

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT

For the Year Ended June 30, 2018

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, 2018

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STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT

For the Year Ended June 30, 2018

AGENCY OFFICIALS

Board Members of the Illinois State Board of Education:

James T. Meeks, Chairperson, through 2/24/19

Eligio Pimentel, Vice-Chairperson, through 2/24/19

Cesilie Price, Secretary, through 2/24/19

Ruth Cross, through 2/24/19

Lula Ford, through 2/24/19

Craig Lindvahl, through 2/24/19

Kevin Settle, through 2/24/19

Mitch Holzrichter, effective 1/19/18
through 2/24/19

Susie Morrison, effective 7/21/17

Jason Barclay, effective 1/16/17 through 9/8/17

Darren Reisberg, Chairperson,
effective 2/25/19

Dr. Donna S. Leak, Vice-Chairperson,
effective 2/25/19

Dr. Cristina Pacione-Zayas, Secretary
effective 2/25/19

Dr. Christine Benson, effective 2/25/19

Cynthia Latimer, effective 2/25/19

Dr. David R. Lett, effective 2/25/19

Jane Quinlan, effective 2/25/19

Jacqueline Robbins, effective 2/25/19

State Superintendent of Education

Through 2/22/19

Effective 3/1/19

Tony Smith, Ph.D.

Dr. Carmen I. Ayala

Executive staff:

General Counsel

Interim through 8/14/17

Effective 8/15/17

Chief Internal Auditor

Through 8/29/17

Effective 9/18/17

Chief Education Officer

Through 8/31/18

First Deputy Superintendent

Through 12/31/18

Chief Financial Officer

Executive Director, Professional Capital

Through 8/28/17

Chief Operations & Professional Capital Officer

Effective 8/30/17

Colette McCarty

Stephanie Jones

Melissa Oller

Tassi Maton

Libia Gil

Karen Corken

Robert Wolfe

Sarah Hatfield

Melissa Oller

The Illinois State Board of Education offices are located at the Alzina Building, 100 North First Street, Springfield, Illinois 62777-0001 and the 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, 2018

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the Illinois State Board of Education was performed by Kerber, Eck & Braeckel 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 as finding 2018-001, Financial Statement Reporting Error on pages 61-62 of this report.

EXIT CONFERENCE

The Board waived an exit conference in correspondence from Tassi Maton, Chief Internal Auditor. The Board's response to the recommendation was provided by Tassi Maton in correspondence dated December 10, 2018.

Independent Auditor's Report

Honorable Frank J. Mautino
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, 2018, 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, 2018, 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, 2018, 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.

As discussed in Notes 2(r) and 15 to the financial statements, the Board adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as of July 1, 2017. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis, the budgetary comparison information for the General Fund, the pension related required supplementary information, and the

other postemployment benefits required supplementary information 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 accompanying supplementary information in the combining general fund schedules and combining nonmajor fund financial statements as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information in the combining general fund schedules and combining nonmajor fund financial statements as listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 accompanying supplementary information for the year ended June 30, 2018, in the combining general fund schedules and combining nonmajor fund financial statements is 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 March 19, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Illinois State Board of Education's 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.

SIGNED ORIGINAL ON FILE

Springfield, Illinois
March 19, 2019

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
AS OF JUNE 30, 2018
(amounts expressed in thousands)

	General Fund	Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Net Position
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
Unexpended appropriations	\$ 441,885	\$ 4,687	\$ 446,572	\$ -	\$ 446,572
Cash and cash equivalents	177	22,885	23,062	-	23,062
Securities lending collateral equity with State Treasurer	-	341	341	-	341
Due from federal government	-	397,429	397,429	-	397,429
Due from local governments	88	182	270	-	270
Other receivables	164	7,439	7,603	-	7,603
Due from other State fiduciary funds	-	23	23	-	23
Due from other Agency funds	-	4,326	4,326	(4,326)	-
Due from other State funds	14	16	30	-	30
Due from component units of the State	-	5	5	-	5
Inventories	-	1,623	1,623	-	1,623
Loans receivable	-	3,239	3,239	-	3,239
Prepaid expenses	-	-	-	399	399
Capital assets not being depreciated	-	-	-	1,063	1,063
Capital assets net of depreciation	-	-	-	38,811	38,811
Total assets	<u>442,328</u>	<u>442,195</u>	<u>884,523</u>	<u>35,947</u>	<u>920,470</u>
Deferred outflows of resources - SERS pensions	-	-	-	14,164	14,164
Deferred outflows of resources - TRS pensions	-	-	-	5,232	5,232
Deferred outflows of resources - OPEB	-	-	-	3,570	3,570
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 442,328</u>	<u>\$ 442,195</u>	<u>\$ 884,523</u>	<u>\$ 58,913</u>	<u>\$ 943,436</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES					
Accounts payable and accrued liabilities	\$ 56,348	\$ 29,794	\$ 86,142	\$ -	\$ 86,142
Obligations under securities lending of State Treasurer	-	341	341	-	341
Due to federal government	1	1,059	1,060	-	1,060
Due to local governments	1,164,467	392,175	1,556,642	-	1,556,642
Due to other State fiduciary funds	2	5	7	-	7
Due to other Agency funds	4,230	96	4,326	(4,326)	-
Due to other State funds	500	8,733	9,233	-	9,233
Due to component units of the State	2,309	1,839	4,148	-	4,148
Unearned revenue	-	1,477	1,477	-	1,477
Compensated absences, current portion	-	-	-	14	14
Capital lease obligations, current portion	-	-	-	19	19
Reorganization incentive, current portion	-	-	-	1,711	1,711
Compensated absences, long-term portion	-	-	-	3,047	3,047
Capital lease obligations, long-term portion	-	-	-	66	66
Reorganization incentive, long-term portion	-	-	-	239	239
Net pension liability - SERS, long-term portion	-	-	-	114,088	114,088
Net pension liability - TRS, long-term portion	-	-	-	56,788	56,788
OPEB liability, long-term portion	-	-	-	139,921	139,921
Total liabilities	<u>1,227,857</u>	<u>435,519</u>	<u>1,663,376</u>	<u>311,567</u>	<u>1,974,943</u>
Deferred inflows of resources - unavailable revenue - federal government	-	68,063	68,063	(68,063)	-
Deferred inflows of resources - SERS pensions	-	-	-	25,098	25,098
Deferred inflows of resources - TRS pensions	-	-	-	9,328	9,328
Deferred inflows of resources - OPEB	-	-	-	26,173	26,173
Total liabilities and deferred inflows of resources	<u>1,227,857</u>	<u>503,582</u>	<u>1,731,439</u>	<u>304,103</u>	<u>2,035,542</u>
FUND BALANCES (DEFICIT)/NET POSITION (DEFICIT)					
Fund Balances:					
Nonspendable	-	1,623	1,623	(1,623)	-
Restricted	-	414	414	(414)	-
Committed	-	14,123	14,123	(14,123)	-
Assigned	-	8,862	8,862	(8,862)	-
Unassigned	(785,529)	(86,409)	(871,938)	871,938	-
Net investment in capital assets	-	-	-	39,789	39,789
Restricted net position	-	-	-	2,386	2,386
Unrestricted net position	-	-	-	(1,134,281)	(1,134,281)
Total Fund Deficit/Net Deficit	<u>(785,529)</u>	<u>(61,387)</u>	<u>(846,916)</u>	<u>\$ (245,190)</u>	<u>\$ (1,092,106)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND DEFICIT	<u>\$ 442,328</u>	<u>\$ 442,195</u>	<u>\$ 884,523</u>		

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

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
STATEMENT OF NET POSITION
AS OF JUNE 30, 2018**

(amounts expressed in thousands)

Total Fund deficit - governmental funds \$ (846,916)

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 the governmental funds. 39,874

Prepaid expenses for governmental activities are current uses of financial resources for funds. 399

Deferred outflows of resources related to pensions and other postemployment benefits are not reported in the governmental funds since they do not provide current financial resources. These deferred outflows of resources consist of the following:

Deferred outflows of resources - SERS pensions	\$ 14,164	
Deferred outflows of resources - TRS pensions	5,232	
Deferred outflows of resources - OPEB	<u>3,570</u>	
		22,966

Revenues in the Statement of Activities that do not provide current financial resources are deferred in the governmental funds. 68,063

Deferred inflows of resources related to pensions and other postemployment benefits are not reported in the government funds since they do not use current financial resources. These deferred inflows of resources consist of the following:

Deferred inflows of resources - SERS pensions	\$ (25,098)	
Deferred inflows of resources - TRS pensions	(9,328)	
Deferred inflows of resources - OPEB	<u>(26,173)</u>	
		(60,599)

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 liabilities consist of:

Compensated absences	\$ (3,061)	
Capital lease obligations	(85)	
Reorganization incentive	(1,950)	
Net pension liability - SERS	(114,088)	
Net pension liability - TRS	(56,788)	
OPEB liability	<u>(139,921)</u>	
		<u>(315,893)</u>

NET DEFICIT FROM GOVERNMENTAL ACTIVITIES \$ (1,092,106)

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

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2018
(amounts expressed in thousands)

	General Fund	Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Activities
EXPENDITURES/EXPENSES					
Program expense - education	\$ 7,601,008	\$ 2,895,409	\$ 10,496,417	\$ 22,158	\$ 10,518,575
Debt service - principal	3	16	19	(19)	-
Debt service - interest	1	11	12	-	12
Capital outlays	1,537	5,763	7,300	(7,300)	-
Total Expenditures/Expenses	<u>7,602,549</u>	<u>2,901,199</u>	<u>10,503,748</u>	<u>14,839</u>	<u>10,518,587</u>
PROGRAM REVENUES					
Charges for services:					
Licenses and fees	-	5,529	5,529	-	5,529
Total charges for services	<u>-</u>	<u>5,529</u>	<u>5,529</u>	<u>-</u>	<u>5,529</u>
Operating grant revenue:					
Federal	-	2,281,097	2,281,097	(15,891)	2,265,206
Refunds	-	(1,735)	(1,735)	-	(1,735)
Total operating grant revenue	<u>-</u>	<u>2,279,362</u>	<u>2,279,362</u>	<u>(15,891)</u>	<u>2,263,471</u>
Net Program Deficit	<u>(7,602,549)</u>	<u>(616,308)</u>	<u>(8,218,857)</u>	<u>(30,730)</u>	<u>(8,249,587)</u>
GENERAL REVENUES					
Interest	-	85	85	-	85
Other revenues	6	-	6	-	6
Total General Revenues	<u>6</u>	<u>85</u>	<u>91</u>	<u>-</u>	<u>91</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Appropriations from State resources	7,627,736	642,141	8,269,877	-	8,269,877
Reappropriations to Fiscal Year 2019	-	(4,391)	(4,391)	-	(4,391)
Lapsed appropriations	(15,945)	-	(15,945)	-	(15,945)
Receipts collected and transmitted to State Treasury	(12,082)	-	(12,082)	-	(12,082)
Amount of SAMS transfers-out	85	-	85	-	85
Transfers-out	-	(1,600)	(1,600)	-	(1,600)
Capital lease financing	-	55	55	(55)	-
Net Other Sources (Uses) of Financial Resources	<u>7,599,794</u>	<u>636,205</u>	<u>8,235,999</u>	<u>(55)</u>	<u>8,235,944</u>
Net change in fund balances/net position	(2,749)	19,982	17,233	(30,785)	(13,552)
Fund Deficit/Net Deficit, July 1, 2017, as restated	(782,780)	(80,279)	(863,059)	(215,495)	(1,078,554)
Change in inventories	-	(1,090)	(1,090)	1,090	-
FUND DEFICITS/NET DEFICIT, JUNE 30, 2018	<u>\$ (785,529)</u>	<u>\$ (61,387)</u>	<u>\$ (846,916)</u>	<u>\$ (245,190)</u>	<u>\$ (1,092,106)</u>

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

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018
(amounts expressed in thousands)

Net Change in Fund Balances - governmental funds	\$ 17,233
Change in inventories	<u>(1,090)</u>
	16,143
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.	3,351
Deferred outflows of resources related to pension and OPEB liabilities in the Statement of Activities that do not provide current financial resources are not reported in the governmental funds. This amount represents the decrease in deferred outflows over the prior year.	(16,860)
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.	19
Some capital additions were financed through other financing arrangements. In governmental funds these other financing arrangements are considered a source of financing, but in the Statement of Net Position, the lease obligation is reported as a liability.	(55)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. This amount represents the decrease in unavailable revenue over the prior year.	(15,891)
Deferred inflows of resources related to pension and OPEB liabilities in the Statement of Activities that do not use current financial resources are not reported in the governmental funds. This amount represents the increase in deferred inflows over the prior year.	(42,295)
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	\$ (13,677)
Increase in compensated absences	(76)
Decrease in reorganization incentive	3,068
Decrease in net pension liability - SERS	28,416
Decrease in net pension liability - TRS	3,765
Decrease in OPEB liability	20,540
	<u>42,036</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (13,552)</u></u>

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

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

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 (CAFR) 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, 2018**

(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' 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, 2018, 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 intergovernmental revenues.

The statement of net position presents the assets, deferred outflows of resources, liabilities and deferred inflows of resources 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 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.

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

The Agency administers the following major governmental funds (or portions thereof in the case of shared funds - see note 2 (d)):

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 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) and one secondary sub-account (School Infrastructure - 568).

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.

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(d) Shared Fund Presentation

The financial statement presentation for the General Revenue (001), Education Assistance (007), Common School (412), and School Infrastructure (568) Accounts of the General Fund; the Drivers Education Fund (031), the School Construction Fund (143), and the Fund for the Advancement of Education (640) represent 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 transactions processed by the State Comptroller's Office after June 30 annually, in accordance with the Statewide Accounting Management System (SAMS) records, plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year and voucher, interfund payment, and mandatory SAMS transfer transactions held by the State Comptroller's Office at June 30.

Appropriations from State Resources

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

Reappropriations to Future Year(s)

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

Lapsed Appropriations

Lapsed appropriations are the legally adopted appropriations less net warrants issued for the 16 month period from July to October of the following year and reappropriations to subsequent years according to SAMS records.

Receipts Collected and Transmitted to State Treasury

This "other financing use" account represents all cash receipts received during the fiscal year from SAMS records.

Amount of SAMS Transfers-Out

This "other financing source" account represents cash transfers made by the State Comptroller's Office in accordance with statutory provisions from the corresponding fund during the fiscal year per SAMS records in which a legally adopted appropriation was not charged.

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(e) Eliminations

Eliminations have been made in the government-wide statement of net position to minimize the “grossing-up” effect on assets and liabilities within the governmental activities column of the Agency. As a result, amounts reported in the governmental funds balance sheet as interdepartmental interfund receivables and payables have been eliminated in the government-wide statement of net position. Amounts reported in the governmental funds balance sheet statement of net position as receivable from or payable to fiduciary funds have been included in the government-wide statement of net position as receivable from and payable to external parties, rather than as internal balances.

(f) 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.

(g) 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.

(h) Prepaid Expenses

For governmental funds, prepaid expenses are recognized when paid.

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(i) 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 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.

(j) 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

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(k) 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).

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.

(l) Pensions

In accordance with the Agency's adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, the net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense have been recognized in the government-wide financial statements.

The net pension liability is calculated as the difference between the actuarially calculated value of the projected benefit payments attributed to past periods of service and the plans' fiduciary net position. The total pension expense is comprised of the service cost or actuarial present value of projected benefit payments attributed to the valuation year, interest on the total pension liability, plan administrative expenses, current year benefit changes, and other changes in plan fiduciary net position less employee contributions and projected earnings on plan investments. Additionally, the total pension expense includes the annual recognition of outflows and inflows of resources due to pension assets and liabilities.

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, pension expense and expenditures associated with the Agency's contribution requirements, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported within the separately issued plan financial statements. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with terms of the plan. Investments are reported at fair value.

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(m) Postemployment Benefits Other Than Pensions (“OPEB”)

The State provides health, dental, vision and life insurance benefits for certain retirees and their dependents through the State Employees Group Insurance Program (“SEGIP”). The total OPEB liability, deferred outflows of resources, deferred inflows of resources, expense, and expenditures associated with the program have been determined through an actuarial valuation using certain actuarial assumptions as applicable to the current measurement period. (see Note 10).

The OPEB liabilities, deferred outflows of resources, deferred inflows of resources, and OPEB expense have been recognized in the government-wide financial statements.

(n) Deferred Outflows/Inflows of Resources

A deferred outflow/inflow of resources is a consumption/acquisition of net position that is applicable to a future reporting period. The Agency has recorded deferred outflows/inflows of resources in the government-wide financial statements in connection with the net pension liability and OPEB liability reported and explained in Note 9 and Note 10, respectively. In addition, the Agency has recorded deferred inflows of resources in the fund financial statements in connection with unavailable revenues.

(o) 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. The Agency’s nonspendable fund balance consists of amounts for inventories.

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. The Agency’s restricted fund balances consist of amounts restricted by enabling legislation and private organization grants.

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. The Agency’s committed fund balances consist of amounts that are restricted through enabling legislation but have been subject to fund sweeps in previous years and, therefore, have been classified as committed.

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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. The Agency's assigned fund balances consist of amounts for indirect cost recovery of Federal monies.

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.

(p) Net Position

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

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."

(q) 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.

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(r) Adoption of New Accounting Pronouncements

Effective for the year ending June 30, 2018, the Agency adopted the following GASB statements:

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statement No. 45 and requires governments to report a liability on the face of the financial statements for the Other Postemployment Benefits (OPEB) they provide. In addition, this statement requires governments participating in all types of OPEB plans to present more extensive note disclosures and RSI about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. The implementation of this statement significantly impacted the Agency's government-wide financial statements and footnote disclosure with the recognition of a net OPEB liability, deferred outflows of resources and deferred inflows of resources on the Statement of Net Position and OPEB expense on the Statement of Activities. Additionally, the requirements of this statement resulted in the restatement of beginning net position as discussed in Note 15. Information regarding participation in the State Employees Group Insurance Program is disclosed in Note 10.

Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting guidance for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of this statement had no financial impact on the Agency's net position or results of operations.

Statement No. 85, *Omnibus 2017*, which addresses practice issues identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The provisions related to postemployment benefits of this statement were incorporated with the implementation of GASB Statement 75.

Statement No 86, *Certain Debt Extinguishment Issues*, improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the sole purpose of extinguishing debt. In addition, this statement improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of this statement had no financial impact on the Agency's net position or results of operations.

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(s) Future Adoption of GASB Statements

Effective for the year ending June 30, 2019, the Agency will adopt the following GASB statements:

Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) and establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which is intended to improve the information that is disclosed in notes to governmental financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should be including when disclosing information related to debt.

Effective for the year ending June 30, 2020, the Agency will adopt the following GASB statement:

Statement No. 84, *Fiduciary Activities*, which is intended to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. In addition, this statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*, is intended to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.

Effective for the year ending June 30, 2021, the Agency will adopt the following GASB statements:

Statement No. 87, *Leases*, which is intended to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources and or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which is intended to (1) enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

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

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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 \$23.06 million at June 30, 2018. 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.

4. Interfund Balances and Activity

Balances Due To/From Other Funds

The following balances (amounts expressed in thousands) at June 30, 2018 represent amounts due from other State fiduciary, Agency and State of Illinois funds:

Fund	Due from other State fiduciary funds	Due from other Agency funds	Due from other State funds	Description/Purpose
General	\$ -	\$ -	\$ 14	Grants for educational purposes.
Nonmajor	23	4,326	16	Due from other State fiduciary funds for refunds of retirement costs and from other Agency funds and other State funds for grants for educational purposes.
Total	<u>\$ 23</u>	<u>\$ 4,326</u>	<u>\$ 30</u>	

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The following balances (amounts expressed in thousands) at June 30, 2018 represent amounts due to other State fiduciary, Agency and State of Illinois funds:

Fund	Due to other State fiduciary funds	Due to other Agency funds	Due to other State funds	Description/Purpose
General	\$ 2	\$ 4,230	\$ 500	Due to other State fiduciary funds for group insurance costs, to other Agency funds for educational purposes, and to other State funds for grants for educational purposes and for purchases of services.
Nonmajor	5	96	8,733	Due to other State fiduciary funds for retirement costs and group insurance costs, due to other Agency funds and other State funds for grants for educational purposes, for federal food service programs and for purchases of services.
Total	<u>\$ 7</u>	<u>\$ 4,326</u>	<u>\$ 9,233</u>	

Transfers to Other Funds

Interfund transfers-out (amounts expressed in thousands) for the year ended June 30, 2018 were as follows:

Fund	Transfers-out to other State funds	Description/Purpose
Nonmajor	\$ 1,600	Transfers to General Revenue Account per State appropriation.

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

The following balances (amounts expressed in thousands) at June 30, 2018 represent amounts due to discretely presented component units of the State of Illinois for payments for professional services and for State and federal grant programs:

Component Unit	Due From	Due to	
	Nonmajor Funds	General Fund	Nonmajor Funds
Governors State University	\$ -	\$ 117	\$ -
Northeastern Illinois University	-	-	532
Western Illinois University	-	12	179
Illinois State University	-	198	914
Northern Illinois University	-	505	72
Southern Illinois University	-	1,274	18
University of Illinois	5	203	124
Total	<u>\$ 5</u>	<u>\$ 2,309</u>	<u>\$ 1,839</u>

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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, 2018, 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. As of June 30, 2018, this program had no loans receivable outstanding.
- 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.

Loans receivable (amounts expressed in thousands) at June 30, 2018 consisted of the following:

<u>Program</u>	<u>Balance</u>
School Technology Revolving Loan Program	\$ 3,210
Temporary Relocation Expenses Revolving Grant Program	<u>29</u>
Total	<u>\$ 3,239</u>

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7. Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2018 was as follows:

	Balance July 1, 2017	Additions	Deletions	Net Transfers	Balance June 30, 2018
Capital assets not being depreciated:					
Land	\$ 1,063	\$ -	\$ -	\$ -	\$ 1,063
Total capital assets not being depreciated	<u>1,063</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,063</u>
Capital assets being depreciated/amortized:					
Buildings	436	-	-	-	436
Equipment	6,127	343	916	-	5,554
Capital leases - equipment	55	55	-	-	110
Internally generated Software	50,421	6,902	-	-	57,323
Total capital assets being depreciated/amortized	<u>57,039</u>	<u>7,300</u>	<u>916</u>	<u>-</u>	<u>63,423</u>
Less accumulated depreciation/amortization:					
Buildings	318	8	-	-	326
Equipment	5,370	308	916	-	4,762
Capital leases - equipment	8	23	-	-	31
Internally generated Software	15,883	3,610	-	-	19,493
Total accumulated depreciation/amortization	<u>21,579</u>	<u>3,949</u>	<u>916</u>	<u>-</u>	<u>24,612</u>
Total capital assets being depreciated/amortized, net	<u>35,460</u>	<u>3,351</u>	<u>-</u>	<u>-</u>	<u>38,811</u>
Governmental activity capital assets, net	<u>\$ 36,523</u>	<u>\$ 3,351</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,874</u>

Depreciation expense and amortization for governmental activities (amounts expressed in thousands) for the year ended June 30, 2018 were charged to the Education function for an amount of \$3,949.

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8. Long-Term Obligations

Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2018 were as follows:

	Balance July 1, 2017 as <u>Restated</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, 2018	Amounts Due Within One Year
Compensated absences	\$ 2,985	\$ 2,158	\$ 2,082	\$ 3,061	\$ 14
Capital lease obligations	49	55	19	85	19
Reorganization incentive	5,018	11	3,079	1,950	1,711
Net pension liability - SERS	142,504	-	28,416	114,088	-
Net pension liability - TRS	60,553	-	3,765	56,788	-
OPEB liability	<u>160,461</u>	<u>-</u>	<u>20,540</u>	<u>139,921</u>	<u>-</u>
Total	<u>\$ 371,570</u>	<u>\$ 2,224</u>	<u>\$ 57,901</u>	<u>\$315,893</u>	<u>\$ 1,744</u>

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

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Capital Lease Obligations

The Agency leases office equipment with a historical cost and accumulated depreciation (amounts expressed in thousands) of \$110 and \$31, respectively, under capital leases arrangements. Although lease terms vary, certain leases are renewable subject to appropriation by the General Assembly. If renewal is reasonably assured, leases requiring appropriation by the General Assembly are considered non-cancelable leases for financial reporting. Future minimum lease payments (amounts expressed in thousands) at June 30, 2018 were as follows:

Year Ending June 30	Principal	Interest	Total
2019	\$ 19	\$ 9	\$ 28
2020	21	7	28
2021	23	4	27
2022	22	1	23
Total	<u>\$ 85</u>	<u>\$ 21</u>	<u>\$ 106</u>

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.

Future requirements (amounts expressed in thousands) under these incentives as of June 30, 2018 were as follows:

Year Ending June 30	Amount
2019	\$ 1,711
2020	120
2021	119
Total	<u>\$ 1,950</u>

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9. Pension Plan

Defined Benefit 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 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 pension trust fund in which State employees participate except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. SERS is governed by article 14 of the Illinois Pension Code (40 ILCS 5/1, et al.). The TRS is the administrator of a cost-sharing multiple-employer public employee defined benefit pension plan with a "special funding situation" as described below. TRS provides coverage to personnel in positions that require a certification under the teacher certification law that are employed by public school districts in Illinois (excluding Chicago), special districts and certain State agencies. There are 850 local school districts, 125 special districts, and 14 other State agencies that contribute to the TRS plan as of the measurement date June 30, 2017. The State of Illinois, as a nonemployer contributing entity, is legally mandated to make contributions to TRS, thus creating a special funding relationship with the plan. TRS is governed by article 16 of the Illinois Pension Code.

Both plans consist of two tiers of contribution requirements and benefit levels based on when an employee was hired. Members who first become an employee and participate under any of the State's retirement plans on or after January 1, 2011 are members of Tier 2, while Tier 1 consists of employees hired before January 1, 2011 or those who have service credit prior to January 1, 2011. The provisions below apply to both Tier 1 and 2 members, except where noted.

Both plans also issue a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports are available on the respective plan websites or may be obtained by writing or calling the plan as follows:

- State Employees' Retirement System, 2101 South Veterans Parkway, P.O. Box 19255, Springfield, Illinois, 62794-9255, (217) 785-7444 or www.srs.illinois.gov.
- Teachers' Retirement System, 2815 West Washington Street, P.O. Box 19253, Springfield, Illinois, 62794-9253, (877) 927-5877 or www.trsil.org.

Benefit Provisions

State Employees' Retirement System

SERS provides retirement benefits based on the member's final average compensation and the number of years of service credit that have been established. The retirement benefit formula available to general State employees that are covered under the Federal Social Security Act is 1.67% for each year of service and for noncovered employees it is 2.2% for each year of service. The maximum retirement annuity payable is 75% of final average compensation as calculated under the regular formula. The minimum monthly retirement annuity payable is \$15.00 for each year of covered service and \$25.00 for each year of noncovered service.

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Members in SERS under the regular formula Tier 1 and Tier 2 receive the following levels of benefits based on the respective age and years of service credits.

Regular Formula Tier 1	Regular Formula Tier 2
<p>A member must have a minimum of eight years of service credit and may retire at:</p> <ul style="list-style-type: none"> • Age 60, with 8 years of service credit. • Any age, when the member's age (years and whole months) plus years of service credit (years and whole months) equal 85 years (1,020 months) (Rule of 85) with eight years of credited service. • Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60). <p>The retirement benefit is based on final average compensation and credited service. Final average compensation is the 48 highest consecutive months of service within the last 120 months of service.</p> <p>Under the Rule of 85, a member is eligible for the first 3% increase on January 1 following the first full year of retirement, even if the member is not age 60. If the member retires at age 60 or older, he/she will receive a 3% pension increase every year on January 1, following the first full year of retirement.</p> <p>If the member retires before age 60 with a reduced retirement benefit, he/she will receive a 3% pension increase every January 1 after the member turns age 60 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</p>	<p>A member must have a minimum of 10 years of credited service and may retire at:</p> <ul style="list-style-type: none"> • Age 67, with 10 years of credited service. • Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67). <p>The retirement benefit is based on final average compensation and credited service. For regular formula employees, final average compensation is the average of the 96 highest consecutive months of service within the last 120 months of service. The retirement benefit is calculated on a maximum salary of \$106,800. This amount increases annually by 3% or 1/2 of the Consumer Price Index, whichever is less.</p> <p>If the member retires at age 67 or older, he/she will receive a pension increase of 3% or 1/2 of the Consumer Price Index for the preceding calendar year, whichever is less, every year on January 1, following the first full year of retirement. The Calendar Year 2017 rate is \$112,408.</p> <p>If the member retires before age 67 with a reduced retirement benefit, he/she will receive a pension increase of 3% or 1/2 of the Consumer Price Index for the preceding calendar year, whichever is less, every January 1 after the member turns age 67 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</p>

Additionally, the Plan provides an alternative retirement formula for State employees in high-risk jobs, such as State policemen, fire fighters, and security employees. Employees qualifying for benefits under the alternative formula may retire at an earlier age depending on membership in Tier 1 or Tier 2. The retirement formula is 2.5% for each year of covered service and 3.0% for each year of non-covered service. The maximum retirement annuity payable is 80% of final average compensation as calculated under the alternative formula.

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SERS also provides occupational and nonoccupational (including temporary) disability benefits. To be eligible for nonoccupational (including temporary) disability benefits, an employee must have at least eighteen months of credited service to the System. The nonoccupational (including temporary) disability benefit is equal to 50% of the monthly rate of compensation of the employee on the date of removal from the payroll. Occupational disability benefits are provided when the member becomes disabled as a direct result of injuries or diseases arising out of and in the course of State employment. The monthly benefit is equal to 75% of the monthly rate of compensation on the date of removal from the payroll. This benefit amount is reduced by Workers' Compensation or payments under the Occupational Diseases Act.

Occupational and nonoccupational death benefits are also available through the SERS. Certain nonoccupational death benefits vest after eighteen months of credited service. Occupational death benefits are provided from the date of employment.

Teachers' Retirement System

TRS provides retirement benefits, whereby, most members retire under a formula that provides 2.2% of final average salary up to a maximum of 75% with 34 years of service. Under Tier 1, a member qualifies for an age retirement annuity after reaching age 62 with 5 years of credited service, age 60 with 10 years of credited service, age 55 with 20 years of credited service, or between the ages of 55 and 60 with fewer than 35 years of service. If a member retires between the ages of 55 and 60 with fewer than 35 years of service the annuity will be reduced by 1/2 percent for each month the member is under 60. The retirement benefit is based on the final average salary which is the average salary for the highest four consecutive years within the last ten years of creditable service. Annual automatic increases equal to 3% are provided to essentially all retirees. Under Tier 2, a member qualifies for an age retirement annuity after reaching age 62 with 10 years of credited service at a discounted rate or age 67 with 10 years of credited service. The retirement benefit is based on the final average salary which for Tier 2 is the average salary for the highest eight consecutive years within the last ten years of creditable service. Annual automatic increases equal to the lesser of 3% or 1/2 of the Consumer Price Index with the adjustment applied to the original benefit are provided to Tier 2 retirees. Disability and death benefits are also provided by TRS.

Contributions

State Employees' Retirement System

Contribution requirements of active employees and the State are established in accordance with Chapter 40, section 5/14-133 of the Illinois Compiled Statutes. Member contributions are based on fixed percentages of covered payroll ranging between 4.00% and 12.50%. Employee contributions are fully refundable, without interest, upon withdrawal from State employment. Tier 1 members contribute based on total annual compensation. Tier 2 members contribute based on an annual compensation rate not to exceed \$106,800 with limitations for future years increased by the lesser of 3% or 1/2 of the annual percentage increase in the Consumer Price Index. For 2018, this amount was \$113,645.

The State is required to make payment for the required departmental employer contributions, all allowances, annuities, any benefits granted under Chapter 40, Article 5/14 of the ILCS and all administrative expenses of the System to the extent specified in the ILCS. State law provides that the employer contribution rate be determined based upon the results of each annual actuarial valuation.

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For Fiscal Year 2018, the required employer contributions were computed in accordance with the State's funding plan. This funding legislation provides for a systematic 50-year funding plan with an ultimate goal to achieve 90% funding of the plan's liabilities. In addition, the funding plan provided for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Since the 15-year phase-in period ended June 30, 2010, the State's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved. For Fiscal Year 2018, the employer contribution rate was 47.342%. The Agency's contribution amount for Fiscal Year 2018 was \$0.904 million. In addition, the Agency recorded \$5.263 million of revenue and expenditures in the General Revenue account of the General Fund to account for on-behalf payments made by SERS for Agency employees.

Teachers' Retirement System

The State maintains the primary responsibility for funding TRS. The Illinois Pension Code, as appended by Public Act 88-0593 and subsequent acts, provides that for years 2010 through 2045, the minimum contribution to TRS for each fiscal year be an amount determined to be sufficient to bring the total assets of TRS up to 90% funding. Contributions from active members and TRS contributing employers are also required by the Illinois Pension Code. The active member contribution rate for the year ended June 30, 2018 was 9.0% of salary. Employer contributions are made by or on behalf of employers from several sources. The State of Illinois provides the largest source of contributions through State appropriations. Employers also make contributions of 0.58% of total creditable earnings for the 2.2 benefit formula change and for teachers who are paid from federal funds. Additionally, employers contribute their portion of any excess salary increase or sick leave costs due as defined within Chapter 40, section 5/16 of the Illinois Compiled Statutes.

For TRS, employee contributions are fully refundable, without interest, upon withdrawal from applicable employment. For Tier 1 members, there is no annual compensation limit on contributions. For Tier 2 members, annual compensation on which contributions are taken cannot exceed \$106,800. This amount increases annually by the lesser of 3% or 1/2 of the annual percentage increase in the Consumer Price Index. For 2018, this amount was \$113,645. The Agency's contribution for Fiscal Year 2018 was \$0.765 million. The Agency recognized revenue and expenditures in the General Revenue account of the General Fund of \$24.340 million in pension contributions from the State.

Pension liability, deferred outflows of resources, deferred inflows of resources and expense related to pensions.

State Employees' Retirement System

At June 30, 2018 the Agency reported a liability of \$114.09 million for its proportionate share of the State's net pension liability for SERS on the statement of net position. The net pension liability was measured as of June 30, 2017 (current year measurement date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Agency's portion of the net pension liability was based on the Agency's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2017. As of the current year measurement date of June 30, 2017, the Agency's proportion was 0.3467%, which was a decrease of 0.0706% from its proportion measured as of the prior year measurement date of June 30, 2016.

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For the year ended June 30, 2018, the Agency recognized pension expense of \$7.39 million. At June 30, 2018, the Agency reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2017, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 67	\$ 3,614
Changes of assumptions	11,767	2,379
Net difference between projected and actual investment earnings on pension plan investments	100	-
Changes in proportion	1,326	19,105
Agency contributions subsequent to the measurement date	904	-
Total	<u>\$ 14,164</u>	<u>\$ 25,098</u>

\$0.904 million reported as deferred outflows of resources related to pensions resulting from Agency contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts expressed in thousands):

Year Ending June 30	SERS
2019	\$ (2,859)
2020	(2,406)
2021	(3,427)
2022	<u>(3,146)</u>
Total	<u>\$ (11,838)</u>

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Teachers' Retirement System

At June 30, 2018, the Agency reported a liability of \$56.79 million for its proportionate share of the TRS net pension liability on the statement of net position. The State's proportionate share of the net pension liability (as a nonemployer contributing entity in a special funding situation) for the Agency was \$247.32 million as of the measurement date. The total net pension liability for the Agency's employees participating in the TRS was \$304.11 million as of the measurement date. The net pension liability was measured as of June 30, 2017 (current year measurement date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, and rolled forward to June 30, 2017. The Agency's portion of the net pension liability was based on the Agency's contributions relative to the contributions of all participating TRS employers and the State during the year ended June 30, 2017. At June 30, 2017, the measurement date, the Agency's proportionate share was 0.07433% for the TRS plan, which was a 0.00238% decrease from its proportion measured at the prior year measurement date of June 30, 2016.

For the year ended June 30, 2018, the Agency recognized pension expense of \$2.13 million. At June 30, 2018, the Agency reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2017, from the following sources (amounts expressed in thousands):

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 617	\$ 26
Changes of assumptions	3,790	1,632
Net difference between projected and actual investment earnings on pension plan investments	39	-
Changes in proportion	21	7,670
Agency contributions subsequent to the measurement date	<u>765</u>	<u>-</u>
Total	<u>\$ 5,232</u>	<u>\$ 9,328</u>

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\$0.765 million reported as deferred outflows of resources related to pensions resulting from Agency contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts expressed in thousands):

<u>Year Ending June 30</u>	<u>TRS</u>
2019	\$ (2,525)
2020	(1,349)
2021	3
2022	(900)
2023	<u>(90)</u>
Total	<u>\$ (4,861)</u>

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Actuarial Methods and Assumptions

The total pension liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>SERS</u>	<u>TRS</u>
Valuation date	06/30/17	06/30/16*
Measurement date	06/30/17	06/30/17
Actuarial cost method	Entry Age	Entry Age
Actuarial assumptions:		
Investment rate of return	7.00%	7.00%
Projected salary increases**	3.25% - 7.67%	3.25% - 9.25%
Inflation rate	2.75%	2.50%
Postretirement benefit increases		
Tier 1	3%, compounded	3%, compounded
Tier 2	Lesser of 3% or ½ of CPI [^] , on original benefit	1.25% not compounded
Retirement age experience study ^{^^}	July 2009 - June 2013	July 2011 - June 2014
Mortality ^{^^^}		
SERS	105 percent of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added	
TRS	RP - 2014 with future mortality improvements on a fully generational basis using projection table MP-2014	
* The total pension liability is based on an actuarial valuation date of June 30, 2016, rolled-forward to the measurement date using generally accepted actuarial procedures.		
** Includes inflation rate listed.		
[^] Consumer Price Index		
^{^^} The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined. A modified experience review was completed for SERS for the 3-year period ending June 30, 2015. Changes were made to the assumptions regarding investment rate of return, projected salary increases, inflation rate, and mortality based on this review. All other assumptions remain unchanged.		
^{^^^} Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.		

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State Employees' Retirement System

The long-term expected real rate of return on pension plan investments was determined using the best estimates of geometric real rates of return for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in the pension plan's target asset allocation, calculated as of the measurement date of June 30, 2017, the best estimates of the geometric real rates of return are summarized in the following table:

Asset Class	SERS	
	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	23.00%	5.50%
Developed Foreign Equity	13.00%	5.30%
Emerging Market Equity	8.00%	7.80%
Private Equity	7.00%	7.60%
Intermediate Investment Grade Bonds	14.00%	1.50%
Long-term Government Bonds	4.00%	1.80%
TIPS	4.00%	1.50%
High Yield and Bank Loans	5.00%	3.80%
Opportunistic Debt	8.00%	5.00%
Emerging Market Debt	2.00%	3.70%
Real Estate	5.50%	3.70%
Non-core Real Estate	4.50%	5.90%
Infrastructure	2.00%	5.80%
Total	<u>100.00%</u>	

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Teachers' Retirement System

The long-term expected rate of return assumption on pension plan investments under the TRS plan was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017, that were used by the actuary are summarized in the following table:

Asset Class	TRS	
	Target Allocation	Long-Term Expected Real Rates of Return
U.S. Equities Large Cap	14.00%	6.94%
U.S. Equities Small/Mid Cap	4.00%	8.09%
International Equities Developed	14.00%	7.46%
Emerging Market Equities	4.00%	10.15%
U.S. Bonds Core	11.00%	2.44%
International Debt Developed	5.00%	1.70%
Real Estate	15.00%	5.44%
Commodities (Real Return)	11.00%	4.28%
Hedge Funds (Absolute Return)	8.00%	4.16%
Private Equity	14.00%	10.63%
Total	100.00%	

Discount Rate

State Employees' Retirement System

A discount rate of 6.78% was used to measure the total pension liability. This single blended discount rate was based on the expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.56%, based on an index of 20 year general obligation bonds with an average AA credit rating as published by the Federal Reserve. The projection of cash flows used to determine this single discount rate assumed that contributions will be made based on the statutorily required rates under Illinois law. Based on these assumptions, it has been determined that the pension plan's fiduciary net position and future contributions will be sufficient to finance the benefit payments through the year 2073 for SERS. As a result, the long-term expected rate of return on pension plan investments has been applied to projected benefit payments through the year 2073, at which time the municipal bond rate has been applied to all remaining benefit payments.

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Teachers' Retirement System

A discount rate of 7.00% was used to measure the total pension liability. This single blended discount rate was based on the expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.56%, based on an S&P Municipal Bond 20-year High Grade Rate Index. The projection of cash flows used to determine the discount rate assumed that employee contributions, employer contributions, and state contributions will be made at the current statutorily-required rates. Based on these assumptions, the pension plan's fiduciary net position and future contributions will be sufficient to finance the benefit payments through the year 2119. As a result, the long-term expected rate of return on pension plan investments has been applied to projected benefit payments through the year 2119, at which time the municipal bond rate has been applied to all remaining benefit payments.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The net pension liabilities for SERS and TRS were calculated using the stated discount rate, as well as what the net pension liabilities would be if they were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate as shown below (amounts expressed in thousands):

	1% Decrease 5.78%	Discount Rate 6.78%	1% Increase 7.78%
Agency's proportionate share of the SERS net pension liability	\$ 138,049	\$ 114,088	\$ 94,478
	1% Decrease 6.00%	Discount Rate 7.00%	1% Increase 8.00%
Agency's proportionate share of the TRS net pension liability	\$ 69,772	\$ 56,788	\$ 46,154

Payables to the pension plan. At June 30, 2018, the Agency reported a payable of \$4 to SERS for the outstanding amount of contributions to the pension plans required for the year ended June 30, 2018.

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10. Post-Employment Benefits

Plan Description

The State Employees Group Insurance Act of 1971 (“Act”), as amended, authorizes the Illinois State Employees Group Insurance Program (“SEGIP”) to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the Agency’s full-time employees are members of SEGIP. Members receiving monthly benefits from the SERS and the TRS are eligible for these other post-employment benefits (“OPEB”). The eligibility provisions for each of the retirement systems are defined within Note 9. Certain TRS members eligible for coverage under SEGIP include: certified teachers employed by certain State agencies, executives employed by the Board of Education, regional superintendents, regional assistant superintendents, TRS employees and members with certain reciprocal service.

The Department of Central Management Services administers these benefits for annuitants with the assistance of the public retirement systems sponsored by the State (SERS and TRS). The State recognizes SEGIP OPEB benefits as a single-employer defined benefit plan. The plan does not issue a stand-alone financial report.

Benefits Provided

The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and the various unions representing the State’s and the university component units’ employees in accordance with limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. Coverage through SEGIP becomes secondary to Medicare after Medicare eligibility has been reached. Members must enroll in Medicare Parts A and B to receive the subsidized SEGIP premium available to Medicare eligible participants. The Act requires the State to provide life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time, the benefit amount becomes \$5,000.

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Funding Policy and Annual Other Postemployment Benefit Cost

OPEB offered through SEGIP are financed through a combination of retiree premiums, State contributions and Federal government subsidies from the Medicare Part D program. Contributions are deposited in the Health Insurance Reserve Fund, which covers both active State employees and retirement members. Annuitants may be required to contribute towards health 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 SERS do not contribute toward health 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 and vision benefits. All annuitants are required to pay for dental benefits regardless of retirement date. The Director of Central Management Services shall, on an annual basis, determine the amount the State shall contribute toward the basic program of group health benefits. State contributions are made primarily from the General Revenue Account of the General Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree health insurance benefit and a separate trust has not been established for the funding of OPEB.

For fiscal year 2018, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was \$10,926.24 (\$6,145.92 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and \$14,939.04 (\$5,165.04 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

Total OPEB liability, deferred outflows of resources, deferred inflows of resources and expense related to OPEB

The total OPEB liability, as reported at June 30, 2018, was measured as of June 30, 2017, with an actuarial valuation as of June 30, 2016. At June 30, 2018, the Agency recorded a liability of \$139.921 million for its proportionate share of the State's total OPEB liability. The Agency's portion of the OPEB liability was based on the Agency's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2017. As of the current year measurement date of June 30, 2017, the Agency's proportion was .3386%, which was a decrease of .0303% from its proportion measured as of the prior year measurement date of June 30, 2016.

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The Agency recognized OPEB expense for the year ended June 30, 2018, of \$4.60 million. At June 30, 2018, the Agency reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2017, from the following sources (amounts expressed in thousands):

Deferred outflows of resources

Differences between expected and actual experience	\$ 45
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,131
Agency contributions subsequent to the measurement date	<u>1,394</u>

Total deferred outflows of resources \$ 3,570

Changes in assumptions	\$ 13,286
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>12,887</u>

Total deferred inflows of resources \$ 26,173

\$1.394 million reported as deferred outflows of resources related to OPEB resulting from Agency contributions subsequent to the measurement date will be recognized as a reduction to the OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (amounts expressed in thousands):

Year Ending June 30	
2019	\$ (5,394)
2020	(5,394)
2021	(5,395)
2022	(5,395)
2023	<u>(2,419)</u>
Total	<u>\$ (23,997)</u>

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Actuarial Methods and Assumptions

The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on SERS and TRS active, inactive, and retiree data as of June 30, 2016, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2016.

Valuation date	06/30/16
Measurement date	06/30/17
Actuarial cost method	Entry Age Normal
Inflation rate	2.75%
Projected salary increases*	3.00% - 15.00%
Discount rate	3.56%
Healthcare cost trend rate:	
Medical (Pre-Medicare)	8.0% grading down 0.5% in the first year to 7.5%, then grading down 0.01% in the second year to 7.49%, followed by grading down of 0.5% per year over 5 years to 4.99% in year 7
Medical (Post-Medicare)	9.0% grading down 0.5% per year over 9 years to 4.5%
Dental	7.5% grading down 0.5% per year over 6 years to 4.5%
Vision	3.00%
Retirees' share of benefit-related costs	Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5% for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100% of the required dependent premium. Premiums for plan year 2017 and 2018 are based on actual premiums. Premiums after 2018 were projected based on the same healthcare cost trend rates applied to per capita claim costs but excluding the additional trend rate that estimates the impact of the Excise Tax.
* Dependent upon service and participation in the respective retirement systems. Includes inflation rate listed.	

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Additionally, the demographic assumptions used in this OPEB valuation are identical to those used in the June 30, 2016 valuations for SERS and TRS as follows:

	Retirement Age Experience Study[^]	Mortality^{^^}
SERS	July 2009 – June 2013	105 percent of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added
TRS	July 2011 – June 2014	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2014
[^] The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined. A modified experience review was completed for SERS for the 3-year period ending June 30, 2015. Changes were made to the assumptions regarding investment rate of return, projected salary increases, inflation rate, and mortality based on this review. All other assumptions remained unchanged.		
^{^^} Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.		

Discount rate

Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 2.85% at June 30, 2016, and 3.56% at June 30, 2017, was used to measure the total OPEB liability.

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Sensitivity of Total OPEB Liability to Changes in the Single Discount Rate

The following presents the plan's total OPEB liability, calculated using a Single Discount Rate of 3.56%, as well as what the plan's total OPEB liability would be if it were calculated using a Single Discount rate that is one percentage point higher (4.56%) or lower (2.56%) than the current rate (amounts expressed in thousands):

	1% Decrease <u>2.56%</u>	Current Single Discount Rate Assumption 3.56%	1% Increase <u>4.56%</u>
Agency's proportionate share of total OPEB liability	\$ 158,739	\$ 139,921	\$ 121,209

Sensitivity of the Total OPEB liability to Changes in the Healthcare Cost Trend Rate

The following presents the plans total OPEB liability, calculated using the healthcare cost trend rates as well as what the plan's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point higher or lower, than the current healthcare cost trend rates (amounts in table expressed in thousands). The key trend rates are 8.0% in 2018 decreasing to an ultimate trend rate of 4.99% in 2025, for non-Medicare coverage, and 9.0% decreasing to an ultimate trend rate of 4.5% in 2027 for Medicare coverage.

	1% Decrease <u> </u>	Current Healthcare Cost Trend Rates Assumption <u> </u>	1% Increase <u> </u>
Agency's proportionate share of total OPEB liability	\$ 119,561	\$ 139,921	\$ 156,729

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11. Fund Deficits

The following funds had deficit balances at June 30, 2018 (amounts expressed in thousands):

	<u>Governmental Activities</u>
General Revenue Account (001)	\$ (785,529)
Drivers Education Fund (031)	(18,750)
S.B.E Federal Agency Services Fund (560)	(74)
S.B.E. Federal Department of Education Fund (561)	(67,582)

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.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claims liabilities are based upon the estimated ultimate cost of settling the claims including specific, incremental claim adjustment expenses, salvage, and subrogation and considering the effects of inflation and recent claim settlement trends including frequency and amount of payouts and other economic and social factors.

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, 2018.

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13. Commitments and Contingencies

(a) Operating Leases

The Agency leases real property under terms of noncancelable operating lease agreement that requires the Agency to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense was \$2.69 million for the year ended June 30, 2018.

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

Year Ending June 30	Amount
2019	\$ 2,034
2020	2,034
2021	<u>2,034</u>
Total	<u>\$ 6,102</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, 2018, 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

A class action complaint has been filed against the Agency and the Chicago Public Schools claiming that the school system and the Agency violated the rights of special education students whose native language is not English by not providing translation and interpreter services during meetings and dispute resolution proceedings. Currently, the parties are participating in court mediated settlement proceedings. If the case goes to trial, the Agency could be liable for a portion of the Plaintiffs' attorneys' fees as well as the costs of providing translation or interpretation services in certain settings.

A suit has been filed in the Court of Claims alleging breach of contract and loss of wages related to the Agency's refusal to pay for services claimed to have been rendered under contract. The Agency asserts that payment was lawfully withheld under the contract because of failure to perform.

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.

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14. 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 2018, Deutsche Bank AG lent U.S. Agency securities and U.S. Treasury 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 aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions during Fiscal Year 2018 on the amount of loans of available, 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. There were no losses during Fiscal Year 2018 resulting from a default of the borrowers or Deutsche Bank AG.

During Fiscal Year 2018, 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 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, 2018 arising from securities lending agreements to the various funds of the State. The total allocated to the Agency at June 30, 2018 was \$0.34 million.

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FOR THE YEAR ENDED JUNE 30, 2018**

15. Prior Period Adjustment

The Agency’s financial statements have been restated as of July 1, 2017. The Governmental Activities were restated as a result of implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which requires the OPEB liability to be reported as a component of long-term obligations in accrual-basis financial statements. In addition, deferred outflows and inflows of resources related to changes in the net OPEB liability are required to be reported.

	<u>Governmental Activities</u>
Net Deficit, July 1, 2017, as previously reported	\$ (919,879)
Beginning of the year OPEB liability	(160,461)
Beginning of the year deferred outflow of resources	<u>1,786</u>
Net Deficit, July 1, 2017, as restated	<u>\$ (1,078,554)</u>

SUPPLEMENTARY INFORMATION

STATE OF ILLINOIS
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COMBINING SCHEDULE OF ACCOUNTS - GENERAL FUND
AS OF JUNE 30, 2018
(amounts expressed in thousands)

	General Revenue Account (001)	Education Assistance Account (007)	Common School Account (412)	School Infrastructure Account (568)	Total
ASSETS					
Unexpended appropriations	\$ 422,848	\$ 591	\$ 18,442	\$ 4	\$ 441,885
Cash and cash equivalents	177	-	-	-	177
Due from local governments	88	-	-	-	88
Other receivables	164	-	-	-	164
Due from other State funds	14	-	-	-	14
TOTAL ASSETS	\$ 423,291	\$ 591	\$ 18,442	\$ 4	\$ 442,328
LIABILITIES					
Accounts payable and accrued liabilities	\$ 37,313	\$ 591	\$ 18,442	\$ 2	\$ 56,348
Due to federal government	1	-	-	-	1
Due to local governments	1,164,467	-	-	-	1,164,467
Due to other State fiduciary funds	2	-	-	-	2
Due to other Agency funds	4,230	-	-	-	4,230
Due to other State funds	498	-	-	2	500
Due to component units of the State	2,309	-	-	-	2,309
Total liabilities	1,208,820	591	18,442	4	1,227,857
FUND DEFICIT					
Unassigned	(785,529)	-	-	-	(785,529)
Total fund deficit	(785,529)	-	-	-	(785,529)
TOTAL LIABILITIES AND FUND DEFICIT	\$ 423,291	\$ 591	\$ 18,442	\$ 4	\$ 442,328

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, 2018

(amounts expressed in thousands)

	General Revenue Account (001)	Education Assistance Account (007)	Common School Account (412)	School Infrastructure Account (568)	Total
REVENUES					
Licenses and fees	\$ -	\$ -	\$ -	\$ -	\$ -
Other revenues	6	-	-	-	6
Total revenues	<u>6</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6</u>
EXPENDITURES					
Education	3,746,539	793,350	3,061,012	107	7,601,008
Debt service:					
Principal	3	-	-	-	3
Interest	1	-	-	-	1
Capital outlays	1,535	-	-	2	1,537
Total expenditures	<u>3,748,078</u>	<u>793,350</u>	<u>3,061,012</u>	<u>109</u>	<u>7,602,549</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(3,748,072)</u>	<u>(793,350)</u>	<u>(3,061,012)</u>	<u>(109)</u>	<u>(7,602,543)</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Appropriations from State resources	3,772,774	793,350	3,061,012	600	7,627,736
Lapsed appropriations	(15,454)	-	-	(491)	(15,945)
Receipts collected and transmitted to State Treasury	(12,082)	-	-	-	(12,082)
Amount of SAMS transfers-out	85	-	-	-	85
Transfers-out	-	-	-	-	-
Capital lease financing	-	-	-	-	-
Net other sources (uses) of financial resources	<u>3,745,323</u>	<u>793,350</u>	<u>3,061,012</u>	<u>109</u>	<u>7,599,794</u>
NET CHANGE IN FUND BALANCES	<u>(2,749)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,749)</u>
Fund deficit, July 1, 2017	<u>(782,780)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(782,780)</u>
FUND DEFICIT, JUNE 30, 2018	<u>\$ (785,529)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (785,529)</u>

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
COMBINING BALANCE SHEET - NONMAJOR FUNDS
AS OF JUNE 30, 2018
(amounts expressed in thousands)

	Special Revenue					
	Teacher Certificate Fee Revolving Fund (016)	Drivers Education Fund (031)	School District Emergency Financial Assistance Fund (130)	S.B.E. Special Purpose Trust Fund (144)	S.B.E. Teacher Certification Institute Fund (159)	S.B.E. Federal Department of Agriculture Fund (410)
ASSETS						
Unexpended appropriations	\$ -	\$ 4,687	\$ -	\$ -	\$ -	\$ -
Cash and cash equivalents	6,986	-	1,102	9,155	1,464	1,784
Securities lending collateral equity with State Treasurer	-	-	-	-	-	-
Due from federal government	-	-	-	-	-	29,229
Due from local governments	-	-	-	-	-	-
Other receivables	-	-	-	-	-	6,901
Due from other State fiduciary funds	9	-	-	-	6	-
Due from other Agency funds	-	-	-	416	-	-
Due from other State funds	-	-	-	-	-	-
Due from component units of the State	-	-	-	-	-	5
Inventories	-	-	-	-	-	1,623
Loans receivable	-	-	-	-	-	-
TOTAL ASSETS	\$ 6,995	\$ 4,687	\$ 1,102	\$ 9,571	\$ 1,470	\$ 39,542
LIABILITIES						
Accounts payable and accrued liabilities	\$ 75	\$ -	\$ -	\$ 137	\$ 10	\$ 17,088
Obligations under securities lending of State Treasurer	-	-	-	-	-	-
Due to federal government	-	-	-	-	-	5
Due to local governments	-	23,414	54	34	-	20,072
Due to other State fiduciary funds	-	-	-	-	-	-
Due to other Agency funds	-	-	-	96	-	-
Due to other State funds	8	-	-	5	-	70
Due to component units of the State	-	23	-	-	-	-
Unearned revenue	-	-	-	300	-	407
Total liabilities	83	23,437	54	572	10	37,642
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - federal government	-	-	-	-	-	3
Total deferred inflows of resources	-	-	-	-	-	3
FUND BALANCES (DEFICIT)						
Nonspendable	-	-	-	-	-	1,623
Restricted	-	-	-	137	-	277
Committed	6,912	-	1,048	-	1,460	-
Assigned	-	-	-	8,862	-	-
Unassigned	-	(18,750)	-	-	-	(3)
Total fund balances (deficit)	6,912	(18,750)	1,048	8,999	1,460	1,897
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)	\$ 6,995	\$ 4,687	\$ 1,102	\$ 9,571	\$ 1,470	\$ 39,542

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
COMBINING BALANCE SHEET - NONMAJOR FUNDS
AS OF JUNE 30, 2018

(amounts expressed in thousands)

	Special Revenue					
	After-School Rescue Fund (512)	S.B.E. Federal Agency Services Fund (560)	S.B.E. Federal Department of Education Fund (561)	Charter Schools Revolving Loan Fund (567)	School Technology Revolving Loan Fund (569)	Temporary Relocation Expenses Revolving Grant Fund (605)
ASSETS						
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash and cash equivalents	51	5	891	27	486	457
Securities lending collateral equity with State Treasurer	-	-	-	-	341	-
Due from federal government	-	594	367,606	-	-	-
Due from local governments	-	-	182	-	-	-
Other receivables	-	-	510	-	11	-
Due from other State fiduciary funds	-	-	-	-	-	-
Due from other Agency funds	-	-	3,910	-	-	-
Due from other State funds	-	-	16	-	-	-
Due from component units of the State	-	-	-	-	-	-
Inventories	-	-	-	-	-	-
Loans receivable	-	-	-	-	3,210	29
TOTAL ASSETS	\$ 51	\$ 599	\$ 373,115	\$ 27	\$ 4,048	\$ 486
LIABILITIES						
Accounts payable and accrued liabilities	\$ -	\$ 373	\$ 12,058	\$ -	\$ -	\$ -
Obligations under securities lending of State Treasurer	-	-	-	-	341	-
Due to federal government	-	3	1,051	-	-	-
Due to local governments	-	223	348,378	-	-	-
Due to other State fiduciary funds	-	-	5	-	-	-
Due to other Agency funds	-	-	-	-	-	-
Due to other State funds	-	-	8,633	-	-	-
Due to component units of the State	-	-	1,816	-	-	-
Unearned revenue	-	-	770	-	-	-
Total liabilities	-	599	372,711	-	341	-
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - federal government	-	74	67,986	-	-	-
Total deferred inflows of resources	-	74	67,986	-	-	-
FUND BALANCES (DEFICIT)						
Nonspendable	-	-	-	-	-	-
Restricted	-	-	-	-	-	-
Committed	51	-	-	27	3,707	486
Assigned	-	-	-	-	-	-
Unassigned	-	(74)	(67,582)	-	-	-
Total fund balances (deficit)	51	(74)	(67,582)	27	3,707	486
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)	\$ 51	\$ 599	\$ 373,115	\$ 27	\$ 4,048	\$ 486

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COMBINING BALANCE SHEET - NONMAJOR FUNDS
AS OF JUNE 30, 2018
(amounts expressed in thousands)

	Special Revenue		Capital Projects	
	Fund for the Advancement of Education (640)	State Charter School Commission Fund (674)	School Construction Fund (143)	Total
ASSETS				
Unexpended appropriations	\$ -	\$ -	\$ -	\$ 4,687
Cash and cash equivalents	-	477	-	22,885
Securities lending collateral equity with State Treasurer	-	-	-	341
Due from federal government	-	-	-	397,429
Due from local governments	-	-	-	182
Other receivables	-	17	-	7,439
Due from other State fiduciary funds	-	8	-	23
Due from other Agency funds	-	-	-	4,326
Due from other State funds	-	-	-	16
Due from component units of the State	-	-	-	5
Inventories	-	-	-	1,623
Loans receivable	-	-	-	3,239
TOTAL ASSETS	\$ -	\$ 502	\$ -	\$ 442,195
LIABILITIES				
Accounts payable and accrued liabilities	\$ -	\$ 53	\$ -	\$ 29,794
Obligations under securities lending of State Treasurer	-	-	-	341
Due to federal government	-	-	-	1,059
Due to local governments	-	-	-	392,175
Due to other State fiduciary funds	-	-	-	5
Due to other Agency funds	-	-	-	96
Due to other State funds	-	17	-	8,733
Due to component units of the State	-	-	-	1,839
Unearned revenue	-	-	-	1,477
Total liabilities	-	70	-	435,519
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - federal government	-	-	-	68,063
Total deferred inflows of resources	-	-	-	68,063
FUND BALANCES (DEFICIT)				
Nonspendable	-	-	-	1,623
Restricted	-	-	-	414
Committed	-	432	-	14,123
Assigned	-	-	-	8,862
Unassigned	-	-	-	(86,409)
Total fund balances (deficit)	-	432	-	(61,387)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)	\$ -	\$ 502	\$ -	\$ 442,195

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COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR FUNDS
For the Year Ended June 30, 2018
(amounts expressed in thousands)

	Special Revenue					
	Teacher Certificate Fee Revolving Fund (016)	Drivers Education Fund (031)	School District Emergency Financial Assistance Fund (130)	S.B.E. Special Purpose Trust Fund (144)	S.B.E Teacher Certification Institute Fund (159)	S.B.E. Federal Department of Agriculture Fund (410)
REVENUES						
Federal government	\$ -	\$ -	\$ -	\$ 7,474	\$ -	\$ 847,354
Licenses and fees	3,706	-	-	-	806	-
Interest	-	-	-	-	-	-
Refunds	-	-	-	-	-	(220)
Total revenues	<u>3,706</u>	<u>-</u>	<u>-</u>	<u>7,474</u>	<u>806</u>	<u>847,134</u>
EXPENDITURES						
Education	921	18,750	54	2,670	892	846,040
Debt service:						
Principal	-	-	-	16	-	-
Interest	-	-	-	11	-	-
Capital outlays	505	-	-	1,210	351	1,093
Total expenditures	<u>1,426</u>	<u>18,750</u>	<u>54</u>	<u>3,907</u>	<u>1,243</u>	<u>847,133</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>2,280</u>	<u>(18,750)</u>	<u>(54)</u>	<u>3,567</u>	<u>(437)</u>	<u>1</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	-	18,750	-	-	-	-
Reappropriations to Fiscal Year 2019	-	-	-	-	-	-
Transfers-out	-	-	-	-	-	-
Capital lease financing	-	-	-	55	-	-
Net other sources (uses) of financial resources	<u>-</u>	<u>18,750</u>	<u>-</u>	<u>55</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>2,280</u>	<u>-</u>	<u>(54)</u>	<u>3,622</u>	<u>(437)</u>	<u>1</u>
Fund balances (deficit), July 1, 2017	4,632	(18,750)	1,102	5,377	1,897	2,986
Change in inventories	-	-	-	-	-	(1,090)
FUND BALANCES (DEFICIT), JUNE 30, 2018	<u>\$ 6,912</u>	<u>\$ (18,750)</u>	<u>\$ 1,048</u>	<u>\$ 8,999</u>	<u>\$ 1,460</u>	<u>\$ 1,897</u>

STATE OF ILLINOIS
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COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR FUNDS
For the Year Ended June 30, 2018
(amounts expressed in thousands)

	Special Revenue					
	After-School Rescue Fund (512)	S.B.E. Federal Agency Services Fund (560)	S.B.E. Federal Department of Education Fund (561)	Charter Schools Revolving Loan Fund (567)	School Technology Revolving Loan Fund (569)	Temporary Relocation Expenses Revolving Grant Fund (605)
REVENUES						
Federal government	\$ -	\$ 4,697	\$ 1,421,572	\$ -	\$ -	\$ -
Licenses and fees	-	-	-	-	-	-
Interest	-	-	-	-	85	-
Refunds	-	-	(1,515)	-	-	-
Total revenues	-	4,697	1,420,057	-	85	-
EXPENDITURES						
Education	-	4,770	1,401,508	-	-	(43)
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlays	-	1	2,596	-	-	-
Total expenditures	-	4,771	1,404,104	-	-	(43)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(74)	15,953	-	85	43
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	-	-	-	-	-	-
Reappropriations to Fiscal Year 2019	-	-	-	-	-	-
Transfers-out	-	-	-	-	(1,500)	-
Capital lease financing	-	-	-	-	-	-
Net other sources (uses) of financial resources	-	-	-	-	(1,500)	-
NET CHANGE IN FUND BALANCES	-	(74)	15,953	-	(1,415)	43
Fund balances (deficit), July 1, 2017	51	-	(83,535)	27	5,122	443
Change in inventories	-	-	-	-	-	-
FUND BALANCES (DEFICIT), JUNE 30, 2018	\$ 51	\$ (74)	\$ (67,582)	\$ 27	\$ 3,707	\$ 486

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, 2018
(amounts expressed in thousands)

	<u>Special Revenue</u>		<u>Capital Projects</u>	
	<u>Fund for the Advancement of Education (640)</u>	<u>State Charter School Commission Fund (674)</u>	<u>School Construction Fund (143)</u>	<u>Total</u>
REVENUES				
Federal government	\$ -	\$ -	\$ -	\$ 2,281,097
Licenses and fees	-	1,017	-	5,529
Interest	-	-	-	85
Refunds	-	-	-	(1,735)
Total revenues	<u>-</u>	<u>1,017</u>	<u>-</u>	<u>2,284,976</u>
EXPENDITURES				
Education	619,000	847	-	2,895,409
Debt service:				
Principal	-	-	-	16
Interest	-	-	-	11
Capital outlays	-	7	-	5,763
Total expenditures	<u>619,000</u>	<u>854</u>	<u>-</u>	<u>2,901,199</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(619,000)</u>	<u>163</u>	<u>-</u>	<u>(616,223)</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	619,000	-	4,391	642,141
Reappropriations to Fiscal Year 2019	-	-	(4,391)	(4,391)
Transfers-out	-	(100)	-	(1,600)
Capital lease financing	-	-	-	55
Net other sources (uses) of financial resources	<u>619,000</u>	<u>(100)</u>	<u>-</u>	<u>636,205</u>
NET CHANGE IN FUND BALANCES	<u>-</u>	<u>63</u>	<u>-</u>	<u>19,982</u>
Fund balances (deficit), July 1, 2017	-	369	-	(80,279)
Change in inventories	-	-	-	(1,090)
FUND BALANCES (DEFICIT), JUNE 30, 2018	<u>\$ -</u>	<u>\$ 432</u>	<u>\$ -</u>	<u>\$ (61,387)</u>



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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 Frank J. Mautino
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, 2018, 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 March 19, 2019.

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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Illinois State Board of Education's internal control. Accordingly, we do not express an opinion on the effectiveness of the Illinois State Board of Education's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as item 2018-001, that we consider 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

SIGNED ORIGINAL ON FILE

Springfield, Illinois
March 19, 2019

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

SCHEDULE OF FINDINGS

For the Year Ended June 30, 2018

2018-001 Finding: Financial Statement Reporting Error

The Illinois State Board of Education's financial statements and financial reporting forms were materially misstated due to an understatement of liabilities related to federal grants.

During our audit, we noted the Agency understated deferred inflows of resources for unavailable revenues in the amount of \$14.2 million. The Agency improperly reduced the unavailable revenue calculation for receipts of current year receivables over 60 days after year-end. The misstatement was identified during the financial audit and subsequently corrected by Agency personnel.

According to GASB Statement No. 33, Accounting and Financial Reporting for Non-Exchange Transactions, resources recognized as receivables before availability requirements are met should be reported as deferred revenues. Furthermore, according to the State of Illinois, Office of the Comptroller's Statewide Accounting Management System Manual, sections 27.20.63 and 27.50.20, current year receivables not received within 60 days of year-end have not met the availability requirements and should be reported as deferred revenues. The Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) requires State agencies to establish and maintain a system of internal fiscal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. Good internal control procedures require adequate management oversight and review of accounting policies and procedures as well as an overall review of financial reporting for accuracy and compliance with generally accepted accounting principles.

Agency officials stated the misstatement was due to a reporting error on the Agency's financial statements and reporting forms. This error was not appropriately identified during the review process.

Failure to exercise due care during the financial reporting and review process could lead to future misstatements of the Agency's financial statements. (Finding Code No. 2018-001, 2017-001)

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

SCHEDULE OF FINDINGS

For the Year Ended June 30, 2018

Recommendation

We recommend the Agency document the procedures for calculating available revenue, compare the amounts on the financial reporting forms to supporting calculations, and exercise due care during the financial statement preparation and review process to ensure accurate financial reporting.

Agency Response

The Agency agrees with the finding. In order to reduce the likelihood of future misstatements, the Agency will perform a comprehensive review of the GAAP package preparation checklists specific to the Agency's significant funds with a goal of developing more robust checklists which capture the unique aspects of each significant fund.