-	-	-
Total Revenues	<u>1,365</u>	<u>-</u>	<u>-</u>	<u>36</u>	<u>157</u>	<u>427</u>
EXPENDITURES						
Education	544	15,862	-	62	-	385
Capital outlay	-	-	-	-	-	-
Total Expenditures	<u>544</u>	<u>15,862</u>	<u>-</u>	<u>62</u>	<u>-</u>	<u>385</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>821</u>	<u>(15,862)</u>	<u>-</u>	<u>(26)</u>	<u>157</u>	<u>42</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	-	15,900	-	-	-	-
Reappropriation to fiscal year 2005	-	-	-	-	-	-
Net change in liabilities for reappropriated accounts	-	-	-	-	-	-
Operating transfers-in	-	-	-	-	-	-
Operating transfers-out	-	-	-	(442)	-	-
Receipts remitted to the State Treasury	-	-	-	-	-	-
OTHER SOURCES (USES) OF FINANCIAL RESOURCES	<u>-</u>	<u>15,900</u>	<u>-</u>	<u>(442)</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES) OF FINANCIAL RESOURCES	<u>821</u>	<u>38</u>	<u>-</u>	<u>(468)</u>	<u>157</u>	<u>42</u>
Lapsed appropriations	-	(38)	-	-	-	-
Fund Balance (Deficit) July 1, 2003	<u>2,189</u>	<u>(15,750)</u>	<u>45</u>	<u>7,462</u>	<u>119</u>	<u>412</u>
Fund Balance (Deficit) June 30, 2004	<u>\$ 3,010</u>	<u>\$ (15,750)</u>	<u>\$ 45</u>	<u>\$ 6,994</u>	<u>\$ 276</u>	<u>\$ 454</u>

State of Illinois
 Illinois State Board of Education
 Combining Individual Governmental Funds - Nonmajor Funds
 Statement of Revenues, Expenditures, and Changes in Fund Balance

For the Year Ended June 30, 2004

(amounts expressed in thousands)

	Special Revenue Funds					
	S.B.E. School Bus Driver Permit Fund (162)	S.B.E. Federal National Community Service Fund (183)	S.B.E. Department of Health and Human Serv. Fund (239)	S.B.E. Federal Dept. of Labor Trust Fund (392)	S.B.E. Federal Dept. of Agriculture Fund (410)	School Technology Revolving Fund (544)
REVENUES						
Federal government	\$ -	\$ 813	\$ 703	\$ 546	\$ 451,356	\$ -
Licenses and fees	2	-	-	-	-	103
Interest	-	-	-	-	-	-
Other revenues	-	-	-	-	41	-
Refunds	-	-	-	-	-	-
Total Revenues	<u>2</u>	<u>813</u>	<u>703</u>	<u>546</u>	<u>451,397</u>	<u>103</u>
EXPENDITURES						
Education	2	813	651	670	449,427	87
Capital outlay	-	-	-	-	12	-
Total Expenditures	<u>2</u>	<u>813</u>	<u>651</u>	<u>670</u>	<u>449,439</u>	<u>87</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>52</u>	<u>(124)</u>	<u>1,958</u>	<u>16</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	-	-	-	-	-	-
Reappropriation to fiscal year 2005	-	-	-	-	-	-
Net change in liabilities for reappropriated accounts	-	-	-	-	-	-
Operating transfers-in	-	-	-	-	-	-
Operating transfers-out	-	-	-	-	-	-
Receipts remitted to the State Treasury	-	-	-	-	-	-
NET OTHER SOURCES (USES) OF FINANCIAL RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES) OF FINANCIAL RESOURCES	<u>-</u>	<u>-</u>	<u>52</u>	<u>(124)</u>	<u>1,958</u>	<u>16</u>
Lapsed appropriations	-	-	-	-	-	-
Fund Balance (Deficit) July 1, 2003	<u>-</u>	<u>-</u>	<u>(52)</u>	<u>124</u>	<u>(3,743)</u>	<u>53</u>
Fund Balance (Deficit) June 30, 2004	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,785)</u>	<u>\$ 69</u>

State of Illinois
 Illinois State Board of Education
 Combining Individual Governmental Funds - Nonmajor Funds
 Statement of Revenues, Expenditures, and Changes in Fund Balance

For the Year Ended June 30, 2004

(amounts expressed in thousands)

	Special Revenue Funds					State Board of Education Fund (579)
	S.B.E. Federal Dept. of Education Fund (561)	Charter Schools Revolving Loan Fund (567)	School Infrastructure Fund (568)	School Technology Revolving Loan Program Fund (569)	Private Business and Vocational Schools Fund (578)	
REVENUES						
Federal government	\$ 1,211,440	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and fees	-	-	-	-	33	54
Interest	-	-	-	835	-	-
Other revenues	-	1	-	40	-	-
Refunds	-	-	-	-	-	-
Total Revenues	<u>1,211,440</u>	<u>1</u>	<u>-</u>	<u>875</u>	<u>33</u>	<u>54</u>
EXPENDITURES						
Education	1,207,692	-	200	-	6	-
Capital outlay	172	-	-	-	-	-
Total Expenditures	<u>1,207,864</u>	<u>-</u>	<u>200</u>	<u>-</u>	<u>6</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>3,576</u>	<u>1</u>	<u>(200)</u>	<u>875</u>	<u>27</u>	<u>54</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	-	-	200	-	-	-
Reappropriation to fiscal year 2005	-	-	-	-	-	-
Net change in liabilities for reappropriated accounts	-	-	-	-	-	-
Operating transfers-in	-	1,028	-	-	-	-
Operating transfers-out	-	-	-	(7,440)	(438)	(81)
Receipts remitted to the State Treasury	-	-	-	-	-	-
NET OTHER SOURCES (USES) OF FINANCIAL RESOURCES	<u>-</u>	<u>1,028</u>	<u>200</u>	<u>(7,440)</u>	<u>(438)</u>	<u>(81)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES) OF FINANCIAL RESOURCES	<u>3,576</u>	<u>1,029</u>	<u>-</u>	<u>(6,565)</u>	<u>(411)</u>	<u>(27)</u>
Lapsed appropriations	-	-	(18)	-	-	-
Fund Balance (Deficit) July 1, 2003	<u>(14,197)</u>	<u>927</u>	<u>18</u>	<u>63,028</u>	<u>411</u>	<u>27</u>
Fund Balance (Deficit) June 30, 2004	<u>\$ (10,621)</u>	<u>\$ 1,956</u>	<u>\$ -</u>	<u>\$ 56,463</u>	<u>\$ -</u>	<u>\$ -</u>

State of Illinois
 Illinois State Board of Education
 Combining Individual Governmental Funds - Nonmajor Funds
 Statement of Revenues, Expenditures, and Changes in Fund Balance

For the Year Ended June 30, 2004

(amounts expressed in thousands)

	Special Revenue Funds						Total
	State Board of Education Special Purpose Trust Fund (591)	Temporary Relocation Expenses Rev. Grant Fund (605)	Fund for Illinois' Future (611)	Tobacco Settlement Recovery Fund (733)	Illinois Future Teacher Corps Scholarship Fund (753)	Nat'l Center for Education Statistics Fund (791)	
REVENUES							
Federal government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 246	\$ 1,665,104
Licenses and fees	-	-	-	-	-	-	2,141
Interest	-	-	-	-	-	-	871
Other revenues	2	-	-	1	-	-	85
Refunds	-	-	-	-	-	-	-
Total Revenues	<u>2</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>246</u>	<u>1,668,201</u>
EXPENDITURES							
Education	-	-	-	-	-	89	1,676,490
Capital outlay	-	-	-	-	-	-	184
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>89</u>	<u>1,676,674</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>2</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>157</u>	<u>(8,473)</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	-	-	7	-	10	-	16,117
Reappropriation to fiscal year 2005	-	-	-	-	-	-	-
Net change in liabilities for reappropriated accounts	-	-	-	-	-	-	-
Operating transfers-in	-	-	-	-	-	-	1,028
Operating transfers-out	(60)	-	-	-	-	-	(8,461)
Receipts remitted to the State Treasury	-	-	-	(1)	-	-	(1)
NET OTHER SOURCES (USES) OF FINANCIAL RESOURCES	<u>(60)</u>	<u>-</u>	<u>7</u>	<u>(1)</u>	<u>10</u>	<u>-</u>	<u>8,683</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES) OF FINANCIAL RESOURCES	<u>(58)</u>	<u>-</u>	<u>7</u>	<u>-</u>	<u>10</u>	<u>157</u>	<u>210</u>
Lapsed appropriations	-	-	(7)	-	(10)	-	(73)
Fund Balance (Deficit) July 1, 2003	<u>58</u>	<u>764</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12</u>	<u>41,907</u>
Fund Balance (Deficit) June 30, 2004	<u>\$ -</u>	<u>\$ 764</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 169</u>	<u>\$ 42,044</u>

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
FOR THE YEAR ENDED JUNE 30, 2004**

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

Fiscal Schedules and Analysis:

- Schedule of Expenditures of Federal Awards
- Notes to Schedule of Expenditures of Federal Awards
- Schedule of Appropriations, Expenditures and Lapsed Balances
- Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
- Comparative Schedule of Operating Expenditures by Expenditure Type
- Schedule of Changes in State Property
- Comparative Schedule of Cash Receipts
- Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller
- Comparative Schedule of Distributive Expenditures by Fund
- Analysis of Significant Variations in Expenditures
- Analysis of Significant Variations in Receipts
- Analysis of Significant Lapse Period Spending
- Analysis of Significant Account Balances
- Analysis of Accounts Receivable
- Schedule of Indirect Cost Reimbursements (Unaudited)

Analysis of Operations:

- Agency Functions and Planning Program
- Average Number of Employees and Average Salary Per Employee (Unaudited)
- Annual Statistics – Summary of Demographic Data (Unaudited)
- Service Efforts and Accomplishments (Unaudited)

The auditors' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, except for that portion marked "unaudited," on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

State of Illinois
 Illinois State Board of Education
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2004

(amounts expressed in thousands)

	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Education			
Adult Education	84.002	\$ 328	\$ -
Title I Grants to Local Educational Agencies	84.010	480,429	476,997
Migrant Education - Basic State Grant Program	84.011	1,666	1,666
Title I Program for Neglected and Delinquent Children	84.013	2,575	-
Special Education - Grants to States	84.027	391,023	379,700
Vocational Education - Basic Grants to States	84.048	45,916	24,429
Special Education - Preschool Grants	84.173	19,047	16,904
Safe and Drug Free Schools	84.184	1,838	1,838
Safe and Drug-Free Schools and Communities - State Grants	84.186	15,445	14,931
Bilingual Education Support Services	84.194	6	-
Education for the Homeless Children and Youth	84.196	2,305	2,224
Even Start - State Educational Agencies	84.213	9,210	9,126
Improvement of Education	84.215	2,349	1,247
Tech-Prep Education	84.243	3,827	5
Eisenhower Professional Development State Grants	84.281A	20	-
Title II Standards, Assessment and Accountability	84.281C	511	-
Charter Schools	84.282	1,479	1,453
21st Century Community Learning	84.287	19,478	18,510
Title VII Foreign Language	84.293	36	-
Innovative Education Program Strategies	84.298	16,192	15,231
Technology Literacy Challenge Fund Grants	84.318	26,359	25,838
IDEA - Part D	84.323	1,593	1,480
Special Education Research and Innovation	84.324	202	202
Services for Children with Deaf/Blindness	84.326C	344	328
IDEA General Supervisor Enhancement	84.326X	307	-
Advanced Placement Fee Payment Program	84.330	855	506
Title I Comprehensive School Reform	84.332	13,038	12,583
Title II Reading Excellence Program	84.338	3,388	3,388
Transition to Teaching	84.350	518	425
Title VI Renovation/Special Education/Technology	84.352	3,457	3,348
Reading First State Grants	84.357	30,109	30,109

The accompanying notes to schedule of expenditures of federal awards are an integral part of this schedule.

State of Illinois
 Illinois State Board of Education
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2004

(amounts expressed in thousands)

	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Education - Continued			
Rural Education Achievement	84.358	\$ 905	\$ 847
English Language Acquisition	84.365	20,619	19,842
Mathematics/Science Partnership	84.366	2,128	1,983
Improving Teacher Quality	84.367	112,916	110,677
State Assessment and Related Activities	84.369	6,431	-
		<u>1,236,849</u>	<u>1,175,817</u>
U.S. Department of Defense			
Troops to Teachers	N/A	<u>121</u>	<u>-</u>
U.S. Department of Agriculture			
Food Distribution Program	10.550	36,803	36,784
School Breakfast Program	10.553	45,745	44,717
National School Lunch Program	10.555	265,242	263,794
Special Milk Program for Children	10.556	2,600	2,596
Child and Adult Care Food Program	10.558	87,459	85,738
Summer Food Service Program for Children	10.559	11,492	9,433
State Administrative Expenses for Child Nutrition	10.560	4,665	367
Team Nutrition Training Grant	10.574	158	158
		<u>454,164</u>	<u>443,587</u>

The accompanying notes to schedule of expenditures of federal awards are an integral part of this schedule.

State of Illinois
 Illinois State Board of Education
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2004

(amounts expressed in thousands)

	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Health and Human Services			
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	\$ 223	\$ -
Refugee Children School Impact	93.576	1,108	457
Total U.S. Department of Health and Human Services		1,331	457
U.S. Department of Labor			
Youth Opportunity Grants	17.263	818	636
Corporation of National and Community Service			
Learn and Serve America	94.004	813	813
Total All Federal Programs		\$ 1,694,096	\$ 1,621,310

The accompanying notes to schedule of expenditures of federal awards are an integral part of this schedule.

State of Illinois
Illinois State Board of Education

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2004

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the federal award programs administered by the Illinois State Board of Education. The reporting entity for the Illinois State Board of Education is defined in Note 2 of the notes to the Agency's financial statements. The Schedule of Expenditures of Federal Awards includes the expenditure of awards received directly from federal agencies and awards passed through other State agencies and local agencies.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting. Expenditures for the Food Distribution Program (CFDA #10.550) represent the value of donated commodities received from the U.S. Department of Agriculture (USDA) and made available to approved sponsors of other federally funded meal programs. The commodities were valued based on USDA price lists.

3. INDIRECT COSTS

The Agency may claim indirect cost reimbursements for all of its federal award programs. The indirect cost rate established with the U.S. Department of Education for allocating indirect costs to federal award programs is 5.0 percent of allowable personal services costs allocated to each federal award administered by the Agency.

4. DESCRIPTION OF MATERIAL FEDERAL AWARD PROGRAMS

The following is a brief description of the material programs included in the Schedule of Expenditures of Federal Awards:

A. U.S. DEPARTMENT OF AGRICULTURE

The Agency accounted for the revenues and expenditures incurred in the administration of all major USDA awards in the S.B.E. Federal Department of Agriculture Fund (410).

State of Illinois
Illinois State Board of Education

Notes to Schedule of Expenditures of Federal Awards, continued

For the Year Ended June 30, 2004

- **School Breakfast Program (CFDA #10.553); National School Lunch Program (CFDA #10.555); Special Milk Program for Children (CFDA #10.556); and Summer Food Service Program for Children (CFDA #10.559)**

The purpose of these programs is to provide reimbursements to approved program sponsors for a portion of the cost of providing nutritious meals to eligible children and adults and encourage the consumption of fluid milk by children enrolled in schools or half-day kindergartens where they do not have access to other federally funded meal programs.

- **Food Distribution Program (CFDA #10.550)**

This program makes agricultural commodities available to approved sponsors of other federally funded meal programs as a supplement to cash grants. The Agency recorded the value of donated commodities received from USDA as revenues and expenditures in its financial statements for the year ended June 30, 2004.

- **Child and Adult Care Food Program (CFDA #10.558)**

The purpose of this program is to provide reimbursements to approved program sponsors for a portion of the cost of providing nutritious meals to eligible children and adults where they do not have access to other federally funded meal programs.

- **State Administrative Expenses for Child Nutrition (CFDA #10.560)**

This program provides funds to State Agencies for administrative expenses incurred in supervising and providing technical support to approved sponsors of child nutrition programs. Funding is also provided to the Illinois Nutrition Education & Training (NET) Program for training, resources and technical assistance to assist school and child care food service staff in providing healthful, nutritious meals for the children they serve.

B. U.S. DEPARTMENT OF EDUCATION

The Agency accounted for the revenues and expenditures incurred in the administration of all material U.S. Department of Education awards in the S.B.E. Federal Department of Education Fund (561).

- **Title I Grants to Local Educational Agencies (CFDA #84.010)**

The purpose of this program is to help local educational agencies and schools improve the teaching and learning of children failing, or most at-risk of failing to meet challenging State academic standards.

State of Illinois
Illinois State Board of Education

Notes to Schedule of Expenditures of Federal Awards, continued

For the Year Ended June 30, 2004

- **Title I Program for Neglected and Delinquent Children (CFDA #84.013)**

The purpose of this program is to provide educational services, in local and State institutions (Department of Corrections), to neglected and delinquent children and youth so they meet the same State standards as other students and transition from institutionalization to further schooling and employment.

- **Special Education - Grants to States (CFDA #84.027)**

The purpose of this program is to provide grants to States to assist them in providing a free appropriate public education to all children with disabilities.

- **Vocational Education - Basic Grants to States (CFDA #84.048)**

The purpose of this program is to assist States and outlying areas to expand and improve their programs of vocational education and provide equal access in vocational education to special needs populations.

- **Special Education - Preschool Grants (CFDA #84.173)**

The purpose of this program is to provide grants to States to assist them in providing a free appropriate public education to preschool disabled children aged three through five years.

- **Safe and Drug-Free Schools and Communities - State Grants (CFDA #84.186)**

The purpose of this program is to support the national education goal that every school in the United States will be free of drugs, violence, firearms and alcohol, and will offer a disciplined environment conducive to learning.

- **Education for the Homeless Children and Youth (CFDA #84.196)**

The purpose of this program is to address the problems that homeless children and youth face enrolling, attending, and succeeding in school. The program seeks to ensure that homeless children and youth have equal access to the same free, appropriate public education as provided to other children and youth.

- **Even Start - State Educational Agencies (CFDA #84.213)**

The purpose of this program is to help break the cycle of poverty and illiteracy and improve the educational opportunities of low-income families by integrating early childhood education, adult literacy or adult basic education and parenting education into a unified family literacy program.

State of Illinois
Illinois State Board of Education

Notes to Schedule of Expenditures of Federal Awards, continued

For the Year Ended June 30, 2004

- **Improvement of Education (CFDA #84.215)**

The purpose of this program is to conduct nationally significant programs to improve the quality of education, assist all students to meet challenging State content standards, and contribute to the achievement of elementary and secondary students.

- **Tech-Prep Education (CFDA #84.243)**

The purpose of this program is to distribute funds to States to enable them to provide planning and demonstration grants to consortia of local educational agencies and postsecondary education agencies for the development and operation of four-year programs designed to provide a tech-prep education program leading to a two-year associate degree or a two-year certificate and to provide, in a systematic manner, strong, comprehensive links between secondary schools and postsecondary educational institutions.

- **21st Century Community Learning (CFDA #84.287)**

The purpose of this program is to provide academically focused after-school programs, particularly to students who attend high-poverty, low performing schools, to help those students meet State and local performance standards in core academic subjects, and to offer families of participating students opportunities for literacy and related educational development.

- **Innovative Education Program Strategies (CFDA #84.298)**

The purpose of this program is to assist State and local educational agencies in the reform of elementary and secondary education.

- **Technology Literacy Challenge Fund Grants (CFDA #84.318)**

The purpose of this program is to provide grants to State educational agencies on a formula basis to support the development and implementation of systematic technology plans at the State, local and school levels to improve the teaching and learning of all children.

- **Title I Comprehensive School Reform (CFDA #84.332)**

The purpose of this program is to improve public education by pursuing comprehensive school reform as part of a district-wide school improvement strategy. Schools, working with their central offices, teachers and parents, develop a comprehensive school reform model based on reliable research and effective practices that fit their students' needs to achieve the Illinois Learning Standards.

State of Illinois
Illinois State Board of Education

Notes to Schedule of Expenditures of Federal Awards, continued

For the Year Ended June 30, 2004

- **Title II Reading Excellence Program (CFDA #84.338)**

The purpose of the Reading Excellence Program is to provide early literacy intervention for students K-3. Participating schools will develop and implement early intervention programs based on relevant reading research. In addition, family literacy and early childhood activities will be provided as part of this program.

- **Title VI Renovation/Special Education/Technology (CFDA #84.352)**

The purpose of this program is to provide funds for school repair and renovation, activities under Part B of the Individuals with Disabilities Act (IDEA), and technology activities that are carried out in connection with school repair and renovation.

- **Reading First State Grants (CFDA #84.357)**

The purpose of this program is to use research-based instructional methods to see that students, K-3, in qualifying districts and schools learn to read well by grade 3; and to see that teachers in qualifying districts and schools develop and use reading teaching strategies with foundations in effective, relevant research.

- **English Language Acquisition (CFDA #84.365)**

The purpose of this program is to assist school districts in teaching English to limited-English-proficient students to help these students meet the same challenging State standards required of all other students.

- **Improving Teacher Quality (CFDA #84.367)**

The purpose of this program is to provide grants to State educational agencies, local educational agencies, State agencies for higher education, and eligible partnerships. These grants are designed to increase student academic achievement by improving teacher and principal quality, increasing the number of highly qualified teachers in the classroom and highly qualified principals and assistant principals in schools, and to hold educational agencies and schools accountable for improvements in student academic achievement.

State of Illinois
Illinois State Board of Education

Notes to Schedule of Expenditures of Federal Awards, continued

For the Year Ended June 30, 2004

- **State Assessment and Related Activities (CFDA #84.369)**

The purpose of this program is to develop and implement additional assessments for grades 4, 6, and 7 in reading and mathematics, as required by the No Child Left Behind (NCLB) Act. This program provides the States with funding for the cost of developing the additional assessments and standards required. These funds are to be utilized to develop, refine, expand, improve and ensure continued validity and reliability of the State assessment program. The major emphasis of the funds is to improve classroom teacher knowledge, assessment skills and assessment development.

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Schedule of Appropriations, Expenditures and Lapsed Balances

For the Fourteen Months Ended August 31, 2004

	Appropriations (Net of Transfers) (1)	Expenditures through June 30, 2004 (2)	Lapse Period Expenditures (July-August) (2)	Total Expenditures (2)	Balances Reappropriated July 1, 2004 (2)	Lapsed Balances (2)
<i>General Revenue Fund - 001</i>						
Personal Services	\$ 12,851,200	\$ 12,812,752	\$ 6,193	\$ 12,818,945	\$ -	\$ 32,255
Employee Retirement Contribution						
Paid by the State	533,100	529,635	-	529,635	-	3,465
State Employees'/Teachers' Retirement	549,975	498,136	-	498,136	-	51,839
Social Security	436,575	424,865	-	424,865	-	11,710
Contractual Services	1,739,200	1,273,590	201,454	1,475,044	-	264,156
Travel	213,700	103,353	12,013	115,366	-	98,334
Commodities	69,000	25,383	6,182	31,565	-	37,435
Printing	25,800	7,270	2,446	9,716	-	16,084
Equipment	48,900	1,833	46,858	48,691	-	209
Telecommunications	226,800	186,160	29,534	215,694	-	11,106
Operation of Automotive Equipment	19,300	15,617	3,298	18,915	-	385
Lump Sum and Other Purposes	82,848,900	73,304,237	8,142,208	81,446,445	-	1,402,455
Awards and Grants	1,955,854,300	1,861,832,973	57,737,446	1,919,570,419	26,320,886	9,962,995
Total General Revenue Fund	2,055,416,750	1,951,015,804	66,187,632	2,017,203,436	26,320,886	11,892,428
<i>Education Assistance Fund - 007</i>						
Awards and Grants	681,900,000	681,900,000	-	681,900,000	-	-
Total Education Assistance Fund	681,900,000	681,900,000	-	681,900,000	-	-

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For the Fourteen Months Ended August 31, 2004

	Appropriations (Net of Transfers) (1)	Expenditures through June 30, 2004 (2)	Lapse Period Expenditures (July-August) (2)	Total Expenditures (2)	Balances Reappropriated July 1, 2004 (2)	Lapsed Balances (2)
<i>Teacher Certificate Fee Revolving Fund - 016</i>						
Lump Sum and Other Purposes	\$ 1,500,000	\$ 516,565	\$ 30,283	\$ 546,848	\$ -	\$ 953,152
Total Teacher Certificate Fee Revolving Fund	1,500,000	516,565	30,283	546,848	-	953,152
<i>Drivers Education Fund - 031</i>						
Personal Services	62,500	50,977	-	50,977	-	11,523
Employee Retirement Contribution						
Paid by the State	3,000	2,013	-	2,013	-	987
State Employees'/Teachers' Retirement	750	529	-	529	-	221
Social Security	1,250	796	-	796	-	454
Group Insurance	10,500	8,140	-	8,140	-	2,360
Contractual Services	52,500	50,000	-	50,000	-	2,500
Travel	6,250	488	-	488	-	5,762
Commodities	2,500	12	-	12	-	2,488
Printing	3,750	1,625	-	1,625	-	2,125
Equipment	3,250	-	-	-	-	3,250
Telecommunications	3,750	699	116	815	-	2,935
Awards and Grants	15,750,000	15,746,585	-	15,746,585	-	3,415
Total Drivers Education Fund	15,900,000	15,861,864	116	15,861,980	-	38,020

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For the Fourteen Months Ended August 31, 2004

	Appropriations (Net of Transfers) (1)	Expenditures through June 30, 2004 (2)	Lapse Period Expenditures (July-August) (2)	Total Expenditures (2)	Balances Reappropriated July 1, 2004 (2)	Lapsed Balances (2)
<i>School District Emergency Financial Assistance Fund - 130</i>						
Awards and Grants	\$ 5,333,000	\$ 312,500	\$ -	\$ 312,500	\$ -	\$ 5,020,500
Total School District Emergency Financial Assistance Fund	5,333,000	312,500	-	312,500	-	5,020,500
<i>SBE Teacher Certification Institute Fund - 159</i>						
Lump Sum and Other Purposes	125,000	-	-	-	-	125,000
Total SBE Teacher Certification Institute Fund	125,000	-	-	-	-	125,000
<i>SBE GED Testing Fund - 161</i>						
Lump Sum and Other Purposes	1,000,000	385,365	-	385,365	-	614,635
Total SBE GED Testing Fund	1,000,000	385,365	-	385,365	-	614,635
<i>SBE School Bus Driver Permit Fund - 162</i>						
Lump Sum and Other Purposes	12,000	1,996	-	1,996	-	10,004
Total SBE School Bus Driver Permit Fund	12,000	1,996	-	1,996	-	10,004

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Schedule of Appropriations, Expenditures and Lapsed Balances

For the Fourteen Months Ended August 31, 2004

	Appropriations (Net of Transfers) (1)	Expenditures through June 30, 2004 (2)	Lapse Period Expenditures (July-August) (2)	Total Expenditures (2)	Balances Reappropriated July 1, 2004 (2)	Lapsed Balances (2)
<i>SBE Federal National Community Service Fund - 183</i>						
Personal Services	\$ 30,000	\$ 27,913	\$ -	\$ 27,913	\$ -	\$ 2,087
Employee Retirement Contribution						
Paid by the State	1,500	1,117	-	1,117	-	383
State Employees'/Teachers' Retirement	3,500	3,217	-	3,217	-	283
Social Security	1,000	-	-	-	-	1,000
Group Insurance	6,000	3,937	-	3,937	-	2,063
Contractual Services	5,000	200	500	700	-	4,300
Travel	10,000	1,578	-	1,578	-	8,422
Commodities	500	-	-	-	-	500
Printing	2,000	-	-	-	-	2,000
Equipment	1,000	-	-	-	-	1,000
Telecommunications	1,000	512	62	574	-	426
Awards and Grants	2,000,000	676,388	139,111	815,499	-	1,184,501
Total SBE Federal National Community Service Fund	2,061,500	714,862	139,673	854,535	-	1,206,965

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Schedule of Appropriations, Expenditures and Lapsed Balances

For the Fourteen Months Ended August 31, 2004

	Appropriations (Net of Transfers) (1)	Expenditures through June 30, 2004 (2)	Lapse Period Expenditures (July-August) (2)	Total Expenditures (2)	Balances Reappropriated July 1, 2004 (2)	Lapsed Balances (2)
<i>SBE Department of Health and Human Services Fund - 239</i>						
Personal Services	\$ 191,575	\$ 136,674	\$ -	\$ 136,674	\$ -	\$ 54,901
Employee Retirement Contribution						
Paid by the State	12,725	5,470	-	5,470	-	7,255
State Employees'/Teachers' Retirement	18,950	16,944	-	16,944	-	2,006
Social Security	19,775	5,696	-	5,696	-	14,079
Group Insurance	34,125	23,245	-	23,245	-	10,880
Contractual Services	669,350	103,192	17,980	121,172	-	548,178
Travel	49,000	7,926	770	8,696	-	40,304
Commodities	21,000	-	-	-	-	21,000
Printing	11,000	-	-	-	-	11,000
Equipment	10,000	-	-	-	-	10,000
Telecommunications	12,000	692	105	797	-	11,203
Awards and Grants	2,690,000	724,035	287,676	1,011,711	-	1,678,289
Total SBE Department of Health and Human Services Fund	3,739,500	1,023,874	306,531	1,330,405	-	2,409,095

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For the Fourteen Months Ended August 31, 2004

	Appropriations (Net of Transfers) (1)	Expenditures through June 30, 2004 (2)	Lapse Period Expenditures (July-August) (2)	Total Expenditures (2)	Balances Reappropriated July 1, 2004 (2)	Lapsed Balances (2)
<i>SBE Federal Department of Labor Trust Fund - 392</i>						
Contractual Services	\$ 150,000	\$ 50,000	\$ -	\$ 50,000	\$ -	\$ 100,000
Travel	20,000	-	-	-	-	20,000
Telecommunications	5,000	-	-	-	-	5,000
Awards and Grants	8,000,000	636,634	194,025	830,659	-	7,169,341
Total SBE Federal Department of Labor Trust Fund	8,175,000	686,634	194,025	880,659	-	7,294,341
<i>SBE Federal Department of Agriculture Fund - 410</i>						
Personal Services	3,900,000	2,674,000	4,074	2,678,074	-	1,221,926
Employee Retirement Contribution						
Paid by the State	150,000	106,767	(93)	106,674	-	43,326
State Employees'/Teachers' Retirement	430,000	322,628	534	323,162	-	106,838
Social Security	145,000	79,298	275	79,573	-	65,427
Group Insurance	710,000	470,194	-	470,194	-	239,806
Contractual Services	2,900,000	1,099,309	236,854	1,336,163	-	1,563,837
Travel	370,000	171,042	25,662	196,704	-	173,296
Commodities	75,000	14,683	315	14,998	-	60,002
Printing	150,000	27,510	1,281	28,791	-	121,209
Equipment	75,000	833	48,776	49,609	-	25,391
Telecommunications	75,000	26,854	4,812	31,666	-	43,334
Awards and Grants	425,000,000	380,363,076	29,895,487	410,258,563	-	14,741,437
Total SBE Federal Department of Agriculture Fund	433,980,000	385,356,194	30,217,977	415,574,171	-	18,405,829

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For the Fourteen Months Ended August 31, 2004

	Appropriations (Net of Transfers) (1)	Expenditures through June 30, 2004 (2)	Lapse Period Expenditures (July-August) (2)	Total Expenditures (2)	Balances Reappropriated July 1, 2004 (2)	Lapsed Balances (2)
<i>Common School Fund - 412</i>						
Awards and Grants	\$ 2,771,850,000	\$ 2,771,581,876	\$ 2,396	\$ 2,771,584,272	\$ -	\$ 265,728
Total Common School Fund	<u>2,771,850,000</u>	<u>2,771,581,876</u>	<u>2,396</u>	<u>2,771,584,272</u>	<u>-</u>	<u>265,728</u>
<i>School Technology Revolving Fund - 544</i>						
Lump Sum and Other Purposes	<u>125,000</u>	<u>-</u>	<u>125,000</u>	<u>125,000</u>	<u>-</u>	<u>-</u>
Total School Technology Revolving Fund	<u>125,000</u>	<u>-</u>	<u>125,000</u>	<u>125,000</u>	<u>-</u>	<u>-</u>

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For the Fourteen Months Ended August 31, 2004

	Appropriations (Net of Transfers) (1)	Expenditures through June 30, 2004 (2)	Lapse Period Expenditures (July-August) (2)	Total Expenditures (2)	Balances Reappropriated July 1, 2004 (2)	Lapsed Balances (2)
<i>SBE Federal Department of Education Fund - 561</i>						
Personal Services	\$ 12,427,000	\$ 11,887,729	\$ 5,859	\$ 11,893,588	\$ -	\$ 533,412
Employee Retirement Contribution						
Paid by the State	544,700	472,800	-	472,800	-	71,900
State Employees/Teachers' Retirement	1,527,350	1,419,983	-	1,419,983	-	107,367
Social Security	410,700	288,939	-	288,939	-	121,761
Group Insurance	2,091,100	1,759,145	-	1,759,145	-	331,955
Contractual Services	17,411,650	4,657,978	1,128,055	5,786,033	-	11,625,617
Travel	1,387,500	547,046	100,434	647,480	-	740,020
Commodities	415,600	35,297	1,319	36,616	-	378,984
Printing	587,300	35,275	1,464	36,739	-	550,561
Equipment	383,500	16,823	113,113	129,936	-	253,564
Telecommunications	604,300	77,396	28,909	106,305	-	497,995
Lump Sum and Other Purposes	43,000,000	6,206,095	2,461,113	8,667,208	-	34,332,792
Awards and Grants	1,544,900,000	1,138,530,900	47,777,065	1,186,307,965	-	358,592,035
Total SBE Federal Department of Education Fund	1,625,690,700	1,165,935,406	51,617,331	1,217,552,737	-	408,137,963
<i>Charter Schools Revolving Loan Fund - 567</i>						
Awards and Grants	2,000,000	12,500	57,750	70,250	-	1,929,750
Total Charter Schools Revolving Loan Fund	2,000,000	12,500	57,750	70,250	-	1,929,750

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For the Fourteen Months Ended August 31, 2004

	Appropriations (Net of Transfers) (1)	Expenditures through June 30, 2004 (2)	Lapse Period Expenditures (July-August) (2)	Total Expenditures (2)	Balances Reappropriated July 1, 2004 (2)	Lapsed Balances (2)
<i>School Infrastructure Fund - 568</i>						
Lump Sum and Other Purposes	\$ 200,000	\$ 180,406	\$ 1,337	\$ 181,743	\$ -	\$ 18,257
Total School Infrastructure Fund	200,000	180,406	1,337	181,743	-	18,257
<i>School Technology Revolving Loan Program Fund - 569</i>						
Awards and Grants	50,000,000	4,315,154	-	4,315,154	-	45,684,846
Total School Technology Revolving Loan Program Fund	50,000,000	4,315,154	-	4,315,154	-	45,684,846
<i>Temporary Relocation Expenses Revolving Grant Fund - 605</i>						
Awards and Grants	1,130,000	-	-	-	-	1,130,000
Total Temporary Relocation Expenses Revolving Grant Fund	1,130,000	-	-	-	-	1,130,000
<i>Fund for Illinois' Future - 611</i>						
Awards and Grants	7,000	-	-	-	-	7,000
Total Fund for Illinois' Future	7,000	-	-	-	-	7,000

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For the Fourteen Months Ended August 31, 2004

	Appropriations (Net of Transfers) (1)	Expenditures through June 30, 2004 (2)	Lapse Period Expenditures (July-August) (2)	Total Expenditures (2)	Balances Reappropriated July 1, 2004 (2)	Lapsed Balances (2)
<i>Illinois Future Teacher Corps Scholarship Fund - 753</i>						
Awards and Grants	\$ 10,000	\$ -	\$ -	\$ -	\$ -	\$ 10,000
Total Illinois Future Teacher Corps Scholarship Fund	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
<i>National Center for Education Statistics Fund - 791</i>						
Personal Services	80,000	51,446	-	51,446	-	28,554
Employee Retirement Contribution Paid by the State	4,000	2,058	-	2,058	-	1,942
State Employees'/Teachers' Retirement	9,000	6,916	-	6,916	-	2,084
Social Security	4,600	3,909	-	3,909	-	691
Group Insurance	12,000	5,445	-	5,445	-	6,555
Contractual Services	8,000	7,300	500	7,800	-	200
Travel	40,400	11,360	1,490	12,850	-	27,550
Commodities	1,000	-	-	-	-	1,000
Total National Center for Education Statistics Fund	<u>159,000</u>	<u>88,434</u>	<u>1,990</u>	<u>90,424</u>	<u>-</u>	<u>68,576</u>
Total All Appropriated Funds	<u>\$ 7,660,314,450</u>	<u>\$ 6,979,889,434</u>	<u>\$ 148,882,041</u>	<u>\$ 7,128,771,475</u>	<u>\$ 26,320,886</u>	<u>\$ 505,222,089</u>

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For the Fourteen Months Ended August 31, 2004

	Appropriations (Net of Transfers) (1)	Expenditures through June 30, 2004 (2)	Lapse Period Expenditures (July-August) (2)	Total Expenditures (2)	Balances Reappropriated July 1, 2004 (2)	Lapsed Balances (2)
Nonappropriated accounts						
Refunds						
SBE Federal Department of Agriculture Fund - 410		\$ 16,570	\$ -	\$ 16,570		
SBE Federal Department of Education Fund - 561		1,933,453	-	1,933,453		
Total Nonappropriated Funds		<u>1,950,023</u>	<u>-</u>	<u>1,950,023</u>		
Total All Funds		<u>\$ 6,981,839,457</u>	<u>\$ 148,882,041</u>	<u>\$ 7,130,721,498</u>		

(1) Public Acts 93-0115, 93-0014, 93-0587, 93-0673, and 93-0664.

(2) The data was taken directly from Agency records which have been reconciled to those of the State Comptroller.

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Comparative Schedule of Net Appropriations, Expenditures
and Lapsed Balances

For the Fourteen Months Ended August 31,

	2004	2003
<i>General Revenue Fund - 001</i>		
Appropriations (Net of Transfers)	\$ 2,055,416,750	\$ 2,037,467,075
Expenditures		
Personal Services	12,818,945	23,376,120
Employee Retirement Contribution		
Paid by the State	529,635	879,903
State Employees'/Teachers' Retirement	498,136	834,217
Social Security	424,865	664,005
Contractual Services	1,475,044	2,586,806
Travel	115,366	216,582
Commodities	31,565	73,335
Printing	9,716	38,327
Equipment	48,691	45,582
Telecommunications	215,694	318,219
Operation of Automotive Equipment	18,915	20,574
Lump Sum and Other Purposes	81,446,445	35,895,643
Awards and Grants	1,919,570,419	1,910,765,925
Interfund Transfers	-	7,228,000
Total Expenditures	2,017,203,436	1,982,943,238
Reappropriated to next fiscal year	26,320,886	27,785,300
Lapsed Balances	11,892,428	26,738,537
<i>Education Assistance Fund - 007</i>		
Appropriations (Net of Transfers)	681,900,000	485,000,000
Expenditures		
Awards and Grants	681,900,000	485,000,000
Total Expenditures	681,900,000	485,000,000
Lapsed Balances	-	-

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and Lapsed Balances

For the Fourteen Months Ended August 31,

	2004	2003
<i>Teacher Certificate Fee Revolving Fund - 016</i>		
Appropriations (Net of Transfers)	\$ 1,500,000	\$ 1,200,000
Expenditures		
Personal Services	-	156,036
Employee Retirement Contribution		
Paid by the State	-	6,241
State Employees'/Teachers' Retirement	-	16,977
Social Security	-	7,090
Group Insurance	-	38,637
Lump Sum and Other Purposes	546,848	510,671
Total Expenditures	546,848	735,652
Lapsed Balances	953,152	464,348
<i>Drivers Education Fund - 031</i>		
Appropriations (Net of Transfers)	15,900,000	16,450,000
Expenditures		
Personal Services	50,977	236,043
Employee Retirement Contribution		
Paid by the State	2,013	9,163
State Employees'/Teachers' Retirement	529	2,559
Social Security	796	3,282
Group Insurance	8,140	31,799
Contractual Services	50,000	62,929
Travel	488	231
Commodities	12	5,438
Printing	1,625	3,027
Equipment	-	18,584
Telecommunications	815	2,283
Awards and Grants	15,746,585	15,744,796
Total Expenditures	15,861,980	16,120,134
Lapsed Balances	38,020	329,866

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and Lapsed Balances

For the Fourteen Months Ended August 31,

	2004	2003
<i>School District Emergency Financial Assistance Fund - 130</i>		
Appropriations (Net of Transfers)	\$ 5,333,000	\$ 8,033,000
Expenditures		
Awards and Grants	312,500	6,263,500
Total Expenditures	312,500	6,263,500
Lapsed Balances	5,020,500	1,769,500
<i>SBE Teacher Certification Institute Fund - 159</i>		
Appropriations (Net of Transfers)	125,000	-
Expenditures		
Lump Sum and Other Purposes	-	-
Total Expenditures	-	-
Lapsed Balances	125,000	-
<i>SBE GED Testing Fund - 161</i>		
Appropriations (Net of Transfers)	1,000,000	-
Expenditures		
Lump Sum and Other Purposes	385,365	-
Total Expenditures	385,365	-
Lapsed Balances	614,635	-

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and Lapsed Balances

For the Fourteen Months Ended August 31,

	2004	2003
<i>SBE School Bus Driver Permit Fund - 162</i>		
Appropriations (Net of Transfers)	\$ 12,000	\$ -
Expenditures		
Lump Sum and Other Purposes	1,996	-
Total Expenditures	1,996	-
Lapsed Balances	10,004	-
 <i>SBE Federal National Community Service Fund - 183</i>		
Appropriations (Net of Transfers)	2,061,500	2,058,300
Expenditures		
Personal Services	27,913	11,781
Employee Retirement Contribution		
Paid by the State	1,117	471
State Employees'/Teachers' Retirement	3,217	1,358
Social Security	-	166
Group Insurance	3,937	2,051
Contractual Services	700	-
Travel	1,578	4,759
Commodities	-	-
Printing	-	-
Equipment	-	-
Telecommunications	574	991
Awards and Grants	815,499	895,037
Total Expenditures	854,535	916,614
Lapsed Balances	1,206,965	1,141,686

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For the Fourteen Months Ended August 31,

	2004	2003
<i>SBE Department of Health and Human Services Fund - 239</i>		
Appropriations (Net of Transfers)	\$ 3,739,500	\$ 2,990,200
Expenditures		
Personal Services	136,674	107,161
Employee Retirement Contribution		
Paid by the State	5,470	4,286
State Employees'/Teachers' Retirement	16,944	12,349
Social Security	5,696	1,515
Group Insurance	23,245	16,069
Contractual Services	121,172	74,439
Travel	8,696	9,732
Commodities	-	-
Printing	-	-
Equipment	-	-
Telecommunications	797	424
Awards and Grants	1,011,711	1,160,010
Total Expenditures	1,330,405	1,385,985
Lapsed Balances	2,409,095	1,604,215

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Comparative Schedule of Net Appropriations, Expenditures
and Lapsed Balances

For the Fourteen Months Ended August 31,

	2004	2003
<i>SBE Federal Department of Labor Trust Fund - 392</i>		
Appropriations (Net of Transfers)	\$ 8,175,000	\$ 14,000,000
Expenditures		
Personal Services	-	78,888
Employee Retirement Contribution		
Paid by the State	-	3,156
State Employees'/Teachers' Retirement	-	9,090
Social Security	-	1,106
Group Insurance	-	11,167
Contractual Services	50,000	108,624
Travel	-	1,132
Telecommunications	-	-
Lump Sum and Other Purposes	-	-
Awards and Grants	830,659	2,510,849
Total Expenditures	880,659	2,724,012
Lapsed Balances	7,294,341	11,275,988

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Comparative Schedule of Net Appropriations, Expenditures
and Lapsed Balances

For the Fourteen Months Ended August 31,

	2004	2003
<i>SBE Federal Department of Agriculture Fund - 410</i>		
Appropriations (Net of Transfers)	\$ 433,980,000	\$ 431,415,000
Expenditures		
Personal Services	2,678,074	2,823,023
Employee Retirement Contribution		
Paid by the State	106,674	108,788
State Employees'/Teachers' Retirement	323,162	303,796
Social Security	79,573	84,355
Group Insurance	470,194	427,987
Contractual Services	1,336,163	1,401,675
Travel	196,704	175,016
Commodities	14,998	8,030
Printing	28,791	29,696
Equipment	49,609	37,251
Telecommunications	31,666	28,060
Awards and Grants	410,258,563	400,025,867
Total Expenditures	415,574,171	405,453,544
Lapsed Balances	18,405,829	25,961,456
<i>Common School Fund - 412</i>		
Appropriations (Net of Transfers)	2,771,850,000	2,665,250,000
Expenditures		
Awards and Grants	2,771,584,272	2,664,891,741
Total Expenditures	2,771,584,272	2,664,891,741
Lapsed Balances	265,728	358,259

State of Illinois
Illinois State Board of Education

Comparative Schedule of Net Appropriations, Expenditures
and Lapsed Balances

For the Fourteen Months Ended August 31,

	2004	2003
<i>School Technology Revolving Fund - 544</i>		
Appropriations (Net of Transfers)	\$ 125,000	\$ 500,000
Expenditures		
Lump Sum and Other Purposes	125,000	100,000
Total Expenditures	125,000	100,000
Lapsed Balances	-	400,000
 <i>SBE Federal Department of Education Fund - 561</i>		
Appropriations (Net of Transfers)	1,625,690,700	1,501,464,600
Expenditures		
Personal Services	11,893,588	9,420,176
Employee Retirement Contribution		
Paid by the State	472,800	356,336
State Employees'/Teachers' Retirement	1,419,983	1,013,457
Social Security	288,939	237,508
Group Insurance	1,759,145	1,215,889
Contractual Services	5,786,033	3,965,496
Travel	647,480	448,215
Commodities	36,616	31,940
Printing	36,739	45,614
Equipment	129,936	215,951
Telecommunications	106,305	94,043
Lump Sum and Other Purposes	8,667,208	178,073,639
Awards and Grants	1,186,307,965	929,255,672
Total Expenditures	1,217,552,737	1,124,373,936
Lapsed Balances	408,137,963	377,090,664

State of Illinois
Illinois State Board of Education

Comparative Schedule of Net Appropriations, Expenditures
and Lapsed Balances

For the Fourteen Months Ended August 31,

	2004	2003
<i>Charter Schools Revolving Loan Fund - 567</i>		
Appropriations (Net of Transfers)	\$ 2,000,000	\$ 2,000,000
Expenditures		
Awards and Grants	70,250	-
Total Expenditures	70,250	-
Lapsed Balances	1,929,750	2,000,000
<i>School Infrastructure Fund - 568</i>		
Appropriations (Net of Transfers)	200,000	800,000
Expenditures		
Lump Sum and Other Purposes	181,743	755,630
Awards and Grants	-	-
Total Expenditures	181,743	755,630
Lapsed Balances	18,257	44,370
<i>School Technology Revolving Loan Program Fund - 569</i>		
Appropriations (Net of Transfers)	50,000,000	50,000,000
Expenditures		
Awards and Grants	4,315,154	7,201,084
Total Expenditures	4,315,154	7,201,084
Lapsed Balances	45,684,846	42,798,916

State of Illinois
Illinois State Board of Education

Comparative Schedule of Net Appropriations, Expenditures
and Lapsed Balances

For the Fourteen Months Ended August 31,

	2004	2003
<i>Private Business and Vocational Schools Fund -578</i>		
Appropriations (Net of Transfers)	\$ -	\$ 200,000
Expenditures		
Lump Sum and Other Purposes	-	45,619
Total Expenditures	-	45,619
Lapsed Balances	-	154,381
<i>State Board of Education Fund - 579</i>		
Appropriations (Net of Transfers)	-	800,000
Expenditures		
Lump Sum and Other Purposes	-	101,216
Total Expenditures	-	101,216
Lapsed Balances	-	698,784
<i>State Board of Education Special Purpose Trust Fund - 591</i>		
Appropriations (Net of Transfers)	-	700,000
Expenditures		
Lump Sum and Other Purposes	-	6,100
Total Expenditures	-	6,100
Lapsed Balances	-	693,900

State of Illinois
Illinois State Board of Education

Comparative Schedule of Net Appropriations, Expenditures
and Lapsed Balances

For the Fourteen Months Ended August 31,

	2004	2003
<i>Temporary Relocation Expenses Revolving Grant Fund - 605</i>		
Appropriations (Net of Transfers)	\$ 1,130,000	\$ 1,130,000
Expenditures		
Awards and Grants	-	612,357
Total Expenditures	-	612,357
Lapsed Balances	1,130,000	517,643
<i>Fund for Illinois' Future - 611</i>		
Appropriations (Net of Transfers)	7,000	991,500
Expenditures		
Awards and Grants	-	984,500
Total Expenditures	-	984,500
Reappropriated to next fiscal year	-	7,000
Lapsed Balances	7,000	-
<i>Illinois Future Teacher Corps Scholarship Fund - 753</i>		
Appropriations (Net of Transfers)	10,000	-
Expenditures		
Awards and Grants	-	-
Total Expenditures	-	-
Lapsed Balances	10,000	-

State of Illinois
Illinois State Board of Education

Comparative Schedule of Net Appropriations, Expenditures
and Lapsed Balances

For the Fourteen Months Ended August 31,

	2004	2003
<i>National Center for Education Statistics Fund - 791</i>		
Appropriations (Net of Transfers)	\$ 159,000	\$ 156,100
Expenditures		
Personal Services	51,446	60,770
Employee Retirement Contribution		
Paid by the State	2,058	2,169
State Employees'/Teachers' Retirement	6,916	6,154
Social Security	3,909	1,361
Group Insurance	5,445	4,112
Contractual Services	7,800	465
Travel	12,850	16,246
Commodities	-	-
Total Expenditures	90,424	91,277
Lapsed Balances	68,576	64,823
 Total - All Appropriated Funds		
Appropriations (Net of Transfers)	7,660,314,450	7,222,605,775
Expenditures	7,128,771,475	6,700,706,139
Reappropriated to Next Fiscal Year	26,320,886	27,792,300
Lapsed Balances	505,222,089	494,107,336

State of Illinois
Illinois State Board of Education

Comparative Schedule of Net Appropriations, Expenditures
and Lapsed Balances

For the Fourteen Months Ended August 31,

	2004	2003
Nonappropriated Funds		
<i>SBE State Trust Fund - 110</i>		
Expenditures		
Awards and Grants	\$ -	\$ -
Refunds	-	9,461
	-	9,461
Total Expenditures	-	9,461
<i>SBE Teacher Certification Institute Fund - 159</i>		
Expenditures		
Lump Sum and Other Purposes	-	600,000
	-	600,000
Total Expenditures	-	600,000
<i>SBE GED Testing Fund - 161</i>		
Expenditures		
Lump Sum and Other Purposes	-	520,000
	-	520,000
Total Expenditures	-	520,000
<i>SBE School Bus Driver Permit Fund - 162</i>		
Expenditures		
Lump Sum and Other Purposes	-	15,550
	-	15,550
Total Expenditures	-	15,550
<i>SBE Federal Department of Agriculture Fund - 410</i>		
Expenditures		
Refunds	16,570	979,237
	16,570	979,237
Total Expenditures	16,570	979,237

State of Illinois
Illinois State Board of Education

Comparative Schedule of Net Appropriations, Expenditures
and Lapsed Balances

For the Fourteen Months Ended August 31,

	2004	2003
<i>SBE Federal Department of Education Fund - 561</i>		
Expenditures		
Lump Sum and Other Purposes	\$ -	\$ -
Refunds	1,933,453	-
	1,933,453	-
Total Expenditures	1,933,453	-
Total Nonappropriated Funds	1,950,023	2,124,248
Total Expenditures - All Funds	\$ 7,130,721,498	\$ 6,702,830,387

Note: No initiative payments were disbursed by the Agency during fiscal year 2004.

State of Illinois
Illinois State Board of Education

Comparative Schedule of Operating Expenditures by Expenditure Type

For the Years Ended June 30, 2004 and 2003

Description	2004	2003	FY04/03 Increase/ (Decrease)
Personal Services	\$ 27,657,617	\$ 36,269,998	-23.75%
Employee Retirement Contribution Paid by the State	1,119,767	1,370,513	-18.30%
State Employees'/Teachers' Retirement	2,268,887	2,199,957	3.13%
Social Security	803,778	1,000,388	-19.65%
Group Insurance	2,270,106	1,747,711	29.89%
Contractual Services	8,826,912	8,200,434	7.64%
Travel	983,162	871,913	12.76%
Commodities	83,191	118,743	-29.94%
Printing	76,871	116,664	-34.11%
Equipment	228,236	317,368	-28.08%
Telecommunications	355,851	444,020	-19.86%
Operation of Automotive Equipment	18,915	20,574	-8.06%
Lump Sum and Other Purposes	91,354,605	215,488,518	-57.61%
Awards and Grants	6,992,723,577	6,425,311,338	8.83%
Interfund Transfers	-	7,228,000	-100.00%
Refunds	1,950,023	988,698	97.23%
Other Nonappropriated Expenditures	-	1,135,550	-100.00%
Total Expenditures	7,130,721,498	6,702,830,387	6.38%
State Distributive Expenditures	(5,452,872,065)	(5,102,997,436)	6.86%
Federal Distributive Expenditures	(1,621,619,303)	(1,525,262,613)	6.32%
Total Operating Expenditures*	\$ 56,230,130	\$ 74,570,338	-24.59%

*Total operating expenditures includes only the amount used to carry out the Agency's administrative responsibilities.

State of Illinois
 Illinois State Board of Education
 Schedule of Changes in State Property

For the Year Ended June 30, 2004

	2004
Property and Equipment, July 1, 2003	\$ 18,294,445
Additions:	
Purchases and other additions	1,346,170
Deletions:	
Transfers-out	1,239,274
Trade-ins, adjustments and other deletions	845,293
Property and Equipment, June 30, 2004	\$ 17,556,048
Property and Equipment by location	
Springfield - Alzina Building, Concourse	\$ 2,975,808
Springfield - Alzina Building, First Floor	104,433
Springfield - Alzina Building, Second Floor	2,818,118
Springfield - Alzina Building, Third Floor	7,352,132
Springfield - Alzina Building, Fourth Floor	747,986
Springfield - Warehouse	1,224,673
Lombard - Philip J. Rock Center	1,499,003
Chicago - James R. Thompson Center	833,895
Property and Equipment, June 30, 2004	17,556,048
Accrual adjustments	
Property and Equipment accounts payable - June 30, 2004	13,951
Property and Equipment, accrual basis - June 30, 2004	\$ 17,569,999

Note: The data was reconciled to Agency property reports (C-15 Agency Report of State Property) submitted to the Office of the Comptroller. This summary schedule was prepared using State property records required by the Illinois Administrative Code. The capitalization policy in the Code is different than the capitalization policy established by the Office of the Comptroller for financial reporting in accordance with generally accepted accounting principles.

State of Illinois
Illinois State Board of Education

Comparative Schedule of Cash Receipts

For the Years Ended June 30,

	2004	2003
<i>General Revenue Fund (001)</i>		
Federal Government Indirect Cost Recoveries		
U.S. Department of Agriculture	\$ 133,130	\$ 146,448
U.S. Department of Education	571,129	536,856
U.S. Department of Health and Human Services	7,274	4,767
U.S. Department of Labor	861	4,493
S.B.E. Federal National Community Service	1,396	1,242
Private Business Schools	127,325	-
Miscellaneous	1,778	1,396
Grantee Interest Income	20	19,433
Prior Year Refunds/Adjustments	4,095,043	3,079,660
Total General Revenue Fund	4,937,956	3,794,295
<i>Education Assistance Fund (007)</i>		
Prior Year Refunds/Adjustments	15,308	171,281
<i>Teacher Certificate Fee Revolving Fund (016)</i>		
Teacher Certification Filing Fees	1,365,691	1,282,463
Prior Year Refunds/Adjustments	-	225
Total Teacher Certificate Fee Revolving Fund	1,365,691	1,282,688
<i>School District Emergency Financial Assistance Fund (130)</i>		
Interfund Cash Transfer	-	7,228,000
Loan Repayments - Interest	17,697	-
Loan Repayments - Principal	452,800	-
Total School District Emergency Financial Assistance Fund	470,497	7,228,000
<i>S.B.E. Teacher Certification Institute Fund (159)</i>		
Teacher Certification Filing Fees	151,941	711,447
Prior Year Refunds/Adjustments	5,750	-
Total S.B.E. Teacher Certification Institute Fund	157,691	711,447
<i>S.B.E. GED Testing Fund (161)</i>		
High School Equivalency Testing Fees	426,702	435,917
<i>S.B.E. School Bus Driver Permit Fund (162)</i>		
School Bus Driver Training Fees	1,644	14,445
<i>S.B.E. Federal Nat'l Community Service Fund (183)</i>		
Corporation for National and Community Service Grants	754,816	858,688
Prior Year Refunds/Adjustments	42,112	31,693
Total S.B.E. Federal Nat'l Community Service Fund	796,928	890,381
<i>S.B.E. Department of Health and Human Services Fund (239)</i>		
U.S. Department of Health and Human Services Grants	1,076,258	1,688,566

State of Illinois
 Illinois State Board of Education
 Comparative Schedule of Cash Receipts

For the Years Ended June 30,

	<u>2004</u>	<u>2003</u>
<i>S.B.E. Federal Department of Labor Trust Fund (392)</i>		
U.S. Department of Labor Grants	\$ 1,133,378	\$ 2,471,810
Other Program Revenue	85	-
Prior Year Refunds/Adjustments	62,814	360,981
Total S.B.E. Federal Department of Labor Trust Fund	<u>1,196,277</u>	<u>2,832,791</u>
<i>S.B.E. Federal Department of Agriculture Fund (410)</i>		
U.S. Department of Agriculture Grants	422,285,936	427,289,674
Other Program Revenue	60,404	8,902
Miscellaneous	-	49
Prior Year Refunds/Adjustments	263,687	578,455
Total S.B.E. Federal Department of Agriculture Fund	<u>422,610,027</u>	<u>427,877,080</u>
<i>School Technology Revolving Fund (544)</i>		
Student Fees	102,550	91,228
Prior Year Refunds/Adjustments	38,385	-
Total School Technology Revolving Fund	<u>140,935</u>	<u>91,228</u>
<i>S.B.E. Federal Department of Education Fund (561)</i>		
U.S. Department of Education Grants	1,207,537,038	1,169,792,044
U.S. Department of Defense Grants	-	113,300
Federal Money via Other State	56,370	45,000
Prior Year Refunds/Adjustments	4,544,381	2,418,131
Total S.B.E. Federal Department of Education Fund	<u>1,212,137,789</u>	<u>1,172,368,475</u>
<i>Charter Schools Revolving Loan Fund (567)</i>		
Loan Repayments - Principal	<u>9,594</u>	<u>764,906</u>
<i>School Infrastructure Fund (568)</i>		
Prior Year Refunds/Adjustments	<u>277,938</u>	<u>293</u>
<i>School Technology Revolving Loan Program Fund (569)</i>		
Loan Repayments - Interest	357,967	569,650
Loan Repayments - Principal	13,503,941	20,005,762
Interest	9,574	8,115
Prior Year Refunds/Adjustments	60,111	-
Total School Technology Revolving Loan Program Fund	<u>13,931,593</u>	<u>20,583,527</u>
<i>Private Business and Vocational Schools Fund (578)</i>		
Private Business Schools	<u>33,225</u>	<u>171,650</u>
<i>State Board of Education Fund (579)</i>		
Licenses, Fees & Registrations	<u>55,062</u>	<u>97,678</u>

State of Illinois
 Illinois State Board of Education
 Comparative Schedule of Cash Receipts

For the Years Ended June 30,

	2004	2003
<i>State Board of Education Special Purpose Trust Fund (591)</i>		
Private Organization or Individuals	\$ 1,000	\$ 58,897
<i>Temporary Relocation Expenses Revolving Grant Fund (605)</i>		
Interfund Cash Transfer	-	565,000
Loan Repayments - Principal	129,183	104,257
Total Temporary Relocation Expenses Revolving Grant Fund	129,183	669,257
<i>Fund for Illinois' Future (611)</i>		
Prior Year Refunds/Adjustments	26,934	174,734
<i>Tobacco Settlement Recovery Fund (733)</i>		
Grantee Interest Income Refunded	1,112	-
Prior Year Refunds/Adjustments	-	5,251
Total Tobacco Settlement Recovery Fund	1,112	5,251
<i>National Center for Education Statistics Fund (791)</i>		
U.S. Department of Education Grants	131,086	164,963
Total Cash Receipts	\$ 1,659,930,430	\$ 1,642,077,750

* Amount restated to reflect \$52,898 cash on hand at June 30, 2003

State of Illinois
Illinois State Board of Education

Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller

For the Year Ended June 30, 2004

	General Revenue Fund (001)	Education Assistance Fund (007)	Teacher Certificate Fee Revolving Fund (016)	School District Emergency Financial Asst. Fund (130)	S.B.E. Teacher Certification Institute Fund (159)	S.B.E. GED Testing Fund (161)
Cash Receipts per Agency	\$ 842,913	\$ -	\$ 1,365,691	\$ 470,497	\$ 151,941	\$ 426,702
Adjustments:						
Cash on Hand at June 30, 2003	-	-	-	-	-	-
Cash on Hand at June 30, 2004	-	-	-	-	-	-
Receipts in Transit at June 30, 2004	-	-	(39,492)	-	(1,481)	-
Prior Year Refunds/Adjustments	4,095,043	15,308	-	-	5,750	-
Refunds Not Posted to Agency Records at June 30, 2003	(42,443)	-	-	-	-	-
Refunds in Transit at June 30, 2004	(11,750)	-	-	-	-	-
Totals	4,883,763	15,308	1,326,199	470,497	156,210	426,702
Receipts per Comptroller (SB04)	4,883,763	15,308	1,326,199	470,497	156,210	426,702
Agency/Comptroller Variance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

State of Illinois
Illinois State Board of Education

Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller

For the Year Ended June 30, 2004

	S.B.E. School Bus Driver Permit Fund (162)	S.B.E. Federal Nat'l Community Service Fund (183)	S.B.E. Dept. of Health & Human Services Fund (239)	S.B.E. Federal Dept. of Labor Trust Fund (392)	S.B.E. Federal Department of Agriculture Fund (410)	School Technology Revolving Fund (544)
Cash Receipts per Agency	\$ 1,644	\$ 754,816	\$ 1,076,258	\$ 1,133,463	\$ 422,346,340	\$ 102,550
Adjustments:						
Cash on Hand at June 30, 2003	-	-	-	-	-	-
Cash on Hand at June 30, 2004	-	-	-	-	-	-
Receipts in Transit at June 30, 2004	-	-	-	-	-	-
Prior Year Refunds/Adjustments	-	42,112	-	62,814	263,687	38,385
Refunds Not Posted to Agency Records at June 30, 2003	-	-	-	-	-	-
Refunds in Transit at June 30, 2004	-	-	-	-	-	-
Totals	1,644	796,928	1,076,258	1,196,277	422,610,027	140,935
Receipts per Comptroller (SB04)	1,644	796,928	1,076,258	1,196,277	422,610,027	140,935
Agency/Comptroller Variance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

State of Illinois
Illinois State Board of Education

Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller

For the Year Ended June 30, 2004

	S.B.E. Federal Department of Education Fund (561)	Charter Schools Revolving Loan Fund (567)	School Infrastructure Fund (568)	School Tech. Revolving Loan Program Fund (569)	Private Business and Vocational Schools Fund (578)	State Board of Education Fund (579)
Cash Receipts per Agency	\$ 1,207,593,408	\$ 9,594	\$ -	\$ 13,871,482	\$ 33,225	\$ 55,062
Adjustments:						
Cash on Hand at June 30, 2003	-	-	-	-	-	-
Cash on Hand at June 30, 2004	-	-	-	(1,187,714)	-	-
Receipts in Transit at June 30, 2004	-	-	-	-	-	-
Prior Year Refunds/Adjustments	4,544,381	-	277,938	60,111	-	-
Refunds Not Posted to Agency Records at June 30, 2003	(36,229)	-	-	-	-	-
Refunds in Transit at June 30, 2004	(16,559)	-	(3,113)	-	-	-
Totals	1,212,085,001	9,594	274,825	12,743,879	33,225	55,062
Receipts per Comptroller (SB04)	1,212,085,001	9,594	274,825	12,743,879	33,225	55,062
Agency/Comptroller Variance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

State of Illinois
Illinois State Board of Education

Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller

For the Year Ended June 30, 2004

	S.B.E. Special Purpose Trust Fund (591)	Temporary Relocation Expenses Revolving Grant Fund (605)	Fund for Illinois' Future (611)	Tobacco Settlement Recovery Fund (733)	National Center for Education Statistics Fund (791)	Total
Cash Receipts per Agency	\$ 1,000	\$ 129,183	\$ -	\$ 1,112	\$ 131,086	\$ 1,650,497,967
Adjustments:						
Cash on Hand at June 30, 2003	-	-	-	-	52,898	52,898
Cash on Hand at June 30, 2004	-	-	-	-	-	(1,187,714)
Receipts in Transit at June 30, 2004	-	-	-	-	-	(40,973)
Prior Year Refunds/Adjustments	-	-	26,934	-	-	9,432,463
Refunds Not Posted to Agency Records at June 30, 2003	-	-	-	-	-	(78,672)
Refunds in Transit at June 30, 2004	-	-	-	-	-	(31,422)
Totals	1,000	129,183	26,934	1,112	183,984	1,658,644,547
Receipts per Comptroller (SB04)	1,000	129,183	26,934	1,112	183,984	1,658,644,547
Agency/Comptroller Variance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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Comparative Schedule of Distributive Expenditures by Fund

For the Years Ended June 30, 2004 and 2003

General Revenue Fund	2004	2003
ADA School Safety & Education Block	\$ 42,828,746	\$ 66,836,660
Agricultural Education	1,860,414	1,860,500
Agricultural Education - Chicago Block Grant	20,700	20,700
Alternative Education/Regional Safe Schools	17,007,895	16,152,902
American Education Institute - Chicago	-	150,000
Bilingual Reimbursement - Chicago Block Grant	34,896,600	33,792,800
Bilingual Reimbursement - Downstate	27,655,397	26,551,500
Career Awareness and Development	-	1,109,471
Comprehensive Arts Programs for K-6	-	421,131
Comprehensive Arts Programs for K-6 - Chicago Block Grant	-	64,700
Early Childhood Block Grant	133,560,091	115,185,506
Early Childhood - Chicago Block Grant	78,960,100	67,897,100
Early Intervention	64,447,300	64,447,300
Educational Materials Unit	1,121,000	1,121,000
Extraordinary Special Education Reimbursement	162,393,032	159,804,045
Extraordinary Special Education - Chicago Block Grant	67,014,600	65,907,900
Family Literacy	-	224,304
Free Lunch and Breakfast Program	9,645,497	10,225,392
Free Lunch and Breakfast Program - Chicago Block Grant	9,919,500	10,515,800
General State Aid Supplemental	36,993,085	64,158,199
Gifted Children Reimbursement	-	14,991,305
Gifted Children - Chicago Block Grant	-	4,009,100
Golden Apple Scholars	-	2,914,300
Handicapped Orphans & Foster Child Reimbursement	61,654,556	66,050,224
Handicapped Orphans & Foster Child - Chicago Block Grant	34,858,500	37,505,200
Illinois Breakfast Incentive	538,780	361,419
Illinois Economic Education Program	-	144,700
Illinois Governmental Student Internship	129,900	129,900
Illinois Learning Partnership Program	-	385,900
Illinois Middle-Level Schools Program	-	72,400
ISBE Regional Services	3,242,687	1,342,475
Jobs for Illinois Graduates Program	-	5,802,511
Learning Improvement & Quality Assurance Reimbursement	-	1,413,900
Learning Improvement & Quality Assurance - Chicago Block	-	73,500
Metro East Consortium/Student Advocacy	195,494	217,100
Minority Transition	578,800	578,800
Orphanage & Tuition Claims	14,651,000	13,988,199
Parent/Guardian Transportation	14,431,528	14,469,364
Parental Involvement Campaign	-	915,983

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Comparative Schedule of Distributive Expenditures by Fund

For the Years Ended June 30, 2004 and 2003

General Revenue Fund - Continued	2004	2003
Philip J. Rock Center	\$ 2,855,500	\$ 2,855,500
Prairie State Achievement Exam Grant	-	4,445,050
Reading Improvement Block	55,692,390	55,637,537
Reading Improvement - Chicago Block Grant	23,528,700	23,528,700
Recording for Blind and Dyslexic	168,800	168,800
Reorganization Incentive	995,302	1,668,874
ROE School Services	-	12,066,337
South Cook Intermediate Service Center	300,000	-
Special Education Personnel Reimbursement	309,073,652	245,537,099
Special Education Personnel - Chicago Block Grant	34,946,000	57,969,800
Special Education Private Facility Tuition	30,662,227	24,321,400
Special Education Private Facility Tuition - Chicago Block Grant	28,760,700	22,813,000
Standards, Assessment and Accountability - Learning Standard	6,550,000	300,000
State Charter Schools	3,693,600	5,877,499
Substance Abuse and Violence Prevention Reimbursement	-	2,069,100
Substance Abuse and Violence Prevention - Chicago Block Grant	-	77,300
Summer Bridges	13,800,647	13,207,899
Summer Bridges - Chicago Block Grant	10,892,900	10,896,400
Summer School Payments	2,904,700	2,658,700
Summer School Payments - Chicago Block Grant	3,465,300	3,171,700
Tax Equivalent Grants	222,600	222,542
Teach America	450,000	450,000
Teacher Education	4,433,990	3,335,000
Teachers Academy for Math and Science	-	5,307,700
Technology for Success Reimbursement	9,486,998	16,908,896
Textbook Program - Reappropriation	27,617,939	27,521,173
Textbook Program	2,805,615	-
Transitional Assistance	5,154,409	-
Transporting Common School Pupils Reimbursement	232,874,441	211,332,100
Transporting Common School Pupils - Chicago Block Grant	9,454,500	8,576,400
Transporting Handicapped Students Reimbursement	223,098,026	151,141,200
Transporting Handicapped Students - Chicago Block Grant	62,734,700	66,955,800
Truant Alternative	11,460,077	13,635,800
Truant Alternative - Chicago Block Grant	4,200,000	4,992,300
Vocational Education - State Distribution (Basic)	37,929,389	50,040,990
Universal Preschool	-	89,572
	1,978,818,304	1,921,593,358
Total General Revenue Fund		

State of Illinois
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Comparative Schedule of Distributive Expenditures by Fund

For the Years Ended June 30, 2004 and 2003

	2004	2003
Education Assistance Fund		
General State Aid	\$ 681,900,000	\$ 485,000,000
Total Education Assistance Fund	681,900,000	485,000,000
Common School Fund		
General State Aid	2,763,700,000	2,657,100,000
Compensation for Regional Superintendents & Assistants	7,884,272	7,791,741
Total Common School Fund	2,771,584,272	2,664,891,741
Other Funds		
Charter Schools Revolving Loan Fund	70,250	-
Drivers Education Fund	15,746,585	15,744,796
Emergency Financial Assistance	312,500	6,263,500
Federal Trust Funds	1,621,619,303	1,525,262,613
School Technology Revolving Fund	125,000	100,000
Special Purpose Trust Fund	-	6,100
Fund For Illinois' Future	-	984,500
School Technology Revolving Loan Fund	4,315,154	7,201,084
Teacher Certification Institute Fund	-	600,000
Temporary Relocation Expense Revolving Fund	-	612,357
Total Other Funds	1,642,188,792	1,556,774,950
TOTAL DISTRIBUTIVE EXPENDITURES	\$ 7,074,491,368	\$ 6,628,260,049

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
FOR THE YEAR ENDED JUNE 30, 2004**

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES

The expenditures for the Agency's operating divisions are financed by appropriations from various funds. The Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances compares expenditures by appropriated line item and by fund and program for the fiscal years ended June 30, 2004 and 2003. The Agency's explanations for significant fluctuations in appropriated expenditures are detailed below.

FISCAL YEAR 2004 (FY04)

APPROPRIATED FUNDS

General Revenue Fund – 001

Personal Services and Related Line Items – The decrease was generally due to appropriation changes in FY04. In FY03, nearly all of the General Revenue programs had separate line items for personal services and related line items. In FY04, many of these programs were changed to lump sums (e.g., Standards, Assessment & Accountability and Technology for Success).

Contractual Services – The decrease was generally due to \$1.1 million of Standards, Assessment & Accountability funds being transferred to grants for the System of Support program (these funds were initially earmarked for the Student Information System contract, which was postponed until FY05).

Lump Sum and Other Purposes – The increase was generally due to appropriation changes in FY04. In FY03, nearly all of the General Revenue programs had separate line items for personal services and related line items. In FY04, many of these programs were changed to lump sums (e.g., Standards, Assessment & Accountability and Technology for Success).

Interfund Transfers – In FY03, a transfer was made from the General Revenue Fund (Fund 001) into the School District Emergency Financial Assistance Fund (Fund 130) for a loan to Hazel Crest School District No. 152 ½ School Finance Authority and other school districts to provide emergency financial assistance. A balance remained in the Fund 130 in FY04; therefore, no Fund 001 monies were requested for transfer in FY04.

Education Assistance Fund – 007

Awards and Grants – The increase was due to an appropriation increase for General State Aid (GSA). Total GSA increased \$303.5 million from FY03 to FY04. Fund 007 accounted for \$196.9 million of the increase. Final appropriation allocations for GSA are determined by the Governor's Office of Management and Budget.

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FOR THE YEAR ENDED JUNE 30, 2004**

**ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
Continued**

FISCAL YEAR 2004 – Continued

Teacher Certificate Fee Revolving Fund – 016

Personal Services and Related Line Items – The decrease was due to an appropriation veto in FY04. The funds were reinstated later in the fiscal year as a lump sum. In FY03, appropriations related to personal services were coded as individual line items.

Drivers Education Fund – 031

Personal Services and Related Line Items – The decrease was due to a veto reduction to this appropriation.

School District Emergency Financial Assistance Fund – 130

Awards and Grants – The use of funds is directly associated with school districts that have experienced emergencies as stated in 105 ILCS 5/1B-8 of the School Code. A significant emergency financial assistance need was experienced by Hazel Crest School District No. 152 ½ in FY03. No large emergency needs were experienced in FY04.

S.B.E. GED Testing Fund – 161

Lump Sum and Other Purposes – The increase was due to appropriation changes in FY04. Prior to FY04, the fund was coded as nonappropriated.

S.B.E. Federal Department of Labor Trust Fund – 392

Awards and Grants – The decrease was due to the conclusion of the School-to-Work grant. The last grant award for this program was received in FY02; subsequent expenditures were spent from carryover funds budgeted by grant award recipients each year. Spending authority for these funds will end at the close of FY05.

S.B.E. Federal Department of Education Fund – 561

Personal Services and Related Line Items – The increase was generally due to appropriation changes in FY04. In FY03, many No Child Left Behind (NCLB) programs were coded as lump sums. In FY04, these programs were coded as individual line items, such as personal services.

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**ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
Continued**

FISCAL YEAR 2004 – Continued

S.B.E. Federal Department of Education Fund – 561 – Continued

Contractual Services – The increase was generally due to appropriation changes in FY04. In FY03, many NCLB programs were coded as lump sums. In FY04, these programs were coded as individual line items, such as contractual services.

Lump Sum and Other Purposes – The decrease was generally due to appropriation changes in FY04. In FY03, many NCLB programs (Title I – Improving Academic Achievement; Title II Quality Teachers & Principals; Title III – English Language Acquisition; Title IV – 21st Century Schools; Title V – Innovative Programs; Title VI – Flexibility and Accountability) were coded as lump sums because the spending parameters were unknown at the time the appropriation bill was written; in FY04 these programs were coded as individual line items.

Award and Grants – The increase was generally due to appropriation changes in FY04. In FY03, many NCLB programs (Title I – Improving Academic Achievement; Title II Quality Teachers & Principals; Title III – English Language Acquisition; Title IV – 21st Century Schools; Title V – Innovative Programs; Title VI – Flexibility and Accountability) were coded as lump sums because the spending parameters were unknown at the time the appropriation bill was written; in FY04 these programs were coded as individual line items, such as awards and grants.

Charter Schools Revolving Loan Fund - 567

Awards and Grants – The increase was due to a loan to a charter school established during the fiscal year. No new charter schools were established in FY03 and no loans were disbursed.

School Infrastructure Fund – 568

Lump Sum and Other Purposes – The decrease was due to a FY04 veto reduction to this appropriation.

School Technology Revolving Loan Program Fund – 569

Awards and Grants – The decrease was due to a continued reduction in the number of loan requests by school districts in FY04 compared to FY03 and previous fiscal years.

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**ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
Continued**

FISCAL YEAR 2004 – Continued

State Board of Education Fund – 579

Lump Sum and Other Purposes – The decrease was due to an appropriation veto in FY04; therefore, there was no authority to spend from Fund 579 during the fiscal year.

Temporary Relocation Expenses Revolving Grant Fund – 605

Awards and Grants – The use of funds is directly associated with school districts that have experienced relocation expenses pursuant to 105 ILCS 5/2-3.77 of the School Code. No temporary relocation funds were requested in FY04.

Fund for Illinois' Future – 611

Awards and Grants – Funds originally appropriated in FY00 were not completely disbursed and were reappropriated to FY01, FY02, FY03 and FY04. No expenditures were incurred during FY04.

NONAPPROPRIATED FUNDS

S.B.E. Teacher Certification Institute Fund – 159

Lump Sum and Other Purposes – This is a special fund to pay for costs associated with Teacher Certification in Chicago Public Schools. Historically, expenditures approximate \$300,000 per year. The FY03 expenditures, made in the latter part of the fiscal year, accounted for FY03 and FY04 teacher institutes and other teacher certification activities and interventions; therefore, no expenditures were incurred during FY04.

S.B.E. GED Testing Fund – 161

Lump Sum and Other Purposes – The decrease was due to appropriation changes in FY04. Prior to FY04, the fund was coded as nonappropriated.

S.B.E. Federal Department of Agriculture Fund – 410

Refunds – Fewer school lunch reviews and audits resulted in fewer collections of overpayments to school districts. The FY03 refunds were FY00 and FY01 funds returned from school districts. The FY04 refunds were FY02 funds returned from school districts; no FY03 funds were received in FY04. The decrease was also attributable to state audit adjustments.

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FOR THE YEAR ENDED JUNE 30, 2004**

**ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
Continued**

FISCAL YEAR 2004 – Continued

S.B.E. Federal Department of Education Fund – 561

Refunds – The Agency returned cash on hand from all expired federal grant awards during FY04. A cash management system was implemented during FY04 to prevent the accumulation of excess cash on hand in future fiscal years.

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
FOR THE YEAR ENDED JUNE 30, 2004**

ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS

To analyze cash receipts, the Comparative Schedule of Cash Receipts was utilized to identify significant fluctuations in Agency cash receipts by fund by source for the fiscal years ended June 30, 2004 and 2003. The following are explanations obtained from Agency officials for the identified fluctuations:

FISCAL YEAR 2004 (FY04)

General Revenue Fund – 001

Private Business Schools – During FY04, receipts previously deposited into the Private Business and Vocational Schools Fund (Fund 578) were deposited into the General Revenue Fund, in accordance with State statute. The Agency's authority to deposit into Fund 578 expired during the fiscal year.

Prior Year Refunds/Adjustments – The increase in FY04 was attributable to the Transportation, Vocational Education, and Special Education Programs. The Transportation refund was due to a large negative audit adjustment assessed to District 303. The Vocational Education refund was due to an erroneous payment being returned. The Special Education refund resulted from the return of excess estimated funds subsequent to the actual claim being filed.

School District Emergency Financial Assistance Fund – 130

Interfund Cash Transfer – The decrease in FY04 resulted from no amounts being appropriated to this fund for emergency financial assistance to school districts. In FY03, there was an increase in the appropriation for three school districts. Receipts in this fund result from transfers appropriated from the General Revenue Fund.

Loan Repayments – Principal – The increase in FY04 was due to school districts repaying loans distributed in FY03 and FY04.

S.B.E. Teacher Certification Institute Fund – 159

Teacher Certification Filing Fees – The decrease in FY04 was due to the decrease in the number of certificates required to be registered in FY04. Certificates are renewable for five years. In FY03, there was an increase in the Chicago Public School teachers' 5 year certificate registrations.

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**ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
Continued**

FISCAL YEAR 2004 – Continued

S.B.E. Department of Health and Human Services Fund – 239

U.S. Department of Health and Human Services Grants – There was a decrease in Refugee Children Impact grant funds received from the Department of Health and Human Services (DHHS) for FY04.

S.B.E. Federal Dept. of Labor Trust Fund – 392

U.S. Department of Labor Grants – This is a four year grant proposal with declining receipts in each year of the grant coinciding with declining expenditures. The program is expected to expire at the end of FY05.

Prior Year Refunds/Adjustments – The decrease in FY04 was due to fewer refunds received from school districts coinciding with declining expenditures as the program is phased out.

S.B.E. Federal Department of Agriculture Fund – 410

Prior Year Refunds/Adjustments – The decrease in FY04 was due to fewer refunds received from grant recipients for the National School Lunch Program.

S.B.E. Federal Dept. of Education Fund – 561

Prior Year Refunds/Adjustments – The increase in FY04 was due to an increase in funds returned from school districts for the Title I Reading First program.

Charter Schools Revolving Loan Fund – 567

Loan Repayments – Principal – The decrease was due to the complete loan repayment by Chicago International Charter School in FY03.

School Infrastructure Fund – 568

Prior Year Refunds/Adjustments – The increase in FY04 was due to an increase in funds returned from school districts for the 2001 School Maintenance Program.

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**ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
Continued**

FISCAL YEAR 2004 – Continued

School Technology Revolving Loan Program Fund – 569

Loan Repayments – Interest – The decrease in loan applications received and loans made during prior fiscal years resulted in a decrease in loan interest receipts during FY04.

Loan Repayments – Principal – The decrease in loan applications received and loans made during prior fiscal years resulted in a decrease in loan repayment receipts during FY04.

Private Business and Vocational Schools Fund – 578

Private Business Schools – During FY04, receipts previously deposited into this fund were deposited into the General Revenue Fund, in accordance with State statute. The Agency's authority to deposit into Fund 578 expired during the fiscal year.

State Board of Education Special Purpose Trust Fund – 591

Private Organization or Individuals – In FY03, royalties from CD-ROM sales were deposited into the fund, in accordance with a contractual agreement. In FY04, sales decreased and the organization responsible for submitting royalties reduced the amount submitted to the Agency.

Temporary Relocation Expenses Revolving Grant Fund – 605

Interfund Cash Transfer – No school districts experienced a need for temporary relocation expenses during FY04; therefore, no funds were transferred-in from the General Revenue Fund.

Fund for Illinois' Future – 611

Prior Year Refunds/Adjustments – Fewer unspent funds were returned from recipients during FY04, resulting in a decrease. The majority of FY03 refunds were returned from the East St. Louis School District for the Educational Facilities Grant Program.

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FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
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ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING

Lapse period expenditures result from vouchers received late in the fiscal year for goods received or services performed prior to June 30. To analyze significant lapse period spending, the Schedule of Appropriations, Expenditures and Lapsed Balances was used to compare lapse period expenditures to total expenditures in fiscal year 2004. The following explanations were obtained from Agency officials.

FISCAL YEAR 2004 (FY04)

General Revenue Fund – 001

Contractual Services – The significant lapse period expenditures were for the payment of legal fees associated with personnel issues, the Alzina Building lease, Corey H. settlement fees and the geographic coding of Illinois Department of Human Services (IDHS) clients to school districts.

Equipment – The significant lapse period expenditures were incurred for the purchase of computer equipment.

Lump Sum and Other Purposes – The significant lapse period expenditures were for the payment of Teacher Education Training reimbursement, Prairie State Achievement Examination, ISAT, Standards, Assessment & Accountability, and System of Support.

Awards and Grants – The significant lapse period expenditures were for the payment of Special Education Orphanage reimbursement, Bilingual Education-Downstate, State Free Lunch and Breakfast, Illinois Breakfast Incentive reimbursement, ADA School Safety and Education Block Grant, Orphanage Tuition Reimbursement, and the Early Childhood Block Grant.

S.B.E. Federal National Community Fund – 183

Awards and Grants – The significant lapse period expenditures were for the payment of a Learn and Serve America reimbursement.

S.B.E. Department of Health and Human Services Fund – 239

Awards and Grants – The significant lapse period expenditures were for the payment of Refugee Children School Impact Grants.

S.B.E. Federal Department of Labor Trust Fund – 392

Awards and Grants – The significant lapse period expenditures were for the payment of a Vocational Education School to Work reimbursement.

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**ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING
Continued**

FISCAL YEAR 2004 – Continued

S.B.E. Federal Department of Agriculture Fund – 410

Contractual Services – The significant lapse period expenditures were for the payment of the prorated share of the statewide single audit, evaluation of the National School Lunch Program, and Summer Food Service site inspections.

Awards and Grants – The significant lapse period expenditures were for the payment of the School Breakfast Program, Child and Adult Care Food Program, and the National School Lunch Program.

School Technology Revolving Fund – 544

Awards and Grants – The significant lapse period expenditures were for the payment to the Illinois Mathematics and Science Academy for the Illinois Virtual High School Program.

S.B.E. Federal Department of Education Fund – 561

Contractual Services – The significant lapse period expenditures were for the payment of the prorated share of the statewide single audit, website technical assistance for Illinois schools, Reading First Program evaluations, development and implementation of the student assessment systems, and the coordination of the Early Learning website.

Travel – The significant lapse period expenditures were for Agency staff and hearing officer and mediator travel associated with the various federal programs.

Equipment – The significant lapse period expenditures were for the purchase of E-Servers for the computer room and replacement computers.

Lump Sum and Other Purposes – The significant lapse period expenditures were for the payment of the No Child Left Behind (NCLB) State Assessment and the Fund for the Improvement of Education earmark for the Illinois Virtual High School.

Awards and Grants – The significant lapse period expenditures were for the payment of Title I – Low Income reimbursement, federal special education Individuals with Disabilities Education Act (IDEA) flow-through grants, IDEA Administration Discretionary grants and the Title V Innovative programs formula grants.

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ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
FOR THE YEAR ENDED JUNE 30, 2004**

ANALYSIS OF SIGNIFICANT ACCOUNT BALANCES

The following explanations were obtained from Agency officials for the identified accounts:

FISCAL YEAR 2004 (FY04)

Major Fund/General Fund

Unexpended appropriation – This balance represents the amount of lapse period warrants issued plus an increase in liabilities for reappropriated accounts in the current year.

Accounts payable and accrued liabilities – This balance represents liabilities of the Agency at June 30, primarily for awards and grants and professional and artistic services, where final payments were completed after June 30.

Due to other government – local – This balance represents liabilities of the Agency at June 30 to local educational agencies for mandated categorical programs, which are paid from the succeeding year appropriation.

Due to other funds – This balance represents amounts due to funds of other State agencies for services provided during the fiscal year, such as telecommunication services.

Fund Balance, Reserve for encumbrances – This balance represents a reservation of fund balance for obligations established prior to June 30 where goods were not received until after June 30.

Fund Balance, Unreserved: Undesignated – This deficit is primarily represented by liabilities of the Agency at June 30 to local educational agencies for mandated categorical programs, which are paid from the succeeding year appropriation.

Nonmajor Funds/Special Revenue Funds

Cash and cash equivalents – This balance represents cash balances in the Agency's special revenue funds. The largest balance was in the School Technology Revolving Loan Program Fund, whose revenues include repayment of school technology loans issued to local educational agencies.

Due from other governments – federal – This balance represents amounts due primarily from the U.S. Department of Agriculture and the U.S. Department of Education for reimbursement of grant payments due to local educational agencies at June 30.

Inventories – This balance represents the value of the commodities inventory in the S.B.E. Federal Department of Agriculture Fund at June 30.

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**ANALYSIS OF SIGNIFICANT ACCOUNT BALANCES
Continued**

FISCAL YEAR 2004 – Continued

Nonmajor Funds/Special Revenue Funds – Continued

Loans receivable – This balance represents amounts due primarily to the Agency from school districts that have borrowed funds under the Agency's emergency financial assistance or technology programs.

Accounts payable and accrued liabilities – This balance represents liabilities of the Agency at June 30, primarily for professional and artistic services, where final payments were completed after June 30.

Due to other governments – local – This balance represents grant payments due to local educational agencies at June 30, primarily from the S.B.E. Federal Department of Agriculture Fund, the S.B.E. Federal Department of Education Fund, and the Drivers Education Fund.

Due to other funds – This balance represents amounts due to funds of other State agencies for reimbursement of awards and grants expenditures provided during the fiscal year and amounts due to the revolving funds administered by the Department of Central Management Services.

Due to component units – This balance represents amounts due to component units for reimbursement of awards and grants expenditures provided during the fiscal year.

Deferred revenue – This balance represents grant revenues received for obligations not realized in the current fiscal year, primarily in the S.B.E. Federal Department of Agriculture Fund and the S.B.E. Federal Department of Education Fund.

Other liabilities – This balance represents a liability resulting from a lawsuit settlement payable from the S.B.E. Federal Department of Education Fund.

Fund Balance, Reserved for Inventories – This balance represents a reservation of fund balance for the value of the commodities inventory in the S.B.E. Federal Department of Agriculture Fund at June 30.

Fund Balance, Reserved for Long-term portion of loans receivable – This balance represents a reservation of fund balance for the portion of loans receivable primarily for the School District Emergency Financial Assistance and the School Technology Revolving Loan programs due after the State's availability period and do not represent available spendable resources.

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**ANALYSIS OF SIGNIFICANT ACCOUNT BALANCES
Continued**

FISCAL YEAR 2004 – Continued

Nonmajor Funds/Special Revenue Funds – Continued

Fund Balance, Unreserved: Undesignated – This balance can be primarily attributed to the revenues of the School Technology Revolving Loan Program Fund and balances in the S.B.E. Federal Department of Education Fund and the Drivers Education Fund for liabilities payable from future year appropriations.

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ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
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ANALYSIS OF ACCOUNTS RECEIVABLE

Receivables of the Illinois State Board of Education consist mainly of reimbursement or formula allocation amounts due to the Agency arising from its administration of federal and State grant awards. The principal grantors are agencies of the federal government or other State agencies; therefore, the Agency's receivables are considered fully collectible.

The following is a schedule of receivable balances (expressed in thousands) at June 30, 2004.

	<u>2004</u>
Due from other government – federal	\$ 111,412
Due from other governments – local	24
Other receivables	169
Due from other State funds	728
Due from component units	<u>96</u>
Total receivables	\$ <u>112,429</u>

Receivable amounts are recorded at year-end through the annual generally accepted accounting principles (GAAP) reporting process.

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Schedule of Indirect Cost Reimbursements

For the Years Ended June 30, 2004 and 2003

(Unaudited)

Indirect cost reimbursements are primarily Letter of Credit draw downs of federal funds which are deposited directly into the General Revenue Fund in the State treasury. Indirect costs were based on a fixed rate of 5.0% and 5.3% of personal service expenditures for fiscal years 2004 and 2003, respectively. This rate was negotiated with the cognizant federal agency, the U.S. Department of Education. Following are reimbursements deposited into the General Revenue Fund during fiscal years 2004 and 2003.

	2004	2003
U.S. Department of Agriculture		
Child Nutrition Grants	\$ 133,130	\$ 146,448
U.S. Department of Education		
Bilingual Education Support Services	-	1,977
Illinois Purchased Care Review Board	6,704	4,833
Education for the Homeless Children and Youth	3,463	4,728
Eisenhower Professional Development State Grants	4,163	20,140
Even Start - State Educational Agencies	5,449	8,155
Immigrant Education	-	1,675
Math/Science Partnership	4,128	-
Migrant Education - Basic State Grant Programs	2,009	-
Safe and Drug Free Schools and Communities - State Grants	16,282	20,377
Special Education - Grants to States	196,838	160,958
Special Education - Preschool Grants	22,332	20,473
Title I Grants to Local Educational Agencies	135,197	135,755
Vocational Education - Basic Grants to States	52,361	72,436
Technology Literacy Challenge Program	12,601	6,682
Charter Schools	1,346	2,613
Title VI - Innovative Education Program Strategies	16,866	30,070
Reading Excellence	5,334	14,522
Reading First State Grants	19,717	-
Rural Education	2,517	977
Title II - Teaching	28,232	7,826
Title III - English Language	24,205	9,514
Title IV - 21st Century	8,818	5,542

State of Illinois
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Schedule of Indirect Cost Reimbursements

For the Years Ended June 30, 2004 and 2003

(Unaudited)

	2004	2003
U.S. Department of Education - Continued		
Virtual High School	\$ 434	\$ 1,192
Advanced Placement Fee Payment Program	2,132	1,965
Building Linkages	-	4,446
Total U.S. Department of Education	571,128	536,856
U.S. Department of Health and Human Services		
Refugee Children Impact	4,427	1,808
Training School Health Personnel	4,416	2,959
Total U.S. Department of Health and Human Services	8,843	4,767
U.S. Department of Labor		
Youth Opportunities Grant	861	4,493
Corporation for National and Community Service		
Learn and Serve America	1,396	1,242
Total Indirect Cost Reimbursements	\$ 715,358	\$ 693,806

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
FOR THE YEAR ENDED JUNE 30, 2004**

AGENCY FUNCTIONS AND PLANNING PROGRAM

Functions

The Illinois State Board of Education (ISBE) is inclusive of a nine-member lay-citizen governing board and the administrative agency is responsible to that Board. Members of the governing board are appointed by the Governor, with the advice and consent of the Senate, based on a statutory formula designed to assure representation throughout the State and a balance of political affiliations. On September 14, 2004, Senate Bill 3000 was signed into law. This legislation re-aligned the terms of seven of the nine board members and authorized the Governor to appoint seven new members to the State Board of Education. The current structure of the Board includes seven new appointments and two previous board members.

The Board is responsible for matters related to public schools and selected private schools, serving students from pre-school through grade twelve; it is also the official governance Agency for vocational education in Illinois. In support of these responsibilities, the Board is required to analyze the present and future aims, needs and requirements of education in the State. The specific powers and duties of the State Board of Education are described in Article 1A of the School Code (105 ILCS 5/1A et seq.).

The Chair of the State Board of Education is appointed by the Governor, with the advice and consent of the Senate. The current chair is Jesse H. Ruiz.

The State Superintendent of Education is appointed by the Board. Dr. Robert E. Schiller was the State Superintendent of Education during the fiscal year, until the current State Superintendent of Education, Dr. Randy J. Dunn, was appointed to an interim position on September 20, 2004.

The Board mailing address is:

Illinois State Board of Education
100 North First Street
Springfield, Illinois 62777-0001

Planning Program

The work of the State Board of Education is directed toward the vision and goals for Illinois education:

Vision for Illinois Education

The Illinois public schools will enable all students to succeed in post-secondary education and career opportunities, to be effective life-long learners, and to participate actively in our democracy.

The actions of the Board are guided by its mission statement and 4 goals with 15 performance measures.

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ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
FOR THE YEAR ENDED JUNE 30, 2004**

**AGENCY FUNCTIONS AND PLANNING PROGRAM
Continued**

State Board of Education Mission

The State Board of Education will provide leadership, advocacy, and support for the work of school districts, policymakers, and citizens in making Illinois education *Second to None*.

The Board ensures the objectives for Illinois education are met by monitoring the performance measures entrenched within the established goals. The Board provides assistance to school districts encountering difficulties in meeting the goals and related performance measures listed below:

State Board of Education Goals

A. Student Achievement

The Illinois State Board of Education supports local districts in helping *all* students meet the Illinois Learning Standards and in closing the achievement gap by monitoring the following performance measures:

1. Percent of districts (all schools) meeting or exceeding standards as measured by the Illinois Standards Achievement Test (ISAT), Prairie State Achievement Exam (PSAE), Illinois Measure of Annual Growth in English (IMAGE) and the Illinois Alternate Assessment (IAA).
2. Percent of districts showing improvement over three years.
3. Percent of high poverty districts and schools (greater than or equal to 40 percent low income) meeting or exceeding standards as measured by the ISAT, PSAE, IMAGE and IAA.
4. Percent of students from identified subgroups meeting or exceeding standards as measured by the ISAT, PSAE, IMAGE and IAA.

B. Policies and Services

The Illinois State Board of Education generates policies, programs, products, and services supporting local district efforts to ensure student success. The Agency determines whether success has been achieved or if there is a need for improvement in those policies and services by monitoring the following performance measures:

5. Percent of district educators recognizing programs, products, and services that add value to their work as measured by customer service surveys.

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Continued**

6. Percent of districts with a graduation rate of 65 percent or more as reported on the school report card.
7. Percent of high school graduates entering post-secondary education, the workforce, or the military.
8. Percent of highly qualified teachers in the public school workforce.

C. Funding

The Illinois State Board of Education provides advocacy and leadership for adequate and equitable funding of Illinois public schools by monitoring the following performance measures:

9. Percent of increase in State education funding – in the percent of total educational costs paid by the State.
10. Percent of increases in appropriations for ISBE priorities in the following areas:
 - Standards, Assessment, and Accountability
 - Early Childhood Education
 - Reading
 - Mathematics
 - Quality Educators
 - System of Support for At-Risk Schools
11. Percent of high-poverty districts receiving increased funding allocations.
12. Percent of decrease in the proportion of per pupil expenditures between the 5th and 95th percentile.

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D. Collaboration

The Illinois State Board of Education works with partners in all sectors of government, education, and private enterprise to support continuous improvement of Illinois education. Collaboration is achieved through:

13. Adoption of common goals.
14. Signed partnership agreements.
15. Documented legislative support from partner groups.

Following is a summary of State Board activities designed to achieve the above goals:

- Maintain a close liaison with school districts to identify educational, financial and other needs and provide them with support, technical assistance and in-service training for the improvement of instructional and management services.
- Prepare policy analyses, evaluation studies and other reports in support of State Board goals, policies, and information needs.
- Develop policy, legislative and budget recommendations for consideration by public schools, legislators and other State officials, the federal government and other agencies, private businesses, and individuals.
- Provide leadership and advocacy for educational improvement in Illinois at the local, State and federal levels.
- Certify and renew certification for school personnel, review and approve university and college professional teacher, administrator and other preparation programs.
- Enforce programmatic and fiscal standards for the operation of the public elementary/secondary schools and programs, including vocational and special education programs.
- Gather and disseminate information on facilities, enrollment, school finance, educational programs, and other public school matters.
- Reimburse local districts for their claims upon State and federal dollars, and audit financial expenditures for State and federal programs.

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- Operate the Illinois State Board of Education to support the above functions.

The business plans developed annually by each organizational unit in the State education agency provide detailed planning data regarding these activities and serve as the basis for measuring success. The aggregated unit business plans form the State Board's comprehensive, or strategic plan.

We believe this planning program is appropriate.

State of Illinois
Illinois State Board of Education

Average Number of Employees and Average
Salary Per Employee

For the Years Ended June 30, 2004 and 2003

(Unaudited)

Average number of employees by division are presented as follows on a two-year comparative basis:

	<u>2004</u>	<u>2003</u>
Number of employees at June 30		
State Operating and Trust Funds	258	340
Federal Trust Funds	<u>221</u>	<u>189</u>
Total Agency employees at June 30	<u><u>479</u></u>	<u><u>529</u></u>
Average number of employees		
State Operating and Trust Funds	283	402
Federal Trust Funds	<u>219</u>	<u>204</u>
Total average number of employees	<u><u>502</u></u>	<u><u>606</u></u>
Total personal service expenditures	<u>\$ 30,927,715</u>	<u>\$ 36,001,529</u>
Average salary per employee	<u><u>\$ 61,609</u></u>	<u><u>\$ 59,408</u></u>

Note: The above does not include superintendents and assistant superintendents of the regional offices of education.

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ANNUAL STATISTICS – SUMMARY OF DEMOGRAPHIC DATA

(Unaudited)

Number of Public School Districts, 2002-2003

	<u>Operating</u>	<u>Non- operating</u>	<u>Other</u>	<u>Total</u>
Elementary (Pre K-8)	383	0	0	383
Secondary (9-12)	101	2	0	103
Unit	407	0	0	407
State Operated (1)	<u>1</u>	<u>0</u>	<u>0</u>	<u>1</u>
Total	<u>892</u>	<u>2</u>	<u>0</u>	<u>894</u>

(1) This includes the Department of Corrections School District.

Number of Public and Nonpublic Attendance Centers, 2002-2003

	<u>Public</u>	<u>Nonpublic (2)</u>	<u>Total</u>
Elementary	2,651	1,169	3,820
Junior high	606	0	606
High school	665	120	785
Special education and others	<u>349</u>	<u>92</u>	<u>441</u>
Total	<u>4,271</u>	<u>1,381</u>	<u>5,652</u>

(2) Voluntarily reported and registered with ISBE.

School Enrollment, 2002-2003

	<u>Public</u>	<u>Nonpublic (3)</u>	<u>Total</u>	<u>Percent</u>
Elementary (Pre K-8)	1,485,807	239,655	1,725,462	72.4%
Secondary (9-12)	<u>595,349</u>	<u>63,150</u>	<u>658,499</u>	<u>27.6%</u>
Total	<u>2,081,156</u>	<u>302,805</u>	<u>2,383,961</u>	<u>100.0%</u>
Percent	<u>87.3%</u>	<u>12.7%</u>		

(3) Nonpublic schools report data on a voluntary basis. Voluntary registration of nonpublic elementary and secondary schools on an annual basis went into effect July 1, 1977.

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**ANNUAL STATISTICS – SUMMARY OF DEMOGRAPHIC DATA
Continued**

(Unaudited)

Racial-Ethnic Distribution of Statewide Public School Enrollment, 2002-2003

	<u>Students</u>	<u>Percent</u>
White Non-Hispanic	1,214,323	58.3%
Black Non-Hispanic	439,801	21.1%
Hispanic	352,665	16.9%
Asian-Pacific Islander	73,920	3.5%
American Indian-Alaskan	<u>3,478</u>	<u>0.2%</u>
Total	<u>2,084,187</u>	<u>100.0%</u>
Total percent of minority students		<u>41.7%</u>

Public School Bilingual Education Enrollment, 2002-2003

	<u>Chicago</u>	<u>Downstate</u>	<u>Total</u>	<u>Percent</u>
Spanish	68,518	66,191	134,709	79.7%
Polish	4,091	3,121	7,212	4.3%
Arabic	1,271	1,834	3,105	1.8%
Urdu	1,548	1,275	2,823	1.6%
Korean	234	1,678	1,912	1.1%
Cantonese (Chinese)	1,521	362	1,883	1.1%
Gujarati	252	1,230	1,482	0.9%
Vietnamese	669	620	1,289	0.8%
Serbian	876	367	1,243	0.7%
Pilipino	497	698	1,195	0.7%
Russian	203	794	997	0.6%
Japanese	36	763	799	0.5%
Lithuanian	70	655	725	0.4%
Bosnian	444	262	706	0.4%
Mandarin (Chinese)	133	530	663	0.4%
Bulgarian	237	380	617	0.4%
Romanian	367	217	584	0.3%
Albanian, Gheg (Kosovo/Macedon)	241	300	541	0.3%
Assyrian (Syric, Aramaic)	342	195	537	0.3%
Ukrainian	275	252	527	0.3%
Hindi	150	302	452	0.3%
French	184	186	370	0.2%
Malayalam	43	287	330	0.2%
Panjabi (Punjabi)	20	196	216	0.1%
Telugu (Telegu)	36	180	216	0.1%

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**ANNUAL STATISTICS – SUMMARY OF DEMOGRAPHIC DATA
Continued**

(Unaudited)

Public School Bilingual Education Enrollment, 2002-2003 – Continued

	<u>Chicago</u>	<u>Downstate</u>	<u>Total</u>	<u>Percent</u>
Cambodian (Khmer)	143	67	210	0.1%
Greek	82	128	210	0.1%
Farsi (Persian)	49	159	208	0.1%
Albanian, Tosk	6	181	187	0.1%
Italian	49	131	180	0.1%
Haitian – Creole	92	82	174	0.1%
Thai	62	88	150	0.1%
German	25	123	148	0.1%
Portuguese	43	96	139	0.1%
Yoruba	100	35	135	0.1%
Lao	12	121	133	0.1%
Turkish	50	80	130	0.1%
All Others	<u>955</u>	<u>1,322</u>	<u>2,277</u>	<u>1.3%</u>
Total	<u>83,926</u>	<u>85,488</u>	<u>169,414</u>	<u>100.0%</u>

Twelfth Grade Graduates, 2002-2003

	<u>Public</u>	<u>Nonpublic</u>	<u>Total</u>
Female	59,599	7,389	66,988
Male	<u>57,908</u>	<u>7,279</u>	<u>65,187</u>
Total	<u>117,507</u>	<u>14,668</u>	<u>132,175</u>

Public Secondary School Dropouts by Gender and Ethnicity, 2002-2003

	<u>Female</u>	<u>Male</u>	<u>Total</u>
White Non-Hispanic	6,604	8,455	15,059
Black Non-Hispanic	5,169	6,266	11,435
Hispanic	3,075	4,092	7,167
Asian-Pacific Islander	256	375	631
American Indian-Alaskan	<u>40</u>	<u>38</u>	<u>78</u>
Total	<u>15,144</u>	<u>19,226</u>	<u>34,370</u>

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**ANNUAL STATISTICS – SUMMARY OF DEMOGRAPHIC DATA
Continued**

(Unaudited)

Public School Pupil-to-Teacher Ratios

<u>School Year</u>	<u>Elementary</u>	<u>Secondary</u>	<u>Special Education</u>
1988-89	20.3	17.1	5.2
1989-90	20.2	16.8	5.1
1990-91	19.8	16.7	5.0
1991-92	19.8	16.9	5.1
1992-93	19.7	17.2	5.0
1993-94	19.9	18.0	4.9
1994-95	19.7	18.1	4.9
1995-96	19.5	17.9	4.8
1996-97	20.1	18.7	Not available
1997-98	20.0	18.4	Not available
1998-99	19.6	18.3	Not available
1999-00	19.3	18.1	Not available
2000-01	19.1	18.0	Not available
2001-02	19.0	18.1	Not available
2002-03	18.4	18.2	Not available

Median/Mean Salaries for Selected Full-Time Personnel, 2002-2003

	<u>Median</u>	<u>Mean</u>
Regional Superintendents	\$ 88,267	\$ 88,408
District Superintendents	109,381	119,744
District Administrative Staff	95,266	100,282
Principals	86,026	88,914
Assistant Principals	82,832	81,793
Pupil Personnel Specialists	56,771	58,826
Supervisors	76,564	78,390
Special Education and Speech/Language Staff	46,703	49,877
Elementary Teachers (Pre K – 8)	46,513	49,266
Secondary Teachers (9 – 12)	52,042	56,410
All Classroom Teachers (Pre K – 12)	48,105	51,496
First-Year Teachers	34,090	34,522

Data excludes Chicago District #299. Salaries include board-paid retirement, extra-duty pay, flexible benefit plans, bonus payments and retirement incentives.

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SERVICE EFFORTS AND ACCOMPLISHMENTS

(Unaudited)

The general objective of Service Efforts and Accomplishments (SEA) reporting is to provide the user of the Agency's financial statements with the information necessary to evaluate the efficiency and effectiveness of the Agency's use of financial and other resources. This is especially important given the significance of the Illinois State Board of Education to the State as a whole and the ongoing public debate concerning education policy across the nation. The following data was extracted from the School Report Card: Statewide Trend Data.

Particular service efforts and accomplishments reported by the Agency are as follows:

Performance Indicators	Performance Measures	
Schools/Students	2004	2003
Number of Operating School Districts	886	892
Number of Schools with Report Card Information	3,907	3,919
Enrollment (in thousands)	2,060	2,044
Low-Income Rate	39.0%	37.9%
Limited English Proficient Rate	6.7%	6.3%
Dropout Rate	4.6%	4.9%
Attendance Rate	94.2%	94.0%
Student Mobility Rate	16.8%	16.4%
Chronic Truancy Rate	2.1%	1.9%
Graduation Rate	86.5%	86.0%

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**SERVICE EFFORTS AND ACCOMPLISHMENTS
Continued**

(Unaudited)

Performance Indicators	Performance Measures		
Student Achievement – Percent of Students Meeting or Exceeding State Performance Standards	2004	2003	
Reading	Third Grade	65	62
	Fifth Grade	61	60
	Eighth Grade	67	64
	Eleventh Grade	57	56
Mathematics	Third Grade	79	76
	Fifth Grade	72	68
	Eighth Grade	54	53
	Eleventh Grade	53	54
Writing	Third Grade	64	60
	Fifth Grade	70	65
	Eighth Grade	64	59
	Eleventh Grade	60	59
Science	Fourth Grade	68	67
	Seventh Grade	74	74
	Eleventh Grade	53	51
Social Science	Fourth Grade	61	63
	Seventh Grade	59	60
	Eleventh Grade	59	56
ACT Composite Score (schools with Report Card Information)		20	20
Percent of Class Taking ACT		91	93

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**SERVICE EFFORTS AND ACCOMPLISHMENTS
Continued**

(Unaudited)

Performance Indicators	Performance Measures	
<u>Teacher Information</u>	2004	2003
Total Number of Teachers (FTE)	125,702	129,068
Years of Teaching Experience (average)	13.8	13.9
Percent with Graduate Degree	48.6	46.0
Students Per Teacher (elementary)	19.4	18.4
Students Per Teacher (secondary)	18.8	18.2
Students Per Administrator	208.7	220.8
Teacher Salary (average)	\$54,446	\$51,672
Administrator Salary (average)	\$93,976	\$91,125
 <u>Financial Information</u>		
Instructional Expenditures Per Pupil	\$5,022	\$4,842
Operational Expenditures Per Pupil	\$8,482	\$8,181
 <u>Percent of Expenditures by Function</u>		
Instruction	46.1	45.5
General Administration	2.6	2.5
Support Services	31.6	31.0
Other Expenditures	19.7	21.0
 <u>Percent of Expenditures by Fund</u>		
Education	70.1	69.7
Operations and Maintenance	8.9	8.9
Transportation	3.5	3.4
Bond and Interest	6.0	5.7
All Other	11.5	12.3