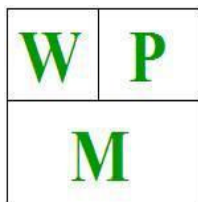


**STATE OF ILLINOIS**  
**ILLINOIS STATE BOARD OF EDUCATION**  
**FINANCIAL AUDIT**  
**FOR THE YEAR ENDED JUNE 30, 2009**

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



**WASHINGTON,  
PITTMAN &  
McKEEVER, LLC**  
Certified Public Accountants &  
Management Consultants

**STATE OF ILLINOIS**  
**ILLINOIS STATE BOARD OF EDUCATION**  
**FINANCIAL AUDIT**  
**FOR THE YEAR ENDED JUNE 30, 2009**

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>Agency Officials</b>	1
<b>Financial Statement Report</b>	
Summary	2
Independent Auditors' Report	3
Basic Financial Statements	
Statement of Net Assets and Governmental Funds Balance Sheet	5
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets	6
Statement of Activities and Governmental Revenues, Expenditures and Changes in Fund Balance	7
Reconciliation of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to Statement of Activities	8
Notes to the Basic Financial Statements	9
Combining Individual Governmental Funds Financial Statements:	
General Fund – Balance Sheet	26
General Fund – Statement of Revenues, Expenditures and Changes in Fund Balances	27
Nonmajor Funds – Balance Sheet	28
Nonmajor Funds – Statement of Revenues, Expenditures and Changes in Fund Balances	31
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	34
Schedule of Findings	36
Independent Accountant's Report on Agreed-Upon Procedures	37

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

**FINANCIAL AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2009**

**AGENCY OFFICIALS**

Board members of the Illinois State Board of Education at June 30, 2009:

Jesse H. Ruiz, Chairperson	Dr. David Fields
Dr. Christopher J. Ward, Vice-Chairperson	Lanita J. Koster
Dr. Vinni M. Hall, Secretary	Vacant
Joyce Karon	Vacant
Dr. Andrea S. Brown	

State Superintendent of Education	Dr. Christopher A. Koch, Ed.D
-----------------------------------	-------------------------------

Cabinet Members at June 30, 2009:

General Counsel/Legal	Darren Reisberg
Internal Auditor	Lisa LaBonte

Directors:

Special Education and Support Services	Beth Hanselman
School Support Services For All Schools	Linda Tomlinson
Standards and Assessments	Connie Wise
Fiscal Support Services	Linda Riley Mitchell
Human Resources	Donald Evans
Public Information	Matthew Vanover

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

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

**FINANCIAL AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2009**

**FINANCIAL STATEMENT REPORT**

**SUMMARY**

The audit of the accompanying financial statements of the Illinois State Board of Education was performed by Washington, Pittman & McKeever, LLC.

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

**SUMMARY OF FINDINGS**

The auditors identified matters involving the Agency's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Findings on page 36 of this report, as finding 09-1, Inadequate Control over the Financial Reporting Process.

**EXIT CONFERENCE**

The finding and recommendation appearing in this report was discussed with Agency personnel at an exit conference on December 15, 2009. Attending were:

**Illinois State Board of Education**

Linda Riley Mitchell	Chief Financial Officer
Lisa LaBonte	Chief Internal Auditor
Robert Wolfe	Division Administrator of Fiscal and Procurement
Timothy Imler	Division Administrator of Funding and Disbursements
Marcilene Dutton	Deputy General Counsel

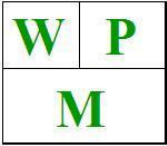
**Office of the Auditor General**

Lisa Warden	Audit Manager
-------------	---------------

**Washington, Pittman & McKeever, LLC**

Lester H. McKeever, Jr	Managing Principal
Angela T. Allen	Principal
Bola Babatunde	Audit Manager

The response to the recommendation was provided by Christopher A. Koch, Ed.D., in a letter dated December 31, 2009.



**WASHINGTON, PITTMAN & McKEEVER, LLC**  
**CERTIFIED PUBLIC ACCOUNTANTS AND**  
**MANAGEMENT CONSULTANTS**  
819 South Wabash Avenue  
Suite 600  
Chicago, Illinois 60605

Ph. (312) 786-0330  
Fax (312) 786-0323  
[www.wpmck.com](http://www.wpmck.com)

## **INDEPENDENT AUDITORS' REPORT**

Honorable William G. Holland  
Auditor General  
State of Illinois

and

The Board Members of the  
Illinois State Board of Education

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Illinois State Board of Education, as of and for the year ended June 30, 2009, 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the financial statements of the Illinois State Board of Education are intended to present the financial position and changes in financial position of only that portion of the governmental activities, the major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Illinois State Board of Education. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2009, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Illinois State Board of Education as of June 30, 2009 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 31, 2009 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 of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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, agency management, and the Board members of the Illinois State Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

*Washington, Pittman & McKeever, LLC*

**WASHINGTON, PITTMAN & McKEEVER, LLC**

**Chicago, Illinois  
December 31, 2009**

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

**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET**

**AS OF JUNE 30, 2009**

(amounts expressed in thousands)

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>ASSETS</b>					
Unexpended appropriations	\$ 97,792	\$ 9	\$ 97,801	\$ -	\$ 97,801
Cash and cash equivalents	7	9,280	9,287	-	9,287
Due from federal government	-	111,931	111,931	-	111,931
Due from local governments	228	991	1,219	-	1,219
Other receivables	627	598	1,225	-	1,225
Due from other State funds	900	417	1,317	-	1,317
Due from component units of the State	412	312	724	-	724
Inventories	-	1,425	1,425	-	1,425
Loans receivable	-	6,382	6,382	-	6,382
Prepaid expenses	-	-	-	295	295
Capital assets not being depreciated	-	-	-	1,063	1,063
Capital assets net of depreciation	-	-	-	1,544	1,544
<b>TOTAL ASSETS</b>	<u>\$ 99,966</u>	<u>\$ 131,345</u>	<u>\$ 231,311</u>	<u>\$ 2,902</u>	<u>\$ 234,213</u>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 910	\$ 6,889	\$ 7,799	\$ -	\$ 7,799
Due to federal government	-	2,415	2,415	-	2,415
Due to local governments	1,867,324	117,287	1,984,611	-	1,984,611
Due to other State funds	419	2,647	3,066	-	3,066
Due to component units of the State	683	1,208	1,891	-	1,891
Deferred revenue	-	4,073	4,073	(4,073)	-
Unearned revenue	-	167	167	-	167
Compensated absences, current portion	-	-	-	45	45
Installment purchase, current portion	-	-	-	166	166
Other liabilities, current portion	-	-	-	6,287	6,287
Compensated absences, long-term portion	-	-	-	4,427	4,427
Installment purchase, long-term portion	-	-	-	543	543
Total Liabilities	<u>1,869,336</u>	<u>134,686</u>	<u>2,004,022</u>	<u>7,395</u>	<u>2,011,417</u>
<b>FUND BALANCE/NET ASSETS</b>					
Reserved for encumbrances	-	349	349	(349)	-
Reserved for inventories	-	1,425	1,425	(1,425)	-
Reserved for long-term portion of loans receivable	-	6,382	6,382	(6,382)	-
Invested in capital assets, net of related debt	-	-	-	1,898	1,898
Restricted net assets	-	-	-	2,394	2,394
Unreserved, unrestricted	(1,769,370)	(11,497)	(1,780,867)	(629)	(1,781,496)
Total Fund Deficit/Net Deficit	<u>(1,769,370)</u>	<u>(3,341)</u>	<u>(1,772,711)</u>	<u>\$ (4,493)</u>	<u>\$ (1,777,204)</u>
<b>TOTAL LIABILITIES AND FUND DEFICIT</b>	<u>\$ 99,966</u>	<u>\$ 131,345</u>	<u>\$ 231,311</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**

**AS OF JUNE 30, 2009**

(amounts expressed in thousands)

Total Fund Deficit - governmental funds	\$ (1,772,711)
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	2,607
Prepaid expenses for governmental activities are current uses of financial resources for funds.	295
Revenues in the Statement of Activities that do not provide current financial resources are deferred in governmental funds.	4,073
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	(709)
Compensated absences	(4,472)
Claims and judgments	(6,287)
	<hr/>
<b>NET DEFICIT FROM GOVERNMENTAL ACTIVITIES</b>	<b>\$ (1,777,204)</b>

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 BALANCES**

**FOR THE YEAR ENDED JUNE 30, 2009**

(amounts expressed in thousands)

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>EXPENDITURES/EXPENSES</b>					
Program expense - education	\$ 7,459,351	\$ 2,043,438	\$ 9,502,789	\$ (466)	\$ 9,502,323
Debt service principal	5	5	10	(10)	-
Capital outlays	455	577	1,032	(1,032)	-
Total Expenditures/Expenses	<u>7,459,811</u>	<u>2,044,020</u>	<u>9,503,831</u>	<u>(1,508)</u>	<u>9,502,323</u>
<b>PROGRAM REVENUES</b>					
Charges for services:					
Licenses and fees	129	1,896	2,025	-	2,025
Total charges for services	<u>129</u>	<u>1,896</u>	<u>2,025</u>	<u>-</u>	<u>2,025</u>
Operating grant revenue:					
Federal	1,038,988	2,024,871	3,063,859	(6,974)	3,056,885
Total operating grant revenue	<u>1,038,988</u>	<u>2,024,871</u>	<u>3,063,859</u>	<u>(6,974)</u>	<u>3,056,885</u>
Net Program Deficit	<u>(6,420,694)</u>	<u>(17,253)</u>	<u>(6,437,947)</u>	<u>(5,466)</u>	<u>(6,443,413)</u>
<b>GENERAL REVENUES</b>					
Interest	-	144	144	-	144
Other (net)	12	(305)	(293)	-	(293)
Total General Revenues	<u>12</u>	<u>(161)</u>	<u>(149)</u>	<u>-</u>	<u>(149)</u>
<b>OTHER SOURCES (USES)</b>					
Appropriations from State resources	7,441,909	18,123	7,460,032	-	7,460,032
Reappropriations to future year(s)	(39,666)	-	(39,666)	-	(39,666)
Receipts remitted to State Treasury	(1,045,776)	-	(1,045,776)	-	(1,045,776)
Capital transfers (to) other State agencies	-	-	-	(44)	(44)
Operating transfers - in	-	100	100	(100)	-
Operating transfers - out	(100)	(750)	(850)	100	(750)
Donated capital assets	-	-	-	8	8
Proceeds from capital lease and installment purchase financing	298	411	709	(709)	-
Total Other Sources (Uses)	<u>6,356,665</u>	<u>17,884</u>	<u>6,374,549</u>	<u>(745)</u>	<u>6,373,804</u>
Change in fund balances/net assets	(64,017)	470	(63,547)	<u>\$ (6,211)</u>	(69,758)
Lapsed appropriations	(44,875)	(7)	(44,882)		(44,882)
Fund Balances/Net Assets July 1, 2008	<u>(1,660,478)</u>	<u>(3,804)</u>	<u>(1,664,282)</u>		<u>(1,662,564)</u>
<b>FUND DEFICIT/NET DEFICIT JUNE 30, 2009</b>	<u>\$ (1,769,370)</u>	<u>\$ (3,341)</u>	<u>\$ (1,772,711)</u>		<u>\$ (1,777,204)</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, 2009**

(amounts expressed in thousands)

Net Change in Fund Balance - governmental funds	\$	(63,547)
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 capital outlays exceeded depreciation in the current period.		519
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.		10
Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Assets, the obligation is reported as a liability.		(709)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the decrease in unavailable revenue over the prior year.		(6,974)
Some capital additions were donated to the State and recorded at fair value.		8
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These activities consist of:		
Increase in prepaid expenses		31
Increase in compensated absences		(15)
Decrease in claims and judgments		963
Some capital assets were transferred out to other State agencies and, therefore, were disposed of by the Agency without receipt for value.		(44)
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b>(69,758)</b>

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**

**FOR THE YEAR ENDED JUNE 30, 2009**

**1. ORGANIZATION**

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**FINANCIAL REPORTING ENTITY**

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2009**

**BASIS OF PRESENTATION**

The financial activities of the Agency, which consist only of governmental activities, are reported under the education 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 net assets presents the assets and liabilities of the Agency's governmental activities with the difference being reported as net assets. The assets and liabilities are presented in order of their relative liquidity by class of asset or liability with liabilities whose average maturities are greater than one year reported in two components – the amount due within one year and amount due in more than one year.

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2009**

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).

Additionally, the Agency administers the following fund type:

**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. 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2009**

Significant revenue sources which are susceptible to accrual include intergovernmental grants. 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.

**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), and School Infrastructure Fund (568) represents only the portion of the shared funds that can be directly attributed to the operations of the Agency. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' 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.

**Reappropriations to Future Year(s)**

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

**Lapsed Appropriations**

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2009**

**Receipts Collected and Transmitted to State Treasury**

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

**CASH AND CASH EQUIVALENTS**

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

**INVENTORIES**

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

**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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2009**

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

**CAPITAL ASSETS**

Capital assets, which include property, plant and equipment, 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.

Capitalization thresholds and the estimated useful lives are as follows:

<u>Capital Asset Category</u>	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
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.



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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2009**

**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.

**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.

**FUTURE ADOPTION OF GASB STATEMENTS**

Effective for the year ending June 30, 2010 the Agency will adopt GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, which establishes guidance for recognition and amortization of intangible assets in the financial statements of governments. The Agency has not yet determined the impact of the Agency's financial statements as a result of adopting this statement.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2009**

**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 \$9.287 million at June 30, 2009. 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.

**4. INTERFUND BALANCES AND ACTIVITY**

**BALANCES DUE TO/FROM OTHER FUNDS**

The following balances (amounts expressed in thousands) at June 30, 2009 represent amounts due from other funds of the Agency and other State of Illinois funds.

<u>Fund</u>	<u>Due from other funds of the Agency</u>	<u>Due from other State funds</u>	<u>Description/Purpose</u>
General	\$ -	\$ 900	Grants for educational purposes
Nonmajor Governmental	-	417	Grants for educational purposes and for federal food service programs
Total	<u>\$ -</u>	<u>\$ 1,317</u>	

The following balances (amounts expressed in thousands) at June 30, 2009 represent amounts due to other funds of the Agency and other State of Illinois funds.

<u>Fund</u>	<u>Due to other funds of the Agency</u>	<u>Due to other State funds</u>	<u>Description/Purpose</u>
General	\$ -	\$ 419	Grants for educational purposes
Nonmajor Governmental	-	2,647	Grants for educational purposes and for federal food service programs
Total	<u>\$ -</u>	<u>\$ 3,066</u>	

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2009**

**TRANSFERS TO/FROM OTHER FUNDS**

Interfund transfers in (amounts expressed in thousands) for the year ended June 30, 2009 were as follows:

<u>Fund</u>	<u>Transfers in from other funds of the Agency</u>	<u>Transfers in from other State funds</u>	<u>Description/Purpose</u>
General	\$ -	\$ -	N/A
Nonmajor Governmental	<u>100</u>	<u>-</u>	Transfer from General Fund for temporary relocation expenses
Total	<u>\$ 100</u>	<u>\$ -</u>	

Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2009 were as follows:

<u>Fund</u>	<u>Transfers out to other funds of the Agency</u>	<u>Transfers out to other State funds</u>	<u>Description/Purpose</u>
General	\$ 100	\$ -	Transfer to Agency nonmajor governmental funds for temporary relocation expenses.
Nonmajor Governmental	<u>750</u>	<u>-</u>	Transfers of audit expense fund and funds swept into General Revenue Fund
Total	<u>\$ 850</u>	<u>\$ -</u>	

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2009**

**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, 2009 were as follows (amounts expressed in thousands):

<u>Fund</u>	<u>Due from component units</u>	<u>Due to component units</u>	<u>Description/Purpose</u>
General	\$ 412	\$ 683	Grants for educational purposes and for federal food service programs
Nonmajor Governmental	<u>312</u>	<u>1,208</u>	Grants for educational purposes and for federal food service programs
Total	<u>\$ 724</u>	<u>\$ 1,891</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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2009**

Loans receivable at June 30, 2009, consisted of the following:

<u>Program</u>	<u>Balance June 30, 2009</u>
School District Emergency Financial Assistance Program	\$ 2,333
Charter Schools Revolving Loan Program	11
School Technology Revolving Loan Program	3,453
Temporary Relocation Revolving Loan Program	<u>585</u>
Total	<u>\$ 6,382</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2009**

**7. CAPITAL ASSETS**

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2009 was as follows:

	Balance July 1, 2008	Additions	Deletions	Net Transfers	Balance June 30, 2009
Capital assets not being depreciated:					
Land	\$ 1,063	\$ -	\$ -	\$ -	\$ 1,063
Total capital assets not being depreciated	<u>1,063</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,063</u>
Capital assets being depreciated:					
Buildings	436	-	-	-	436
Equipment	6,979	1,040	757	(45)	7,217
Capital leases equipment	26	-	26	-	-
Total capital assets being depreciated	<u>7,441</u>	<u>1,040</u>	<u>783</u>	<u>(45)</u>	<u>7,653</u>
Less: accumulated depreciation					
Buildings	238	9	-	-	247
Equipment	6,126	495	714	(45)	5,862
Capital leases equipment	17	9	26	-	-
Total accumulated depreciation	<u>6,381</u>	<u>513</u>	<u>740</u>	<u>(45)</u>	<u>6,109</u>
Total capital assets being depreciated, net	<u>1,060</u>	<u>527</u>	<u>43</u>	<u>-</u>	<u>1,544</u>
<b>TOTAL CAPITAL ASSETS, NET</b>	<u>\$ 2,123</u>	<u>\$ 527</u>	<u>\$ 43</u>	<u>\$ -</u>	<u>\$ 2,607</u>

Depreciation expense for governmental activities for the year ended June 30, 2009 was charged to the Education function in the amount of \$513 thousand.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2009**

**8. LONG-TERM OBLIGATIONS**

**CHANGES IN LONG-TERM OBLIGATIONS**

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2009 were as follows:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009	Amounts due within 1 year
Compensated absences	\$ 4,457	\$ 2,953	\$ 2,938	\$ 4,472	\$ 45
Installment purchases	-	907	198	709	166
Capital lease obligations	9	-	9	-	-
Other obligations	7,250	-	963	6,287	6,287
<b>TOTAL</b>	<b>\$ 11,716</b>	<b>\$ 3,860</b>	<b>\$ 4,108</b>	<b>\$ 11,468</b>	<b>\$ 6,498</b>

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).

**INSTALLMENT PURCHASES**

The Agency has acquired certain office equipment, computer equipment, and other assets through installment purchase arrangements. Future debt service requirements under installment purchase contracts (amounts expressed in thousands) at June 30, 2009 are as follows:

Year Ending June 30	Principal	Interest	Total
2010	\$ 166	\$ 32	\$ 198
2011	173	25	198
2012	181	17	198
2013	189	9	198
Total	<b>\$ 709</b>	<b>\$ 83</b>	<b>\$ 792</b>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2009**

**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 of the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which the State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The TRS is a cost-sharing multiple-employer PERS covering individuals employed to provide services for which teacher certification is required.

The financial position and results of operations of the SERS and the TRS for fiscal year 2009 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2009. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255 or by calling (217) 785-7202. The TRS also issues a separate CAFR that may be obtained by writing to the TRS, P.O. Box 19253, Springfield, Illinois, 62794-9253 or by calling (217) 753-0311. The State of Illinois CAFR may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1858 or by calling (217) 782-2053.

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

**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 2009, the employer contribution rates for the SERS were 21.049%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the entire employee portion of retirement for most State agencies, including the Agency, with employees covered by the State Employees' Retirement System. However, effective with the fiscal year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State agencies, including the Agency, for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pickup, when applicable, is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.



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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2009**

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 2009 employer contribution rate to the TRS was 17.08%. In addition, the State of Illinois makes employer contributions “on behalf” of TRS covered employees. For the year ended June 30, 2009, State contributions were based on 9.4% of creditable earnings.

**10. POST-EMPLOYMENT BENEFITS**

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

The total cost of the State’s portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2009**

**11. FUND DEFICITS**

The following funds had deficit balances at June 30, 2009 (amounts expressed in thousands):

General Fund	\$1,769,370
Drivers Education Fund	17,930
Federal Agency Service Fund	28

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. These 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, 2009.

**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. Due to the district's failure to disburse an adequate amount of the Agency's portion of the settlement for the intended purpose, the Agency has paid only \$12.96 million of the settlement amount through June 30, 2009. In fiscal year 2005, a federal judge extended the ruling through the end of the 2009-2010 school year. This ruling allowed for the Agency to restructure the payments for the remaining \$14.13 million due the district through fiscal year 2010. The Agency's Federal Department of Education Fund, a nonmajor governmental fund, is expected to be used to repay the liability of \$6.29 million from future resources of this fund. As of June 30, 2009, the current and long term portions of the obligation are \$6.29 and \$-0- million, respectively.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2009**

**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 \$3.179 million for the year ended June 30, 2009.

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

<u>Year ending June 30,</u>	<u>Amount</u>
2010	\$ 2,484
2011	2,484
Total	<u>\$ 4,968</u>

**FEDERAL FUNDING**

The Agency receives federal grants, which are subject to review and audit by federal grantor agencies. Certain costs could be questioned as not being eligible expenditures under the terms of the grants. At June 30, 2009, there were no material questioned costs that had 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 two separate lawsuits in which the plaintiffs claim of personal injury stemming from tainted chicken tenders allegedly consumed by students and a claim regarding breach of a lease agreement.

In each of the above lawsuits, it is reasonably possible that the Agency will be found liable for losses estimated to be between \$400,000 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 affect on the financial position of the Agency.

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

**COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - GENERAL FUND**  
**BALANCE SHEET**

**AS OF JUNE 30, 2009**

(amounts expressed in thousands)

	<b>General Revenue Fund (001)</b>	<b>Education Assistance Fund (007)</b>	<b>Common School Fund (412)</b>	<b>Eliminations</b>	<b>Total</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 7	\$ -	\$ -	\$ -	\$ 7
Due from federal government	-	-	-	-	-
Due from local government	-	228	-	-	228
Other receivables	627	-	-	-	627
Due from other State funds	890	10	98,690	(98,690)	900
Due from component units of the State	406	-	6	-	412
Inventories	-	-	-	-	-
Loans receivable	-	-	-	-	-
Prepaid expenses	-	-	-	-	-
Unexpended appropriation	194,137	2,345	(98,690)	-	97,792
<b>TOTAL ASSETS</b>	<b>\$ 196,067</b>	<b>\$ 2,583</b>	<b>\$ 6</b>	<b>\$ (98,690)</b>	<b>\$ 99,966</b>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 910	\$ -	\$ -	-	\$ 910
Due to other government - federal	-	-	-	-	-
Due to local government	1,864,848	2,382	94	-	1,867,324
Due to other State funds	99,109	-	-	(98,690)	419
Due to component units of the State	680	3	-	-	683
<b>Total Liabilities</b>	<b>1,965,547</b>	<b>2,385</b>	<b>94</b>	<b>(98,690)</b>	<b>1,869,336</b>
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	-	-	-	-	-
Inventories	-	-	-	-	-
Long-term portion of loans receivable	-	-	-	-	-
Unreserved:					
Undesignated	(1,769,480)	198	(88)	-	(1,769,370)
<b>Total Fund Balance (Deficit)</b>	<b>(1,769,480)</b>	<b>198</b>	<b>(88)</b>	<b>-</b>	<b>(1,769,370)</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 196,067</b>	<b>\$ 2,583</b>	<b>\$ 6</b>	<b>\$ (98,690)</b>	<b>\$ 99,966</b>

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

**COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**

**FOR THE YEAR ENDED JUNE 30, 2009**

(amounts expressed in thousands)

	<b>General Revenue Fund (001)</b>	<b>Education Assistance Fund (007)</b>	<b>Common School Fund (412)</b>	<b>Eliminations</b>	<b>Total</b>
<b>REVENUES</b>					
Federal government	\$ 1,038,988	\$ -	\$ -	\$ -	\$ 1,038,988
Licenses and fees	129	-	-	-	129
Other revenues	12	-	-	-	12
Total Revenues	<u>1,039,129</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,039,129</u>
<b>EXPENDITURES</b>					
Education	3,660,807	795,953	3,002,591	-	7,459,351
Debt Service:					
Principal	5	-	-	-	5
Interest	-	-	-	-	-
Capital outlay	455	-	-	-	455
Total Expenditures	<u>3,661,267</u>	<u>795,953</u>	<u>3,002,591</u>	<u>-</u>	<u>7,459,811</u>
EXCESS (DEFICIENCY) OF REVENUES (UNDER) EXPENDITURES	<u>(2,622,138)</u>	<u>(795,953)</u>	<u>(3,002,591)</u>	<u>-</u>	<u>(6,420,682)</u>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>					
Appropriations from State resources	3,640,729	798,602	3,002,578	-	7,441,909
Reappropriation to fiscal year 2010	(39,666)	-	-	-	(39,666)
Operating transfers-out	(100)	-	-	-	(100)
Capital lease and installment purchase acquisition	298	-	-	-	298
Receipts remitted to State Treasury	(1,044,690)	(1,025)	(61)	-	(1,045,776)
Net Other Sources (Uses) of Financial Resources	<u>2,556,571</u>	<u>797,577</u>	<u>3,002,517</u>	<u>-</u>	<u>6,356,665</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND NET OTHER SOURCES (USES) OF FINANCIAL RESOURCES	<u>(65,567)</u>	<u>1,624</u>	<u>(74)</u>	<u>-</u>	<u>(64,017)</u>
Lapsed appropriations	(43,460)	(1,415)	-	-	(44,875)
Fund Balances (Deficit) July 1, 2008	<u>(1,660,453)</u>	<u>(11)</u>	<u>(14)</u>	<u>-</u>	<u>(1,660,478)</u>
<b>FUND BALANCES (DEFICIT) JUNE 30, 2009</b>	<u>\$ (1,769,480)</u>	<u>\$ 198</u>	<u>\$ (88)</u>	<u>\$ -</u>	<u>\$ (1,769,370)</u>

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

**COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - NONMAJOR FUNDS**  
**BALANCE SHEET**

**AS OF JUNE 30, 2009**

(amounts expressed in thousands)

	<b>Special Revenue Funds</b>			
	<b>Teacher Certificate Fee Revolving Fund (016)</b>	<b>Drivers Education Fund (031)</b>	<b>School District Emergency Financial Assistance Fund (130)</b>	<b>S.B.E. Special Purpose Trust Fund (144)</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 398	\$ -	\$ 1,258	\$ 900
Due from federal government	-	-	-	-
Due from local governments	-	-	10	3
Other receivables	-	-	-	-
Due from other State funds	-	-	-	-
Due from component units of the State	-	-	-	-
Inventories	-	-	-	-
Loans receivable	-	-	2,333	-
Unexpended appropriation	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 398</b>	<b>\$ -</b>	<b>\$ 3,601</b>	<b>\$ 903</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 43	\$ -	\$ -	\$ 102
Due to federal government	-	-	-	-
Due to local governments	-	17,930	-	-
Due to other State funds	-	-	-	27
Due to component units of the State	-	-	-	20
Deferred revenue	-	-	-	-
Unearned revenue	-	-	-	-
<b>Total Liabilities</b>	<b>43</b>	<b>17,930</b>	<b>-</b>	<b>149</b>
<b>FUND BALANCES</b>				
Reserved for:				
Encumbrances	3	-	-	109
Inventories	-	-	-	-
Long-term portion of loans receivable	-	-	2,333	-
Unreserved:				
Undesignated	352	(17,930)	1,268	645
<b>Total Fund Balance (Deficit)</b>	<b>355</b>	<b>(17,930)</b>	<b>3,601</b>	<b>754</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 398</b>	<b>\$ -</b>	<b>\$ 3,601</b>	<b>\$ 903</b>

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

**COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - NONMAJOR FUNDS**  
**BALANCE SHEET**

**AS OF JUNE 30, 2009**

(amounts expressed in thousands)

	<b>Special Revenue Funds</b>			
	<b>S.B.E. Teacher Certification Institute Fund (159)</b>	<b>S.B.E. Federal Dept. of Agriculture Fund (410)</b>	<b>S.B.E. Federal Agency Service Fund (560)</b>	<b>S.B.E. Federal Dept. of Education Fund (561)</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,067	\$ 359	\$ 8	\$ 2,419
Due from federal government	-	15,356	65	96,510
Due from local governments	-	-	-	978
Other receivables	-	597	-	-
Due from other State funds	-	-	8	409
Due from component units of the State	-	-	-	312
Inventories	-	1,425	-	-
Loans receivable	-	-	-	-
Unexpended appropriation	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 1,067</b>	<b>\$ 17,737</b>	<b>\$ 81</b>	<b>\$ 100,628</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 11	\$ -	\$ 30	\$ 6,703
Due to federal government	-	16	5	2,394
Due to local governments	-	11,597	46	87,714
Due to other State funds	-	443	-	2,177
Due to component units of the State	-	30	-	1,158
Deferred revenue	-	4,045	28	-
Unearned revenue	-	-	-	167
Total Liabilities	11	16,131	109	100,313
<b>FUND BALANCES</b>				
Reserved for:				
Encumbrances	-	197	-	-
Inventories	-	1,425	-	-
Long-term portion of loans receivable	-	-	-	-
Unreserved:				
Undesignated	1,056	(16)	(28)	315
Total Fund Balance (Deficit)	1,056	1,606	(28)	315
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,067</b>	<b>\$ 17,737</b>	<b>\$ 81</b>	<b>\$ 100,628</b>

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

**COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - NONMAJOR FUNDS**  
**BALANCE SHEET**

**AS OF JUNE 30, 2009**

(amounts expressed in thousands)

	Special Revenue Funds				Total
	Charter Schools Revolving Loan Fund (567)	School Infrastructure Fund (568)	School Technology Revolving Loan Program Fund (569)	Temporary Relocation Expenses Rev. Grant Fund (605)	
<b>ASSETS</b>					
Cash and cash equivalents	\$ 88	\$ -	\$ 2,385	\$ 398	\$ 9,280
Due from federal government	-	-	-	-	111,931
Due from local governments	-	-	-	-	991
Other receivables	-	-	1	-	598
Due from other State funds	-	-	-	-	417
Due from component units of the State	-	-	-	-	312
Inventories	-	-	-	-	1,425
Loans receivable	11	-	3,453	585	6,382
Unexpended appropriation	-	9	-	-	9
<b>TOTAL ASSETS</b>	<b>\$ 99</b>	<b>\$ 9</b>	<b>\$ 5,839</b>	<b>\$ 983</b>	<b>\$ 131,345</b>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ 6,889
Due to federal government	-	-	-	-	2,415
Due to local governments	-	-	-	-	117,287
Due to other State funds	-	-	-	-	2,647
Due to component units of the State	-	-	-	-	1,208
Deferred revenue	-	-	-	-	4,073
Unearned revenue	-	-	-	-	167
Total Liabilities	-	-	-	-	134,686
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	40	-	-	-	349
Inventories	-	-	-	-	1,425
Long-term portion of loans receivable	11	-	3,453	585	6,382
Unreserved:					
Undesignated	48	9	2,386	398	(11,497)
Total Fund Balance (Deficit)	99	9	5,839	983	(3,341)
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 99</b>	<b>\$ 9</b>	<b>\$ 5,839</b>	<b>\$ 983</b>	<b>\$ 131,345</b>



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

**COMBINING INDIVIDUAL GOVERNMENTAL FUNDS-NONMAJOR FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**

**FOR THE YEAR ENDED JUNE 30, 2009**

	<b>Special Revenue Funds</b>			
	<b>Teacher Certificate Fee Revolving Fund (016)</b>	<b>Drivers Education Fund (031)</b>	<b>School District Emergency Financial Assistance Fund (130)</b>	<b>S.B.E. Special Purpose Trust Fund (144)</b>
<b>REVENUES</b>				
Federal government	\$ -	\$ -	\$ -	\$ 3,872
Licenses and fees	1,680	-	-	-
Interest	-	-	15	-
Other revenues	-	-	-	291
<b>Total Revenues</b>	<b>1,680</b>	<b>-</b>	<b>15</b>	<b>4,163</b>
<b>EXPENDITURES</b>				
Education	1,355	18,008	-	3,783
Debt service-principal	-	-	-	5
Capital outlay	21	-	-	332
<b>Total Expenditures</b>	<b>1,376</b>	<b>18,008</b>	<b>-</b>	<b>4,120</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>304</b>	<b>(18,008)</b>	<b>15</b>	<b>43</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>				
Appropriations from State resources	-	18,010	-	-
Reappropriation to fiscal year 2010	-	-	-	-
Net change in liabilities for reappropriated accounts	-	-	-	-
Capital lease and installment purchase acquisition	-	-	-	241
Operating transfers-in	-	-	-	-
Operating transfers-out	(250)	-	-	-
<b>Net Other Sources (Uses) of Financial Resources</b>	<b>(250)</b>	<b>18,010</b>	<b>-</b>	<b>241</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>	<b>54</b>	<b>2</b>	<b>15</b>	<b>284</b>
Lapsed appropriations	-	(7)	-	-
Fund Balances (Deficit) July 1, 2008	301	(17,925)	3,586	470
<b>FUND BALANCES (DEFICIT) JUNE 30, 2009</b>	<b>\$ 355</b>	<b>\$ (17,930)</b>	<b>\$ 3,601</b>	<b>\$ 754</b>

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

**COMBINING INDIVIDUAL GOVERNMENTAL FUNDS-NONMAJOR FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**

**FOR THE YEAR ENDED JUNE 30, 2009**

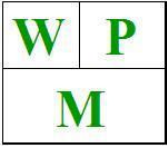
	<b>Special Revenue Funds</b>			
	<b>S.B.E. Teacher Certification Institute Fund (159)</b>	<b>S.B.E. Federal Dept. of Agriculture Fund (410)</b>	<b>S.B.E. Federal Agency Services Fund (560)</b>	<b>S.B.E. Federal Dept. of Education Fund (561)</b>
<b>REVENUES</b>				
Federal government	\$ -	\$ 568,529	\$ 932	\$ 1,451,538
Licenses and fees	216	-	-	-
Interest	-	-	-	-
Other revenues	-	182	-	(778)
<b>Total Revenues</b>	<b>216</b>	<b>568,711</b>	<b>932</b>	<b>1,450,760</b>
<b>EXPENDITURES</b>				
Education	313	567,022	933	1,451,462
Debt service-principal	-	-	-	-
Capital outlay	-	92	-	132
<b>Total Expenditures</b>	<b>313</b>	<b>567,114</b>	<b>933</b>	<b>1,451,594</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(97)</b>	<b>1,597</b>	<b>(1)</b>	<b>(834)</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>				
Appropriations from State resources	-	-	-	-
Reappropriation to fiscal year 2010	-	-	-	-
Net change in liabilities for reappropriated accounts	-	-	-	-
Capital lease and installment purchase acquisition	-	71	-	99
Operating transfers-in	-	-	-	-
Operating transfers-out	-	-	-	-
<b>Net Other Sources (Uses) of Financial Resources</b>	<b>-</b>	<b>71</b>	<b>-</b>	<b>99</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>	<b>(97)</b>	<b>1,668</b>	<b>(1)</b>	<b>(735)</b>
Lapsed appropriations	-	-	-	-
Fund Balances (Deficit) July 1, 2008	1,153	(62)	(27)	1,050
<b>FUND BALANCES (DEFICIT) JUNE 30, 2009</b>	<b>\$ 1,056</b>	<b>\$ 1,606</b>	<b>\$ (28)</b>	<b>\$ 315</b>

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

**COMBINING INDIVIDUAL GOVERNMENTAL FUNDS-NONMAJOR FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**

**FOR THE YEAR ENDED JUNE 30, 2009**

	Special Revenue Funds				Total
	Charter Schools Revolving Loan Fund (567)	School Infrastructure Fund (568)	School Technology Revolving Loan Program Fund (569)	Temporary Relocation Expenses Rev. Grant Fund (605)	
<b>REVENUES</b>					
Federal government	\$ -	\$ -	\$ -	\$ -	\$ 2,024,871
Licenses and fees	-	-	-	-	1,896
Interest	-	-	129	-	144
Other revenues	-	-	-	-	(305)
Total Revenues	-	-	129	-	2,026,606
<b>EXPENDITURES</b>					
Education	3	104	14	441	2,043,438
Debt service-principal	-	-	-	-	5
Capital outlay	-	-	-	-	577
Total Expenditures	3	104	14	441	2,044,020
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(3)	(104)	115	(441)	(17,414)
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>					
Appropriations from State resources	-	113	-	-	18,123
Reappropriation to fiscal year 2010	-	-	-	-	-
Net change in liabilities for reappropriated accounts	-	-	-	-	-
Capital lease and installment purchase acquisition	-	-	-	-	411
Operating transfers-in	-	-	-	100	100
Operating transfers-out	-	-	(500)	-	(750)
Net Other Sources (Uses) of Financial Resources	-	113	(500)	100	17,884
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES) OF FINANCIAL RESOURCES	(3)	9	(385)	(341)	470
Lapsed appropriations	-	-	-	-	(7)
Fund Balances (Deficit) July 1, 2008	102	-	6,224	1,324	(3,804)
<b>FUND BALANCES (DEFICIT) JUNE 30, 2009</b>	<b>\$ 99</b>	<b>\$ 9</b>	<b>\$ 5,839</b>	<b>\$ 983</b>	<b>\$ (3,341)</b>



**WASHINGTON, PITTMAN & McKEEVER, LLC**  
**CERTIFIED PUBLIC ACCOUNTANTS AND**  
**MANAGEMENT CONSULTANTS**  
819 South Wabash Avenue  
Suite 600  
Chicago, Illinois 60605

Ph. (312) 786-0330  
Fax (312) 786-0323  
[www.wpmck.com](http://www.wpmck.com)

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

Honorable William G. Holland  
Auditor General  
State of Illinois

and

The Board Members of the  
Illinois State Board of Education

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Illinois State Board of Education, as of and for the year ended June 30, 2009, which collectively comprise the Illinois State Board of Education's basic financial statements and have issued our report thereon dated December 31, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, and not for the purpose of expressing an opinion on the effectiveness of the Illinois State Board of Education's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Illinois State Board of Education's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in finding 09-1 in the accompanying schedule of findings that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Compliance and Other Matters**

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

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

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

*Washington, Pittman & McKeever, LLC*

**WASHINGTON, PITTMAN & McKEEVER, LLC**

**Chicago, Illinois  
December 31, 2009**

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

**FINANCIAL AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2009**

**SCHEDULE OF FINDINGS**

**FINDING 09-1            Inadequate Control Over the Financial Reporting Process**

The Agency did not have adequate procedures to ensure proper identification and recording of all financial information.

The Agency had errors on forms reported to the Illinois Office of the Comptroller (IOC) for use in the Agency and Statewide financial reporting process. The Agency's SCO form 563 included significant beginning and ending balance misstatements to one fund. These misstatements required the Agency to reduce receivables and deferred revenue by \$7.4 and \$6.8 million, respectively. Furthermore, we noted two additional adjusting journal entries totaling \$395,000, which were required to the initial GAAP package forms for two of the fifteen funds (14%) submitted to the IOC which should have been captured and corrected in the Agency's review process. In total the corrected misstatements and adjustments reduced the change in fund balance/net assets by approximately \$1.2 million.

Generally Accepted Accounting Principles and the Statewide Accounting Management System Manual provide guidance for financial reporting. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all Agencies to establish and maintain a system or systems of internal fiscal and administrative controls, to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports.

Agency personnel stated the Agency's review procedures did not include a fund balance reconciliation prior to the submission of the initial GAAP packages. The Agency also did not segregate its accounts receivable for awards and grants between local education agencies and other state agencies to ensure proper classification and reporting.

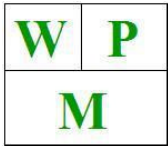
Lack of adequate controls over the financial reporting process could lead to inaccuracies in Agency and Statewide financial reporting. (Finding Code No. 09-1, 08-1)

**RECOMMENDATION**

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

**AGENCY RESPONSE**

As noted, there were errors in the initial GAAP Forms submitted by the agency to the Illinois Office of the Comptroller (IOC). As a result of collaborative efforts between the agency and IOC, the agency was able to accurately prepare its financial statements prior to the submission to the auditors for review. The internal fiscal and administrative controls that are currently in place will be strengthened by the addition of Fund Balance Reconciliations as well as a segregation of amounts owed to the agency resulting from Awards & Grants on IOC Accounts Receivable Reports. Those additions in combination with the controls currently in place will ensure that the initial GAAP Forms submitted to IOC are accurate.



**WASHINGTON, PITTMAN & McKEEVER, LLC**  
**CERTIFIED PUBLIC ACCOUNTANTS AND**  
**MANAGEMENT CONSULTANTS**  
819 South Wabash Avenue  
Suite 600  
Chicago, Illinois 60605

Ph. (312) 786-0330  
Fax (312) 786-0323  
[www.wpmck.com](http://www.wpmck.com)

**INDEPENDENT ACCOUNTANT'S REPORT**  
**ON AGREED-UPON PROCEDURES**

Honorable William G. Holland  
Auditor General  
State of Illinois

and

The Board Members of the  
Illinois State Board of Education

As Special Assistant Auditor 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, 2009, 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 reviewed the following articles of the School Code: 105 ILCS 5/1A-4, 105 ILCS 5/26-2a, and 105 ILCS 5/26-3a, noting the Agency's mandated duties.
2. We obtained and reviewed the fiscal year 2008 annual report for the State Board of Education, noting compliance with the statute.
3. We documented the Agency's procedures for accumulating and reviewing dropout and transitional bilingual education data.
4. We obtained and reviewed the information submitted by the local school districts via the ISBE Web Application Security (IWAS) System for completion of dropout and other data for a sample of 25 local school districts.

5. 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 2007-2008 school year. We noted no exceptions.
6. We examined the transaction log for the submission date of the completed "End of Year Reports" for the selected districts. We noted no significant exceptions for the submission of the 2007-2008 End of Year Reports.
7. We compared dropout data totals, by grade level and by program category, on the computerized recap to those on the 2009 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. We noted no significant exceptions.
8. We reviewed the information submitted by 10 of the sample of 25 local school districts with bilingual education programs for the completion of bilingual education data. We noted no significant exceptions.
9. We compared bilingual education data for the 10 out of 25 local school districts to the Agency's summary of the number of students in bilingual education programs for 2007-2008. We noted no exceptions.
10. We compared bilingual education data totals, on the Annual Student Report, for the 10 out of 25 local school districts to those on the 2008 Annual Report, submitted to the Governor and the General Assembly. We noted no significant exceptions.
11. We examined transmittals for the completed "Annual Student Report" for the school district's submission date. We noted no significant exceptions for the 2007-2008 Annual Student Reports.

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, Agency Management, and the Board Members of the Illinois State Board of Education and is not intended to be, and should not be, used by anyone other than these specified parties.

*Washington, Pittman & McKeever, LLC*

**WASHINGTON, PITTMAN & McKEEVER LLC**

**Chicago, Illinois  
December 31, 2009**