

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

**FINANCIAL AUDIT  
For the Year Ended June 30, 2013**

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

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
FINANCIAL AUDIT  
FOR THE YEAR ENDED JUNE 30, 2013**

<b>Table of Contents</b>	<b><u>Page(s)</u></b>
Agency Officials	1
Financial Statement Report	
Summary	2
Independent Auditor's Report	3-5
Basic Financial Statements:	
Statement of Net Position and Governmental Funds Balance Sheet	6
Reconciliation of Governmental Funds Balance Sheet to	
Statement of Net Position	7
Statement of Activities and Governmental Revenues, Expenditures and	
Changes in Fund Balances	8
Reconciliation of Statement of Revenues, Expenditures and Changes in	
Fund Balances of Governmental Funds to Statement of Activities	9
Notes to the Basic Financial Statements	10-28
Supplementary Information	
Combining Individual Governmental Funds Financial Statements and Schedules:	
Combining Schedule of Accounts - General Fund	29
Combining Schedule of Revenues, Expenditures and Changes in	
Fund Balances - General Fund	30
Combining Balance Sheet - Nonmajor Funds	31-34
Combining Statement of Revenues, Expenditures and Changes in	
Fund Balances - Nonmajor Funds	35-38
Independent Auditor's Report on Internal Control Over Financial Reporting	
and on Compliance and Other Matters Based on an Audit of Financial	
Statements Performed in Accordance with <i>Government Auditing Standards</i>	39-40
Schedule of Findings - <i>Government Auditing Standards</i>	41-42
Independent Accountants' Report on Agreed-Upon Procedures	43-44
Schedule of Findings - Agreed-Upon Procedures	45-46

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
FINANCIAL AUDIT  
FOR THE YEAR ENDED JUNE 30, 2013**

**Agency Officials**

Board Members of the Illinois State Board of Education:

Gery J. Chico, Chairperson  
Steven R. Gilford, Vice-Chairperson  
Dr. Vinni M. Hall, Secretary  
James W. Baumann

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

State Superintendent of Education

Dr. Christopher A. Koch, Ed.D.

Cabinet members:

General Counsel/Legal

Nicole Bazer

Chief Internal Auditor

Melissa Oller

Deputy Superintendent/Chief Education Officer

Susan C. Morrison

Chief Operating Officer and Director of Human Resources

Donald W. Evans

Chief Performance Officer

Peter Godard

Director of Public Information/Deputy Superintendent

Matthew Vanover

Chief Financial Officer

Robert Wolfe

Director of Assessment

Dr. Mary O'Brian

Assistant Superintendents:

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

Amy Jo Clemens  
Elizabeth Hanselman  
Reyna Hernandez  
Dr. Jason Helfer

***Agency offices are located at:***

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

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

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
FINANCIAL AUDIT  
FOR THE YEAR ENDED JUNE 30, 2013**

**Financial Statement Report**

**Summary**

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

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

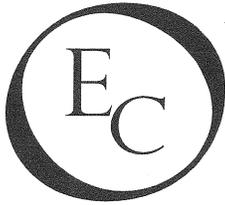
**Summary of Findings**

The auditors identified a matter involving the Agency's internal control over financial reporting that they considered to be a material weakness. The material weakness is described in the accompanying Schedule of Findings on pages 41-42 of this report as item 2013-001, *Financial Reporting*.

**Exit Conference**

The Agency waived having an exit conference in a letter dated November 26, 2013, from the Agency's Chief Internal Auditor, Melissa Oller.

The responses to the recommendations were provided by Emily Durbin, Internal Auditor, in a letter dated December 10, 2013.



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

## INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland  
Auditor General  
State of Illinois

and

The Board Members of the  
Illinois State Board of Education

### **Report on the Financial Statements**

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Illinois State Board of Education, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Illinois State Board of Education's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information for the Illinois State Board of Education, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 2, the financial statements of the Illinois State Board of Education are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, the major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Illinois State Board of Education. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2013, 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. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Illinois State Board of Education's basic financial statements. The combining individual governmental funds financial statements and schedules listed as supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining individual governmental funds financial statements and schedules listed as supplementary information in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining individual governmental funds financial statements and schedules listed as supplementary information in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2013 on our consideration of the Illinois State Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Illinois State Board of Education's internal control over financial reporting and compliance.

**Restricted Use of this Auditor's Report**

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

*E.C. Artiz & Co., LLP*

Chicago, Illinois  
December 10, 2013

**STATE OF ILLINOIS**  
**ILLINOIS STATE BOARD OF EDUCATION**  
**STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET**  
**AS OF JUNE 30, 2013**

(amounts expressed in thousands)

	<b>General Fund</b>	<b>Nonmajor Funds</b>	<b>Total Governmental Funds</b>	<b>Adjustments</b>	<b>Statement of Net Position</b>
<b>ASSETS</b>					
Unexpended appropriations	\$ 458,116	\$ 4,803	\$ 462,919	\$ -	\$ 462,919
Cash and cash equivalents	-	21,467	21,467	-	21,467
Securities lending collateral equity with State Treasurer	-	2,317	2,317	-	2,317
Due from federal government	-	474,698	474,698	-	474,698
Due from local governments	194	636	830	-	830
Other receivables	31	585	616	-	616
Due from other State funds	128	27	155	-	155
Due from component units of the State	10	187	197	-	197
Inventories	-	1,083	1,083	-	1,083
Loans receivable	-	1,552	1,552	-	1,552
Prepaid expenses	-	-	-	488	488
Capital assets not being depreciated	-	-	-	9,443	9,443
Capital assets net of depreciation	-	-	-	14,423	14,423
<b>TOTAL ASSETS</b>	<b>\$ 458,479</b>	<b>\$ 507,355</b>	<b>\$ 965,834</b>	<b>\$ 24,354</b>	<b>\$ 990,188</b>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 5,940	\$ 4,968	\$ 10,908	\$ -	\$ 10,908
Obligations under securities lending of State Treasurer	-	2,317	2,317	-	2,317
Due to federal government	-	326	326	-	326
Due to local governments	2,059,496	483,017	2,542,513	-	2,542,513
Due to other State funds	264	8,170	8,434	-	8,434
Due to component units of the State	977	1,711	2,688	-	2,688
Deferred revenue unavailable	-	81,429	81,429	(81,429)	-
Deferred revenue unearned	-	453	453	-	453
Compensated absences, current portion	-	-	-	30	30
Reorganization incentive, current portion	-	-	-	2,847	2,847
Compensated absences, long-term portion	-	-	-	3,804	3,804
Reorganization incentive, long-term portion	-	-	-	6,050	6,050
Total Liabilities	2,066,677	582,391	2,649,068	(68,698)	2,580,370
<b>FUND BALANCES (DEFICIT)/NET POSITION (DEFICIT)</b>					
Fund Balances:					
Nonspendable	-	1,083	1,083	(1,083)	-
Restricted	-	398	398	(398)	-
Committed	-	16,541	16,541	(16,541)	-
Assigned	-	3,176	3,176	(3,176)	-
Unassigned	(1,608,198)	(96,234)	(1,704,432)	1,704,432	-
Net investment in capital assets	-	-	-	23,866	23,866
Restricted net position	-	-	-	2,014	2,014
Unrestricted net position	-	-	-	(1,616,062)	(1,616,062)
Total Fund Deficit/Net Deficit	(1,608,198)	(75,036)	(1,683,234)	\$ 93,052	\$ (1,590,182)
<b>TOTAL LIABILITIES AND FUND DEFICIT</b>	<b>\$ 458,479</b>	<b>\$ 507,355</b>	<b>\$ 965,834</b>		

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

**STATE OF ILLINOIS**  
**ILLINOIS STATE BOARD OF EDUCATION**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO**  
**STATEMENT OF NET POSITION**  
**AS OF JUNE 30, 2013**  
(amounts expressed in thousands)

Total Fund Deficit - governmental funds \$ (1,683,234)

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds. 23,866

Prepaid expenses for governmental activities are current uses of financial resources for funds. 488

Revenues in the Statement of Activities that do not provide current financial resources are deferred in governmental funds. 81,429

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

Compensated absences	(3,834)
Reorganization incentive	(8,897)
	(12,731)

**NET DEFICIT FROM GOVERNMENTAL ACTIVITIES** **\$ (1,590,182)**

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

STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2013  
(amounts expressed in thousands)

	General Fund	Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Activities
<b>EXPENDITURES/EXPENSES</b>					
Program expense - education	\$ 6,528,477	\$ 2,254,819	\$ 8,783,296	\$ 13,372	\$ 8,796,668
Debt service - principal	82	108	190	(190)	-
Debt service - interest	4	5	9	(9)	-
Capital outlays	612	4,457	5,069	(5,069)	-
Total Expenditures/Expenses	<u>6,529,175</u>	<u>2,259,389</u>	<u>8,788,564</u>	<u>8,104</u>	<u>8,796,668</u>
<b>PROGRAM REVENUES</b>					
Charges for services:					
Licenses and fees	1	4,796	4,797	-	4,797
Total charges for services	<u>1</u>	<u>4,796</u>	<u>4,797</u>	<u>-</u>	<u>4,797</u>
Operating grant revenue:					
Federal	-	2,172,741	2,172,741	57,197	2,229,938
Refunds	-	(743)	(743)	-	(743)
Total operating grant revenue	<u>-</u>	<u>2,171,998</u>	<u>2,171,998</u>	<u>57,197</u>	<u>2,229,195</u>
Net Program Deficit	<u>(6,529,174)</u>	<u>(82,595)</u>	<u>(6,611,769)</u>	<u>49,093</u>	<u>(6,562,676)</u>
<b>GENERAL REVENUES</b>					
Interest	-	55	55	-	55
Other revenues	2	298	300	(55)	245
Total General Revenues	<u>2</u>	<u>353</u>	<u>355</u>	<u>(55)</u>	<u>300</u>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>					
Appropriations from State resources	6,549,800	127,226	6,677,026	-	6,677,026
Reappropriations to fiscal year 2014	-	(92,285)	(92,285)	-	(92,285)
Net change in liabilities for reappropriated accounts	-	(1,611)	(1,611)	-	(1,611)
Lapsed appropriations	(10,835)	(525)	(11,360)	-	(11,360)
Receipts collected and remitted to State Treasury	(3,022)	(6)	(3,028)	-	(3,028)
Loss on disposal of capital assets	-	-	-	(4)	(4)
Net Other Sources (Uses) of Financial Resources	<u>6,535,943</u>	<u>32,799</u>	<u>6,568,742</u>	<u>(4)</u>	<u>6,568,738</u>
Net change in fund balances/net position	6,771	(49,443)	(42,672)	49,034	6,362
Fund Deficit/Net Deficit, July 1, 2012	(1,614,969)	(24,441)	(1,639,410)	42,866	(1,596,544)
Change in inventories	-	(1,152)	(1,152)	1,152	-
<b>FUND DEFICIT/NET DEFICIT, JUNE 30, 2013</b>	<u>\$ (1,608,198)</u>	<u>\$ (75,036)</u>	<u>\$ (1,683,234)</u>	<u>\$ 93,052</u>	<u>\$ (1,590,182)</u>

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

**STATE OF ILLINOIS**  
**ILLINOIS STATE BOARD OF EDUCATION**  
**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2013**

(amounts expressed in thousands)

Net Change in Fund Balances - governmental funds	\$ (42,672)
Change in inventories	(1,152)
	<u>(43,824)</u>

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

Governmental funds report capital outlays as expenditures while governmental activities report depreciation and amortization expense to allocate those expenditures over the life of the assets. This is the amount by which capital outlays exceeded depreciation and amortization in the current period.	3,277
Losses from capital assets no longer in use are not recorded in governmental funds but are reported as other expenses in the Statement of Activities.	(4)
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 Position.	190
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. This amount represents the increase in unavailable revenue over the prior year.	57,142
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These activities consist of:	
Decrease in prepaid expenses	(1,006)
Increase in compensated absences	(516)
Increase in reorganization incentive	<u>(8,897)</u>

<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<u><u>\$ 6,362</u></u>
--	------------------------

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

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**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, the Governor's Office of Management and Budget, the State Treasurer's Office, 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 Agency is organized to provide leadership, assistance, resources and advocacy so that every student is prepared to succeed in careers and postsecondary education, and share accountability for doing so with districts and schools.

**2. Summary of Significant Accounting Policies**

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

**(a) 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 dependence on the primary government and the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

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

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**(b) Basis of Presentation**

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

The financial statements of the Agency are intended to present the net position and the changes in net position of only that portion of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Agency. They do not purport to, and do not, present fairly the net position of the State of Illinois as of June 30, 2013, and the changes in its net position for the year then ended in conformity with accounting principles generally accepted in the United States of America. 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 position 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 position presents the assets and liabilities of the Agency's governmental activities with the difference being reported as net position. 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 the amount due in more than one year.

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

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

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

**General** - This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

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 reports the following governmental fund types:

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

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

**(c) 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. Non-exchange 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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on formal debt issues, claims and judgments, and compensated absences are recorded only when the payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

During the fiscal year, the Agency adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of GASB Statement No. 62 is to incorporate certain accounting and financial reporting guidance into GASB's authoritative literature. The guidance included the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statements and Interpretations, (2) Accounting Principles Board Opinions, and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

**(d) Shared Fund Presentation**

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

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

**Unexpended Appropriations**

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

**Appropriations from State Resources**

The "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.

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**Lapsed Appropriations**

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

**Receipts Collected and Remitted to State Treasury**

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

**(e) 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.

**(f) Inventories**

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

**(g) Prepaid Expenses**

For governmental funds, prepaid expenses are recognized when paid.

**(h) 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 governmental funds balance sheet and government-wide statement of net position.

**Reimbursements** - repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

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

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

**(i) Capital Assets**

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

Capitalization thresholds and the estimated useful lives are as follows:

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

**(j) Compensated Absences**

The liability for compensated absences reported in the government-wide statement of net position 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 taxes).

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

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.

**(k) Fund Balances**

In the fund financial statements, governmental funds report fund balances in the following categories:

**Nonspendable** - This consists of amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

**Restricted** - This consists of amounts that are restricted to specific purposes, that is, when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

**Committed** - This consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Agency's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Agency removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The Agency's highest level of decision-making authority rests with the Illinois State legislature and the Governor. The State passes "Public Acts", to commit its fund balances.

**Assigned** - This consists of net amounts that are constrained by the Agency's intent to be used for specific purposes, but that are neither restricted nor committed. Fund balance assignments can only be removed or changed by action of the General Assembly.

**Unassigned** - This consists of residual fund balance (deficit) that has not been restricted, committed, or assigned within the general fund and deficit fund balances of other governmental funds.

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

**(l) Net Position**

In the government-wide statement of net position, net position is displayed in three components as follows:

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**Net Investment in Capital Assets** - 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 position that is 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 position that does not meet the definition of "restricted" or "net investment in capital assets."

**(m) 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.

**(n) Future Adoption of GASB Statements**

Effective for the year ending June 30, 2014, the Agency will adopt the following GASB statements:

Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*, which is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*, which is to improve financial reporting by state and local governmental pension plans.

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

Effective for the year ending June 30, 2015, the Agency will adopt the following GASB statements:

Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of Statement No. 27*, which is to improve financial reporting by state and local governmental pensions.

Statement No. 69, *Government Combinations and Disposals of Government Operations*, which is to improve accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The new standard provides guidance for:

- Determining whether a specific government combination is a government merger, a government acquisition, or a transfer of operations;
- Using carrying values (generally, the amounts recognized in the pre-combination financial statements of the combining governments or operations) to measure the assets, deferred outflows of resources, liabilities, and deferred inflows of resources combined in a government merger or transfer of operations;
- Measuring acquired assets, deferred outflows of resources, liabilities, and deferred inflows of resources based upon their acquisition values in a government acquisition; and
- Reporting the disposal of government operations that have been transferred or sold.

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

### **3. Deposits**

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

Deposits in the custody of the State Treasurer, including cash on hand or in transit, totaled \$21.47 million at June 30, 2013. These deposits are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Agency does not own individual securities. Detail on the nature of these deposits is available within the State of Illinois' CAFR.

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**Securities Lending Transactions**

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

During fiscal year 2013, Deutsche Bank AG lent U.S. Treasury and U.S. agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregated market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

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

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

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2013 arising from securities lending agreements to the various funds of the State. The total allocated to the Agency at June 30, 2013 was \$2.32 million.

**4. Interfund Balances and Activity**

***Balances Due To/From Other Funds***

The following balances (amounts expressed in thousands) at June 30, 2013 represent amounts due from other State of Illinois funds:

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Fund</u>	<u>Due from other State funds</u>	<u>Description/Purpose</u>
General	\$ 128	Grants for educational purposes
Nonmajor	27	Grants for educational purposes, technology loan programs, and temporary relocation expenses
Total	<u>\$ 155</u>	

The following balances (amounts expressed in thousands) at June 30, 2013 represent amounts due to other State of Illinois funds:

<u>Fund</u>	<u>Due to other State funds</u>	<u>Description/Purpose</u>
General	\$ 264	Grants for educational purposes
Nonmajor	8,170	Grants for educational purposes and for federal food service programs
Total	<u>\$ 8,434</u>	

**5. Balances and Activity Between the Agency and State of Illinois Component Units**

The following balances (amounts expressed in thousands) at June 30, 2013 represent amounts due to/from discretely presented component units of the State of Illinois for payments for professional services and for State and federal grant programs:

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

Component Unit	Due from		Due to	
	General Fund	Nonmajor Funds	General Fund	Nonmajor Funds
Governors State University	\$ -	\$ -	\$ 27	\$ -
Northeastern Illinois University	-	-	-	644
Western Illinois University	-	-	-	111
Illinois State University	10	-	874	405
Northern Illinois University	-	-	-	211
Southern Illinois University	-	-	-	197
University of Illinois	-	187	76	143
Total	\$ 10	\$ 187	\$ 977	\$ 1,711

**6. Loans Receivable**

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

- School District Emergency Financial Assistance Program - This program is available to provide school districts with emergency financial assistance. As of June 30, 2013, this program had no loans receivable outstanding.
- Charter Schools Revolving Loan Program - This program is designed to encourage and financially support high quality charter schools throughout Illinois. Loans are available to charter schools in the initial years of their charters.
- School Technology Revolving Loan Program - This program is designed to provide school districts with the technology tools and research-proven software to help all of their students achieve the Illinois Learning Standards, especially in reading and mathematics. Three year loans are available to school districts through this program to assist in achieving these goals.
- Temporary Relocation Expenses Revolving Grant Program - This program is available to pay school district emergency relocation expenses incurred as a result of fire, earthquake, tornado, or other natural or man-made disaster or school building condemnation made by a Regional Office of Education and approved by the State Superintendent of Education. The purpose of the program is to assist school districts in providing a safe, temporary environment for learning.

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

Loans receivable (amounts expressed in thousands) at June 30, 2013 consisted of the following:

<u>Program</u>	<u>Balance</u>
Charter Schools Revolving Loan Program	\$ 11
School Technology Revolving Loan Program	1,391
Temporary Relocation Expenses Revolving Grant Program	<u>150</u>
Total	<u>\$ 1,552</u>

**7. Capital Assets**

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2013 was as follows:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net Transfers</u>	<u>Balance June 30, 2013</u>
Capital assets not being depreciated/amortized:					
Land	\$ 1,063	\$ -	\$ -	\$ -	\$ 1,063
Internally generated software	<u>5,199</u>	<u>3,181</u>	<u>-</u>	<u>-</u>	<u>8,380</u>
Total capital assets not being depreciated/amortized	<u>6,262</u>	<u>3,181</u>	<u>-</u>	<u>-</u>	<u>9,443</u>
Capital assets being depreciated/amortized:					
Buildings	436	-	-	-	436
Equipment	6,615	519	165	-	6,969
Internally generated software	<u>17,847</u>	<u>1,369</u>	<u>-</u>	<u>-</u>	<u>19,216</u>
Total capital assets being depreciated/amortized	<u>24,898</u>	<u>1,888</u>	<u>165</u>	<u>-</u>	<u>26,621</u>

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

	Balance July 1, 2012	Additions	Deletions	Net Transfers	Balance June 30, 2013
Less accumulated depreciation/amortization:					
Buildings	274	8	-	-	282
Equipment	5,316	507	161	-	5,662
Internally generated software	4,977	1,277	-	-	6,254
Total accumulated depreciation/amortization	<u>10,567</u>	<u>1,792</u>	<u>161</u>	<u>-</u>	<u>12,198</u>
Total capital assets being depreciated/amortized, net	<u>14,331</u>	<u>96</u>	<u>4</u>	<u>-</u>	<u>14,423</u>
Total capital assets, net	<u>\$ 20,593</u>	<u>\$ 3,277</u>	<u>\$ 4</u>	<u>\$ -</u>	<u>\$ 23,866</u>

Depreciation expense and amortization for governmental activities (amounts expressed in thousands) for the year ended June 30, 2013 was charged to the Education function for an amount of \$1,792.

**8. Long-Term Obligations**

**Changes in Long-Term Obligations**

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2013 were as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013	Amounts Due Within One Year
Compensated absences	\$ 3,318	\$ 2,949	\$ 2,433	\$ 3,834	\$ 30
Installment purchases	190	-	190	-	-
Reorganization incentive	<u>-</u>	<u>11,565</u>	<u>2,668</u>	<u>8,897</u>	<u>2,847</u>
Total	<u>\$ 3,508</u>	<u>\$ 14,514</u>	<u>\$ 5,291</u>	<u>\$ 12,731</u>	<u>\$ 2,877</u>

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

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

**Reorganization Incentive**

The Agency has various incentives for school districts which reorganize under the School Code. These incentives include: the General State Aid Differential incentive which compares the General State Aid payment received by the newly formed district to the total amount of General State Aid the original districts would have received if filing separately, the Salary Differential incentive which compares teachers' salaries for the year prior to the reorganization, and the \$4,000 Per Certified Staff Differential which provides \$4,000 for each full-time certified staff member of the newly formed district. The reorganization incentive liability should have reported a balance at July 1, 2012; however, since the prior year amount is considered to be immaterial, it has been shown as an adjustment to current year additions.

Future requirements (amounts expressed in thousands) under these incentives as of June 30, 2013 were as follows:

Year Ending June 30	Amount
2014	\$ 2,847
2015	2,431
2016	2,107
2017	1,270
2018	242
Total	<u>\$ 8,897</u>

**9. Pension Plan**

**Plan Description**

Substantially all of the Agency's full-time employees who are not eligible for participation in another State-sponsored retirement plan participate in either the State Employees' Retirement System (SERS) or the Teachers' Retirement System (TRS), which are pension trust funds in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which 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 2013 are included in the State of Illinois' CAFR for the year ended June 30, 2013. 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

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

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) 782-2052.

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 SERS, the Agency pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2013, the employer contribution rate for the SERS was 37.987%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the entire employee portion of retirement for most State agencies (including the Agency) with employees covered by the State Employees' Retirement System. However, effective with the fiscal year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State agencies (including the Agency) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pickup, when applicable, is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

For employees covered by the TRS, the Agency pays employer retirement contributions based on a statutory based percentage of 0.58%. For employees paid from federal funds, the fiscal year 2013 employer contribution rate to the TRS was 28.05%. In addition, the State of Illinois makes employer contributions "on behalf" of TRS covered employees. For the year ended June 30, 2013, State contributions were based on 9.4% of creditable earnings.

**10. Post-Employment Benefits**

The State provides health, dental, vision and life insurance benefits for retirees and their dependents in a program administered by 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 with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

However, Public Act 97-0695, effective, July 1, 2012, alters the contributions to be paid by the State, annuitants, survivors, and retired employees under the State Employees Group Insurance Act. This Act requires the Director of Central Management Services to, on an annual basis, determine the amount that the State should contribute. The remainder of the cost of coverage shall be the responsibility of the annuitant, survivor, or retired employee. These costs will be assessed beginning July 1, 2013.

The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois' CAFR. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits 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 Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, 715 Stratton Building, 401 South Spring Street, Springfield, Illinois, 62606-4100.

**11. Fund Deficits**

The following funds had deficit balances at June 30, 2013 (amounts expressed in thousands):

	<u>Governmental Activities</u>
General Revenue Account (001)	\$ 1,608,198
Drivers Education Fund (031)	15,000
S.B.E. Federal Department of Education Fund (561)	81,234

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.

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

The Agency’s risk management activities for self-insurance, unemployment insurance and workers’ compensation are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the General Fund of the State. The claims are not considered to be a liability of the Agency; and accordingly, have not been reported in the Agency’s financial statements for the year ended June 30, 2013.

**13. Commitments and Contingencies**

**(a) Operating Leases**

The Agency leases various real property and equipment under terms of noncancelable operating lease agreements that require the Agency to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under these operating leases was \$2.84 million for the year ended June 30, 2013.

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

Year Ending June 30	Amount
2014	\$ 2,348
2015	2,348
2016	<u>2,340</u>
Total	<u>\$ 7,036</u>

**(b) 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 an eligible expenditure under the terms of the grants. At June 30, 2013, there were no material questioned costs that have not been resolved with the federal awarding agencies. However, questioned costs could still be identified during audits to be conducted in the future. Management of the Agency believes there will be no material adjustments to the federal grants and, accordingly, has not recorded a provision for possible repayment.

**(c) Litigation**

The Agency has received notice of intent to file a claim against the State of Illinois in the Court of Claims for personal injury stemming from the tainted chicken tenders allegedly consumed by students. The Agency is also named as a defendant in three separate lawsuits involving a claim regarding the calculation of General State Aid by two school districts, a claim alleging failure to pay legal fees in a defamation suit, and a complaint involving two claims for relief against the Agency.

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

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

**STATE OF ILLINOIS**  
**ILLINOIS STATE BOARD OF EDUCATION**  
**COMBINING SCHEDULE OF ACCOUNTS - GENERAL FUND**  
**AS OF JUNE 30, 2013**

(amounts expressed in thousands)

	<b>General Revenue Account (001)</b>	<b>Education Assistance Account (007)</b>	<b>Common School Account (412)</b>	<b>Total</b>
<b>ASSETS</b>				
Unexpended appropriations	\$ 458,116	\$ -	\$ -	\$ 458,116
Due from local governments	194	-	-	194
Other receivables	31	-	-	31
Due from other State funds	128	-	-	128
Due from component units of the State	10	-	-	10
<b>TOTAL ASSETS</b>	<b>\$ 458,479</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 458,479</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 5,940	\$ -	\$ -	\$ 5,940
Due to local governments	2,059,496	-	-	2,059,496
Due to other State funds	264	-	-	264
Due to component units of the State	977	-	-	977
<b>Total Liabilities</b>	<b>2,066,677</b>	<b>-</b>	<b>-</b>	<b>2,066,677</b>
<b>FUND DEFICIT</b>				
Unassigned	(1,608,198)	-	-	(1,608,198)
<b>Total Fund Deficit</b>	<b>(1,608,198)</b>	<b>-</b>	<b>-</b>	<b>(1,608,198)</b>
<b>TOTAL LIABILITIES AND FUND DEFICIT</b>	<b>\$ 458,479</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 458,479</b>

**STATE OF ILLINOIS**  
**ILLINOIS STATE BOARD OF EDUCATION**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2013**  
(amounts expressed in thousands)

	<b>General Revenue Account (001)</b>	<b>Education Assistance Account (007)</b>	<b>Common School Account (412)</b>	<b>Total</b>
<b>REVENUES</b>				
Licenses and fees	\$ 1	\$ -	\$ -	\$ 1
Other revenues	2	-	-	2
<b>Total Revenues</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>3</b>
<b>EXPENDITURES</b>				
Education	2,241,738	390,648	3,896,091	6,528,477
Debt service - principal	82	-	-	82
Debt service - interest	4	-	-	4
Capital outlays	612	-	-	612
<b>Total Expenditures</b>	<b>2,242,436</b>	<b>390,648</b>	<b>3,896,091</b>	<b>6,529,175</b>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	<b>(2,242,433)</b>	<b>(390,648)</b>	<b>(3,896,091)</b>	<b>(6,529,172)</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>				
Appropriations from State resources	2,263,047	390,662	3,896,091	6,549,800
Lapsed appropriations	(10,835)	-	-	(10,835)
Receipts collected and remitted to State Treasury	(3,008)	(14)	-	(3,022)
<b>Net Other Sources of Financial Resources</b>	<b>2,249,204</b>	<b>390,648</b>	<b>3,896,091</b>	<b>6,535,943</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>6,771</b>	<b>-</b>	<b>-</b>	<b>6,771</b>
Fund Deficit, July 1, 2012	(1,614,969)	-	-	(1,614,969)
<b>FUND DEFICIT, JUNE 30, 2013</b>	<b>\$ (1,608,198)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,608,198)</b>

STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
COMBINING BALANCE SHEET - NONMAJOR FUNDS  
AS OF JUNE 30, 2013  
(amounts expressed in thousands)

	Special Revenue Funds				
	Teacher Certificate Fee Revolving Fund (016)	Drivers Education Fund (031)	School District Emergency Financial Assistance Fund (130)	S.B.E. Special Purpose Trust Fund (144)	S.B.E. Teacher Certification Institution Fund (159)
<b>ASSETS</b>					
Unexpended appropriations	\$ -	\$ 4,375	\$ -	\$ -	\$ -
Cash and cash equivalents	7,043	-	1,415	3,988	2,397
Securities lending collateral equity with State Treasurer	-	-	-	-	-
Due from federal government	-	-	-	-	-
Due from local governments	-	-	-	-	-
Other receivables	-	-	-	-	-
Due from other State funds	-	-	-	-	-
Due from component units of the State	-	-	-	-	-
Inventories	-	-	-	-	-
Loans receivable	-	-	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 7,043</u>	<u>\$ 4,375</u>	<u>\$ 1,415</u>	<u>\$ 3,988</u>	<u>\$ 2,397</u>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 24	\$ -	\$ -	\$ 570	\$ -
Obligations under securities lending of State Treasurer	-	-	-	-	-
Due to federal government	-	-	-	-	-
Due to local governments	-	19,356	10	-	-
Due to other State funds	-	-	-	36	-
Due to component units of the State	-	19	-	9	-
Deferred revenue unavailable	-	-	-	-	-
Deferred revenue unearned	-	-	-	-	-
<b>Total Liabilities</b>	<u>24</u>	<u>19,375</u>	<u>10</u>	<u>615</u>	<u>-</u>
<b>FUND BALANCES (DEFICIT)</b>					
Nonspendable	-	-	-	-	-
Restricted	-	-	-	197	-
Committed	7,019	-	1,405	-	2,397
Assigned	-	-	-	3,176	-
Unassigned	-	(15,000)	-	-	-
<b>Total Fund Balances (Deficit)</b>	<u>7,019</u>	<u>(15,000)</u>	<u>1,405</u>	<u>3,373</u>	<u>2,397</u>
<b>TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)</b>	<u>\$ 7,043</u>	<u>\$ 4,375</u>	<u>\$ 1,415</u>	<u>\$ 3,988</u>	<u>\$ 2,397</u>

STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
COMBINING BALANCE SHEET - NONMAJOR FUNDS  
AS OF JUNE 30, 2013

(amounts expressed in thousands)

	<u>Special Revenue Funds</u>			
	S.B.E. Federal Dept. of Agriculture Fund (410)	After- School Rescue Fund (512)	S.B.E. Federal Agency Services Fund (560)	S.B.E. Federal Dept. of Education Fund (561)
<b>ASSETS</b>				
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -
Cash and cash equivalents	660	51	7	1,800
Securities lending collateral equity with State Treasurer	-	-	-	-
Due from federal government	67,890	-	40	406,768
Due from local governments	-	-	-	636
Other receivables	574	-	-	-
Due from other State funds	-	-	-	27
Due from component units of the State	-	-	-	187
Inventories	1,083	-	-	-
Loans receivable	-	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 70,207</u>	<u>\$ 51</u>	<u>\$ 47</u>	<u>\$ 409,418</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 496	\$ -	\$ 42	\$ 3,835
Obligations under securities lending of State Treasurer	-	-	-	-
Due to federal government	-	-	-	326
Due to local governments	68,109	-	-	395,115
Due to other State funds	272	-	-	7,862
Due to component units of the State	1	-	-	1,682
Deferred revenue unavailable	45	-	-	81,384
Deferred revenue unearned	-	-	5	448
<b>Total Liabilities</b>	<u>68,923</u>	<u>-</u>	<u>47</u>	<u>490,652</u>
<b>FUND BALANCES (DEFICIT)</b>				
Nonspendable	1,083	-	-	-
Restricted	201	-	-	-
Committed	-	51	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	(81,234)
<b>Total Fund Balances (Deficit)</b>	<u>1,284</u>	<u>51</u>	<u>-</u>	<u>(81,234)</u>
<b>TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)</b>	<u>\$ 70,207</u>	<u>\$ 51</u>	<u>\$ 47</u>	<u>\$ 409,418</u>

STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
COMBINING BALANCE SHEET - NONMAJOR FUNDS  
AS OF JUNE 30, 2013  
(amounts expressed in thousands)

	Special Revenue Funds				
	Charter Schools Revolving Loan Fund (567)	School Infrastructure Fund (568)	School Technology Revolving Loan Fund (569)	Temporary Relocation Expenses Revolving Grant Fund (605)	U.S. Dept. of Education Jobs Program Fund (857)
<b>ASSETS</b>					
Unexpended appropriations	\$ -	\$ 1	\$ -	\$ -	\$ -
Cash and cash equivalents	16	-	3,435	655	-
Securities lending collateral equity with State Treasurer	-	-	2,317	-	-
Due from federal government	-	-	-	-	-
Due from local governments	-	-	-	-	-
Other receivables	-	-	11	-	-
Due from other State funds	-	-	-	-	-
Due from component units of the State	-	-	-	-	-
Inventories	-	-	-	-	-
Loans receivable	11	-	1,391	150	-
<b>TOTAL ASSETS</b>	<u>\$ 27</u>	<u>\$ 1</u>	<u>\$ 7,154</u>	<u>\$ 805</u>	<u>\$ -</u>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ -	\$ 1	\$ -	\$ -	\$ -
Obligations under securities lending of State Treasurer	-	-	2,317	-	-
Due to federal government	-	-	-	-	-
Due to local governments	-	-	-	-	-
Due to other State funds	-	-	-	-	-
Due to component units of the State	-	-	-	-	-
Deferred revenue unavailable	-	-	-	-	-
Deferred revenue unearned	-	-	-	-	-
<b>Total Liabilities</b>	<u>-</u>	<u>1</u>	<u>2,317</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES (DEFICIT)</b>					
Nonspendable	-	-	-	-	-
Restricted	-	-	-	-	-
Committed	27	-	4,837	805	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
<b>Total Fund Balances (Deficit)</b>	<u>27</u>	<u>-</u>	<u>4,837</u>	<u>805</u>	<u>-</u>
<b>TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)</b>	<u>\$ 27</u>	<u>\$ 1</u>	<u>\$ 7,154</u>	<u>\$ 805</u>	<u>\$ -</u>

STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
COMBINING BALANCE SHEET - NONMAJOR FUNDS  
AS OF JUNE 30, 2013

(amounts expressed in thousands)

	<u>Capital Projects Funds</u>			
	<b>Capital Development Fund (141)</b>	<b>School Construction Fund (143)</b>	<b>Build Illinois Bond Fund (971)</b>	<b>Total</b>
<b>ASSETS</b>				
Unexpended appropriations	\$ -	\$ 427	\$ -	\$ 4,803
Cash and cash equivalents	-	-	-	21,467
Securities lending collateral equity with State Treasurer	-	-	-	2,317
Due from federal government	-	-	-	474,698
Due from local governments	-	-	-	636
Other receivables	-	-	-	585
Due from other State funds	-	-	-	27
Due from component units of the State	-	-	-	187
Inventories	-	-	-	1,083
Loans receivable	-	-	-	1,552
<b>TOTAL ASSETS</b>	<u>\$ -</u>	<u>\$ 427</u>	<u>\$ -</u>	<u>\$ 507,355</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 4,968
Obligations under securities lending of State Treasurer	-	-	-	2,317
Due to federal government	-	-	-	326
Due to local governments	-	427	-	483,017
Due to other State funds	-	-	-	8,170
Due to component units of the State	-	-	-	1,711
Deferred revenue unavailable	-	-	-	81,429
Deferred revenue unearned	-	-	-	453
<b>Total Liabilities</b>	<u>-</u>	<u>427</u>	<u>-</u>	<u>582,391</u>
<b>FUND BALANCES (DEFICIT)</b>				
Nonspendable	-	-	-	1,083
Restricted	-	-	-	398
Committed	-	-	-	16,541
Assigned	-	-	-	3,176
Unassigned	-	-	-	(96,234)
<b>Total Fund Balances (Deficit)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(75,036)</u>
<b>TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)</b>	<u>\$ -</u>	<u>\$ 427</u>	<u>\$ -</u>	<u>\$ 507,355</u>

STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - NONMAJOR FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013  
(amounts expressed in thousands)

	Special Revenue Funds				
	Teacher Certificate Fee Revolving Fund (016)	Drivers Education Fund (031)	School District Emergency Financial Assistance Fund (130)	S.B.E. Special Purpose Trust Fund (144)	S.B.E. Teacher Certification Institution Fund (159)
<b>REVENUES</b>					
Federal government	\$ -	\$ -	\$ -	\$ 4,014	\$ -
Licenses and fees	4,280	-	-	-	516
Interest	-	-	-	-	-
Other revenues	-	-	-	288	-
Refunds	-	-	-	-	-
<b>Total Revenues</b>	<b>4,280</b>	<b>-</b>	<b>-</b>	<b>4,302</b>	<b>516</b>
<b>EXPENDITURES</b>					
Education	1,423	15,000	67	3,003	-
Debt service - principal	-	-	-	66	-
Debt service - interest	-	-	-	3	-
Capital outlays	-	-	-	-	-
<b>Total Expenditures</b>	<b>1,423</b>	<b>15,000</b>	<b>67</b>	<b>3,072</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>2,857</b>	<b>(15,000)</b>	<b>(67)</b>	<b>1,230</b>	<b>516</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>					
Appropriations from State resources	-	17,500	-	-	-
Reappropriations to fiscal year 2014	-	-	-	-	-
Net change in liabilities for reappropriated accounts	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-
Receipts collected and remitted to the State Treasury	-	-	-	-	-
<b>Net Other Sources of Financial Resources</b>	<b>-</b>	<b>17,500</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>2,857</b>	<b>2,500</b>	<b>(67)</b>	<b>1,230</b>	<b>516</b>
Fund Balances (Deficit), July 1, 2012	4,162	(17,500)	1,472	2,143	1,881
Change in inventories	-	-	-	-	-
<b>FUND BALANCES (DEFICIT), JUNE 30, 2013</b>	<b>\$ 7,019</b>	<b>\$ (15,000)</b>	<b>\$ 1,405</b>	<b>\$ 3,373</b>	<b>\$ 2,397</b>

**STATE OF ILLINOIS**  
**ILLINOIS STATE BOARD OF EDUCATION**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - NONMAJOR FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**  
(amounts expressed in thousands)

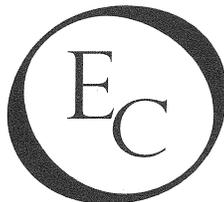
	<b>Special Revenue Funds</b>			
	<b>S.B.E. Federal Dept. of Agriculture Fund (410)</b>	<b>After- School Rescue Fund (512)</b>	<b>S.B.E. Federal Agency Services Fund (560)</b>	<b>S.B.E. Federal Dept. of Education Fund (561)</b>
<b>REVENUES</b>				
Federal government	\$ 739,174	\$ -	\$ 343	\$ 1,422,879
Licenses and fees	-	-	-	-
Interest	-	-	-	3
Other revenues	7	3	-	-
Refunds	(22)	-	-	(721)
<b>Total Revenues</b>	<b>739,159</b>	<b>3</b>	<b>343</b>	<b>1,422,161</b>
<b>EXPENDITURES</b>				
Education	738,643	-	332	1,474,866
Debt service - principal	20	-	-	22
Debt service - interest	-	-	-	2
Capital outlays	412	-	-	4,045
<b>Total Expenditures</b>	<b>739,075</b>	<b>-</b>	<b>332</b>	<b>1,478,935</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>84</b>	<b>3</b>	<b>11</b>	<b>(56,774)</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>				
Appropriations from State resources	-	-	-	-
Reappropriations to fiscal year 2014	-	-	-	-
Net change in liabilities for reappropriated accounts	-	-	-	-
Lapsed appropriations	-	-	-	-
Receipts collected and remitted to the State Treasury	-	-	-	-
<b>Net Other Sources of Financial Resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>84</b>	<b>3</b>	<b>11</b>	<b>(56,774)</b>
Fund Balances (Deficit), July 1, 2012	2,352	48	(11)	(24,460)
Change in inventories	(1,152)	-	-	-
<b>FUND BALANCES (DEFICIT), JUNE 30, 2013</b>	<b>\$ 1,284</b>	<b>\$ 51</b>	<b>\$ -</b>	<b>\$ (81,234)</b>

**STATE OF ILLINOIS**  
**ILLINOIS STATE BOARD OF EDUCATION**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - NONMAJOR FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**  
(amounts expressed in thousands)

	<b>Special Revenue Funds</b>				
	<b>Charter Schools Revolving Loan Fund (567)</b>	<b>School Infrastructure Fund (568)</b>	<b>School Technology Revolving Loan Fund (569)</b>	<b>Temporary Relocation Expenses Revolving Grant Fund (605)</b>	<b>U.S. Dept. of Education Jobs Program Fund (857)</b>
<b>REVENUES</b>					
Federal government	\$ -	\$ -	\$ -	\$ -	\$ 6,331
Licenses and fees	-	-	-	-	-
Interest	-	-	52	-	-
Other revenues	-	-	-	-	-
Refunds	-	-	-	-	-
<b>Total Revenues</b>	<b>-</b>	<b>-</b>	<b>52</b>	<b>-</b>	<b>6,331</b>
<b>EXPENDITURES</b>					
Education	-	118	-	(3)	6,189
Debt service - principal	-	-	-	-	-
Debt service - interest	-	-	-	-	-
Capital outlays	-	-	-	-	-
<b>Total Expenditures</b>	<b>-</b>	<b>118</b>	<b>-</b>	<b>(3)</b>	<b>6,189</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>-</b>	<b>(118)</b>	<b>52</b>	<b>3</b>	<b>142</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>					
Appropriations from State resources	-	600	-	-	-
Reappropriations to fiscal year 2014	-	-	-	-	-
Net change in liabilities for reappropriated accounts	-	-	-	-	-
Lapsed appropriations	-	(482)	-	-	-
Receipts collected and remitted to the State Treasury	-	-	-	-	-
<b>Net Other Sources of Financial Resources</b>	<b>-</b>	<b>118</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>-</b>	<b>-</b>	<b>52</b>	<b>3</b>	<b>142</b>
Fund Balances (Deficit), July 1, 2012	27	-	4,785	802	(142)
Change in inventories	-	-	-	-	-
<b>FUND BALANCES (DEFICIT), JUNE 30, 2013</b>	<b>\$ 27</b>	<b>\$ -</b>	<b>\$ 4,837</b>	<b>\$ 805</b>	<b>\$ -</b>

STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - NONMAJOR FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013  
(amounts expressed in thousands)

	<u>Capital Projects Funds</u>			<u>Total</u>
	<u>Capital Development Fund (141)</u>	<u>School Construction Fund (143)</u>	<u>Build Illinois Bond Fund (971)</u>	
<b>REVENUES</b>				
Federal government	\$ -	\$ -	\$ -	\$ 2,172,741
Licenses and fees	-	-	-	4,796
Interest	-	-	-	55
Other revenues	-	-	-	298
Refunds	-	-	-	(743)
<b>Total Revenues</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,177,147</u>
<b>EXPENDITURES</b>				
Education	-	14,771	410	2,254,819
Debt service - principal	-	-	-	108
Debt service - interest	-	-	-	5
Capital outlays	-	-	-	4,457
<b>Total Expenditures</b>	<u>-</u>	<u>14,771</u>	<u>410</u>	<u>2,259,389</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>-</u>	<u>(14,771)</u>	<u>(410)</u>	<u>(82,242)</u>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>				
Appropriations from State resources	25,000	83,716	410	127,226
Reappropriations to fiscal year 2014	(25,000)	(67,285)	-	(92,285)
Net change in liabilities for reappropriated accounts	-	(1,611)	-	(1,611)
Lapsed appropriations	-	(43)	-	(525)
Receipts collected and remitted to the State Treasury	-	(6)	-	(6)
<b>Net Other Sources of Financial Resources</b>	<u>-</u>	<u>14,771</u>	<u>410</u>	<u>32,799</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(49,443)</u>
Fund Balances (Deficit), July 1, 2012	-	-	-	(24,441)
Change in inventories	-	-	-	(1,152)
<b>FUND BALANCES (DEFICIT), JUNE 30, 2013</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (75,036)</u>



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

**INDEPENDENT AUDITOR'S 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, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the Illinois State Board of Education's basic financial statements, and have issued our report thereon dated December 10, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Illinois State Board of Education's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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. Accordingly, we do not express an opinion on the effectiveness of the Illinois State Board of Education's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as item 2013-001 to be a material weakness.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Illinois State Board of Education's financial statements are free from 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings as item 2013-001.

## **Illinois State Board of Education's Response to Finding**

The Illinois State Board of Education's response to the finding identified in our audit is described in the accompanying Schedule of Findings. The Illinois State Board of Education's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Illinois State Board of Education's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Illinois State Board of Education's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*E. C. Ortiz & Co., LLP*

Chicago, Illinois  
December 10, 2013

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2013**

**CURRENT FINDING - GOVERNMENT AUDITING STANDARDS**

2013-001. **FINDING** (Financial Reporting)

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

The Agency understated expenditures, liabilities, and federal receivables due to miscalculations for subrecipient amounts for the year ended June 30, 2013. Documentation necessary to record grant expenditures and related liability in the correct fiscal year were obtained from subrecipients; however, the Agency's calculation of related adjustments to grant expense and liability as of fiscal year-end for subrecipients were inaccurate. As a result, the financial statements reflected understatements of \$16,963,347 in expenditures, the amount due to local governments, and the amount due from the federal government. This also resulted in an understatement of \$21,478,388 in unavailable deferred revenue and overstatement of \$4,515,041 in federal operating grants revenue. Subsequent to our review, the Agency made the necessary adjustments to the financial statements.

Additionally, in our review of the Grant/Contract Analysis Form (Form SCO-563) of the GAAP Reporting Package, we noted the Agency did not report for two funds the cost of grants provided to subrecipients totaling \$51,557,728 (noncash and cash grants amounting to \$46,689,105 and \$4,868,623, respectively). These understatements affected the data the Agency submitted for Statewide federal grant reporting, but these amounts did not have an impact on the Agency's financial statements. The Agency subsequently made the necessary corrections in the GAAP Reporting Package to properly report the amounts distributed to subrecipients.

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

Statewide Accounting Management System (SAMS) Procedure 27.20.63, Grant/Contract Analysis, requires the value of noncash assistance distributed be reported in the applicable section of Form SCO-563. It further requires the amount of current year expenditures passed through to subrecipient entities be reported on the SCO-563.

During the prior audit, the Agency recorded grant expenditures and the related liability for payments to subrecipients during the lapse period (through August 31) without obtaining documentation from subrecipients to determine whether a legal obligation existed at June 30. As a result, some expenditures were not charged to or reported in the correct fiscal year. In the prior audit finding response, officials stated the Agency would require subrecipients to report the portion of payments received from the Agency attributable to obligations as of

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2013**

**CURRENT FINDING - GOVERNMENT AUDITING STANDARDS, Continued**

June 30. During the current audit, the Agency implemented modifications to its policies and procedures, communicated the new expenditure reporting requirements to its subrecipients, and implemented the changes beginning with all Fiscal Year 2013 federal grant budget based programs in accordance with its prior audit finding response.

During the prior audit, we also noted the Agency improperly reported a reorganization incentive liability in the financial statements. During the current audit, the Agency correctly reported this liability in their financial statements.

Agency officials stated that the inaccurate calculation of grant expenditures and liabilities for Fiscal Year 2013 was due to the newly developed process of requiring subrecipients with post June 30 project end dates to split expenditures between the two applicable fiscal years and the Agency's unfamiliarity on the impact of the expenditure split in calculating the estimated liability. Also, management stated the amounts omitted from Form SCO-563 were due to an oversight.

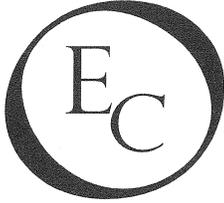
Failure to implement proper internal control procedures over financial reporting resulted in a material misstatement in the Agency's financial statements and in inaccurate information reflected in its GAAP Reporting Package. (Finding Code Nos. 2013-001, 12-1, 11-1)

**RECOMMENDATION**

We recommend the Agency review its current process for preparation and review of the annual financial statements and GAAP Reporting Package to ensure that financial information is complete and accurate in accordance with generally accepted accounting principles and SAMS reporting requirements.

**AGENCY RESPONSE**

The Agency agrees with the finding. The Agency is taking steps toward automating the collection and calculation of the estimated liability as of various dates after the close of the fiscal year. This process should produce consistent and timely liability calculations. In addition, Agency personnel will perform various analyses on the data to ensure the liability calculated is reasonable and within expectations. Regarding amounts identified as being omitted on Form SCO-563, the Agency will ensure amounts to subrecipients will be reported properly in the future.



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

## INDEPENDENT ACCOUNTANTS' 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 Auditors for the Auditor General, we have performed each of the procedures enumerated below, which were agreed to by the Auditor General, solely to assist the users in evaluating management's assertion about the Illinois State Board of Education's (Agency) compliance with respect to the reporting, during the year ended June 30, 2013, of the statewide high school dropout rate by grade level, sex, race, and the annual student dropout rate of 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 2012 Annual Report for the State Board of Education, noting compliance with the statute as follows:
  - a. Using the most recently available data, the Board prepared and submitted to the General Assembly and the Governor on or before January 14, 2013 a report or reports of its findings and recommendations.
  - b. The Annual Report contained a separate section which provides a critique and analysis of the status of education in Illinois and which identifies its specific problems and recommends express solutions therefor.
  - c. The Annual Report contained the following information for the preceding year ended June 30, 2012: Each act or omission of a school district of which the State Board of Education has knowledge as a consequence of scheduled, approved visits and which constituted a failure by the district to comply with applicable State or federal laws or regulations relating to public education, the name of such district, the date or dates on which the State Board of Education notified the school district of such act or omission, and what action, if any, the school district took with respect thereto after being notified thereof by the State Board of Education.
  - d. The report included the statewide high school dropout rate by grade level, sex and race and the annual student dropout rate of and the number of students who graduate from, transfer from or otherwise leave bilingual programs.

3. We documented and determined the adequacy of the Agency's procedures for accumulating and reviewing dropout and transitional bilingual education data.
4. We obtained the list of school districts and verified submission of student data in Student Information System (SIS) for a sample of 40 school districts. We noted no exceptions.
5. We obtained the supporting file for the "2010-2011 and 2011-2012 High School Dropout Rates, by Grade Level, Gender, and Race/Ethnicity" prepared by the Agency. We traced dropout data for 20 selected students from the Agency's supporting file of dropout data to SIS and 20 selected students from SIS to Agency's supporting file of dropout data. We noted no exceptions.
6. We compared dropout data totals per the Agency's supporting file of dropout data for the school years 2010-2011 and 2011-2012 to those on the 2012 Annual Report filed with the General Assembly. All dropout totals, by grade level, gender, and race/ethnicity on the supporting file agreed to the report. We noted no exceptions.
7. We obtained the supporting file for the "2011-2012 Reasons for Exiting Limited English Proficient Programs" prepared by the Agency. We traced bilingual education data for 15 selected students from the Agency's supporting file of bilingual education data to SIS and 15 selected students to the Access file. We also traced bilingual education data for 15 selected students from SIS and another 15 students from Access file to the Agency's supporting file of bilingual education data. We noted no exceptions.
8. We compared bilingual education data totals per the Agency's supporting file of bilingual education data for the school year 2011-2012 to those on the 2012 Annual Report filed with the General Assembly. All bilingual education data totals, by reason of exiting the bilingual program, on the supporting file agreed to the report but with exceptions which are described in the accompanying Schedule of Findings as item 2013-002.
9. We obtained the schedule of bilingual education data generated from the Statistical Package for the Social Sciences (SPSS). We compared bilingual education data totals per the SPSS schedule to those on the 2012 Annual Report filed with the General Assembly. All bilingual education data totals, by reason of exiting the bilingual program, on the SPSS schedule agreed to the report but with exceptions which are described in the accompanying Schedule of Findings as item 2013-002.

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

*E.C. Atiz + Co., LLP*

Chicago, Illinois  
December 10, 2013

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2013**

**CURRENT FINDING - AGREED-UPON PROCEDURES**

2013-002. **FINDING** (Inaccurate Reporting of Reasons for Exiting Limited English Proficient Programs)

Data reported in the Illinois State Board of Education’s (Agency) 2012 Annual Report relating to the reasons for exiting Limited English Proficient (LEP) Programs was inaccurate.

The School Code (Code) (105 ILCS 5/1A-4) requires the Agency to annually prepare and submit to the General Assembly and the Governor on or before January 14 a report or reports of its findings and recommendations regarding bilingual program exit information. The Code further requires that the report shall include the number of students who graduate from, transfer from or otherwise leave bilingual programs.

In Fiscal Year 2012, a total of 51,777 Illinois students exited LEP Programs. In our tracing of the reported information in the 2012 Annual Report from the supporting files for the reasons for exiting LEP Programs, we noted the numbers of students classified as graduated and transferred were interchanged as follows:

<u>Reasons for Exiting the LEP Program</u>	<u>Correct Total Number of Students</u>	<u>As Reported in the Annual Report</u>	<u>Difference</u>
Graduated	1,746	8,648	(6,902)
Transferred	8,648	1,746	6,902

During the prior examination period, the data reported in the Agency’s 2011 Annual Report relating to the reasons for exiting LEP Programs were also inaccurate. Program exit codes were not properly reported, summarized and classified, affecting all categories of data reported. In the prior finding response, officials stated the Agency identified the necessary changes in practice to ensure accurate information is disclosed in the Annual Report, and staff would implement procedures to review and check the accuracy of information included in the Annual Report. Although the Agency implemented its corrective action plan and properly classified and summarized data, the current year’s testing showed that the Agency did not ensure all information published in the Annual Report was accurate.

Agency officials stated that the reporting errors noted were due to oversight in the preparation of the report.

Reporting inaccurate LEP information to the General Assembly and the Office of the Governor limits usefulness of data and prevents fulfillment of the purpose of the School Code provision. (Finding Code Nos. 2013-002, 12-5)

**RECOMMENDATION**

We recommend the Agency strengthen its procedures for reviewing and checking the accuracy of the information included in the Annual Report prior to filing.

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2013**

**CURRENT FINDING - AGREED-UPON PROCEDURES, Continued**

**AGENCY RESPONSE**

The Agency agrees with the finding. Agency personnel will perform additional reviews of the Annual Report prior to its release to ensure the data presented is accurate.