

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

**FINANCIAL AUDIT
For the Year Ended June 30, 2014**

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, 2014**

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**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2014**

Agency Officials

Board Members of the Illinois State Board of Education:

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

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

State Superintendent of Education

Dr. Christopher A. Koch, Ed.D.

Cabinet members:

General Counsel/Legal

Nicole Bazer

Chief Internal Auditor

Melissa Oller

Deputy Superintendent/Chief Education Officer

Susan C. Morrison

Chief Operating Officer and Director of Human Resources and
Labor Relations

Donald W. Evans

Chief Performance Officer
Through November 2014
November 2014 to present

Peter Godard
Vacant

Director of Public Information/Deputy Superintendent

Matthew Vanover

Chief Financial Officer

Robert Wolfe

Director of Assessment

Dr. Mary O'Brian

Assistant Superintendents:

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

Amy Jo Clemens
Elizabeth Hanselman
Reyna Hernandez
Dr. Jason Helfer

Agency offices are located at:

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

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

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2014**

Financial Statement Report

Summary

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

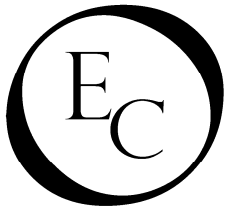
Based on their audit, the auditors expressed an unmodified opinion on the Agency's basic financial statements.

Summary of Findings

The auditors did not identify matters involving the Agency's internal control over financial reporting that they considered to be material weaknesses or significant deficiencies. The material weakness reported in the June 30, 2013 audit as finding 2013-001, *Financial Reporting*, was not repeated during the current audit.

Exit Conference

The Agency waived having an exit conference in a letter dated December 2, 2014, from the Agency's Chief Internal Auditor, Melissa Oller.



INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board Members of the
Illinois State Board of Education

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Illinois State Board of Education, as of and for the year ended June 30, 2014, 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, 2014, 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, 2014, 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 Note 2 to the financial statements, during the year ended June 30, 2014, the Illinois State Board of Education adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. Our opinion is not modified with respect to this matter.

As discussed in Note 14, the financial statements of the Illinois State Board of Education have been restated as of July 1, 2013 for the correction of a material misstatement in Fiscal Year 2013. The S.B.E. Federal Department of Education Fund, a nonmajor governmental fund, was restated as a result of an understatement of liabilities, receivables and unavailable revenue relating to the Agency's calculation of liability to its subrecipients. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2014 on our consideration of the Illinois State Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Illinois State Board of Education's internal control over financial reporting and compliance.

Restricted Use of this Auditor's Report

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

E.C. Ortiz & Co., LLP

Chicago, Illinois
December 10, 2014

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
AS OF JUNE 30, 2014
(amounts expressed in thousands)

	General Fund	Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Net Position
ASSETS					
Unexpended appropriations	\$ 88,646	\$ -	\$ 88,646	\$ -	\$ 88,646
Cash and cash equivalents	-	20,277	20,277	-	20,277
Securities lending collateral equity with State Treasurer	-	559	559	-	559
Due from federal government	-	399,151	399,151	-	399,151
Due from local governments	194	555	749	-	749
Other receivables	39	556	595	-	595
Due from other State funds	115	81	196	-	196
Due from component units of the State	-	212	212	-	212
Inventories	-	2,704	2,704	-	2,704
Loans receivable	-	3,713	3,713	-	3,713
Prepaid expenses	-	-	-	889	889
Capital assets not being depreciated	-	-	-	5,587	5,587
Capital assets net of depreciation	-	-	-	20,594	20,594
TOTAL ASSETS	<u>\$ 88,994</u>	<u>\$ 427,808</u>	<u>\$ 516,802</u>	<u>\$ 27,070</u>	<u>\$ 543,872</u>
LIABILITIES					
Accounts payable and accrued liabilities	\$ 10,857	\$ 26,591	\$ 37,448	\$ -	\$ 37,448
Obligations under securities lending of State Treasurer	-	559	559	-	559
Due to federal government	-	330	330	-	330
Due to local governments	1,707,310	383,075	2,090,385	-	2,090,385
Due to other State fiduciary funds	4	3	7	-	7
Due to other State funds	137	7,510	7,647	-	7,647
Due to component units of the State	335	1,173	1,508	-	1,508
Unearned revenue	-	458	458	-	458
Compensated absences, current portion	-	-	-	68	68
Reorganization incentive, current portion	-	-	-	2,881	2,881
Compensated absences, long-term portion	-	-	-	3,487	3,487
Reorganization incentive, long-term portion	-	-	-	6,880	6,880
Total Liabilities	<u>1,718,643</u>	<u>419,699</u>	<u>2,138,342</u>	<u>13,316</u>	<u>2,151,658</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - federal government	-	103,303	103,303	(103,303)	-
Unavailable revenue - other revenues	-	3	3	(3)	-
Total Deferred Inflows of Resources	<u>-</u>	<u>103,306</u>	<u>103,306</u>	<u>(103,306)</u>	<u>-</u>
FUND BALANCES (DEFICIT)/NET POSITION (DEFICIT)					
Fund Balances:					
Nonspendable	-	2,704	2,704	(2,704)	-
Restricted	-	368	368	(368)	-
Committed	-	18,398	18,398	(18,398)	-
Assigned	-	2,757	2,757	(2,757)	-
Unassigned	(1,629,649)	(119,424)	(1,749,073)	1,749,073	-
Net investment in capital assets	-	-	-	26,181	26,181
Restricted net position	-	-	-	4,913	4,913
Unrestricted net position	-	-	-	(1,638,880)	(1,638,880)
Total Fund Deficit/Net Deficit	<u>(1,629,649)</u>	<u>(95,197)</u>	<u>(1,724,846)</u>	<u>\$ 117,060</u>	<u>\$ (1,607,786)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND DEFICIT	<u>\$ 88,994</u>	<u>\$ 427,808</u>	<u>\$ 516,802</u>		

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

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
STATEMENT OF NET POSITION
AS OF JUNE 30, 2014
(amounts expressed in thousands)

Total Fund Deficit - governmental funds \$ (1,724,846)

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds. 26,181

Prepaid expenses for governmental activities are current uses of financial resources for funds. 889

Revenues in the Statement of Activities that do not provide current financial resources are deferred in governmental funds. 103,306

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	\$ (3,555)	
Reorganization incentive	(9,761)	(13,316)

NET DEFICIT FROM GOVERNMENTAL ACTIVITIES **\$ (1,607,786)**

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

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014
(amounts expressed in thousands)

	General Fund	Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Activities
EXPENDITURES/EXPENSES					
Program expense - education	\$ 6,697,440	\$ 2,298,231	\$ 8,995,671	\$ 737	\$ 8,996,408
Capital outlays	819	3,694	4,513	(4,513)	-
Total Expenditures/Expenses	<u>6,698,259</u>	<u>2,301,925</u>	<u>9,000,184</u>	<u>(3,776)</u>	<u>8,996,408</u>
PROGRAM REVENUES					
Charges for services:					
Licenses and fees	1	4,623	4,624	-	4,624
Total charges for services	<u>1</u>	<u>4,623</u>	<u>4,624</u>	<u>-</u>	<u>4,624</u>
Operating grant revenue:					
Federal	-	2,266,353	2,266,353	(31,370)	2,234,983
Refunds	-	(55)	(55)	-	(55)
Total operating grant revenue	<u>-</u>	<u>2,266,298</u>	<u>2,266,298</u>	<u>(31,370)</u>	<u>2,234,928</u>
Net Program Deficit	<u>(6,698,258)</u>	<u>(31,004)</u>	<u>(6,729,262)</u>	<u>(27,594)</u>	<u>(6,756,856)</u>
GENERAL REVENUES					
Interest	-	53	53	-	53
Other revenues	1	120	121	(13)	108
Total General Revenues	<u>1</u>	<u>173</u>	<u>174</u>	<u>(13)</u>	<u>161</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Appropriations from State resources	6,687,980	107,285	6,795,265	-	6,795,265
Reappropriations to Fiscal Year 2015	-	(45,356)	(45,356)	-	(45,356)
Net change in liabilities for reappropriated accounts	-	(427)	(427)	-	(427)
Lapsed appropriations	(6,870)	-	(6,870)	-	(6,870)
Receipts collected and transmitted to State Treasury	(2,808)	(693)	(3,501)	-	(3,501)
Amount of SAMS transfers-out	4	-	4	-	4
Transfers-in	-	1,500	1,500	(1,500)	-
Transfers-out	(1,500)	-	(1,500)	1,500	-
Loss on disposal of capital assets	-	-	-	(24)	(24)
Net Other Sources (Uses) of Financial Resources	<u>6,676,806</u>	<u>62,309</u>	<u>6,739,115</u>	<u>(24)</u>	<u>6,739,091</u>
Net change in fund balances/net position	(21,451)	31,478	10,027	(27,631)	(17,604)
Fund Deficit/Net Deficit, July 1, 2013, as restated	(1,608,198)	(128,296)	(1,736,494)	146,312	(1,590,182)
Change in inventories	-	1,621	1,621	(1,621)	-
FUND DEFICIT/NET DEFICIT, JUNE 30, 2014	<u>\$ (1,629,649)</u>	<u>\$ (95,197)</u>	<u>\$ (1,724,846)</u>	<u>\$ 117,060</u>	<u>\$ (1,607,786)</u>

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

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

(amounts expressed in thousands)

Net Change in Fund Balances - governmental funds	\$ 10,027
Change in inventories	<u>1,621</u>
	11,648

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.	2,339
Losses from capital assets no longer in use are not recorded in governmental funds, but are reported as other expenses in the Statement of Activities.	(24)
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.	(31,383)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These activities consist of:	
Increase in prepaid expenses	\$ 401
Decrease in compensated absences	279
Increase in reorganization incentive	<u>(864)</u>
	<u>(184)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (17,604)</u></u>
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The accompanying notes to the basic financial statements are an integral part of this statement.

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

1. Organization

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

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

2. Summary of Significant Accounting Policies

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

(a) Financial Reporting Entity

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

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

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

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

(b) Basis of Presentation

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

The financial statements of the Agency are intended to present the net position and the changes in net position of only that portion of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Agency. They do not purport to, and do not, present fairly the net position of the State of Illinois as of June 30, 2014, and the changes in its net position for the year then ended in conformity with accounting principles generally accepted in the United States of America. A brief description of the Agency's government-wide and fund financial statements is as follows:

Government-wide Statements: The government-wide statement of net position and statement of activities report the overall financial activity of the Agency. Eliminations have been made to minimize the double-counting of internal activities of the Agency. The financial activities of the Agency consist only of governmental activities, which are primarily supported by taxes and intergovernmental revenues.

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

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

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

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

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

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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 four primary sub-accounts (General Revenue - 001, Education Assistance - 007, Common School - 412, and 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.

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

(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 Capital Development Fund (141), and the School Construction Fund (143) represents only the portion of the shared funds that can be directly attributed to the operations of the Agency. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' CAFR.

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

Unexpended Appropriations

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

Appropriations from State Resources

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

Reappropriations to Future Year(s)

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

Lapsed Appropriations

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

Receipts Collected and Transmitted to State Treasury

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

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Amount of SAMS Transfers-In

This “other financing use” account represents cash transfers made by the State Comptroller’s Office in accordance with statutory provisions to the corresponding fund during the fiscal year per SAMS records in which the Agency did not make a deposit in to the State Treasury.

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.

(e) Cash and Cash Equivalents

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

(f) Inventories

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

(g) Prepaid Expenses

For governmental funds, prepaid expenses are recognized when paid.

(h) Interfund Transactions and Transactions with State of Illinois Component Units

The Agency has the following types of interfund transactions between funds of the Agency and funds of other State agencies:

Services provided and used - sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the governmental funds balance sheet and government-wide statement of net position.

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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.

(i) Capital Assets

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

Capitalization thresholds and the estimated useful lives are as follows:

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

(j) Compensated Absences

The liability for compensated absences reported in the government-wide statement of net position consists of unpaid, accumulated vacation and sick leave balances for Agency employees. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., Social Security and Medicare taxes).

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Legislation that became effective January 1, 1998 capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997 (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997 will be converted to service time for purposes of calculating employee pension benefits.

(k) Fund Balances

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

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

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

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

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

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

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

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(l) 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."

(m) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(n) Change in Accounting Principle

During the year ended June 30, 2014, the Agency adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

(o) Future Adoption of GASB Statements

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

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

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

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

Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB statement No. 68*, which is to address an issue regarding application of the transition provisions of GASB Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. GASB Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB Statement No. 68.

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

3. Deposits

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

Deposits in the custody of the State Treasurer, including cash on hand or in transit, totaled \$20.28 million at June 30, 2014. 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

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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.

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 2014, Deutsche Bank AG lent U.S. Treasury and U.S. Agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the 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 the fiscal year on the amount of the loans available or the eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or Deutsche Bank AG.

During Fiscal Year 2014, 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, 2014 arising from securities lending agreements to the various funds of the State. The total allocated to the Agency at June 30, 2014 was \$0.56 million.

4. Interfund Balances and Activity

Balances Due To/From Other Funds

The following balances (amounts expressed in thousands) at June 30, 2014 represent amounts due from other State of Illinois funds:

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Fund	Due from other State funds	Description/Purpose
General	\$ 115	Grants for educational purposes
Nonmajor	81	Grants for educational purposes, technology loan programs, and temporary relocation expenses
Total	<u>\$ 196</u>	

The following balances (amounts expressed in thousands) at June 30, 2014 represent amounts due to other State of Illinois funds:

Fund	Due to other State funds	Due to other State fiduciary funds	Description/Purpose
General	\$ 137	\$ 4	Due to other State funds for grants for educational purposes and for purchases of services; and to other State fiduciary funds for payment of retirement costs
Nonmajor	7,510	3	Due to other State funds for grants for educational purposes, for federal food service programs and for purchases of services; and to other State fiduciary funds for payment of retirement costs
Total	<u>\$ 7,647</u>	<u>\$ 7</u>	

Transfers to/from Other Funds

Interfund transfers-in (amounts expressed in thousands) for the year ended June 30, 2014 were as follows:

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<u>Fund</u>	Transfers-in from other Agency fund	<u>Description/Purpose</u>
Nonmajor	\$ 1,500	Transfer from General Fund per State appropriation
Total	<u>\$ 1,500</u>	

Interfund transfers-out (amounts expressed in thousands) for the year ended June 30, 2014 were as follows:

<u>Fund</u>	Transfers-out to other Agency fund	<u>Description/Purpose</u>
General	\$ 1,500	Transfer to Nonmajor fund per State appropriation
Total	<u>\$ 1,500</u>	

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

The following balances (amounts expressed in thousands) at June 30, 2014 represent amounts due to/from discretely presented component units of the State of Illinois for payments for professional services and for State and federal grant programs:

<u>Component Unit</u>	Due from Nonmajor Funds	<u>Due to</u>	
		General Fund	Nonmajor Funds
Eastern Illinois University	\$ -	\$ -	\$ 3
Northeastern Illinois University	-	-	303
Western Illinois University	-	-	124
Illinois State University	-	301	306
Northern Illinois University	-	-	48
Southern Illinois University	-	-	331
University of Illinois	212	34	58
Total	<u>\$ 212</u>	<u>\$ 335</u>	<u>\$ 1,173</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, 2014, this program had no loans receivable outstanding.
- Charter Schools Revolving Loan Program - This program is designed to encourage and financially support high quality charter schools throughout Illinois. Loans are available to charter schools in the initial years of their charters.
- School Technology Revolving Loan Program - This program is designed to provide school districts with the technology tools and research-proven software to help all of their students achieve the Illinois Learning Standards, especially in reading and mathematics. Three year loans are available to school districts through this program to assist in achieving these goals.
- Temporary Relocation Expenses Revolving Grant Program - This program is available to pay school district emergency relocation expenses incurred as a result of fire, earthquake, tornado, or other natural or man-made disaster or school building condemnation made by a Regional Office of Education and approved by the State Superintendent of Education. The purpose of the program is to assist school districts in providing a safe, temporary environment for learning.

Loans receivable (amounts expressed in thousands) at June 30, 2014 consisted of the following:

<u>Program</u>	<u>Balance</u>
Charter Schools Revolving Loan Program	\$ 7
School Technology Revolving Loan Program	3,535
Temporary Relocation Expenses Revolving Grant Program	<u>171</u>
Total	<u>\$ 3,713</u>

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7. Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2014 was as follows:

	Balance July 1, 2013	Additions	Deletions	Net Transfers	Balance June 30, 2014
Capital assets not being depreciated/amortized:					
Land	\$ 1,063	\$ -	\$ -	\$ -	\$ 1,063
Internally generated software	8,380	1,629	-	(5,485)	4,524
Total capital assets not being depreciated/amortized	9,443	1,629	-	(5,485)	5,587
Capital assets being depreciated/amortized:					
Buildings	436	-	-	-	436
Equipment	6,969	77	552	-	6,494
Internally generated Software	19,216	2,807	-	5,485	27,508
Total capital assets being depreciated/amortized	26,621	2,884	552	5,485	34,438
Less accumulated depreciation/amortization:					
Buildings	282	9	-	-	291
Equipment	5,662	497	528	-	5,631
Internally generated software	6,254	1,668	-	-	7,922
Total accumulated depreciation/amortization	12,198	2,174	528	-	13,844
Total capital assets being depreciated/amortized, net	14,423	710	24	5,485	20,594
Governmental activity capital assets, net	\$ 23,866	\$ 2,339	\$ 24	\$ -	\$ 26,181

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Depreciation expense and amortization for governmental activities (amounts expressed in thousands) for the year ended June 30, 2014 was charged to the Education function for an amount of \$2,174.

8. Long-Term Obligations

Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2014 were as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Amounts Due Within One Year
Compensated absences	\$ 3,834	\$ 2,470	\$ 2,749	\$ 3,555	\$ 68
Reorganization incentive	8,897	3,711	2,847	9,761	2,881
Total	<u>\$ 12,731</u>	<u>\$ 6,181</u>	<u>\$ 5,596</u>	<u>\$ 13,316</u>	<u>\$ 2,949</u>

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

Reorganization Incentive

The Agency has various incentives for school districts which reorganize under the School Code. These incentives include: the General State Aid Differential incentive, which compares the General State Aid payment received by the newly formed district to the total amount of General State Aid the original districts would have received if filing separately; the Salary Differential incentive, which compares teachers' salaries for the year prior to the reorganization; and the \$4,000 Per Certified Staff Differential, which provides \$4,000 for each full-time certified staff member of the newly formed district.

Future requirements (amounts expressed in thousands) under these incentives as of June 30, 2014 were as follows:

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Year Ending June 30	Amount
2015	\$ 2,881
2016	3,461
2017	2,583
2018	<u>836</u>
Total	<u>\$ 9,761</u>

9. Pension Plan

Plan Description

Substantially all of the Agency’s full-time employees who are not eligible for participation in another State-sponsored retirement plan participate in either the State Employees’ Retirement System (SERS) or the Teachers’ Retirement System (TRS), which are pension trust funds in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers’, General Assembly, and Judges’ Retirement Systems. The TRS is a cost-sharing multiple-employer PERS covering individuals employed to provide services for which teacher certification is required.

The financial position and results of operations of the SERS and the TRS for Fiscal Year 2014 are included in the State of Illinois’ CAFR for the year ended June 30, 2014. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255 or by calling (217) 785-7202. The TRS also issues a separate CAFR that may be obtained by writing to the TRS, P.O. Box 19253, Springfield, Illinois, 62794-9253 or by calling (217) 753-0311. The State of Illinois’ CAFR may be obtained by writing to the State Comptroller’s Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1858 or by calling (217) 782-2052.

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

Funding Policy

For employees covered by SERS, the Agency pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For Fiscal Year 2014, the employer contribution rate for the SERS was 40.312%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the entire employee portion of retirement for most State agencies (including the Agency) with employees covered by the State Employees’ Retirement System. However, effective

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with the Fiscal Year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State agencies (including the Agency) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pickup, when applicable, is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

For employees covered by the TRS, the Agency pays employer retirement contributions based on a statutory based percentage of 0.58%. For employees paid from federal funds, the Fiscal Year 2014 employer contribution rate to the TRS was 35.41%. In addition, the State of Illinois makes employer contributions "on behalf" of TRS covered employees. For the year ended June 30, 2014, State contributions were based on 9.4% of creditable earnings.

10. Post-Employment Benefits

The State provides health, dental, vision and life insurance benefits for retirees and their dependents in a program administered by the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

Public Act 97-0695, effective July 1, 2012, altered the contributions to be paid by the State, annuitants, survivors, and retired employees under the State Employees Group Insurance Act. This Act requires the Director of Central Management Services to, on an annual basis, determine the amount that the State should contribute. The remainder of the cost of coverage shall be the responsibility of the annuitant, survivor, or retired employee. The costs were to be assessed beginning July 1, 2013. However, four putative class actions were filed challenging the validity of this legislation under, among other things, the pension protection clause of the Illinois Constitution of 1970. The four class actions were consolidated in the circuit court of Sangamon County. The circuit court dismissed each of them for failure to state a cause of action, without certifying any classes. The Illinois Supreme Court allowed direct appeal. On July 3, 2014, the Illinois Supreme Court issued an opinion in the retiree health insurance premium case. The Illinois Supreme Court disagreed with the circuit court and determined the circuit court should not have dismissed the case. The Supreme Court sent the case back to the circuit court for reconsideration. As a result, the Sangamon County Circuit Court has directed all retirement systems to discontinue withholding, as soon as possible, the retiree and survivor health insurance premiums that have been in effect since July 2013. The refunding of premiums paid since July 2013 is unresolved and will be decided by the courts.

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

A summary of post-employment benefits provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, 715 Stratton Building, 401 South Spring Street, Springfield, Illinois, 62606-4100.

11. Fund Deficits

The following funds had deficit balances at June 30, 2014 (amounts expressed in thousands):

	<u>Governmental Activities</u>
General Revenue Account (001)	\$ 1,629,649
Drivers Education Fund (031)	17,900
S.B.E. Federal Department of Education Fund (561)	100,445

These deficits are expected to be recovered from future years’ State appropriations and federal funds.

12. Risk Management

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers’ compensation and natural disasters. The State retains the risk of loss (i.e. self insured) for these risks.

The Agency’s risk management activities for self-insurance, unemployment insurance and workers’ compensation are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the General Fund of the State. The claims are not considered to be a liability of the Agency; and accordingly, have not been reported in the Agency’s financial statements for the year ended June 30, 2014.

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13. Commitments and Contingencies

(a) Operating Leases

The Agency leases various real property and equipment under terms of noncancelable operating lease agreements that require the Agency to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under these operating leases was \$2.97 million for the year ended June 30, 2014.

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

Year Ending June 30	Amount
2015	\$ 2,348
2016	<u>2,340</u>
Total	<u>\$ 4,688</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, 2014, there were no material questioned costs that have not been resolved with the federal awarding agencies. However, questioned costs could still be identified during audits to be conducted in the future. Management of the Agency believes there will be no material adjustments to the federal grants and, accordingly, has not recorded a provision for possible repayment.

(c) Litigation

The Agency has received notice of intent to file a claim against the State of Illinois in the Court of Claims for personal injury stemming from the tainted chicken tenders allegedly consumed by students. The Agency is also named as a defendant in a lawsuit involving a claim regarding the calculation of General State Aid by two school districts.

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. Prior Period Adjustment

The Agency's financial statements have been restated as of July 1, 2013. The S.B.E. Federal Department of Education Fund, a nonmajor governmental fund, was restated as a result of an understatement of liabilities, receivables and unavailable revenue relating to the Agency's calculation of liability to its subrecipients.

	Nonmajor Governmental Fund - S.B.E. Federal Department of Education Fund (561)	Governmental Activities
	<u> </u>	<u> </u>
Fund Deficit/Net Deficit, June 30, 2013, as previously reported	\$ (81,234)	\$ (1,590,182)
Federal government revenues	-	53,260
Education expenditures	<u>(53,260)</u>	<u>(53,260)</u>
Fund Deficit/Net Deficit, June 30, 2013, as restated	<u>\$ (134,494)</u>	<u>\$ (1,590,182)</u>

In addition, the School Infrastructure Fund has been reclassified from a Special Revenue Fund to an account of the General Fund based upon an increase in the amount of transfers from the General Fund to the School Infrastructure Fund. However, since the School Infrastructure Fund had a zero fund balance as of July 1, 2013, the fund balance for the General Fund was unaffected by the reclassification.

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COMBINING SCHEDULE OF ACCOUNTS - GENERAL FUND
AS OF JUNE 30, 2014

(amounts expressed in thousands)

	<u>General Revenue Account (001)</u>	<u>Education Assistance Account (007)</u>	<u>Common School Account (412)</u>	<u>School Infrastructure Account (568)</u>	<u>Total</u>
ASSETS					
Unexpended appropriations	\$ 88,646	\$ -	\$ -	\$ -	\$ 88,646
Due from local governments	194	-	-	-	194
Other receivables	39	-	-	-	39
Due from other State funds	115	-	-	-	115
TOTAL ASSETS	<u>\$ 88,994</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 88,994</u>
LIABILITIES					
Accounts payable and accrued liabilities	\$ 10,857	\$ -	\$ -	\$ -	\$ 10,857
Due to local governments	1,707,310	-	-	-	1,707,310
Due to other State fiduciary funds	4	-	-	-	4
Due to other State funds	137	-	-	-	137
Due to component units of the State	335	-	-	-	335
Total Liabilities	<u>1,718,643</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,718,643</u>
FUND DEFICIT					
Unassigned	<u>(1,629,649)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,629,649)</u>
Total Fund Deficit	<u>(1,629,649)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,629,649)</u>
TOTAL LIABILITIES AND FUND DEFICIT	<u>\$ 88,994</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 88,994</u>

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, 2014
(amounts expressed in thousands)

	<u>General Revenue Account (001)</u>	<u>Education Assistance Account (007)</u>	<u>Common School Account (412)</u>	<u>School Infrastructure Account (568)</u>	<u>Total</u>
REVENUES					
Licenses and fees	\$ 1	\$ -	\$ -	\$ -	\$ 1
Other revenues	1	-	-	-	1
Total Revenues	<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2</u>
EXPENDITURES					
Education	2,255,030	404,000	4,038,198	212	6,697,440
Capital outlays	819	-	-	-	819
Total Expenditures	<u>2,255,849</u>	<u>404,000</u>	<u>4,038,198</u>	<u>212</u>	<u>6,698,259</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(2,255,847)</u>	<u>(404,000)</u>	<u>(4,038,198)</u>	<u>(212)</u>	<u>(6,698,257)</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Appropriations from State resources	2,245,182	404,000	4,038,198	600	6,687,980
Lapsed appropriations	(6,482)	-	-	(388)	(6,870)
Receipts collected and remitted to State Treasury	(2,808)	-	-	-	(2,808)
Amount of SAMS transfers-out	4	-	-	-	4
Transfers-out	(1,500)	-	-	-	(1,500)
Net Other Sources of Financial Resources	<u>2,234,396</u>	<u>404,000</u>	<u>4,038,198</u>	<u>212</u>	<u>6,676,806</u>
NET CHANGE IN FUND BALANCES	(21,451)	-	-	-	(21,451)
Fund Deficit, July 1, 2013	(1,608,198)	-	-	-	(1,608,198)
FUND DEFICIT, JUNE 30, 2014	<u>\$ (1,629,649)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,629,649)</u>

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
COMBINING BALANCE SHEET - NONMAJOR FUNDS
AS OF JUNE 30, 2014

(amounts expressed in thousands)

	Special Revenue Funds			
	Teacher Certificate Fee Revolving Fund (016)	Drivers Education Fund (031)	School District Emergency Financial Assistance Fund (130)	S.B.E. Special Purpose Trust Fund (144)
ASSETS				
Cash and cash equivalents	\$ 8,722	\$ -	\$ 1,722	\$ 3,500
Securities lending collateral equity with State Treasurer	-	-	-	-
Due from federal government	-	-	-	-
Due from local governments	-	-	-	-
Other receivables	-	-	-	-
Due from other State funds	-	-	-	-
Due from component units of the State	-	-	-	-
Inventories	-	-	-	-
Loans receivable	-	-	-	-
TOTAL ASSETS	\$ 8,722	\$ -	\$ 1,722	\$ 3,500
LIABILITIES				
Accounts payable and accrued liabilities	\$ 78	\$ -	\$ -	\$ 613
Obligations under securities lending of State Treasurer	-	-	-	-
Due to federal government	-	-	-	-
Due to local governments	-	17,879	251	-
Due to other State fiduciary funds	-	-	-	-
Due to other State funds	-	-	-	-
Due to component units of the State	-	21	-	-
Unearned revenue	-	-	-	-
Total Liabilities	78	17,900	251	613
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - federal government	-	-	-	-
Unavailable revenue - other revenues	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-
FUND BALANCES (DEFICIT)				
Nonspendable	-	-	-	-
Restricted	-	-	-	130
Committed	8,644	-	1,471	-
Assigned	-	-	-	2,757
Unassigned	-	(17,900)	-	-
Total Fund Balances (Deficit)	8,644	(17,900)	1,471	2,887
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)	\$ 8,722	\$ -	\$ 1,722	\$ 3,500

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
COMBINING BALANCE SHEET - NONMAJOR FUNDS
AS OF JUNE 30, 2014

(amounts expressed in thousands)

	Special Revenue Funds			
	S.B.E. Teacher Certification Institution Fund (159)	S.B.E. Federal Department of Agriculture Fund (410)	After- School Rescue Fund (512)	S.B.E. Federal Agency Services Fund (560)
ASSETS				
Cash and cash equivalents	\$ 2,813	\$ 644	\$ 51	\$ 8
Securities lending collateral equity with State Treasurer	-	-	-	-
Due from federal government	-	34,944	-	3
Due from local governments	-	-	-	-
Other receivables	-	551	-	-
Due from other State funds	-	1	-	-
Due from component units of the State	-	-	-	-
Inventories	-	2,704	-	-
Loans receivable	-	-	-	-
TOTAL ASSETS	\$ 2,813	\$ 38,844	\$ 51	\$ 11
LIABILITIES				
Accounts payable and accrued liabilities	\$ -	\$ 17,415	\$ -	\$ 3
Obligations under securities lending of State Treasurer	-	-	-	-
Due to federal government	-	-	-	8
Due to local governments	-	18,205	-	-
Due to other State fiduciary funds	-	-	-	-
Due to other State funds	-	201	-	-
Due to component units of the State	-	81	-	-
Unearned revenue	-	-	-	-
Total Liabilities	-	35,902	-	11
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - federal government	\$ -	\$ 1,076	\$ -	\$ -
Unavailable revenue - other revenues	-	3	-	-
Total Deferred Inflows of Resources	-	1,079	-	-
FUND BALANCES (DEFICIT)				
Nonspendable	-	2,704	-	-
Restricted	-	238	-	-
Committed	2,813	-	51	-
Assigned	-	-	-	-
Unassigned	-	(1,079)	-	-
Total Fund Balances (Deficit)	2,813	1,863	51	-
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)	\$ 2,813	\$ 38,844	\$ 51	\$ 11

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
COMBINING BALANCE SHEET - NONMAJOR FUNDS
AS OF JUNE 30, 2014

(amounts expressed in thousands)

	Special Revenue Funds			
	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				
Cash and cash equivalents	\$ 1,116	\$ 20	\$ 1,348	\$ 333
Securities lending collateral equity with State Treasurer	-	-	559	-
Due from federal government	364,204	-	-	-
Due from local governments	555	-	-	-
Other receivables	-	-	5	-
Due from other State funds	80	-	-	-
Due from component units of the State	212	-	-	-
Inventories	-	-	-	-
Loans receivable	-	7	3,535	171
TOTAL ASSETS	\$ 366,167	\$ 27	\$ 5,447	\$ 504
LIABILITIES				
Accounts payable and accrued liabilities	\$ 8,482	\$ -	\$ -	\$ -
Obligations under securities lending of State Treasurer	-	-	559	-
Due to federal government	322	-	-	-
Due to local governments	346,740	-	-	-
Due to other State fiduciary funds	3	-	-	-
Due to other State funds	7,309	-	-	-
Due to component units of the State	1,071	-	-	-
Unearned revenue	458	-	-	-
Total Liabilities	364,385	-	559	-
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - federal government	\$ 102,227	\$ -	\$ -	\$ -
Unavailable revenue - other revenues	-	-	-	-
Total Deferred Inflows of Resources	102,227	-	-	-
FUND BALANCES (DEFICIT)				
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	-	27	4,888	504
Assigned	-	-	-	-
Unassigned	(100,445)	-	-	-
Total Fund Balances (Deficit)	(100,445)	27	4,888	504
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)	\$ 366,167	\$ 27	\$ 5,447	\$ 504

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
COMBINING BALANCE SHEET - NONMAJOR FUNDS
AS OF JUNE 30, 2014

(amounts expressed in thousands)

	Capital Projects Funds		
	Capital Development Fund (141)	School Construction Fund (143)	Total
ASSETS			
Cash and cash equivalents	\$ -	\$ -	\$ 20,277
Securities lending collateral equity with State Treasurer	-	-	559
Due from federal government	-	-	399,151
Due from local governments	-	-	555
Other receivables	-	-	556
Due from other State funds	-	-	81
Due from component units of the State	-	-	212
Inventories	-	-	2,704
Loans receivable	-	-	3,713
TOTAL ASSETS	\$ -	\$ -	\$ 427,808
LIABILITIES			
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 26,591
Obligations under securities lending of State Treasurer	-	-	559
Due to federal government	-	-	330
Due to local governments	-	-	383,075
Due to other State fiduciary funds	-	-	3
Due to other State funds	-	-	7,510
Due to component units of the State	-	-	1,173
Unearned revenue	-	-	458
Total Liabilities	-	-	419,699
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - federal government	\$ -	\$ -	\$ 103,303
Unavailable revenue - other revenues	-	-	3
Total Deferred Inflows of Resources	-	-	103,306
FUND BALANCES (DEFICIT)			
Nonspendable	-	-	2,704
Restricted	-	-	368
Committed	-	-	18,398
Assigned	-	-	2,757
Unassigned	-	-	(119,424)
Total Fund Balances (Deficit)	-	-	(95,197)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)	\$ -	\$ -	\$ 427,808

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, 2014
(amounts expressed in thousands)

	Special Revenue Funds			
	Teacher Certificate Fee Revolving Fund (016)	Drivers Education Fund (031)	School District Emergency Financial Assistance Fund (130)	S.B.E. Special Purpose Trust Fund (144)
REVENUES				
Federal government	\$ -	\$ -	\$ -	\$ 2,717
Licenses and fees	4,207	-	-	-
Interest	-	-	-	-
Other revenues	-	-	-	105
Refunds	-	-	-	-
Total Revenues	4,207	-	-	2,822
EXPENDITURES				
Education	2,324	17,900	1,434	2,881
Capital outlays	258	-	-	427
Total Expenditures	2,582	17,900	1,434	3,308
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,625	(17,900)	(1,434)	(486)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	-	15,000	-	-
Reappropriations to Fiscal Year 2015	-	-	-	-
Net change in liabilities for reappropriated accounts	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-
Transfers-in	-	-	1,500	-
Net Other Sources of Financial Resources	-	15,000	1,500	-
NET CHANGE IN FUND BALANCES	1,625	(2,900)	66	(486)
Fund Balances (Deficit), July 1, 2013, as restated	7,019	(15,000)	1,405	3,373
Change in inventories	-	-	-	-
FUND BALANCES (DEFICIT), JUNE 30, 2014	\$ 8,644	\$ (17,900)	\$ 1,471	\$ 2,887

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, 2014
(amounts expressed in thousands)

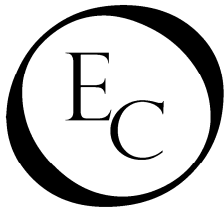
	Special Revenue Funds			
	S.B.E. Teacher Certification Institution Fund (159)	S.B.E. Federal Department of Agriculture Fund (410)	After- School Rescue Fund (512)	S.B.E. Federal Agency Services Fund (560)
REVENUES				
Federal government	\$ -	\$ 765,639	\$ -	\$ 52
Licenses and fees	416	-	-	-
Interest	-	-	-	-
Other revenues	-	15	-	-
Refunds	-	(55)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	416	765,599	-	52
EXPENDITURES				
Education	-	765,856	-	52
Capital outlays	-	785	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	-	766,641	-	52
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<hr/>	<hr/>	<hr/>	<hr/>
	416	(1,042)	-	-
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	-	-	-	-
Reappropriations to Fiscal Year 2015	-	-	-	-
Net change in liabilities for reappropriated accounts	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-
Transfers-in	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net Other Sources of Financial Resources	-	-	-	-
NET CHANGE IN FUND BALANCES	<hr/>	<hr/>	<hr/>	<hr/>
	416	(1,042)	-	-
Fund Balances (Deficit), July 1, 2013, as restated	2,397	1,284	51	-
Change in inventories	-	1,621	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
FUND BALANCES (DEFICIT), JUNE 30, 2014	<u>\$ 2,813</u>	<u>\$ 1,863</u>	<u>\$ 51</u>	<u>\$ -</u>

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(amounts expressed in thousands)

	Special Revenue Funds			
	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	\$ 1,497,945	\$ -	\$ -	\$ -
Licenses and fees	-	-	-	-
Interest	2	-	51	-
Other revenues	-	-	-	-
Refunds	-	-	-	-
Total Revenues	1,497,947	-	51	-
EXPENDITURES				
Education	1,461,674	-	-	301
Capital outlays	2,224	-	-	-
Total Expenditures	1,463,898	-	-	301
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	34,049	-	51	(301)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	-	-	-	-
Reappropriations to Fiscal Year 2015	-	-	-	-
Net change in liabilities for reappropriated accounts	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-
Transfers-in	-	-	-	-
Net Other Sources of Financial Resources	-	-	-	-
NET CHANGE IN FUND BALANCES	34,049	-	51	(301)
Fund Balances (Deficit), July 1, 2013, as restated	(134,494)	27	4,837	805
Change in inventories	-	-	-	-
FUND BALANCES (DEFICIT), JUNE 30, 2014	\$ (100,445)	\$ 27	\$ 4,888	\$ 504

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, 2014
(amounts expressed in thousands)

	<u>Capital Projects Funds</u>		
	<u>Capital Development Fund (141)</u>	<u>School Construction Fund (143)</u>	<u>Total</u>
REVENUES			
Federal government	\$ -	\$ -	\$ 2,266,353
Licenses and fees	-	-	4,623
Interest	-	-	53
Other revenues	-	-	120
Refunds	-	-	(55)
	<hr/>	<hr/>	<hr/>
Total Revenues	-	-	2,271,094
	<hr/>	<hr/>	<hr/>
EXPENDITURES			
Education	-	45,809	2,298,231
Capital outlays	-	-	3,694
	<hr/>	<hr/>	<hr/>
Total Expenditures	-	45,809	2,301,925
	<hr/>	<hr/>	<hr/>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(45,809)	(30,831)
	<hr/>	<hr/>	<hr/>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES			
Appropriations from State resources	25,000	67,285	107,285
Reappropriations to Fiscal Year 2015	(25,000)	(20,356)	(45,356)
Net change in liabilities for reappropriated accounts	-	(427)	(427)
Receipts collected and transmitted to State Treasury	-	(693)	(693)
Transfers-in	-	-	1,500
	<hr/>	<hr/>	<hr/>
Net Other Sources of Financial Resources	-	45,809	62,309
	<hr/>	<hr/>	<hr/>
NET CHANGE IN FUND BALANCES	-	-	31,478
	<hr/>	<hr/>	<hr/>
Fund Balances (Deficit), July 1, 2013, as restated	-	-	(128,296)
Change in inventories	-	-	1,621
	<hr/>	<hr/>	<hr/>
FUND BALANCES (DEFICIT), JUNE 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (95,197)</u>



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

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board Members of the
Illinois State Board of Education

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Illinois State Board of Education, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Illinois State Board of Education's basic financial statements, and have issued our report thereon dated December 10, 2014.

Internal Control Over Financial Reporting

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

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

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

E. C. Ortiz & Co., LLP

Chicago, Illinois
December 10, 2014

**STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
PRIOR FINDING NOT REPEATED
FOR THE YEAR ENDED JUNE 30, 2014**

A. **FINDING** (Financial Reporting)

During the prior audit, the Agency understated expenditures, liabilities, and federal receivables due to miscalculations for subrecipient amounts for the year ended June 30, 2013. Documentation necessary to record grant expenditures and related liability in the correct fiscal year were obtained from subrecipients; however, the Agency's calculation of related adjustments to grant expense and liability as of fiscal yearend for subrecipients were inaccurate. Additionally, in our review of the Fiscal Year 2013 Grant/Contract Analysis Form (Form SCO-563) of the GAAP Reporting Package, we noted the Agency did not report for two funds the cost of grants (noncash and cash grants) provided to subrecipients. These understatements affected the data the Agency submitted for Statewide federal grant reporting, but these amounts did not have an impact on the Agency's financial statements.

During the current audit, the Agency's calculation of liability to its subrecipients was automated and subjected to various reviews by Agency personnel involved. Results of our testing disclosed that the liability, expenditures, and federal receivables calculations as of June 30, 2014 were accurate and reasonable. Additionally, results of our review of Form SCO-563 for applicable funds during the Fiscal Year 2014 show that the Agency properly reported the cost of grants provided to subrecipients. (Finding Code Nos. 2013-001, 12-1, 11-1)