

**WASHINGTON, PITTMAN & McKEEVER, LLC**

*CERTIFIED PUBLIC ACCOUNTANTS AND  
MANAGEMENT CONSULTANTS*

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**STATE OF ILLINOIS**  
**ILLINOIS STATE BOARD OF EDUCATION**  
**FINANCIAL AUDIT AND**  
**COMPLIANCE EXAMINATION**  
**FOR THE YEAR ENDED JUNE 30, 2008**

**Performed as Special Assistant Auditor 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, 2008

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**STATE OF ILLINOIS**  
**ILLINOIS STATE BOARD OF EDUCATION**  
**FINANCIAL AUDIT AND**  
**COMPLIANCE EXAMINATION**  
**FOR THE YEAR ENDED JUNE 30, 2008**

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STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2008

AGENCY OFFICIALS

Board members of the Illinois State Board of Education at June 30, 2008:

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

State Superintendent of Education	Dr. Christopher A. Koch, Ed.D
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Cabinet Members at June 30, 2008:

General Counsel/Legal	Darren Reisberg
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Directors:

Special Education and Support Services	Beth Hanselman
School Support Services For All Schools	Linda Tomlinson
Teaching and Learning Services For All Children	Rene Valenciano, Connie Wise
Fiscal Support Services	Linda Riley Mitchell
Human Resources	Don 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





# Illinois State Board of Education

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

Jesse H. Ruiz  
Chairman

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

3/25/2009

Washington, Pittman & McKeever, LLC  
Certified Public Accountants  
819 South Wabash, Suite 600  
Chicago, IL 60605

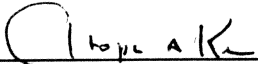
Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements 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 year period ended June 30, 2008. Based on this evaluation, we assert that during the year ended June 30, 2008, the Agency has materially complied with the assertions below.

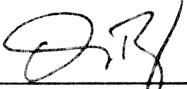
- A. The agency has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The agency has obligated, expended, received and used public funds of the State in accordance with any limitations, 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. 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. 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

  
\_\_\_\_\_  
Christopher A. Koch, Ed.D.  
State Superintendent of Education

  
\_\_\_\_\_  
Linda Mitchell  
Chief Financial Officer

  
\_\_\_\_\_  
Darren Reisberg  
General Counsel

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

**FINANCIAL AUDIT AND COMPLIANCE EXAMINATION**

**FOR THE YEAR ENDED JUNE 30, 2008**

**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.

**ACCOUNTANTS' REPORT**

The Independent Accountant's 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**

Number of	This Report	Prior Report
Findings	3	2
Repeated findings	2	2
Prior recommendations implemented or not repeated	0	0

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

**SCHEDULE OF FINDINGS**

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS ( <i>GOVERNMENT AUDITING STANDARDS</i> )			
08-1	12	Inadequate Controls Over the Financial Reporting Process	Significant Deficiency and Noncompliance
FINDINGS ( <i>STATE COMPLIANCE</i> )			
08-2	13	Noncompliance with Mandated Duties	Significant Deficiency and Noncompliance
08-3	17	Noncompliance with the Fiscal Control and Internal Auditing Act	Significant Deficiency and Noncompliance
In addition, the following finding which was reported as current findings relating to <i>Government Auditing Standards</i> also meets the reporting requirements for State Compliance.			
08-1	12	Inadequate Controls Over the Financial Reporting Process	Significant Deficiency and Noncompliance

**PRIOR FINDINGS NOT REPEATED**

	19	None
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**STATE OF ILLINOIS**  
**ILLINOIS STATE BOARD OF EDUCATION**

**FINANCIAL AUDIT AND COMPLIANCE EXAMINATION**

**FOR THE YEAR ENDED JUNE 30, 2008**

**EXIT CONFERENCE**

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on March 9, 2009. Attending were:

**Illinois State Board of Education**

Christopher Koch, Ed.D	State Superintendent of Education
Linda Tomlinson, PhD	Assistant Superintendent
Linda Riley Mitchell	Chief Financial Officer
Darren Reisberg	General Counsel
Lisa Labonte	Chief Internal Auditor
Robert Wolfe	Division Administrator of Fiscal and Procurement
Terry Chamberlain	Division Administrator of Data Systems
Patrick Murphy	Division Administrator of Educator and School Development

**Office of the Auditor General**

Jane Clark	Audit Manager
Joe Gudgel	IT Audit Manager

**Washington, Pittman & McKeever, LLC**

Dorothy A. McLemore	Principal
Angela T. Allen	Audit Manager

**McGladrey & Pullen, LLP**

Scott Morey	IT Auditor
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Responses to the recommendations were provided by Christopher A. Koch, Ed.D., in a letter dated March 18, 2009.

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**INDEPENDENT ACCOUNTANT'S 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

and

The Board Members of the  
Illinois State Board of Education

**Compliance**

As Special Assistant Auditor 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, 2008. 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. 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.

We conducted our examination 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, included examining, on a test basis, evidence about the Illinois State Board of Education's compliance with those requirements listed in the first paragraph of this report 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 requirements listed in the first paragraph of this report during the year ended June 30, 2008. 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 findings and questioned costs as findings 08-1 through 08-3.

### **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 listed in the first paragraph of this report. In planning and performing our examination, we considered the Illinois State Board of Education's internal control over compliance with the requirements first paragraph of this report 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, but not for the purpose of expressing an opinion on the effectiveness of the Illinois State Board of Education's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Illinois State Board of Education's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to comply with the requirements listed in the first paragraph of this report such that there is more than a remote likelihood that noncompliance with a requirement that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as findings 08-1 through 08-3 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings to be material weaknesses.

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

### **Supplementary Information for State Compliance Purposes**

As Special Assistant Auditor 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, 2008, which collectively comprise the Illinois State Board of Education's basic financial statements, and have issued our report thereon dated March 25, 2009. 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 2008 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, 2008 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, 2007. In our report dated April 8, 2008, 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 2007 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 30, 2007, 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, 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**

**Chicago, Illinois  
March 25, 2009**

**WASHINGTON, PITTMAN & McKEEVER, LLC**

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**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, 2008, which collectively comprise the Illinois State Board of Education's basic financial statements and have issued our report thereon dated March 25, 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Illinois State Board of Education's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Illinois State Board of Education's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting, 08-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described is a material weakness.

#### **Compliance and Other Matters**

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

We also noted certain matters which we have reported to management of the Illinois State Board of Education in a separate letter dated March 25, 2009.

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**

**Chicago, Illinois  
March 25, 2009**



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**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, 2008, 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.

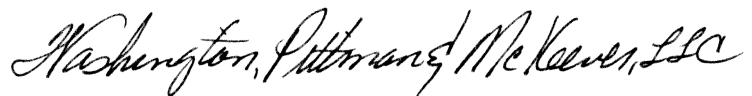
The procedures we performed and our findings are as follows:

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 2007 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 2006-2007 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 the 2006-2007 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 2007 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.
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 2006-2007. 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 2007 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 2006-2007 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

**Chicago, Illinois**  
**March 25, 2009**

**STATE OF ILLINOIS**  
**ILLINOIS STATE BOARD OF EDUCATION**  
**FINANCIAL AND COMPLIANCE EXAMINATION**  
**CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2008**

**GOVERNMENT AUDITING STANDARDS**

**FINDING 08-1            Inadequate Control Over the Financial Reporting Process**

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

We noted the current year expenditures were overstated approximately \$7.9 million due to an accrual that should have been recognized in the prior year's financial statements. The State Finance Act (30 ILCS 105/25) and the School Code (105 ILCS 5/14-7.03) allows reimbursement claims that exceed the current year's appropriation to be paid from future year's appropriations. While the proper adjustment was made during fiscal year 2008, it was noted in fiscal year 2007 the proper accrual was not made.

The Fiscal Control and Internal Auditing Act (FCIAA) 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 overstatement of expenditures resulted in the fact the liability was not recorded in the fiscal year 2007 financial statements. The only corrective action available would have been to restate the fiscal year 2007 financial statements and that was not done due to \$7.9 million not being a material amount to the financial statements. Controls were in place during fiscal year 2008 as evidenced by the fact the liability was properly recorded.

Lack of adequate controls over the financial reporting process could lead to inaccuracies in Agency and statewide financial reporting. (Finding Code No. 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 proper controls over the Agency's Financial Reporting process for fiscal year 2008. In order to enhance the controls already in place, the Agency has developed an addendum to the current checklist which will help ensure the accuracy of the financial data and provide additional documentation that the control was performed and support the controls already in place in regards to the recognition of liabilities to be paid with future year's appropriation.

**STATE OF ILLINOIS**  
**ILLINOIS STATE BOARD OF EDUCATION**  
**FINANCIAL AUDIT AND COMPLIANCE EXAMINATION**  
**CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2008**

**STATE COMPLIANCE**

**FINDING 08-2            Noncompliance with Mandated Duties**

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

- The Agency has not maintained or appointed members to the Sex Education Advisory Board. The School Code (105 ILCS 130/1 thru 130/5) requires the Agency to administer the Sex Education Act and to establish a Division of Sex Education. Furthermore, the Agency is to appoint four of the nine members of the Sex Education Advisory Board which was also established under this Act. Agency personnel stated this mandate is obsolete and has begun actions to seek its repeal.
- The Agency has not granted certificates of recognition to normal schools for all school districts or counties. The Recognized Normal School Act (105 ILCS 430/1 thru 430/3) requires the Agency to grant certificates of recognition to normal schools for all school districts or counties. Agency personnel stated in 1967, when the provisions governing the 'Normal Schools'/ Teachers Colleges were moved from Chapter 122 of the Statutes (Schools) to Chapter 144 (Universities, Colleges, Academies, etc.), the "Recognized Normal School Act" was neither transferred and amended nor deleted. Agency personnel also stated this mandate is obsolete and has begun actions to seek its repeal.
- The Agency failed to appoint seven (7) members to the Advisory Council on Compensatory Education, did not adopt rules and regulations to carry out its duties and responsibilities under article 14-B and failed to issue a report to the General Assembly on the Councils programs and claims by January 20 of the odd numbered year. The School Code (105 ILCS 5/14B-1 thru 5/14B-7) requires the Agency to appoint seven (7) members to the Advisory Council and to adopt rules and regulations to carry out its responsibility under this article, which is to assist and encourage local school districts in the development and improvement of an educational program that will increase the educational services of the public schools of Illinois for educationally disadvantaged children. Agency personnel stated this mandate is obsolete and has begun actions to seek its repeal.
- The Agency did not establish and implement an alternative math-science certification program. The School Code (105 ILCS 5/21-5a) requires the State Board of Education, in consultation with the State Teacher Certification Board, to establish and implement an alternative certification program under which persons who qualify for admission to, and who successfully complete the program and meet the additional requirements shall be issued an initial teaching certificate for teaching mathematics, science or mathematics and science in grades 9 through 12 of the common schools. Agency personnel stated, although this has always been an option for higher education institutions, there were no colleges or universities that took advantage of this provision. The other alternative certifications routes were easier for the institutions to administer and candidates to complete. The Agency is in the process of rewriting the certification statute for the 2010 spring legislative session. The alternative math and science certification language has been removed in this proposed version of the certification statute.

**STATE OF ILLINOIS**  
**ILLINOIS STATE BOARD OF EDUCATION**  
**FINANCIAL AUDIT AND COMPLIANCE EXAMINATION**  
**CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2008**

**STATE COMPLIANCE (Continued)**

**FINDING 08-2            Noncompliance with Mandated Duties (Continued)**

- The Agency did not appoint its member to represent school administrators to the Social Security Number Protection Task Force, timely. The Agency's member was appointed one year after the effective date of the statute. The Boards and Commissions Act (20 ILCS 4040/10) requires one representative from the Agency to be appointed as member of the Social Security Number Protection Task Force. Agency personnel stated the late appointment was due to oversight and noted the Agency did not receive any notification from the Office of the Attorney General regarding this task force.
- The Agency did not submit the Physical Education Report for the year ended June 30, 2006 to the General Assembly and the Governor on or before January 30, 2007. The School Code (105 ILCS 5/2-3.97) requires the Agency to report to the General Assembly and Governor on or before January 30<sup>th</sup> of every odd-numbered year, the information on the physical education exemption programs for the immediately preceding school year ending June 30. The statute requires the Agency to report the general nature and manner of operation of the physical education exemption programs conducted by school districts; a brief description of the policy adopted by each school district participating in such programs; and the number of pupils participating in these programs, with the grade and by school district. Since this report is due every other year, the underlying cause remains as it was reported in the 2007 financial audit and compliance examination report whereby Agency personnel stated the Physical Education Report was not completed due to oversight caused by a change in the administration of the Accountability Division.
- Boards of school districts that were awarded the Parental Participation Pilot Project Grant did not submit the annual progress report to the Agency on or before August 1, 2008. The Agency did not receive the annual progress reports from two of the four school districts that were awarded the Parental Participation Pilot Project Grant on or before August 1, 2008. The School Code (105 ILCS 5/2-3.141) requires the board of each school district that was awarded the Parental Participation Pilot Project Grant submit an annual progress report to the State Board no later than August 1 of each year the school district is participating. The project started in fiscal year 2007 (school year 2006 – 2007), hence, the second annual progress report should have been submitted on or before August 1, 2008. Agency personnel stated the grantees were notified on May 1, 2008 of the availability of the fiscal year 2009 continuation grant application and annual report, as well as the August 1 deadline.
- The Agency was late submitting the Annual Statistical Report to the Governor and General Assembly. Based on transmittal receipts for the Annual Statistical Reports, we noted that the 2006 Report due on January 14, 2007 was submitted on October 23, 2007, 9 ½ months late, and the 2007 Report due on January 14, 2008 had not been submitted as of June 17, 2008. The School Code (105 ILCS 5/2-3.11) requires the Agency to report to the Governor and General Assembly annually on or before January 14 the condition of the schools of the State for the preceding year, ending on June 30. Agency personnel stated the Agency does not possess the required data for the preceding year ending on June 30 in time to submit the Statistical Report to the General Assembly and Governor by the January 14 due date. Subsequent to year end, legislation was passed amending the School Code (effective 1/1/09), thereby requiring that the most recent information available be submitted by January 14 of each year.

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**ILLINOIS STATE BOARD OF EDUCATION**  
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**CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2008**

**STATE COMPLIANCE (Continued)**

**FINDING 08-2            Noncompliance with Mandated Duties (Continued)**

- The Agency did not comply with several requirements of the Private Business and Vocational Schools (PBVS) Act (105 ILCS 425/1 thru 425/15). The PBVS Act was established to provide for the protection, education and welfare of the citizens of the State of Illinois; to provide for the education, protection and welfare of the students of its private business and vocational schools; and to facilitate and promote quality education and responsible, ethical business practices in each of the private business and vocational schools enrolling students in this State. The Act establishes an Advisory Council under the supervision of the Agency to carry out the mission of the Act. Agency personnel stated in previous years, staff resources were insufficient to establish, maintain and utilize the Private Business Vocational School Advisory Council (PBVSAC). However, the addition of staff members to the Division, along with changes in management, will allow for the PBVSAC to be formed in the near future.

In addition, during the prior period the Agency failed to do the following: 1) develop a teacher evaluation plan; 2) provide grants to charter schools to pay for start-up costs; 3) appoint a member to the Illinois Institute for Entrepreneurship Education; 4) lacked the required number of representatives on the Literacy Advisory Board; 5) prepare and submit the annual report regarding the Reading Improvement Grant program to the General Assembly; 6) timely review, approve and process Safety Survey Reports; 7) make grants available for education programs for gifted and talented children to qualifying school districts; and 8) establish a State Level Committee of Cooperative Services. During the current period, we noted the Agency took steps to come into compliance with each of the above requirements.

Also, due to the reporting of prior year findings, the Agency sought repeal of Agency requirements to: 1) initiate and maintain an annual Governor's Recognition Program, 2) make available competitive grants to school districts for the purpose of developing comprehensive arts programs in grades kindergarten through six in music, drama, dance and visual arts, 3) establish and distribute funds for the Alternative Learning Opportunities Program, 4) develop a model curriculum for reduction of self destructive behavior for use in grades 6 through 12 of public schools, 5) maintain staff with experience and academic preparation to provide consulting assistance for programs relating to the study of atomic radiation and its peaceful uses, 6) make available competitive grants for the purpose of providing pilot programs to focus curriculum to improve scientific literacy, and 7) submit nominations to the Governor for his appointment to the Illinois Summer School for the Arts Board of Trustees. The bill to repeal these requirements was passed on August 8, 2008 with an effective date of January 1, 2009 (Public Act 095-0793). (Finding Code No. 08-2, 07-1, 06-1, 05-2, 04-6, 03-6, 02-13, 00-9)

Failure to carry out mandated duties is noncompliance with statutory requirements.

**RECOMMENDATION**

We recommend the Agency develop a system to identify all mandates and develop procedures to ensure compliance.

**STATE OF ILLINOIS**  
**ILLINOIS STATE BOARD OF EDUCATION**  
**FINANCIAL AUDIT AND COMPLIANCE EXAMINATION**  
**CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2008**

**STATE COMPLIANCE (Continued)**

**FINDING 08-2            Noncompliance with Mandated Duties (Continued)**

**AGENCY RESPONSE**

Sex Education Advisory Board-

This statute has been included for repeal in SB 1977, introduced 2/20/2009.

Recognized Normal Schools Act-

This statute has been included for repeal in SB 1977, introduced 2/20/2009.

Advisory Council on Compensatory Education-

This statute has been included for repeal in SB 1977, introduced 2/20/2009.

Alternative math-science [teacher] certification program-

The Agency is currently rewriting the teacher certification statute. The revised version of the statute will not reference this alternative math-science certification program. The Agency is working for introduction of the rewritten certification statute during the 2010 Spring legislative session.

Social Security Number Protection Task Force-

The Agency currently has appointed the required member to represent school administrators on the Task Force. The Agency will work to ensure that any future vacancies on the Task Force are filled promptly.

Physical Education Report-

Since this report is only due every other year, the Agency was unable to resolve this finding for fiscal year 2008. The Physical Education Report for the year ended June 30, 2008 was submitted to the General Assembly and Governor prior to the January 30, 2009 due date.

Parental Participation Pilot Project Grant-

The Agency was placing reliance on the school districts to turn the report in on time, as part of their continuing grant application. Going forward, the school districts will be contacted, as necessary, to ensure that the annual progress reports are received prior to the August 1 deadline.

Annual Statistical Report-

105 ILCS 5/2-3.11 was revised by P.A. 95-793, effective January 1, 2009, to include the language: "Using the most recently available data." It is not possible for the Agency to report on data it does not have.

Private Business and Vocational Schools (PBVS) Act-

The Agency is in the process of soliciting members to form the Private Business Vocational School Advisory Council (PBVSAC) in accordance with the requirements of 105 ILCS 425/2. The Agency plans to have members in place and to hold the first PBVSAC meeting during Summer 2009.

**STATE OF ILLINOIS**  
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**CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2008**

**STATE COMPLIANCE (Continued)**

**FINDING 08-3            Noncompliance with the Fiscal Control and Internal Auditing Act**

The Agency did not comply with provisions of the Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/1001 et seq.).

During our review, we found Internal Audit did not audit all of the Agency's major systems over the last two years. During fiscal year 2008, Internal Audit performed five (5) audits, issuing only two (2) reports. Over the two-year period, the Agency issued three (3) reports. In addition, we noted appropriate processes were not in place to ensure Internal Audit involvement in all major systems development/modification projects.

The Act requires audits of major systems of internal accounting and administrative control be conducted on a periodic basis so that all major systems are reviewed at least once every two years. The Act further requires audits include testing of the obligation, expenditure, receipt and use of public funds of the State and of funds held in trust to determine whether those activities are in accordance with applicable laws and regulations. The Act also requires reviews of the design of major new electronic data processing systems before their installation to ensure the systems provide for adequate audit trails and accountability.

Agency personnel stated the audit plan is established in order to provide audit coverage of all major systems of internal controls over a two-year cycle, as required by the Fiscal Control and Internal Audit Act. Staffing levels and competing priorities did not allow Internal Audit to complete all audits on the audit plan.

The Internal Audit Division cannot assure management that reasonable controls exist if internal controls of major systems of internal accounting and administrative control are not reviewed. The lack of audits of major systems could result in undetected control deficiencies leading to errors, misstatements or fraud. (Finding Code No. 08-3, 07-2, 06-2)

**RECOMMENDATION**

We recommend the Agency allocate adequate resources to the Internal Audit Division to ensure audits of major systems are performed at least once every two years as required by the Fiscal Control and Internal Auditing Act.

In addition, we recommend the Agency ensure adequate procedures are established to ensure Internal Audit involvement in all major systems development and modifications of existing systems.



**STATE OF ILLINOIS**  
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**FINANCIAL AUDIT AND COMPLIANCE EXAMINATION**  
**CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2008**

**STATE COMPLIANCE (Continued)**

**AGENCY RESPONSE**

During fiscal year 2008, Internal Audit staffing consisted of the Chief Internal Auditor, one Principal Auditor, and one support staff. In accordance with the Fiscal Control and Internal Auditing Act (30 ILCS 10/2003), Internal Audit submitted a two-year plan, identifying audits scheduled for the pending fiscal year [2008] that would allow for audits of major systems of internal accounting and administrative control conducted on a periodic basis so that all major systems are reviewed at least once every 2 years. The 2008 audit plan acknowledges that available staff time was not adequate to perform all audits in the plan.

In addition to Internal Audits, a considerable portion of staff time is spent in the role of audit liaison to the Financial and Compliance auditors, the A-133 auditors, U.S. Department of Education Office of Inspector General auditors, and U.S. Department of Education program offices performing follow-up on Agency findings.

An additional Principal Auditor began working for Internal Audit in October 2008. The addition of this staff member will assist the Agency in meeting the requirements of the Fiscal Control and Internal Auditing Act.

**STATE OF ILLINOIS**  
**ILLINOIS STATE BOARD OF EDUCATION**  
**FINANCIAL AUDIT AND COMPLIANCE EXAMINATION**  
**CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2008**

**STATE COMPLIANCE (Continued)**

**PRIOR FINDINGS NOT REPEATED**

There were no prior year findings not repeated during the current year.

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

**FINANCIAL AUDIT AND COMPLIANCE EXAMINATION**

**FOR THE YEAR ENDED JUNE 30, 2008**

**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.

**WASHINGTON, PITTMAN & McKEEVER, LLC**

*CERTIFIED PUBLIC ACCOUNTANTS AND  
MANAGEMENT CONSULTANTS*

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**INDEPENDENT AUDITOR'S REPORT**

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 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, 2008, 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 the financial position of the State of Illinois as of June 30, 2008, 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, each major fund, and the aggregate remaining fund information of the Illinois State Board of Education as of June 30, 2008 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 March 25, 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

**Chicago, Illinois**  
**March 25, 2009**

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

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

**AS OF JUNE 30, 2008**

(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	\$ 118,094	\$ -	\$ 118,094	\$ -	\$ 118,094
Cash and cash equivalents	3	7,240	7,243	-	7,243
Due from federal government	-	301,858	301,858	-	301,858
Due from local governments	-	10	10	-	10
Other receivables	-	36	36	-	36
Due from other State funds	803	745	1,548	-	1,548
Due from component units of the State	368	245	613	-	613
Inventories	-	444	444	-	444
Loans receivable	-	7,940	7,940	-	7,940
Prepaid expenses	-	-	-	264	264
Capital assets not being depreciated	-	-	-	1,063	1,063
Capital assets net of depreciation	-	-	-	1,060	1,060
<b>TOTAL ASSETS</b>	<u>\$ 119,268</u>	<u>\$ 318,518</u>	<u>\$ 437,786</u>	<u>\$ 2,387</u>	<u>\$ 440,173</u>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 39	\$ 10,674	\$ 10,713	\$ -	\$ 10,713
Due to federal government	-	617	617	-	617
Due to local governments	1,778,135	295,323	2,073,458	(435)	2,073,023
Due to other State funds	411	3,252	3,663	-	3,663
Due to component units of the State	1,161	1,409	2,570	-	2,570
Deferred revenue	-	11,047	11,047	(11,047)	-
Compensated absences, current portion	-	-	-	95	95
Capital lease, current portion	-	-	-	7	7
Other liabilities, current portion	-	-	-	4,060	4,060
Compensated absences, long-term portion	-	-	-	4,362	4,362
Capital lease, long-term portion	-	-	-	2	2
Other liabilities, long-term portion	-	-	-	3,625	3,625
Total Liabilities	<u>1,779,746</u>	<u>322,322</u>	<u>2,102,068</u>	<u>669</u>	<u>2,102,737</u>
<b>FUND BALANCE/NET ASSETS</b>					
Reserved for encumbrances	-	63	63	(63)	-
Reserved for inventories	-	444	444	(444)	-
Reserved for long-term portion of loans receivable	-	4,881	4,881	(4,881)	-
Invested in capital assets, net of related debt	-	-	-	2,114	2,114
Restricted net assets	-	-	-	2,778	2,778
Unreserved, unrestricted	(1,660,478)	(9,192)	(1,669,670)	2,214	(1,667,456)
Total Fund Deficit/Net Deficit	<u>(1,660,478)</u>	<u>(3,804)</u>	<u>(1,664,282)</u>	<u>\$ 1,718</u>	<u>\$ (1,662,564)</u>
<b>TOTAL LIABILITIES AND FUND DEFICIT</b>	<u>\$ 119,268</u>	<u>\$ 318,518</u>	<u>\$ 437,786</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, 2008**

(amounts expressed in thousands)

Total Fund Deficit - governmental funds	\$	(1,664,282)
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.		2,123
Prepaid expenses for governmental activities are current uses of financial resources for funds.		264
Revenues in the Statement of Activities that do not provide current financial resources are deferred in governmental funds.		11,047
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		(9)
Compensated absences		(4,457)
Claims and judgments		(7,250)
<b>NET DEFICIT FROM GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b><u><u>(1,662,564)</u></u></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, 2008**

(amounts expressed in thousands)

	<b>General Fund</b>	<b>Nonmajor Funds</b>	<b>Total Governmental Funds</b>	<b>Adjustments</b>	<b>Statement of Activities</b>
<b>EXPENDITURES/EXPENSES</b>					
Program expense - education	\$ 7,093,064	\$ 1,913,274	\$ 9,006,338	\$ (475)	\$ 9,005,863
Debt service principal	4	4	8	(9)	(1)
Debt service interest	1	-	1	-	1
Capital outlays	71	151	222	(222)	-
Total Expenditures/Expenses	<u>7,093,140</u>	<u>1,913,429</u>	<u>9,006,569</u>	<u>(706)</u>	<u>9,005,863</u>
<b>PROGRAM REVENUES</b>					
Charges for services:					
Licenses and fees	155	1,806	1,961	-	1,961
Total charges for services	<u>155</u>	<u>1,806</u>	<u>1,961</u>	<u>-</u>	<u>1,961</u>
Operating grant revenue:					
Federal	-	1,890,683	1,890,683	391	1,891,074
Total operating grant revenue	<u>-</u>	<u>1,890,683</u>	<u>1,890,683</u>	<u>391</u>	<u>1,891,074</u>
Net Program Deficit	<u>(7,092,985)</u>	<u>(20,940)</u>	<u>(7,113,925)</u>	<u>1,097</u>	<u>(7,112,828)</u>
<b>GENERAL REVENUES</b>					
Interest	-	182	182	-	182
Other (net)	15	323	338	-	338
Total General Revenues	<u>15</u>	<u>505</u>	<u>520</u>	<u>-</u>	<u>520</u>
<b>OTHER SOURCES (USES)</b>					
Appropriations from State resources	7,106,103	18,119	7,124,222	-	7,124,222
Reappropriations to future year(s)	(40,070)	-	(40,070)	-	(40,070)
Receipts remitted to State Treasury	(7,863)	(30)	(7,893)	-	(7,893)
Capital transfers (to) other State agencies	-	-	-	(6)	(6)
Operating transfers - in	-	861	861	(861)	-
Operating transfers - out	(100)	(761)	(861)	861	-
Proceeds from capital lease financing	-	-	-	-	-
Total Other Sources (Uses)	<u>7,058,070</u>	<u>18,189</u>	<u>7,076,259</u>	<u>(6)</u>	<u>7,076,253</u>
Change in fund balances/net assets	(34,900)	(2,246)	(37,146)	<u>\$ 1,091</u>	(36,055)
Lapsed appropriations	(71,160)	(12)	(71,172)		(71,172)
Fund Balances/Net Assets July 1, 2007	<u>(1,554,418)</u>	<u>(1,546)</u>	<u>(1,555,964)</u>		<u>(1,555,337)</u>
<b>FUND DEFICIT/NET DEFICIT JUNE 30, 2008</b>	<u>\$ (1,660,478)</u>	<u>\$ (3,804)</u>	<u>\$ (1,664,282)</u>		<u>\$ (1,662,564)</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, 2008**

(amounts expressed in thousands)

Net Change in Fund Balance - governmental funds	\$	(37,146)
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.		(196)
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.		9
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.		391
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		(588)
Increase in compensated absences		(129)
Decrease in claims and judgments		1,610
Some capital assets were transferred out to other State agencies and, therefore, were disposed of by the Agency without receipt for value.		(6)
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b><u>(36,055)</u></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, 2008**

**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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
(Continued)

FOR THE YEAR ENDED JUNE 30, 2008

**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 is displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2008**

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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2008**

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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2008**

**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 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2008**

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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

FOR THE YEAR ENDED JUNE 30, 2008

**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.

**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 \$7,243 million at June 30, 2008. 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.



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

**FOR THE YEAR ENDED JUNE 30, 2008**

**4. INTERFUND BALANCES AND ACTIVITY**

**BALANCES DUE TO/FROM OTHER FUNDS**

The following balances (amounts expressed in thousands) at June 30, 2008 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	\$ -	\$ 803	Grants for educational purposes
Nonmajor Governmental	<u>-</u>	<u>745</u>	Grants for educational purposes
Total	<u>\$ -</u>	<u>\$ 1,548</u>	

The following balances (amounts expressed in thousands) at June 30, 2008 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	\$ -	\$ 411	Grants for educational purposes
Nonmajor Governmental	<u>-</u>	<u>3,252</u>	Grants for educational purposes and for federal food service programs
Total	<u>\$ -</u>	<u>\$ 3,663</u>	

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2008**

**TRANSFERS TO/FROM OTHER FUNDS**

Interfund transfers in (amounts expressed in thousands) for the year ended June 30, 2008, 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	861	-	Transfer from General fund for temporary relocation expenses and transfer of indirect costs to fund 144.
Total	<u>\$ 861</u>	<u>\$ -</u>	

Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2008, 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	761	-	Transfers of indirect costs to fund 144.
Total	<u>\$ 861</u>	<u>\$ -</u>	

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

**FOR THE YEAR ENDED JUNE 30, 2008**

**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, 2008 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	\$ 368	\$ 1,161	Grants for educational purposes
Nonmajor Governmental	<u>245</u>	<u>1,409</u>	Grants for educational purposes and for federal food service programs
Total	<u>\$ 613</u>	<u>\$ 2,570</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)**

**FOR THE YEAR ENDED JUNE 30, 2008**

Loans receivable balances reported by the Agency at June 30, 2008 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, 2008	Short-Term Balance	Long-Term Balance
School District Emergency Financial Assistance Program	\$ 2,814	\$ 481	\$ 2,333
Charter Schools Revolving Loan Program	16	16	0
School Technology Revolving Loan Program	4,286	2,394	1,892
Temporary Relocation Revolving Loan Program	824	168	656
Total	<u>\$ 7,940</u>	<u>\$ 3,059</u>	<u>\$ 4,881</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2008**

**7. CAPITAL ASSETS**

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deletions	Net Transfers	Balance June 30, 2008
Capital assets not being depreciated:					
Land	\$ 1,063	\$ -	\$ -	\$ -	\$ 1,063
Total capital assets not being depreciated	1,063	-	-	-	1,063
Capital assets being depreciated:					
Buildings	436	-	-	-	436
Equipment	7,029	222	(12)	(260)	6,979
Capital leases equipment	26	-	-	-	26
Total capital assets being depreciated	7,491	222	(12)	(260)	7,441
Less: accumulated depreciation					
Buildings	229	9	-	-	238
Equipment	5,991	401	(12)	(254)	6,126
Capital leases equipment	9	8	-	-	17
Total accumulated depreciation	6,229	418	(12)	(254)	6,381
Total capital assets being depreciated, net	1,262	(196)	-	(6)	1,060
<b>TOTAL CAPITAL ASSETS, NET</b>	<b>\$ 2,325</b>	<b>\$ (196)</b>	<b>\$ -</b>	<b>\$ (6)</b>	<b>\$ 2,123</b>

Depreciation expense for governmental activities for the year ended June 30, 2008 was charged to the Education function in the amount of \$418 thousand.

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

**FOR THE YEAR ENDED JUNE 30, 2008**

**8. LONG-TERM OBLIGATIONS**

**CHANGES IN LONG-TERM OBLIGATIONS**

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2008 were as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Amounts due within 1 year
Compensated absences	\$ 4,328	\$ 2,789	\$ 2,660	\$ 4,457	\$ 95
Capital lease obligations	18	-	9	9	7
Other obligations	8,860	-	1,610	7,250	3,625
<b>TOTAL</b>	<b>\$ 13,206</b>	<b>\$ 2,789</b>	<b>\$ 4,279</b>	<b>\$ 11,716</b>	<b>\$ 3,727</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).

**CAPITAL LEASE OBLIGATIONS**

The Agency leases office equipment with a historical cost and accumulated depreciation of \$26 thousand and \$17 thousand, respectively, under capital lease arrangements. Although lease terms vary, certain leases are 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. Future minimum lease payments (amounts expressed in thousands) at June 30, 2008 are as follows:

Year Ending June 30	Principal	Interest	Total
2009	8	1	9
Total	\$ 8	\$ 1	\$ 9

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2008**

**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 2008 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2008. 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 2008, the employer contribution rates for the SERS were 16.561%. 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.

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**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2008**

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 2008 employer contribution rate to the TRS was 13.11%. In addition, the State of Illinois makes employer contributions "on behalf" of TRS covered employees. For the year ended June 30, 2008, 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.



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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2008**

**11. FUND DEFICITS**

The following funds had deficit balances at June 30, 2008 (amounts expressed in thousands):

General Revenue Fund (001)	\$1,660,453
Education Assistance Fund (007)	11
Drivers Education Fund (031)	17,925
Federal Department of Agriculture Fund (410)	62
Federal Agency Service Fund (560)	27
Common School Fund (412)	14

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, 2008.

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

**FOR THE YEAR ENDED JUNE 30, 2008**

**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 million of the settlement amount through June 30, 2008. 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 \$7.25 million from future resources of this fund. As of June 30, 2008, the current and long term portions of the obligation are \$3.625 and \$3.625 million, respectively.

**13. 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 \$2.5 million for the year ended June 30, 2008

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

<u>Year ending June 30,</u>	<u>Amount</u>
2009	\$ 2,484
2010	2,484
2011	2,484
Total	<u>\$ 7,452</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, 2008, 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.

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

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

**FOR THE YEAR ENDED JUNE 30, 2008**

**LITIGATION**

The Agency is named as a defendant in four separate lawsuits in which the plaintiffs claim the following: claims of personal injury stemming from tainted chicken tenders allegedly consumed by students; a claim that 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; a claim that alleges that cost of living adjustments were not paid to Regional Superintendents of Schools and Assistant Regional Superintendents of Schools in violation of the Illinois Constitution and state statute; 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, 2008**

(amounts expressed in thousands)

	<b>General Revenue Fund (001)</b>	<b>Education Assistance Fund (007)</b>	<b>Common School Fund (412)</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3	\$ -	\$ -	\$ 3
Due from other State funds	770	33	-	803
Due from component units of the State	362	-	6	368
Unexpended appropriation	113,608	4,483	3	118,094
<b>TOTAL ASSETS</b>	<b>\$ 114,743</b>	<b>\$ 4,516</b>	<b>\$ 9</b>	<b>\$ 119,268</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 39	\$ -	\$ -	\$ 39
Due to local government	1,773,838	4,297	-	1,778,135
Due to other State funds	211	200	-	411
Due to component units of the State	1,108	30	23	1,161
<b>Total Liabilities</b>	<b>1,775,196</b>	<b>4,527</b>	<b>23</b>	<b>1,779,746</b>
<b>FUND BALANCES</b>				
Reserved for:				
Encumbrances	-	-	-	-
Unreserved:				
Undesignated	(1,660,453)	(11)	(14)	(1,660,478)
<b>Total Fund Balance (Deficit)</b>	<b>(1,660,453)</b>	<b>(11)</b>	<b>(14)</b>	<b>(1,660,478)</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 114,743</b>	<b>\$ 4,516</b>	<b>\$ 9</b>	<b>\$ 119,268</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, 2008**

(amounts expressed in thousands)

	<b>General Revenue Fund (001)</b>	<b>Education Assistance Fund (007)</b>	<b>Common School Fund (412)</b>	<b>Total</b>
<b>REVENUES</b>				
Federal government	\$ -	\$ -	\$ -	\$ -
Licenses and fees	155	-	-	155
Other revenues	15	-	-	15
<b>Total Revenues</b>	<b>170</b>	<b>-</b>	<b>-</b>	<b>170</b>
<b>EXPENDITURES</b>				
Education	2,416,511	1,608,113	3,068,440	7,093,064
Debt Service:				
Principal	4	-	-	4
Interest	1	-	-	1
Capital outlay	71	-	-	71
<b>Total Expenditures</b>	<b>2,416,587</b>	<b>1,608,113</b>	<b>3,068,440</b>	<b>7,093,140</b>
<b>EXCESS (DEFICIENCY) OF REVENUES (UNDER) EXPENDITURES</b>	<b>(2,416,417)</b>	<b>(1,608,113)</b>	<b>(3,068,440)</b>	<b>(7,092,970)</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>				
Appropriations from State resources	2,393,798	1,613,668	3,098,637	7,106,103
Reappropriation to fiscal year 2009	(40,070)	-	-	(40,070)
Operating transfers-out	(100)	-	-	(100)
Capital lease	-	-	-	-
Receipts remitted to State Treasury	(3,055)	(3,612)	(1,196)	(7,863)
<b>Net Other Sources (Uses) of Financial Resources</b>	<b>2,350,573</b>	<b>1,610,056</b>	<b>3,097,441</b>	<b>7,058,070</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND NET OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>	<b>(65,844)</b>	<b>1,943</b>	<b>29,001</b>	<b>(34,900)</b>
Lapsed appropriations	(39,029)	(2,269)	(29,862)	(71,160)
Fund Balances (Deficit) July 1, 2007	(1,555,580)	315	847	(1,554,418)
<b>FUND BALANCES (DEFICIT) JUNE 30, 2008</b>	<b>\$ (1,660,453)</b>	<b>\$ (11)</b>	<b>\$ (14)</b>	<b>\$ (1,660,478)</b>

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

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

**AS OF JUNE 30, 2008**

(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	\$ 319	\$ -	\$ 762	\$ 673
Due from federal government	-	-	-	-
Due from local governments	-	-	10	-
Other receivables	-	-	-	-
Due from other State funds	-	5	-	-
Due from component units of the State	-	-	-	-
Inventories	-	-	-	-
Loans receivable	-	-	2,814	-
<b>TOTAL ASSETS</b>	<b>\$ 319</b>	<b>\$ 5</b>	<b>\$ 3,586</b>	<b>\$ 673</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 18	\$ -	\$ -	\$ 129
Due to federal government	-	-	-	-
Due to local governments	-	17,930	-	-
Due to other State funds	-	-	-	68
Due to component units of the State	-	-	-	6
Deferred revenue	-	-	-	-
<b>Total Liabilities</b>	<b>18</b>	<b>17,930</b>	<b>-</b>	<b>203</b>
<b>FUND BALANCES</b>				
Reserved for:				
Encumbrances	-	-	-	52
Inventories	-	-	-	-
Long-term portion of loans receivable	-	-	2,333	-
Unreserved:				
Undesignated	301	(17,925)	1,253	418
<b>Total Fund Balance (Deficit)</b>	<b>301</b>	<b>(17,925)</b>	<b>3,586</b>	<b>470</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 319</b>	<b>\$ 5</b>	<b>\$ 3,586</b>	<b>\$ 673</b>

STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION

COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - NONMAJOR FUNDS  
BALANCE SHEET

AS OF JUNE 30, 2008

(amounts expressed in thousands)

	<u>Special Revenue Funds</u>			
	<u>S.B.E. Teacher Certification Institute Fund (159)</u>	<u>S.B.E. Federal Dept. of Agriculture Fund (410)</u>	<u>S.B.E. Federal Agency Service Fund (560)</u>	<u>S.B.E. Federal Dept. of Education Fund (561)</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,158	\$ 262	\$ -	\$ 1,545
Due from federal government	-	20,703	196	280,959
Due from local governments	-	-	-	-
Other receivables	-	33	-	-
Due from other State funds	-	-	-	740
Due from component units of the State	-	-	-	245
Inventories	-	444	-	-
Loans receivable	-	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 1,158</u>	<u>\$ 21,442</u>	<u>\$ 196</u>	<u>\$ 283,489</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 5	\$ 311	\$ 30	\$ 10,181
Due to federal government	-	3	-	614
Due to local governments	-	16,625	188	260,580
Due to other State funds	-	346	-	2,838
Due to component units of the State	-	91	-	1,312
Deferred revenue	-	4,128	5	6,914
Total Liabilities	<u>5</u>	<u>21,504</u>	<u>223</u>	<u>282,439</u>
<b>FUND BALANCES</b>				
Reserved for:				
Encumbrances	-	-	-	-
Inventories	-	444	-	-
Long-term portion of loans receivable	-	-	-	-
Unreserved:				
Undesignated	<u>1,153</u>	<u>(506)</u>	<u>(27)</u>	<u>1,050</u>
Total Fund Balance (Deficit)	<u>1,153</u>	<u>(62)</u>	<u>(27)</u>	<u>1,050</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 1,158</u>	<u>\$ 21,442</u>	<u>\$ 196</u>	<u>\$ 283,489</u>

STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION

COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - NONMAJOR FUNDS  
BALANCE SHEET

AS OF JUNE 30, 2008

(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	\$ 86	\$ -	\$ 1,935	\$ 500	\$ 7,240
Due from federal government	-	-	-	-	301,858
Due from local governments	-	-	-	-	10
Other receivables	-	-	3	-	36
Due from other State funds	-	-	-	-	745
Due from component units of the State	-	-	-	-	245
Inventories	-	-	-	-	444
Loans receivable	16	-	4,286	824	7,940
<b>TOTAL ASSETS</b>	<u>\$ 102</u>	<u>\$ -</u>	<u>\$ 6,224</u>	<u>\$ 1,324</u>	<u>\$ 318,518</u>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ 10,674
Due to federal government	-	-	-	-	617
Due to local governments	-	-	-	-	295,323
Due to other State funds	-	-	-	-	3,252
Due to component units of the State	-	-	-	-	1,409
Deferred revenue	-	-	-	-	11,047
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>322,322</u>
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	11	-	-	-	63
Inventories	-	-	-	-	444
Long-term portion of loans receivable	-	-	1,892	656	4,881
Unreserved:					
Undesignated	91	-	4,332	668	(9,192)
Total Fund Balance (Deficit)	<u>102</u>	<u>-</u>	<u>6,224</u>	<u>1,324</u>	<u>(3,804)</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 102</u>	<u>\$ -</u>	<u>\$ 6,224</u>	<u>\$ 1,324</u>	<u>\$ 318,518</u>



STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION

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

FOR THE YEAR ENDED JUNE 30, 2008

	Special Revenue Funds			
	Teacher Certificate Fee Revolving Fund (016)	School District Drivers Education Fund (031)	Emergency Financial Assistance Fund (130)	S.B.E. Special Purpose Trust Fund (144)
<b>REVENUES</b>				
Federal government	\$ -	\$ -	\$ -	\$ 3,445
Licenses and fees	1,520	-	-	-
Interest	-	-	20	-
Other revenues	-	-	-	16
Total Revenues	<u>1,520</u>	<u>-</u>	<u>20</u>	<u>3,461</u>
<b>EXPENDITURES</b>				
Education	2,050	18,000	-	4,168
Debt service-principal	-	-	-	1
Capital outlay	-	-	-	132
Total Expenditures	<u>2,050</u>	<u>18,000</u>	<u>-</u>	<u>4,301</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(530)</u>	<u>(18,000)</u>	<u>20</u>	<u>(840)</u>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>				
Appropriations from State resources	-	18,008	-	-
Operating transfers-in	-	-	-	761
Operating transfers-out	-	-	-	-
Receipts remitted to the State Treasury	-	-	-	-
Net Other Sources (Uses) of Financial Resources	<u>-</u>	<u>18,008</u>	<u>-</u>	<u>761</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES) OF FINANCIAL RESOURCES	<u>(530)</u>	<u>8</u>	<u>20</u>	<u>(79)</u>
Lapsed appropriations	-	(8)	-	-
Fund Balances (Deficit) July 1, 2007	<u>831</u>	<u>(17,925)</u>	<u>3,566</u>	<u>549</u>
<b>FUND BALANCES (DEFICIT) JUNE 30, 2008</b>	<u>\$ 301</u>	<u>\$ (17,925)</u>	<u>\$ 3,586</u>	<u>\$ 470</u>

STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION

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

FOR THE YEAR ENDED JUNE 30, 2008

	<u>Special Revenue Funds</u>			
	<u>S.B.E. Teacher Certification Institute Fund (159)</u>	<u>S.B.E. Federal Dept. of Agriculture Fund (410)</u>	<u>S.B.E. Federal Agency Services Fund (560)</u>	<u>S.B.E. Federal Dept. of Education Fund (561)</u>
<b>REVENUES</b>				
Federal government	\$ -	\$ 517,034	\$ 909	\$ 1,369,295
Licenses and fees	286	-	-	-
Interest	-	-	-	-
Other revenues	-	174	-	133
Total Revenues	<u>286</u>	<u>517,208</u>	<u>909</u>	<u>1,369,428</u>
<b>EXPENDITURES</b>				
Education	276	517,991	885	1,369,273
Debt service-principal	-	-	-	3
Capital outlay	-	19	-	-
Total Expenditures	<u>276</u>	<u>518,010</u>	<u>885</u>	<u>1,369,276</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>10</u>	<u>(802)</u>	<u>24</u>	<u>152</u>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>				
Appropriations from State resources	-	-	-	-
Operating transfers-in	-	-	-	-
Operating transfers-out	-	(568)	(41)	(152)
Receipts remitted to the State Treasury	-	-	-	-
Net Other Sources (Uses) of Financial Resources	<u>-</u>	<u>(568)</u>	<u>(41)</u>	<u>(152)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES) OF FINANCIAL RESOURCES	<u>10</u>	<u>(1,370)</u>	<u>(17)</u>	<u>-</u>
Lapsed appropriations	-	-	-	-
Fund Balances (Deficit) July 1, 2007	<u>1,143</u>	<u>1,308</u>	<u>(10)</u>	<u>1,050</u>
<b>FUND BALANCES (DEFICIT) JUNE 30, 2008</b>	<u>\$ 1,153</u>	<u>\$ (62)</u>	<u>\$ (27)</u>	<u>\$ 1,050</u>

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

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

**FOR THE YEAR ENDED JUNE 30, 2008**

	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	\$ -	\$ -	\$ -	\$ -	\$ 1,890,683
Licenses and fees	-	-	-	-	1,806
Interest	-	-	162	-	182
Other revenues	-	-	-	-	323
Total Revenues	-	-	162	-	1,892,994
<b>EXPENDITURES</b>					
Education	-	107	120	404	1,913,274
Debt service-principal	-	-	-	-	4
Capital outlay	-	-	-	-	151
Total Expenditures	-	107	120	404	1,913,429
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(107)	42	(404)	(20,435)
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>					
Appropriations from State resources	-	111	-	-	18,119
Operating transfers-in	-	-	-	100	861
Operating transfers-out	-	-	-	-	(761)
Receipts remitted to the State Treasury	-	(30)	-	-	(30)
Net Other Sources (Uses) of Financial Resources	-	81	-	100	18,189
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES) OF FINANCIAL RESOURCES	-	(26)	42	(304)	(2,246)
Lapsed appropriations	-	(4)	-	-	(12)
Fund Balances (Deficit) July 1, 2007	102	30	6,182	1,628	(1,546)
<b>FUND BALANCES (DEFICIT) JUNE 30, 2008</b>	<b>\$ 102</b>	<b>\$ -</b>	<b>\$ 6,224</b>	<b>\$ 1,324</b>	<b>\$ (3,804)</b>

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

**FINANCIAL AUDIT AND COMPLIANCE EXAMINATION**

**FOR THE YEAR ENDED JUNE 30, 2008**

**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 the 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 accountants' 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 accountants' 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, 2008**

(amounts expressed in thousands)

	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	<u>Awards to Subrecipients</u>
<b>U.S. Department of Agriculture</b>			
Direct Programs			
Food Distribution	10.550	\$ 40,426	\$ 40,426
School Breakfast Program	10.553	64,115	63,082
National School Lunch Program	10.555	304,470	302,617
Special Milk Program for Children	10.556	3,432	3,432
Child and Adult Care Food Program	10.558	105,046	103,799
Summer Food Service Program for Children	10.559	7,838	7,479
State Administrative Expenses for Child Nutrition	10.560	5,845	507
Team Nutrition Grant	10.574	163	163
		<hr/>	<hr/>
Total U.S. Department of Agriculture		531,335	521,505
		<hr/>	<hr/>
<b>U.S. Department of Education</b>			
Direct Programs			
Title I Grants to Local Educational Agencies	84.010	547,751	543,460
Migrant Education - State Grant Program	84.011	1,642	1,623
Title I Program for Neglected and Delinquent Children	84.013	1,303	-
Special Education - Grants to States	84.027	471,898	459,275
Career and Technical Education - Basic Grants to States	84.048	44,389	25,945
Migrant Education Coordination Program	84.144	86	68
Special Education - Preschool Grants	84.173	16,507	15,931
Safe and Drug-Free Schools and Communities - State Grants	84.186	10,450	10,207
Education for the Homeless Children and Youth	84.196	2,585	2,470
Even Start - State Educational Agencies	84.213	3,650	3,488
Fund For Improvement of Education	84.215K	497	482
Fund For Improvement of Education	84.215	171	1
Tech-Prep Education	84.243	4,181	-
Charter Schools	84.282	1,279	1,214
21st Century Community Learning Centers	84.287	39,613	38,753
State Grants For Innovative Programs	84.298	4,670	3,989
Education Technology State Grants	84.318	16,996	16,464
Special Education on State Personnel Development	84.323	2,005	1,925

The accompanying notes to the 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, 2008**

(amounts expressed in thousands)

	Federal CFDA Number	Federal Expenditures	Awards to Subrecipients
<b>U.S. Department of Education</b>			
Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	\$ 343	\$ 343
Advanced Placement Program	84.330	1,015	975
Comprehensive School Reform Demonstration	84.332	509	442
Transition to Teaching	84.350	335	280
Reading First State Grants	84.357	31,793	29,760
Rural Education	84.358	1,059	1,018
English Language Acquisition Grants	84.365	23,461	22,688
Mathematics and Science Partnership	84.366	6,889	6,449
Improving Teacher Quality State Grant	84.367	101,515	99,766
Grants for State Assessment and Related Activities	84.369	17,148	-
Hurricane Education Recovery Act	84.938	(79)	-
		1,353,661	1,287,016
<b>U.S. Department of Health and Human Services</b>			
Direct Program			
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	277	-
<b>Corporation of National and Community Service</b>			
Direct Program			
Learn and Serve America - School and Community Based Programs	94.004	751	658
			\$ 1,809,179
<b>Total Expenditures of Federal Awards</b>		<b>\$ 1,886,024</b>	

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

**STATE OF ILLINOIS**  
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**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2008**

**1. GENERAL**

The accompanying Schedule of Expenditures of Federal Awards present 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.

**2. BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards is presented on a cash basis. 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 16.0 percent of allowable 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 USDA awards in the S.B.E. Federal Department of Agriculture Fund (410).

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**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2008**

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

The purpose of this program is to make agricultural commodities available to approved sponsors of other federally funded meal programs as a supplement to cash grants. This CFDA number was deleted effective 5-6-08 by USDA and will be replaced by 10.555 in future fiscal years.

- **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 Administration Expenses for Child Nutrition (CFDA #10.560)**

The purpose of this program is to provide funds to State Agencies for administrative expenses incurred in supervising and providing technical support to approved sponsors of child nutrition programs.

**B. U.S. DEPARTMENT OF EDUCATION**

The Agency accounted for the revenues and expenditures incurred in the administration of 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 education agencies and schools improve the teaching and learning of children failing, or most at-risk of failing to meet challenging State academic standards.



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NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(Continued)

FOR THE YEAR ENDED JUNE 30, 2008

- **Migrant Education – State Grant Program (CFDS #84.011)**

The purpose of this program is to ensure that migratory children have the opportunity to meet the same challenging State content and performance standards that all children are expected to meet.

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

The purpose of this program is to provide education continuity for children and youth in State-run institutions for juveniles and in adult correctional institutions, so that these youth can make successful transitions to school or employment once they are released from State institutions.

- **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.

- **Career and Technical Education - Basic Grants to States (CFDA #84.048)**

The purpose of this program is to develop more fully the academic, vocational, and technical skills of secondary and postsecondary students who elect to enroll in vocational and technical programs.

- **Migrant Education Coordination Program (CFDA #84.144)**

The purpose of this program is to encourage the interstate and intrastate coordination of migrant education including consortium arrangements in order to reduce the administrative costs of state educational agencies (SEAs) receiving Title I Migrant Education Program funds under 84.011.

- **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.

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**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2008**

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

The purpose of this program is to offer a disciplined environment conducive to learning, by preventing violence in and around schools and strengthen programs that prevent the illegal use of alcohol, tobacco, and drugs, involve parents, and coordinated with related Federal, State, and community efforts and resources.

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

The purpose of this program is to ensure that homeless children and youth have equal access to the same free, appropriate public education as other children; to provide activities for and services to ensure that these children enrolling, attend, and achieve success in school; to establish or designate an office in each State Education agency for the coordination of education for homeless children and youth; to develop and implement programs for school personnel to heighten awareness of specific problems of homeless children and youth; and to provide grants to local educational agencies.

- **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.

- **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 education 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.

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NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(Continued)

FOR THE YEAR ENDED JUNE 30, 2008

- **Charter Schools (CFDA #84.282)**

The purpose of this program is to support the planning, development, and initial implementation of charter schools and the dissemination of information on charter schools.

- **21<sup>st</sup> Century Community Learning (CFDA #84.287)**

The purpose of this program is to create community learning centers that provide academic enrichment opportunities for children, particularly students who attend high-poverty and low-performing schools. The program helps students meet state and local student standards in core academic subjects, such as reading and math; offers students a broad array of enrichment activities that can complement their regular academic programs; and offers literacy and other educational services to the families of participating children.

- **State Grants for Innovative Purposes (CFDA #84.298)**

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

- **Education Technology State Grants (CFDA #84.318)**

The purpose of this program is to provide grants to State educational agencies on a formula basis to (a) improve student academic achievement through the use of technology in schools; (b) assist all students in becoming technologically literate by the end of eighth grade; and (c) encourage the effective integration of technology with teacher training and curriculum development to establish successful research-based instructional methods.

- **Special Education - State Personnel Development (CFDA #84.323)**

The purpose of this program is to assist State educational agencies in reforming and improving their systems for personnel preparation and professional development of individuals providing early intervention, educational and transition services, to improve results for children with disabilities.

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NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

(Continued)

FOR THE YEAR ENDED JUNE 30, 2008

- **Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities (CFDA #84.326)**

The purpose of this program is to promote academic achievement and improve results for children with disabilities by supporting technical assistance, supporting model demonstration projects, disseminating useful information, and implementing activities that are supported by scientifically based research.

- **Advanced Placement Program (CFDA #84.330)**

The purpose of this program is to provide award grants to States to support State and local efforts to increase access to advance placement classes and tests for low-income students and to cover part or all of the cost of test fees for low-income students enrolled in advanced placement courses.

- **Comprehensive School Reform Demonstration (CFDA #84.332)**

The purpose of this program is to provide financial incentives for schools that need to substantially improve student achievement, particularly Title I schools, to implement comprehensive school reform programs that are based on reliable research and effective practices, and include an emphasis on basic academics and parental involvement. These programs are intended to stimulate school-wide change covering virtually all aspects of school operations, rather than a piecemeal, fragmented approach to reform. Thus, to be considered comprehensive, a program must integrate, in a coherent manner, nine specific components listed in the legislation. Through supporting comprehensive school reform, the program aims to enable all children in the schools served, particularly low-achieving children, to meet challenging State content and student performance standards.

- **Transition to Teaching (CFDA #84.350)**

The purpose of this program is to recruit and retrain highly qualified midcareer professionals (including highly qualified paraprofessionals) and recent graduates of institutions of higher education, as teachers in high-need schools, including recruiting teachers through alternative routes to teacher certification; and to encourage the development and expansion of alternative routes to certification under state-approved programs that enable individuals to be eligible for teacher certification within a reduced period of time, relying on the experience, expertise, and academic qualifications of an individual or other factors in lieu of traditional course work in the field of education.

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NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(Continued)

FOR THE YEAR ENDED JUNE 30, 2008

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

The purpose of this program is to ensure that every student can read at grade level or above by the end of third grade. The Reading First program will provide assistance to States and districts in establishing reading programs for students in kindergarten through third grade that are based on scientifically based reading research. Reading First also focuses on teacher development and ensuring that all teachers, including special education teachers, have the tools they need to effectively help their students learn to read. The program provides assistance to States and districts in preparing teachers to identify specific reading barriers facing their student.

- **Rural Education (CFDA #84.358)**

The purpose of this program is to provide financial assistance to rural districts to carry out activities to help improve the quality of teaching and learning in their schools.

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

The purpose of this program is to ensure that limited English proficient children and youth, including immigrant children and youth, attain English proficiency and meet the same challenging State academic content and student academic achievement standards as all children and youth are expected to meet; to provide assistance to Native American, Native Hawaiian, Native American Pacific Islander, and Alaska native children with certain modifications relative to the unique status of native American language under Federal Law; to develop to the extent possible, the native language skills of such children.

- **Mathematics and Science Partnership (CFDA #84.366)**

The purpose of this program is to improve the academic achievement of students in mathematics and science by encouraging states, IHEs, LEAs, and elementary and secondary schools to participate in programs that: improve and upgrade the status and stature of mathematics and science teaching by encouraging IHEs to improve mathematics and science teacher education; focus on the education of mathematics and science teachers as a career-long process; bring mathematics and science teachers together with scientists, mathematicians, and engineers to improve their teaching skills; and develop more rigorous mathematics and science curricula that are aligned with state and local academic achievement standards expected for postsecondary study in engineering, mathematics, and science.

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**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**(Continued)**

**FOR THE YEAR ENDED JUNE 30, 2008**

- **Improving Teacher Quality State Grants (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 in order to: increase student academic achievement through strategies such as improving teacher and principal quality and increasing the number of highly qualified teachers in the classroom and highly qualified principals and assistant principals in schools; and hold educational agencies and schools accountable for improvements in student academic achievement.

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

The purpose of this program is to support the development of the additional State assessments and standards required by Section 1111(b) of the Elementary and Secondary Education Act, as amended; and if a State has developed the assessments and standards required by Section 1111(b), then to support the administration of those assessments or to carry out other activities related to ensuring that the State's schools and local education agencies are held accountable for results.

**5. Non-Cash Awards**

All known non-cash awards are presented on the face of the schedule of Expenditures of Federal Awards.