

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AUDIT AND
COMPLIANCE EXAMINATION
FOR THE YEAR ENDED JUNE 30, 2006

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

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AUDIT AND
COMPLIANCE EXAMINATION
FOR THE YEAR ENDED JUNE 30, 2006

TABLE OF CONTENTS

	<u>Page</u>
Agency Officials	1
Management Assertion Letter	2
Compliance Report	
Summary	3
Auditor's Reports	
Independent Accountant's Report on State Compliance, on Internal Control Over Compliance and on Supplementary Information for State Compliance Purposes	5
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	8
Independent Accountant's Report on Agreed-Upon Procedures	10
Schedule of Findings and Recommendations	
Current Findings – <i>State Compliance</i>	12
Prior Findings Not Repeated – <i>Government Auditing Standards</i>	21
Prior Findings Not Repeated – <i>State Compliance</i>	21
Financial Statement Report	
Summary	22
Independent Auditors' Report	23
Basic Financial Statements	
Statement of Net Assets and Governmental Funds Balance Sheet	25
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets	26
Statement of Activities and Governmental Revenues, Expenditures and Changes in Fund Balance	27
Reconciliation of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to Statement of Activities	28
Notes to the Basic Financial Statements	29
Combining Individual Governmental Funds Financial Statements:	
General Fund – Balance Sheet	46
General Fund - Statement of Revenues, Expenditures and Changes in Fund Balance	47
Nonmajor Funds – Balance Sheet	48
Nonmajor Funds – Statement of Revenues, Expenditures and Changes in Fund Balance	51

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AUDIT AND
COMPLIANCE EXAMINATION
FOR THE YEAR ENDED JUNE 30, 2006

TABLE OF CONTENTS
(Continued)

	<u>Page</u>
Supplementary Information for State Compliance Purposes	
Summary	54
Fiscal Schedules and Analysis	
Schedule of Expenditures of Federal Awards	55
Notes to the Schedule of Expenditures of Federal Awards	57
Schedule of Appropriations, Expenditures and Lapsed Balances	62
Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances	67
Comparative Schedule of Operating Expenditures by Expenditure Type	77
Schedule of Changes in State Property	78
Comparative Schedule of Cash Receipts	79
Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller	82
Comparative Schedule of Distributive Expenditures by Fund	86
Analysis of Significant Variations in Expenditures	89
Analysis of Significant Variations in Receipts	93
Analysis of Significant Lapse Period Spending	95
Analysis of Significant Account Balances	96
Analysis of Accounts Receivable	98
Schedule of Indirect Cost Reimbursements (Unaudited)	99
Analysis of Operations	
Agency Functions and Planning Program	100
Average Number of Employees and Average Salary Per Employee (Unaudited)	103
Annual Statistics – Summary of Demographic Data (Unaudited)	104
Service Efforts and Accomplishments (Unaudited)	109
Hurricane Katrina Relief Efforts (Unaudited)	112

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

AGENCY OFFICIALS

Members of the Illinois State Board of Education at June 30, 2006:

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

State Superintendent of Education (Interim)	Dr. Christopher Koch (December 1, 2006 to Present)
State Superintendent of Education	Dr. Randy J. Dunn (September 20, 2004 to November 1, 2006)

Cabinet Members at June 30, 2006:

Assistant Superintendent of Operation	Vacant
General Counsel/Legal	Darren Reisberg (June 26, 2006 to Present) Jonathan Furr (September 20, 2004 to June 23, 2006)

Directors:

Special Education Services	Christopher Koch
Operations	Vacant
Teaching and Learning Services For All Children	Ginger Reynolds
Financial, Administrative and Shared Services	Linda Riley Mitchell

Agency offices are located at:

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

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



Illinois State Board of Education

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

Rod Blagojevich
Governor

Jesse H. Ruiz
Chairman

Christopher A. Koch, Ed.D.
State Superintendent of Education (Interim)

December 19, 2006

Washington, Pittman & McKeever, LLC
819 S. Wabash, Suite 600
Chicago, Illinois 60605

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Agency. We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the Agency's compliance with the following assertions during the year ended June 30, 2006. Based on this evaluation, we assert that during the year ended June 30, 2006, the Agency has materially complied with the assertions below.

- A. The agency has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The agency has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The agency has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the agency are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. The money or negotiable securities or similar assets handled by the agency on behalf of the State or held in trust by the agency have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

Illinois State Board of Education

Christopher A. Koch, Ed.D.
State Superintendent of Education (Interim)

Linda Mitchell
Chief Financial Officer

Darren Reisberg
General Counsel

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

COMPLIANCE REPORT

SUMMARY

The compliance testing performed during this examination was conducted in accordance with Government Auditing Standards and in accordance with the Illinois State Auditing Act.

AUDITOR'S REPORT

The Independent Accountant's Report on State Compliance, on Internal Control Over Compliance and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

<u>Number of</u>	<u>This</u>	<u>Prior</u>
<u>Findings</u>	2	3
<u>Repeated findings</u>	1	3
<u>Prior recommendations implemented or not repeated</u>	2	12

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

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
FINDINGS (STATE COMPLIANCE)		
06-1	12	Noncompliance with Mandated Duties
06-2	19	Noncompliance with the Fiscal Control and Internal Auditing Act
PRIOR FINDINGS NOT REPEATED (GOVERNMENT AUDITING STANDARDS)		
06-3	21	Lack of Controls Over the General Educational Development (GED) Program
PRIOR FINDINGS NOT REPEATED (STATE COMPLIANCE)		
06-4	21	Follow-up to Financial and Management Audit of the Teachers Academy for Mathematics and Science

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on February 15, 2007. Attending were:

Illinois State Board of Education

Dr. Christopher Koch	Interim State Superintendent of Education
Ginger Reynolds	Assistant Superintendent of Teaching and Learning
Darren Reisberg	General Counsel
Linda Riley Mitchell	Chief Financial Officer
Lisa Labonte	Chief Internal Auditor
Melissa Oller	Division Administrator of Fiscal Services

Office of the Auditor General

Jane Clark	Audit Manager
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Washington, Pittman & McKeever, LLC

Dorothy A. McLemore	Principal
Angela T. Allen	Audit Manager

Responses to the recommendations were provided by Lisa Labonte, in a letter dated March 2, 2007.

**INDEPENDENT ACCOUNTANT'S REPORT ON STATE COMPLIANCE, ON
INTERNAL CONTROL OVER COMPLIANCE AND ON SUPPLEMENTARY
INFORMATION FOR STATE COMPLIANCE PURPOSES**

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the Illinois State Board of Education's compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2006. The management of the Illinois State Board of Education is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Illinois State Board of Education's compliance based on our examination.

- A. The Illinois State Board of Education has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Illinois State Board of Education has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Illinois State Board of Education has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the Illinois State Board of Education are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

- E. Money or negotiable securities or similar assets handled by the Illinois State Board of Education on behalf of the State or held in trust by the Illinois State Board of Education have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Illinois State Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Illinois State Board of Education's compliance with specified requirements.

In our opinion, the Illinois State Board of Education complied, in all material respects, with the aforementioned requirements during the year ended June 30, 2006. However, the results of our procedures disclosed instances of noncompliance, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings as findings 06-1 through 06-2. As required by the Audit Guide, immaterial findings relating to instances of noncompliance excluded from this report have been reported in a separate letter to your office.

Internal Control

The management of the Illinois State Board of Education is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations. In planning and performing our examination, we considered the Illinois State Board of Education's internal control over compliance with the aforementioned requirements in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide issued by the Illinois Office of the Auditor General.

Our consideration of internal control over control over compliance with the aforementioned requirements would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to one or more of the aforementioned requirements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance that we consider to be material weaknesses. However, the results of our procedures disclosed other matters involving internal control which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings as findings 06-2. As required by the Audit Guide, immaterial findings relating to internal control deficiencies excluded from this report have been reported in a separate letter to your office.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Illinois State Board of Education as of and for the year ended June 30, 2006, which collectively comprise the Illinois State Board of Education's basic financial statements, and have issued our report thereon dated December 19, 2006. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Illinois State Board of Education. The 2006 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2006 taken as a whole. We have also previously audited, in accordance with auditing standards generally accepted in the United States, the Illinois State Board of Education's basic financial statements for the year ended June 30, 2005. In our report dated December 2, 2005, we expressed an unqualified opinion on the respective financial statements of the governmental activities, the major fund, and the aggregate remaining fund information. In our opinion, the 2005 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited" is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2005, taken as a whole.

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



WASHINGTON, PITTMAN & McKEEVER, LLC

Chicago, Illinois
December 19, 2006

**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

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Illinois State Board of Education, as of and for the year ended June 30, 2006, which collectively comprise the Illinois State Board of Education's basic financial statements and have issued our report thereon dated December 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Illinois State Board of Education's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a certain deficiency in the design or operation of internal control over financial reporting which does not meet the criteria for reporting herein and which is reported as a State compliance finding in the schedule of findings. We also noted certain matters which we have reported to management of the Illinois State Board of Education in a separate letter dated December 19, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Illinois State Board of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However we noted certain matters which are reported as State compliance findings in the schedule of findings. We also noted certain matters which we have reported to management of the Illinois State Board of Education in a separate letter dated December 19, 2006.

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

A handwritten signature in black ink that reads "Washington, Pittman & McKeever, LLC". The signature is written in a cursive, flowing style.

WASHINGTON, PITTMAN & McKEEVER, LLC

Chicago, Illinois
December 19, 2006

INDEPENDENT ACCOUNTANT'S REPORT
ON AGREED-UPON PROCEDURES

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have performed each of the procedures enumerated below, which were agreed to by the Auditor General, solely to assist the users in evaluating management's assertion about the Illinois State Board of Education's compliance with respect to the reporting; during the year ended June 30, 2006, of the statewide high school dropout rate by grade level, sex, race, program categories, and the number of students who graduate from, transfer from, or otherwise leave bilingual programs; by the State Board of Education pursuant to 105 ILCS 5/1A-4. These agreed-upon procedures were performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of specified users of the report. The sufficiency of these procedures is solely the responsibility of specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and our findings are as follows:

1. We reviewed the following articles of the School Code: 105 ILCS 5/1A-4, 105 ILCS 5/26-2a, and 105 ILCS 5/26-3 which identify the Agency's mandated duties.
2. We obtained and reviewed the fiscal year 2005 annual report for the State Board of Education. We noted one instance of noncompliance.
3. We reviewed the Agency's procedures for accumulating and reviewing dropout and transitional bilingual education data. These procedures appear to be adequate.
4. We obtained and reviewed the information submitted by the local school districts via the ISBE Web Application Security (IWAS) System for completion of dropout and other data for a sample of 25 local school districts. Information was complete.
5. We compared dropout data for the 25 selected local school districts on the Agency's Local Area Network (LAN) to the Agency's computerized recap of dropout rates for the 2004-2005 school year. We noted no significant exceptions.

6. We examined the transaction log for the completed "End of Year Reports" for the submission date for the selected districts. We noted no significant exceptions for the 2004-2005 End of Year Reports.
7. We compared dropout data totals, by grade level and by program category, on the computerized recap to those on the 2005 Annual Report, submitted to the Governor and the General Assembly. All dropout totals, by grade level and by program category, on the computerized recap agreed to the report.
8. We reviewed the information submitted by the local school districts for completion of bilingual education data for 4 local school districts with bilingual education programs out of the selected 25 local school districts. Bilingual education data was complete.
9. We compared bilingual education data for the 4 out of 25 local school districts to the Agency's summary of the number of students in bilingual education programs for 2004-2005. We noted no significant exceptions.
10. We examined transmittals for the completed "Annual Student Report" for the school district's submission date. We noted no significant exceptions for the 2004-2005 Annual Student Reports.
11. We compared bilingual education programs totals on the Agency's summary of the number of students in bilingual education programs to those on the 2005 Annual Report, submitted to the Governor and the General Assembly. Totals per Agency summary agreed to the annual report.

Our tests disclosed one instance of noncompliance, which we have reported to management in a separate letter, dated December 19, 2006.

These agreed-upon procedures do not constitute an audit, the objective of which would be the expression of an opinion on management's assertions. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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


WASHINGTON, PITTMAN & McKEEVER LLC

Chicago, Illinois
December 19, 2006

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

STATE COMPLIANCE

FINDING 06-1 Noncompliance with Mandated Duties

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

- The Agency did not prepare and make available to school boards instructional materials relative to commemorated persons, activities, or events that may be used by school boards in conjunction with any instruction provided in Section 24-2 of the Illinois School Code. The School Code (105 ILCS 5/24-2) states that the Agency shall prepare and make available to school boards instructional materials relative to commemorated persons, activities, or events that may be used by school boards in conjunction with any instruction provided in Section 24-2 of the Illinois School Code. Agency personnel stated there was not adequate staff available to perform this project.
- The Agency together with the Capital Development Board did not submit the Capital Needs Assessment Report to the General Assembly in a timely manner. The report was prepared in February, 2005. School Construction Law (105 ILCS 230/5-60) requires the Agency together with the Capital Development Board to submit a comprehensive assessment report of the capital needs of all school districts in the State of Illinois before January 1, 2005 and every 2 years thereafter. Agency personnel stated the Agency is responsible for collecting and compiling the data elements for the survey and the Capital Development Board bears the responsibility for the compilation of the report to be submitted to the Governor and General Assembly.
- The Agency did not provide grants to charter schools to pay the start-up costs of acquiring educational materials and supplies, textbooks, furniture, and other equipment needed during the initial term. The Agency did not request a separate budget to fund the start-up costs. The full appropriation was utilized by the Agency for the transition impact aid and nothing was allotted to fund start-up costs. The School Code (105 ILCS 5/27A-11.5) requires that a separate appropriation be made for both the transition impact and the start-up costs. Agency personnel stated appropriations for charter schools have historically been requested as one line item. Given the lack of funding, it has been agency policy to fund Transition Impact Aid first and start up grants if funds remained; there were insufficient funds appropriated in fiscal year 2006 to allow start up grants to be funded.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES
(Continued)

FINDING 06-1 Noncompliance with Mandated Duties (Continued)

- The Agency did not maintain personnel to provide consulting assistance for programs relating to the study of atomic radiation and its peaceful uses. The Agency did not maintain staff with experience and academic preparation to provide consulting assistance for programs relating to the study of atomic radiation. The School Code (105 ILCS 5/27-25.1) requires the Agency maintain a consulting staff to provide consulting assistance for the planning, operation and evaluation of programs relating to the study of atomic radiation and its peaceful uses. Agency personnel stated they are unaware of ever receiving any application for providing an educational program on atomic radiation and its peaceful uses. Furthermore, the Agency must prioritize the use of its limited resources and it is not reasonable to have consultants, purchase materials, have demonstration centers, etc., when there has never been an application to provide this program.
- The Agency did not timely review, approve and process Safety Survey Reports. 5 of 10 (50%) amendments of the Safety Survey Reports tested were approved late. The mandate does not stipulate a timeline for processing Safety Survey Reports or amendments. Approval of the Safety Survey Reports requires the Agency to work with schools, contractors, and architects; therefore, 90 days was determined to be an adequate processing time period. The amendments were processed between 23 and 209 days late. The School Code (105 ILCS 5/2-3.12) requires the State Superintendent of Education to approve or deny Safety Survey Reports including the recommendations to effectuate compliance and, if approved, issue a certificate of approval. In addition, prudent business practice requires prompt review, approval and processing of information. Agency personnel stated due to budgetary reductions, staff that reviewed the Safety Survey Reports was significantly reduced from six to one. The Surveys are submitted by all school district/LEAs (except Chicago) throughout the state. However, the district/LEA must submit a survey for each of their school facilities and each of these facilities, many have numerous violations that have to be reviewed and discussed with the district architect and superintendent/business manager/grounds personnel. This may take a significant amount of time dependent upon the additional information/documentation that is required of the architect and/or district staff, preventing approval of the reports in the noted timeframe.
- The Agency did not initiate and maintain an annual Governor's Recognition Program as required by the School Code. The School Code (105 ILCS 5/2-3.92) requires the Agency to initiate and maintain an annual Governor's Recognition of premier organizations meeting and exceeding established criteria for a Drug Free Illinois. Agency personnel stated a review of obsolete and duplicative sections of the School Code was done in 2003 and 2004; however, this mandate was not included in proposed legislation for amendment or repeal due to oversight. The Agency plans to seek repeal of this statute, among others in Spring 2007.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES
(Continued)

FINDING 06-1 Noncompliance with Mandated Duties (Continued)

- The Agency did not establish a State level Committee of Cooperative Services. The School Code (105 ILCS 5/13B-35.10) requires the State Superintendent of Education to convene a State level Committee of Cooperative Services and to approve the Committee's by-laws and procedures. The School Code also requires the Committee of Cooperative Services to advise the State Superintendent of Education on the statewide development, implementation, and coordination of alternative learning opportunities programs. Agency personnel stated a review of obsolete and duplicative sections of the School Code was done in 2003 and 2004; however, this mandate was not included in proposed legislation for amendment or repeal due to oversight. The Agency plans to seek repeal of this statute, among others in Spring 2007.
- The Agency did not develop a model curriculum as required by State statute. The School Code (105 ILCS 5/27-23.2) requires the Agency to develop a model curriculum for the reduction of self-destructive behavior in grades 6 through 12 of public schools. Agency personnel stated a review of obsolete and duplicative sections of the School Code was done in 2003 and 2004; however, this mandate was not included in proposed legislation for amendment or repeal due to oversight. The Agency plans to seek repeal of this statute, among others in Spring 2007.

The Agency failed to consider certain mandates when establishing the annual budget. We noted noncompliance with the following mandates:

- The Agency did not make computer literacy and high-tech competency grants available to qualifying school districts. The School Code (105 ILCS 5/2-3.43) requires the Agency to make computer literacy grants available to qualifying school districts and educational service regions. The purpose of these grants is to provide support for staff development, hardware, software and teacher training necessary for the implementation of programs designed to achieve computer literacy and high-tech competency. Agency personnel stated funds were not available for this purpose.
- A grant program was not established in fiscal year 2006 for school districts on the academic watch list and other school districts that have the lowest achieving students as determined by the State Board of Education. The School Code (105 ILCS 5/2-3.25d (e)) states that the State Board of Education, from any moneys it may have available for this purpose, must implement and administer a grant program that provides 2-year grants to school districts on the academic watch list and other school districts that have the lowest achieving students, as determined by the State Board of Education, to be used to improve student achievement. Agency personnel stated funds were not available for this purpose.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES
(Continued)

FINDING 06-1 Noncompliance with Mandated Duties (Continued)

In addition, during the current audit several recommendations from last year were implemented as follows:

- During the prior year, the Agency did not timely prepare 7 of 9 (78%) fiscal notes tested as requested by the General Assembly during the fiscal year. During the current audit, our test disclose no instances where the Agency did not prepare fiscal notes requested by the General Assembly within 5 calendar days from the date of request, as required by the Fiscal Note Act (25 ILCS 50/2).
- During the prior year, the Agency did not ensure regional superintendents certified to the Agency by September 1 that he or she did not employ his or her spouse, child, stepchild or relative as an assistant regional superintendent. During the current year, our sample testing did not disclose any instances where the Agency did not verify that the regional superintendent certified that he or she did not employ his or her spouse, child, stepchild, or relative as an assistant regional superintendent by September 1, 2005.
- During the prior year, the Agency did not comply with the requirement for reporting drug related incidents in schools mandated by the School Code. During the current year, our testing noted on the Agency's ISBE Web Application Security (IWAS) website under School Incident Reporting System that information is maintained for reporting drug related incidents in schools and that information is available to the public.
- During the prior year, the Agency did not submit its plan to incorporate social and emotional development standards as part of the Illinois Learning Standards in a timely manner. The plan developed by ISBE, together with the Children's Mental Health Partnership, was submitted to the Governor and the General Assembly on January 10, 2005, 10 calendar days late. This was a one-time requirement and the Agency did not have to comply with this mandate for fiscal year 2006.
- During the prior year, the Agency did not compile data by school district on attacks on school personnel and make it public. During the current year, our testing noted the Agency in conjunction with the Illinois State Police compiled data by school district on attacks of school personnel and has made it available to the public via the Agency's IWAS website.
- During the prior year, the State Superintendent did not appoint 2 of 17 (12%) members of the Advisory Council on Bilingual Education as required by the School Code. The School Code (105 ILCS 5/14C-13) requires the Advisory Council on Bilingual Education, consisting of 17 members be appointed by the State Superintendent of Education and selected, as nearly as possible, on the basis of experience in or knowledge of the various programs of bilingual education. During the current year, the two members were appointed and the council consisted of 17 members as of June 30, 2006.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES
(Continued)

FINDING 06-1 Noncompliance with Mandated Duties (Continued)

- During the prior year, the Agency did not review approved charter school proposals from local school boards in a timely manner. We noted all 3 (100%) of the proposals tested were reviewed by the Agency within 17 to 24 days after the date of receipt from the local school board. During the current year, our sample testing did not disclose any instances where the Agency did not approve charter school proposals from local school boards in a timely manner.

- During the prior year, the Agency did not comply with the requirement to provide grants as required by the School Code (105 ILCS 5/34-18.19). The School Code states that the Agency shall provide, subject to appropriation, grants for the purpose of completing a school safety assessment audit and developing a written safety plan or revision of their current safety plan to implement the criteria developed by the Agency, in cooperation with the Task Force on School Safety, as specified in the school safety assessment audit. During the current year, our testing noted that the School Code (105 ILCS 5/34-18.19) was repealed effective 08/16/05, therefore, it is no longer a requirement applicable to the Agency. (Finding Code No. 06-1, 05-2, 04-6, 03-6, 02-13, 00-9))

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

RECOMMENDATION

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

AGENCY RESPONSE

The Agency is working towards developing a process to identify all mandates to which the Agency is subject and the areas responsible for compliance. This effort will be coordinated with the Agency's efforts to identify obsolete legislation for repeal or amendment. The process will be ongoing.

Instructional materials relative to commemorated persons, activities, or events-

The Agency agrees and will develop a means to provide access to instructional materials relative to commemorated persons, activities or events via the Internet.

Capital Needs Assessment Report-

The Agency is aware of the timelines necessary to file this report. The Agency together with the Capital Development Board was responsible for issuing another report by January 1, 2007 and this report was submitted in accordance to the timelines specified within the statute.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES
(Continued)

FINDING 06-1 Noncompliance with Mandated Duties (Continued)

Charter school start-up grants-

Appropriations for charter schools have historically been requested as one line item. Due to a lack of funding, the Agency funded Transition Impact Aid first and start-up grants if funds remained; insufficient funds were appropriated in fiscal year 2006 to provide for start up grants. The Agency's FY2008 Budget Recommendation includes separate funding requests for Transition Impact Aid and Charter Schools Start-Up Grants.

Consulting assistance-

The Agency is unaware of ever receiving any application for providing an educational program on atomic radiation and its peaceful uses. ISBE must prioritize the use of its limited resources and it is not reasonable to have consultants, purchase materials, have demonstration centers, etc., when there has never been an application to provide this program. The Agency will introduce a legislative proposal in Spring 2007 that will include repeal or amendment of this statutory requirement.

Safety survey reports-

Whereas the Agency agrees that statute does not stipulate a timeline for processing, we do understand the importance of reviewing the survey reports and amendments as quickly as possible. The Agency is evaluating potential implementation of an electronic system to assist with the timeliness of the reviews. Additionally, requests to hire additional staff have been submitted.

Governor's Recognition Program-

The Agency will introduce a legislative proposal in Spring 2007 that will include repeal or amendment of this statutory requirement.

State level Committee of Cooperative Services. -

The Agency will introduce a legislative proposal in Spring 2007 that will include repeal or amendment of this statutory requirement.

Model curriculum for the reduction of self-destructive behavior-

The Agency will introduce a legislative proposal in Spring 2007 that will include repeal or amendment of this statutory requirement.

Mandate consideration in the budget process-

The Agency does not agree with the finding and is unaware of any statutory requirement "to consider certain mandates when establishing the annual budget." Requiring the Agency to request funding for all mandates to which the Agency is subject does not allow for the Board and Agency management to utilize their experience and expertise in prioritizing the direction of education or to effectively deal with newly emerging issues.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES
(Continued)

FINDING 06-1 Noncompliance with Mandated Duties (Continued)

It should be noted that Public Act 94-1105 repeals 105 ILCS 5/2-3.43 concerning computer literacy grants, effective June 1, 2007.

With regard to academic watch list grants, the School Code (105 ILCS 5/2-3.25d (e)) states that: "The State Board of Education, from any moneys it may have available for this purpose, must implement and administer a grant program that provides 2-year grants to school districts on the academic watch list..." In fiscal year 2006, moneys were not available for this purpose, resulting in the Agency's compliance with the requirements of 105 ILCS 5/2-3.25d (e).

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES
(Continued)

FINDING 06-2 Noncompliance with the Fiscal Control and Internal Auditing Act

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

We noted the Internal Audit Division did not adequately prepare a two-year plan for fiscal years 2006 and 2007 as it relied on the culmination of an agreement with the Illinois Office of Internal Audit (Central Management Services). However, the Agency never reached an agreement with the Office of Internal Audit. As a result, no testing was planned or performed during the fiscal year 2006 on any major systems as required by the Act.

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

Agency personnel stated the Agency had been without a Chief Internal Auditor from September 2004 until May 2006 and the lack of sufficient staff resources led to the inability to complete audits as scheduled.

The Internal Audit Division cannot assure management that reasonable controls exist if internal controls of major systems of internal accounting and administrative control are not reviewed. The lack of audits of major systems could result in undetected control deficiencies leading to possible errors, misstatements or fraud. In addition, failure to review major electronic data processing systems could lead to the installation of systems that do not provide adequate audit trails and accountability. (Finding Code No. 06-2)

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

CURRENT FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES
(Continued)

FINDING 06-2 Noncompliance with the Fiscal Control and Internal Auditing Act
(Continued)

RECOMMENDATION

We recommend the Agency allocate adequate resources to the Internal Audit division to ensure audits of major systems are performed at least once every two years as required by the Fiscal Control and Internal Auditing Act. Further, the Agency should reiterate the importance of communication between the Internal Audit and Data Systems divisions to ensure the review of major new electronic data processing systems before their installation.

AGENCY RESPONSE

The Agency recognizes that Internal Audit was not allocated sufficient resources to carry out its mandated duties. A Chief Internal Auditor was appointed in May 2006. Additional resources have been requested to allow Internal Audit to meet the requirements for audit coverage of major systems of internal control at least once every two years and reviews of information systems development and modification projects as necessary.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

PRIOR FINDINGS NOT REPEATED (GOVERNMENT AUDITING STANDARDS)

06-3 Lack of Controls over the General Educational Development (GED) Program

During the prior audit, the Agency failed to ensure the implementation and maintenance of internal controls over the GED testing process and the accounting for program application fees. Specifically, the Agency did not perform procedures to ensure that receipts deposited included all monies to which they were entitled. In addition, the Agency did not perform a year-end analysis to determine whether deferred revenue should be recognized.

During the current audit, the responsibility for the administration of the GED program transferred to the Illinois Community College Board (ICCB) effective July 2005. (Finding Code No. 05-1, 04-5)

PRIOR FINDINGS NOT REPEATED (STATE COMPLIANCE)

06-4 Follow-up to Financial and Management Audit of Teachers Academy for Mathematics and Science

During the prior audit, the Agency did not properly monitor the Teachers Academy for Mathematics and Science (Academy). Specifically, the Agency did not monitor the use of interest income on State Funds to ensure the funds were used for the same purpose as the principal of the grant nor develop criteria to be included in formal grant agreements with the Academy that requires fixed assets purchased with State funds by the Academy to be returned to the State in the event the Agency discontinues funding for the Academy program.

During the current year, the Academy received no funds from the Agency and ceased operations in early fiscal year 2006. In addition, close out reports and excess funds were submitted for the 2005 fiscal year. (Finding Code No. 05-3, 04-15)

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
FOR THE YEAR ENDED JUNE 30, 2006

FINANCIAL STATEMENT REPORT

SUMMARY

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

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

INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland
Auditor General
State of Illinois

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, 2006, which collectively comprise the Illinois State Board of Education's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Illinois State Board of Education's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the financial statements of the Illinois State Board of Education are intended to present the financial position and changes in financial position of only that portion of the governmental activities, the major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Illinois State Board of Education. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2006, and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Illinois State Board of Education as of June 30, 2006 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 19, 2006 on our consideration of the Illinois State Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Illinois State Board of Education has not presented a management's discussion and analysis and budgetary comparison information for the General Fund that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Illinois State Board of Education's basic financial statements. The combining individual governmental funds – General Fund and the combining individual governmental funds – Nonmajor Funds financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining individual governmental funds – General Fund and the combining individual governmental funds – Nonmajor Funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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



WASHINGTON, PITTMAN & MCKEEVER, LLC

Chicago, Illinois
December 19, 2006

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

AS OF JUNE 30, 2006

(amounts expressed in thousands)

	<u>General Fund</u>	<u>Nonmajor</u>	<u>Total Governmental Funds</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS					
Unexpended appropriations	\$ 76,047	\$ -	\$ 76,047	\$ -	\$ 76,047
Cash and cash equivalents	4	13,792	13,796	-	13,796
Due from other government - federal	-	296,079	296,079	-	296,079
Due from other government - local	-	18	18	-	18
Other receivables	-	28	28	-	28
Due from other State funds	105	169	274	-	274
Due from component units of the State	17	62	79	-	79
Inventories	-	821	821	-	821
Loans receivable	-	9,265	9,265	-	9,265
Prepaid expenses	-	-	-	491	491
Capital assets not being depreciated	-	-	-	1,063	1,063
Capital assets net of depreciation	-	-	-	1,600	1,600
TOTAL ASSETS	<u>\$ 76,173</u>	<u>\$ 320,234</u>	<u>\$ 396,407</u>	<u>\$ 3,154</u>	<u>\$ 399,561</u>
LIABILITIES					
Accounts payable and accrued liabilities	\$ 1	\$ 6,162	\$ 6,163	\$ -	\$ 6,163
Due to other government - federal	-	395	395	-	395
Due to other government - local	1,136,196	298,803	1,434,999	-	1,434,999
Due to other State funds	109	2,092	2,201	-	2,201
Due to component units of the State	278	1,136	1,414	-	1,414
Deferred revenue	-	7,011	7,011	(7,011)	-
Compensated absences, current portion	-	-	-	286	286
Other liabilities, current portion	-	1,084	1,084	2,750	3,834
Compensated absences, long-term portion	-	-	-	4,109	4,109
Other liabilities, long-term portion	-	-	-	8,775	8,775
Total Liabilities	<u>1,136,584</u>	<u>316,683</u>	<u>1,453,267</u>	<u>8,909</u>	<u>1,462,176</u>
FUND BALANCE/NET ASSETS					
Reserved for encumbrances	-	150	150	(150)	-
Reserved for inventories	-	821	821	(821)	-
Reserved for long-term portion of loans receivable	-	5,852	5,852	(5,852)	-
Invested in capital assets, net of related debt	-	-	-	2,663	2,663
Restricted net assets	-	-	-	5,439	5,439
Unreserved, unrestricted	(1,060,411)	(3,272)	(1,063,683)	(7,034)	(1,070,717)
Total Fund Balance/Net Assets	<u>(1,060,411)</u>	<u>3,551</u>	<u>(1,056,860)</u>	<u>\$ (5,755)</u>	<u>\$ (1,062,615)</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 76,173</u>	<u>\$ 320,234</u>	<u>\$ 396,407</u>		

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

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
STATEMENT OF NET ASSETS

AS OF JUNE 30, 2006

(amounts expressed in thousands)

Total fund balance - governmental funds	\$	(1,056,860)
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.		2,663
Prepaid expenses for governmental activities are current uses of financial resources for funds.		491
Revenues in the Statement of Activities that do not provide current financial resources are deferred in governmental funds.		7,011
Some liabilities reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds. These activities consist of:		
Compensated absences		(4,395)
Claims and judgments		(11,525)
		<hr/>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>(1,062,615)</u>

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 BALANCE**

FOR THE YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	General Fund	Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Activities
EXPENDITURES/EXPENSES					
Program expense - education	\$ 5,799,592	\$ 1,846,849	\$ 7,646,441	\$ (2,313)	\$ 7,644,128
Debt service principal	369	-	369	(369)	-
Debt service interest	16	-	16	-	16
Capital outlays	82	71	153	(153)	-
Total Expenditures/Expenses	<u>5,800,059</u>	<u>1,846,920</u>	<u>7,646,979</u>	<u>(2,835)</u>	<u>7,644,144</u>
PROGRAM REVENUES					
Charges for services:					
Licenses and fees	170	2,110	2,280	-	2,280
Total charges for services	<u>170</u>	<u>2,110</u>	<u>2,280</u>	<u>-</u>	<u>2,280</u>
Operating grant revenue:					
Federal	1,038	1,813,113	1,814,151	(2,843)	1,811,308
Total operating grant revenue	<u>1,038</u>	<u>1,813,113</u>	<u>1,814,151</u>	<u>(2,843)</u>	<u>1,811,308</u>
Net Program Revenues	<u>(5,798,851)</u>	<u>(31,697)</u>	<u>(5,830,548)</u>	<u>(8)</u>	<u>(5,830,556)</u>
GENERAL REVENUES					
Interest	-	97	97	-	97
Other (net)	10	245	255	-	255
Total General Revenues	<u>10</u>	<u>342</u>	<u>352</u>	<u>-</u>	<u>352</u>
OTHER SOURCES (USES)					
Appropriations from State resources	6,109,718	15,906	6,125,624	-	6,125,624
Reappropriations to future year(s)	(28,216)	-	(28,216)	-	(28,216)
Receipts remitted to State Treasury	(3,950)	(50)	(4,000)	-	(4,000)
Capital transfers (to) other State agencies	-	-	-	(16)	(16)
Loss on disposal of capital assets	-	-	-	(25)	(25)
Operating transfers - in	-	16,610	16,610	(610)	16,000
Operating transfers - out	(450)	(4,726)	(5,176)	610	(4,566)
Transfer administration of fund to other agency	-	(435)	(435)	-	(435)
Total Other Sources (Uses)	<u>6,077,102</u>	<u>27,305</u>	<u>6,104,407</u>	<u>(41)</u>	<u>6,104,366</u>
Change in fund balance/net assets	278,261	(4,050)	274,211	<u>\$ (49)</u>	274,162
Lapsed appropriations	(36,565)	(51)	(36,616)	-	(36,616)
Fund Balance/Net Assets July 1, 2005	<u>(1,302,107)</u>	<u>7,652</u>	<u>(1,294,455)</u>	-	<u>(1,300,161)</u>
FUND BALANCE/NET ASSETS JUNE 30, 2006	<u>\$ (1,060,411)</u>	<u>\$ 3,551</u>	<u>\$ (1,056,860)</u>	-	<u>\$ (1,062,615)</u>

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

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

RECONCILIATION OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

Net Change in Fund Balance - governmental funds	\$ 274,211
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which depreciation exceeded capital outlays in the current period.	(513)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	369
Proceeds from sales of capital assets are reported in the governmental funds. However, in the Statement of Activities, losses from the sale of capital assets are also reported. This is the amount of the losses from the sale of capital assets that exceeded proceeds.	(25)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the decrease in unavailable revenue over the prior year.	(2,843)
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	294
Decrease in compensated absences	83
Decrease in claims and judgments	2,602
Some capital assets were transferred out to other State agencies and, therefore, were disposed of by the Agency without receipt for value.	(16)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 274,162</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, 2006

1. ORGANIZATION

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

The Illinois State Board of Education is organized to provide leadership, advocacy, and support for the work of school districts, policymakers, and citizens in making Illinois education *Second to None*.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

FINANCIAL REPORTING ENTITY

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

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

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

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)

FOR THE YEAR ENDED JUNE 30, 2006

BASIS OF PRESENTATION

The financial activities of the Agency, which consist only of governmental activities, are reported under the general government function in the State of Illinois' Comprehensive Annual Financial Report. For its reporting purposes, the Agency has combined the fund and government-wide financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. A brief description of the Agency's government-wide and fund financial statements is as follows:

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

The statement of activities demonstrates the degree to which the direct expenses of a given function (i.e. general government) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Agency's funds. The emphasis on fund financial statements is on major governmental funds, which are summarized 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 for those required to be accounted for in another fund. The services which are administered by the Agency and accounted for in the general fund include, among others, social assistance, education (other than institutions of higher education), and health and social services. Certain resources obtained from federal grants and used to support general governmental activities are accounted for in the General Fund consistent with applicable legal requirements. The Agency's General Fund grouping contains three primary funds (General Revenue – 001, Education Assistance – 007, and Common School – 412) with numerous secondary accounts.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)

FOR THE YEAR ENDED JUNE 30, 2006

Additionally, the Agency administers the following fund type:

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

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Agency gives (or receives) value without directly receiving (or giving) equal value in exchange, include federal and State grants. Revenue from grants and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt, claims and judgments, and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Agency has no significant revenue sources which are susceptible to accrual. All revenue sources including federal grants, fees and other miscellaneous revenues are considered to be measurable and available only when cash is received.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)

FOR THE YEAR ENDED JUNE 30, 2006

SHARED FUND PRESENTATION

The financial statement presentation for the General Revenue Fund (001), Education Assistance Fund (007), Drivers Education Fund (031), S.B.E. GED Testing Fund (161), Common School Fund (412), and School Infrastructure Fund (568) represents only the portion of the shared funds that can be directly attributed to the operations of the Agency. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' Comprehensive Annual Financial Report.

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

Unexpended Appropriation

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

Appropriations from State Resources

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

Reappropriations to Future Year(s)

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

Lapsed Appropriations

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

Receipts Collected and Transmitted to State Treasury

This "other financing source" 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
(Continued)

FOR THE YEAR ENDED JUNE 30, 2006

CASH AND CASH EQUIVALENTS

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

INVENTORIES

Inventories, consisting primarily of agricultural commodities and paper, printing and office supplies are valued at cost, principally on the first-in, first-out (FIFO) method. Commodities are valued at the value assigned to the commodities by the donor, the U.S. Department of Agriculture. Inventories of governmental funds are recorded as expenditures when consumed rather than purchased.

INTERFUND TRANSACTIONS AND TRANSACTIONS WITH STATE OF ILLINOIS COMPONENT UNITS

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

Services provided and used – sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund balance sheets or fund statements of net assets.

Reimbursements – repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

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

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.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)

FOR THE YEAR ENDED JUNE 30, 2006

CAPITAL ASSETS

Capital assets, which include property, plant and equipment, are reported at cost. Contributed assets are reported at estimated fair value at the time received. Capital assets are depreciated using the straight-line method.

Capitalization thresholds and the estimated useful lives are as follows:

<u>Capital Asset Category</u>	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Land	\$100,000	n/a
Land Improvements	25,000	n/a
Site Improvements	25,000	3-50 years
Buildings	100,000	10-60 years
Building Improvements	25,000	10-45 years
Equipment	5,000	3-25 years

COMPENSATED ABSENCES

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

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

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Continued)

FOR THE YEAR ENDED JUNE 30, 2006

FUND BALANCES

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purposes. Designations of fund balances represent tentative State plans that are subject to change.

NET ASSETS

In the government-wide financial statements, equity is displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

USE OF ESTIMATES

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

3. DEPOSITS

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

Deposits in the custody of the State Treasurer, including cash on hand or in transit, totaled \$13,796 million at June 30, 2006. These deposits are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Agency does not own individual securities. Detail on the nature of these deposits is available within the State of Illinois' Comprehensive Annual Financial Report.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)

FOR THE YEAR ENDED JUNE 30, 2006

4. INTERFUND BALANCES AND ACTIVITY

BALANCES DUE TO/FROM OTHER FUNDS

The following balances (amounts expressed in thousands) at June 30, 2006 represent amounts due from other funds of the Agency and other State of Illinois funds.

<u>Fund</u>	<u>Due from other funds of the Agency</u>	<u>Due from other State funds</u>	<u>Description/Purpose</u>
General	\$ 0	\$ 105	Grants for educational purposes
Nonmajor Governmental	<u>0</u>	<u>169</u>	Grants for educational purposes
Total	<u>\$ 0</u>	<u>\$ 274</u>	

The following balances (amounts expressed in thousands) at June 30, 2006 represent amounts due to other funds of the Agency and other State of Illinois funds.

<u>Fund</u>	<u>Due to other funds of the Agency</u>	<u>Due to other State funds</u>	<u>Description/Purpose</u>
General	\$ 0	\$ 109	Grants for educational purposes
Nonmajor Governmental	<u>0</u>	<u>2,092</u>	Grants for educational purposes and for federal food service programs
Total	<u>\$ 0</u>	<u>\$ 2,201</u>	

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)

FOR THE YEAR ENDED JUNE 30, 2006

TRANSFERS TO/FROM OTHER FUNDS

Interfund transfers in (amounts expressed in thousands) for the year ended June 30, 2006, were as follows:

Fund	Transfers in from other funds of the Agency	Transfers in from other State funds	Description/Purpose
General	\$ 0	\$ 0	N/A
Nonmajor Governmental	610	16,000	Transfer from General fund for loan programs, from fund closures, and from DHS.
Total	<u>\$ 610</u>	<u>\$ 16,000</u>	

Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2006, were as follows:

Fund	Transfers out to other funds of the Agency	Transfers out to other State funds	Description/Purpose
General	\$ 450	\$ 0	Transfer to Agency nonmajor governmental funds for loan programs and to other State funds for Early Intervention Program.
Nonmajor Governmental	160	4,566	Statutory transfers to other State funds for budget shortfalls.
Total	<u>\$ 610</u>	<u>\$ 4,566</u>	

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)

FOR THE YEAR ENDED JUNE 30, 2006

5. BALANCES AND ACTIVITY BETWEEN THE AGENCY AND COMPONENT UNITS

Transactions between the Agency and component units of the State of Illinois include payments for professional services and payments for State and federal grant programs.

Amounts due to/from discretely presented component units of the State of Illinois at June 30, 2006 were as follows (amounts expressed in thousands):

<u>Fund</u>	<u>Due from component units</u>	<u>Due to component units</u>	<u>Description/Purpose</u>
General	\$ 17	\$ 278	Grants for educational purposes
Nonmajor governmental	62	1,136	Grants for educational purposes and for federal food service programs
	<hr/>	<hr/>	
Total	<u>\$ 79</u>	<u>\$ 1,414</u>	

6. LOANS RECEIVABLE

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

- *School District Emergency Financial Assistance Program* – This program is available to provide school districts with emergency financial assistance.
- *Charter Schools Revolving Loan Program* – This program is designed to encourage and financially support high quality charter schools throughout Illinois. Loans are available to charter schools in the initial years of their charters.
- *School Technology Revolving Loan Program* – This program is designed to provide school districts with the technology tools and research-proven software to help all of their students achieve the Illinois Learning Standards, especially in reading and mathematics. Three year loans are available to school districts through this program to assist in achieving these goals.
- *Temporary Relocation Revolving Loan Program* – This program is available to pay school district emergency relocation expenses incurred as a result of fire, earthquake, tornado, or other natural or man-made disaster or school building condemnation made by a Regional Office of Education and approved by the State Superintendent of Education. The purpose of the program is to assist school districts in providing a safe, temporary environment for learning.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)

FOR THE YEAR ENDED JUNE 30, 2006

Loans receivable balances reported by the Agency at June 30, 2006 consist of short-term amounts due (amounts due within one year) and long-term amounts due (amounts due after one year). These amounts are categorized below:

<u>Program</u>	<u>Balance June 30, 2006</u>	<u>Short-Term Balance</u>	<u>Long-Term Balance</u>
School District Emergency Financial Assistance Program	\$ 4,172	\$ 672	\$ 3,500
Charter Schools Revolving Loan Program	54	16	38
School Technology Revolving Loan Program	4,343	2,524	1,819
Temporary Relocation Revolving Loan Program	<u>696</u>	<u>201</u>	<u>495</u>
Total	<u>\$ 9,265</u>	<u>\$ 3,413</u>	<u>\$ 5,852</u>

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)

FOR THE YEAR ENDED JUNE 30, 2006

7. CAPITAL ASSETS

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deletions	Net Transfers	Balance June 30, 2006
Capital assets not being depreciated:					
Land	\$ 1,063	\$ 0	\$ 0	\$ 0	\$ 1,063
Total capital assets not being depreciated	1,063	0	0	0	1,063
Capital assets being depreciated:					
Buildings	436	0	0	0	436
Equipment	7,446	153	(109)	(425)	7,065
Capital leases equipment	42	0	(42)	0	0
Total capital assets being depreciated	7,924	153	(151)	(425)	7,501
Less: accumulated depreciation					
Buildings	211	9	0	0	220
Equipment	5,531	643	(84)	(409)	5,681
Capital leases equipment	28	14	(42)	0	0
Total accumulated depreciation	5,770	666	(126)	(409)	5,901
Total capital assets being depreciated, net	2,154	(513)	(25)	(16)	1,600
TOTAL CAPITAL ASSETS, NET	\$ 3,217	\$ (513)	\$ (25)	\$ (16)	\$ 2,663

Depreciation expense for governmental activities for the year ended June 30, 2006 was charged to the Education function for an amount of \$666 thousand.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)

FOR THE YEAR ENDED JUNE 30, 2006

8. LONG-TERM OBLIGATIONS

CHANGES IN LONG-TERM OBLIGATIONS

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2006 were as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>	<u>Amounts due within 1 year</u>
Compensated absences	\$ 4,478	\$ 2,638	\$ 2,721	\$ 4,395	\$ 286
Capital lease obligations	14	0	14	0	0
Installment obligations	355	0	355	0	0
Other obligations	<u>14,127</u>	<u>47</u>	<u>1,565</u>	<u>12,609</u>	<u>3,834</u>
TOTAL	<u>\$ 18,974</u>	<u>\$ 2,685</u>	<u>\$ 4,655</u>	<u>\$ 17,004</u>	<u>\$ 4,120</u>

Compensated absences have been liquidated by the applicable governmental funds that account for the salaries and wages of the related employees. Claims and judgments, reported as other obligations, typically have been liquidated from the S.B.E. Federal Department of Education Fund (561).

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 the State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The TRS is a cost-sharing multiple-employer PERS covering individuals employed to provide services for which teacher certification is required.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)

FOR THE YEAR ENDED JUNE 30, 2006

The financial position and results of operations of the SERS and the TRS for fiscal year 2006 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2006. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255 or by calling (217) 785-7202. The TRS also issues a separate CAFR that may be obtained by writing to the TRS, P.O. Box 19253, Springfield, Illinois, 62794-9253 or by calling (217) 753-0311. The State of Illinois CAFR may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1858 or by calling (217) 782-2053.

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

FUNDING POLICY

For employees covered by the SERS, the Agency pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2006, the employer contribution rates for the SERS were 7.792%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the entire employee portion of retirement for most State agencies, including the Agency, with employees covered by the State Employees' Retirement System. However, effective with the fiscal year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State agencies, including the Agency, for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pickup, when applicable, is subject to sufficient annual appropriations and those employee covered may vary across employee groups and State agencies. Currently, State officers, judges, general assembly members, and State university employees are not eligible for the employee pickup. The fiscal year 2006 employer contribution rate to the SERS for alternative formula employees was 7.792%.

For employees covered by the TRS, the Agency pays employer retirement contributions based on a statutory based percentage of .58%. For employees paid from federal funds, the fiscal year 2006 employer contribution rate to the TRS was 7.06%. In addition, the State of Illinois makes employer contributions "on behalf" of TRS covered employees. For the year ended June 30, 2006, State contributions were based on 13.98% of creditable earnings.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)

FOR THE YEAR ENDED JUNE 30, 2006

10. POST-EMPLOYMENT BENEFITS

The State provides health, dental and life insurance benefits for certain retirees and their dependents. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to \$5,000 per annuitant age 60 and older.

Costs incurred for health, dental and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the year ended June 30, 2006. However, post-employment costs for the State as a whole for all State agencies for dependent health, dental and life insurance for annuitants and their dependents are disclosed in the Illinois Comprehensive Annual Financial Report for the State. Cost information for retirees by individual State agency is not available. Payments are made on a "pay-as-you-go" basis.

11. FUND DEFICITS

The following funds had deficit balances at June 30, 2006 (amounts expressed in thousands):

General Revenue Fund (001)	\$1,060,507
Drivers Education Fund (031)	17,925

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, 2006.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)

FOR THE YEAR ENDED JUNE 30, 2006

13. OTHER OBLIGATIONS

A lawsuit against the City of Chicago and the Agency resulted in a settlement requiring the Agency to pay \$19.25 million over 7 years to the Chicago Public School District 299 to assist the district in providing special education services to identified eligible children within the least restrictive environment. The settlement, reached in July 1999, requires the Agency to pay \$2.75 million per year through January 2006. Due to the district's failure to disburse an adequate amount of ISBE's portion of the settlement for the intended purpose, ISBE has paid only \$7.725 million of the settlement amount through June 30, 2006. In fiscal year 2005, a federal judge extended the ruling through the end of the 2009-2010 school year. This ruling allowed ISBE to restructure the payments for the remaining \$14.13 million due the district through fiscal year 2010. The current year portion of the obligation is accounted for in the ISBE Federal Department of Education Fund, a non-major governmental fund. As of June 30, 2006, the current portion of the obligation is \$3.83 million. The long term portion of the obligation at June 30, 2006 is \$8.775 million and is accounted for in the governmental activities financial statements.

14. COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

The Agency leases office space under the terms of a noncancelable operating lease agreement that requires the Agency to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under the operating lease was \$2.6 million for the year ended June 30, 2006.

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

<u>Year ending June 30,</u>	<u>Amount</u>
2007	\$ 2
Total	<u>\$ 2</u>

FEDERAL FUNDING

The Agency receives federal grants which are subject to review and audit by federal grantor agencies. Certain costs could be questioned as not being eligible expenditures under the terms of the grants. At June 30, 2006, there were no material questioned costs that had not been resolved with the federal awarding agencies. However, questioned costs could still be identified during audits to be conducted in the future. Management of the Agency believes there will be no material adjustments to the federal grants and, accordingly, has not recorded a provision for possible repayment.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)

FOR THE YEAR ENDED JUNE 30, 2006

LITIGATION

The Agency is named as a defendant in five separate lawsuits in which the plaintiffs claim personal injury stemming from tainted chicken tenders allegedly consumed by students; claim the Agency's structure of funding and reimbursement for special education creates a financial incentive for school districts to place students out of the district into private facilities; an administrative appeal of a Hearing Officer's decision regarding the placement of a student at an alternative day school; a claim that alleges that cost of living adjustments were not paid to Regional Superintendents of Schools and Assistant Regional Superintendents of Schools in violation of the Illinois Constitution and state statute; and a claim regarding breach of a lease agreement.

In each of the above lawsuits, it is reasonably possible that the Agency will be found liable for losses estimated to be between \$400,000 and \$800,000.

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

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - GENERAL FUND
BALANCE SHEET

AS OF JUNE 30, 2006

(amounts expressed in thousands)

	<u>General Revenue Fund (001)</u>	<u>Education Assistance Fund (007)</u>	<u>Common School Fund (412)</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 4	\$ -	\$ -	\$ 4
Due from other State funds	20	85	-	105
Due from component units of the State	-	-	17	17
Unexpended appropriation	62,558	10,386	3,103	76,047
TOTAL ASSETS	<u>\$ 62,582</u>	<u>\$ 10,471</u>	<u>\$ 3,120</u>	<u>\$ 76,173</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 1	\$ -	\$ -	\$ 1
Due to other government - local	1,122,896	10,385	2,915	1,136,196
Due to other State funds	109	-	-	109
Due to component units of the State	83	7	188	278
TOTAL LIABILITIES	<u>1,123,089</u>	<u>10,392</u>	<u>3,103</u>	<u>1,136,584</u>
FUND BALANCE				
Unreserved:				
Undesignated	<u>(1,060,507)</u>	<u>79</u>	<u>17</u>	<u>(1,060,411)</u>
TOTAL FUND BALANCE (DEFICIT)	<u>(1,060,507)</u>	<u>79</u>	<u>17</u>	<u>(1,060,411)</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 62,582</u>	<u>\$ 10,471</u>	<u>\$ 3,120</u>	<u>\$ 76,173</u>

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

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

FOR THE YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	General Revenue Fund (001)	Education Assistance Fund (007)	Common School Fund (412)	Total
REVENUES				
Federal government	\$ 1,038	\$ -	\$ -	\$ 1,038
Licenses and fees	170	-	-	170
Other revenues	10	-	-	10
Total Revenues	1,218	-	-	1,218
EXPENDITURES				
Education	1,385,802	1,137,407	3,276,383	5,799,592
Debt Service:				
Principal	369	-	-	369
Interest	16	-	-	16
Capital outlay	82	-	-	82
Total Expenditures	1,386,269	1,137,407	3,276,383	5,800,059
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,385,051)	(1,137,407)	(3,276,383)	(5,798,841)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	1,682,384	1,141,275	3,286,059	6,109,718
Reappropriation to fiscal year 2007	(28,216)	-	-	(28,216)
Operating transfers-out	(450)	-	-	(450)
Receipts remitted to State Treasury	(3,947)	-	(3)	(3,950)
NET OTHER SOURCES (USES) OF FINANCIAL RESOURCES	1,649,771	1,141,275	3,286,056	6,077,102
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND NET OTHER SOURCES (USES) OF FINANCIAL RESOURCES	264,720	3,868	9,673	278,261
Lapsed appropriations	(23,120)	(3,789)	(9,656)	(36,565)
Fund Balance (Deficit) July 1, 2005	(1,302,107)	-	-	(1,302,107)
Fund Balance (Deficit) June 30, 2006	\$ (1,060,507)	\$ 79	\$ 17	\$ (1,060,411)

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - NONMAJOR FUNDS
BALANCE SHEET

AS OF JUNE 30, 2006

(amounts expressed in thousands)

	Special Revenue Funds				
	Teacher Certificate Fee Revolving Fund (016)	Drivers Education Fund (031)	School District Emergency Financial Assistance Fund (130)	S.B.E. Special Purpose Trust Fund (144)	S.B.E. Teacher Certification Institute Fund (159)
ASSETS					
Cash and cash equivalents	\$ 1,438	\$ -	\$ 733	\$ 3,118	\$ 902
Due from other government - federal	-	-	-	-	-
Due from other government - local	-	-	18	-	-
Other receivables	-	-	-	-	-
Due from other State funds	-	5	-	-	-
Due from component units of the State	-	-	-	-	-
Inventories	-	-	-	-	-
Loans receivable	-	-	4,172	-	-
Unexpended appropriation	-	-	-	-	-
TOTAL ASSETS	\$ 1,438	\$ 5	\$ 4,923	\$ 3,118	\$ 902
LIABILITIES					
Accounts payable and accrued liabilities	\$ 27	\$ -	\$ -	\$ -	\$ -
Due to other government - federal	-	-	-	-	-
Due to other government - local	-	17,930	-	2,740	-
Due to other State funds	-	-	-	-	-
Due to component units of the State	-	-	-	80	-
Deferred revenue	-	-	-	-	-
Other liabilities	-	-	-	-	-
TOTAL LIABILITIES	27	17,930	-	2,820	-
FUND BALANCE					
Reserved for:					
Encumbrances	-	-	-	150	-
Inventories	-	-	-	-	-
Long-term portion of loans receivable	-	-	3,500	-	-
Unreserved:					
Undesignated	1,411	(17,925)	1,423	148	902
TOTAL FUND BALANCE (DEFICIT)	1,411	(17,925)	4,923	298	902
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,438	\$ 5	\$ 4,923	\$ 3,118	\$ 902

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - NONMAJOR FUNDS
BALANCE SHEET

AS OF JUNE 30, 2006

(amounts expressed in thousands)

	Special Revenue Funds					
	S.B.E. GED Testing Fund (161)	S.B.E. Federal Dept. of Agriculture Fund (410)	School Technology Revolving Fund (544)	S.B.E. Federal Agency Service Fund (560)	S.B.E. Federal Dept. of Education Fund (561)	Charter Schools Revolving Loan Fund (567)
ASSETS						
Cash and cash equivalents	\$ -	\$ 861	\$ -	\$ 19	\$ 3,637	\$ 1,251
Due from other government - federal	-	31,679	-	169	264,231	-
Due from other government - local	-	-	-	-	-	-
Other receivables	-	18	-	-	-	-
Due from other State funds	-	41	-	6	117	-
Due from component units of the State	-	-	-	-	62	-
Inventories	-	821	-	-	-	-
Loans receivable	-	-	-	-	-	54
Unexpended appropriation	-	-	-	-	-	-
TOTAL ASSETS	\$ -	\$ 33,420	\$ -	\$ 194	\$ 268,047	\$ 1,305
LIABILITIES						
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 6	\$ 6,129	\$ -
Due to other government - federal	-	-	-	6	389	-
Due to other government - local	-	28,021	-	144	249,848	-
Due to other State funds	-	356	-	-	1,736	-
Due to component units of the State	-	76	-	19	961	-
Deferred revenue	-	54	-	-	6,957	-
Other liabilities	-	-	-	-	1,084	-
TOTAL LIABILITIES	-	28,507	-	175	267,104	-
FUND BALANCE						
Reserved for:						
Encumbrances	-	-	-	-	-	-
Inventories	-	821	-	-	-	-
Long-term portion of loans receivable	-	-	-	-	-	38
Unreserved:						
Undesignated	-	4,092	-	19	943	1,267
TOTAL FUND BALANCE (DEFICIT)	-	4,913	-	19	943	1,305
TOTAL LIABILITIES AND FUND BALANCE	\$ -	\$ 33,420	\$ -	\$ 194	\$ 268,047	\$ 1,305

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - NONMAJOR FUNDS
BALANCE SHEET

AS OF JUNE 30, 2006

(amounts expressed in thousands)

	Special Revenue Funds				Total
	School Infrastructure Fund (568)	School Technology Revolving Loan Program Fund (569)	Temporary Relocation Expenses Rev. Grant Fund (605)	Nat'l Center for Education Statistics Fund (791)	
ASSETS					
Cash and cash equivalents	\$ -	\$ 1,531	\$ 302	\$ -	\$ 13,792
Due from other government - federal	-	-	-	-	296,079
Due from other government - local	-	-	-	-	18
Other receivables	-	10	-	-	28
Due from other State funds	-	-	-	-	169
Due from component units of the State	-	-	-	-	62
Inventories	-	-	-	-	821
Loans receivable	-	4,343	696	-	9,265
Unexpended appropriation	-	-	-	-	-
TOTAL ASSETS	\$ -	\$ 5,884	\$ 998	\$ -	\$ 320,234
LIABILITIES					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ 6,162
Due to other government - federal	-	-	-	-	395
Due to other government - local	-	-	120	-	298,803
Due to other State funds	-	-	-	-	2,092
Due to component units of the State	-	-	-	-	1,136
Deferred revenue	-	-	-	-	7,011
Other liabilities	-	-	-	-	1,084
TOTAL LIABILITIES	-	-	120	-	316,683
FUND BALANCE					
Reserved for:					
Encumbrances	-	-	-	-	150
Inventories	-	-	-	-	821
Long-term portion of loans receivable	-	1,819	495	-	5,852
Unreserved:					
Undesignated	-	4,065	383	-	(3,272)
TOTAL FUND BALANCE (DEFICIT)	-	5,884	878	-	3,551
TOTAL LIABILITIES AND FUND BALANCE	\$ -	\$ 5,884	\$ 998	\$ -	\$ 320,234

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

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

FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue Funds				
	Teacher Certificate Fee Revolving Fund (016)	Drivers Education Fund (031)	School District Emergency Financial Assistance Fund (130)	S.B.E. Special Purpose Trust Fund (144)	S.B.E. Teacher Certification Institute Fund (159)
REVENUES					
Federal government	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and fees	1,562	-	-	-	548
Interest	-	-	28	-	-
Other revenues	-	-	-	-	-
Refunds	-	-	-	-	-
Total Revenues	<u>1,562</u>	<u>-</u>	<u>28</u>	<u>-</u>	<u>548</u>
EXPENDITURES					
Education	2,317	17,987	-	15,702	-
Capital outlay	9	-	-	-	-
Total Expenditures	<u>2,326</u>	<u>17,987</u>	<u>-</u>	<u>15,702</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(764)</u>	<u>(17,987)</u>	<u>28</u>	<u>(15,702)</u>	<u>548</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Appropriations from State resources	-	15,813	-	-	-
Reappropriation to fiscal year 2007	-	-	-	-	-
Net change in liabilities for reappropriated accounts	-	-	-	-	-
Operating transfers-in	-	-	-	16,000	-
Operating transfers-out	(982)	-	(2,131)	-	(122)
Transfer of administration of funds to another agency	-	-	-	-	-
Receipts remitted to the State Treasury	-	-	-	-	-
OTHER SOURCES (USES) OF FINANCIAL RESOURCES	<u>(982)</u>	<u>15,813</u>	<u>(2,131)</u>	<u>16,000</u>	<u>(122)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES) OF FINANCIAL RESOURCES	<u>(1,746)</u>	<u>(2,174)</u>	<u>(2,103)</u>	<u>298</u>	<u>426</u>
Lapsed appropriations	-	(6)	-	-	-
Fund Balance (Deficit) July 1, 2005	<u>3,157</u>	<u>(15,745)</u>	<u>7,026</u>	<u>-</u>	<u>476</u>
Fund Balance (Deficit) June 30, 2006	<u>\$ 1,411</u>	<u>\$ (17,925)</u>	<u>\$ 4,923</u>	<u>\$ 298</u>	<u>\$ 902</u>

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

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

FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue Funds				
	S.B.E. GED Testing Fund (161)	S.B.E. Federal Dept. of Agriculture Fund (410)	School Technology Revolving Fund (544)	S.B.E. Federal Agency Services Fund (560)	S.B.E. Federal Dept. of Education Fund (561)
REVENUES					
Federal government	\$ -	\$ 483,202	\$ -	\$ 879	\$ 1,331,603
Licenses and fees	-	-	-	-	-
Interest	-	-	-	-	-
Other revenues	-	94	-	-	115
Refunds	-	(15)	-	(44)	(2,672)
Total Revenues	-	483,281	-	835	1,329,046
EXPENDITURES					
Education	-	480,738	1	1,021	1,328,492
Capital outlay	-	7	-	-	55
Total Expenditures	-	480,745	1	1,021	1,328,547
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	2,536	(1)	(186)	499
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Appropriations from State resources	-	-	-	-	-
Reappropriation to fiscal year 2007	-	-	-	-	-
Net change in liabilities for reappropriated accounts	-	-	-	-	-
Operating transfers-in	-	-	-	-	160
Operating transfers-out	-	-	-	-	(73)
Transfer of administration of funds to another agency	(435)	-	-	-	-
Receipts remitted to the State Treasury	-	-	-	-	-
OTHER SOURCES (USES) OF FINANCIAL RESOURCES	(435)	-	-	-	87
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES) OF FINANCIAL RESOURCES	(435)	2,536	(1)	(186)	586
Lapsed appropriations	-	-	-	-	-
Fund Balance (Deficit) July 1, 2005	435	2,377	1	205	357
Fund Balance (Deficit) June 30, 2006	\$ -	\$ 4,913	\$ -	\$ 19	\$ 943

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

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

FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue Funds					Total
	Charter Schools Revolving Loan Fund (567)	School Infrastructure Fund (568)	School Technology Revolving Loan Program Fund (569)	Temporary Relocation Expenses Rev. Grant Fund (605)	Nat'l Center for Education Statistics Fund (791)	
REVENUES						
Federal government	\$ -	\$ -	\$ -	\$ -	\$ 160	\$ 1,815,844
Licenses and fees	-	-	-	-	-	2,110
Interest	-	-	69	-	-	97
Other revenues	-	2	33	1	-	245
Refunds	-	-	-	-	-	(2,731)
Total Revenues	-	2	102	1	160	1,815,565
EXPENDITURES						
Education	-	-	117	474	-	1,846,849
Capital outlay	-	-	-	-	-	71
Total Expenditures	-	-	117	474	-	1,846,920
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	2	(15)	(473)	160	(31,355)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	-	93	-	-	-	15,906
Reappropriation to fiscal year 2007	-	-	-	-	-	-
Net change in liabilities for reappropriated accounts	-	-	-	-	-	-
Operating transfers-in	-	-	-	450	-	16,610
Operating transfers-out	(651)	-	(607)	-	(160)	(4,726)
Transfer of administration of funds to another agency	-	-	-	-	-	(435)
Receipts remitted to the State Treasury	-	(50)	-	-	-	(50)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES	(651)	43	(607)	450	(160)	27,305
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES) OF FINANCIAL RESOURCES	(651)	45	(622)	(23)	-	(4,050)
Lapsed appropriations	-	(45)	-	-	-	(51)
Fund Balance (Deficit) July 1, 2005	1,956	-	6,506	901	-	7,652
Fund Balance (Deficit) June 30, 2006	\$ 1,305	\$ -	\$ 5,884	\$ 878	\$ -	\$ 3,551

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

Fiscal Schedules and Analysis:

- Schedule of Expenditures of Federal Awards
- Notes to the Schedule of Expenditures of Federal Awards
- Schedule of Appropriations, Expenditures and Lapsed Balances
- Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
- Comparative Schedule of Operating Expenditures by Expenditure Type
- Schedule of Changes in State Property
- Comparative Schedule of Cash Receipts
- Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller
- Comparative Schedule of Distributive Expenditures by Fund
- Analysis of Significant Variations in Expenditures
- Analysis of Significant Variations in Receipts
- Analysis of Significant Lapse Period Spending
- Analysis of Significant Account Balances
- Analysis of Accounts Receivable
- Schedule of Indirect Cost Reimbursements (Unaudited)

Analysis of Operations:

- Agency Functions and Planning Program
- Average Number of Employees and Average Salary Per Employee (Unaudited)
- Annual Statistics – Summary of Demographic Data (Unaudited)
- Service Efforts and Accomplishments (Unaudited)
- Hurricane Katrina Relief Efforts

The auditors' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, except for that portion marked "unaudited," on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	<u>Amount Provided to Subrecipients</u>
U.S. Department of Agriculture			
Food Donation	10.550	\$ 29,567	\$ 29,567
School Breakfast Program	10.553	52,271	52,258
National School Lunch Program	10.555	282,844	282,844
Special Milk Program for Children	10.556	3,146	3,146
Child and Adult Care Food Program	10.558	99,602	98,731
Summer Food Service Program for Children	10.559	9,715	9,458
State Administrative Expenses for Child Nutrition	10.560	5,342	345
Team Nutrition Grant	10.574	109	109
		<hr/>	<hr/>
Total U.S. Department of Agriculture		482,596	476,458
U.S. Department of Education			
Title I Grants to Local Educational Agencies	84.010	539,857	535,265
Migrant Education - State Grant Program	84.011	1,703	1,700
Title I Program for Neglected and Delinquent Children	84.013	1,914	-
Special Education - Grants to States	84.027	455,538	445,445
Vocational Education - Basic Grants to States	84.048	44,321	25,835
Migrant Education Coordination Program	84.144	75	75
Special Education - Preschool Grants	84.173	18,421	17,518
Safe and Drug-Free Schools and Communities - State Grants	84.186	14,400	13,796
Education for the Homeless Children and Youth	84.196	2,550	2,445
Even Start - State Educational Agencies	84.213	8,758	8,476
Fund For Improvement of Education	84.215	863	844
Tech-Prep Education	84.243	4,480	-
Charter Schools	84.282	171	169
21st Century Community Learning Centers	84.287	38,312	37,913
State Grants For Innovative Programs	84.298	9,130	8,949
Education Technology State Grants	84.318	13,699	13,565
Special Education on State Personnel Development	84.323	1,156	1,047

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

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	<u>Amount Provided to Subrecipients</u>
Research in Special Education	84.324	\$ 107	\$ 107
Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326C	341	341
IDEA General Supervisor Enhancement	84.326X	369	325
Advanced Placement Program	84.330	1,154	959
Comprehensive School Reform Demonstration	84.332	9,161	9,076
Transition to Teaching	84.350	307	274
Reading First State Grants	84.357	18,721	18,670
Rural Education	84.358	512	508
English Language Acquisition Grants	84.365	25,179	24,378
Mathematics/Science Partnership	84.366	5,049	4,796
Improving Teacher Quality State Grant	84.367	117,424	115,714
Grants for State Assessment and Related Activities	84.369	18,423	-
Hurricane Education Recovery Act	84.938	2,412	2,412
		<hr/>	<hr/>
Total U.S. Department of Education		1,354,507	1,290,602
		<hr/>	<hr/>
U.S. Department of Health and Human Services			
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	155	-
Refugee and Entrant Assistance Discretionary Grants	93.576	15	-
		<hr/>	<hr/>
Total U.S. Department of Health and Human Services		170	-
		<hr/>	<hr/>
Corporation of National and Community Service			
Learn and Serve America - School and Community Based Programs	94.004	881	881
		<hr/>	<hr/>
Total Awards to Subrecipients			<u>\$ 1,767,941</u>
			<hr/>
Total Expenditures of Federal Awards		<u>\$ 1,838,154</u>	

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

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2006

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards present the federal award programs administered by the Illinois State Board of Education. The reporting entity for the Illinois State Board of Education is defined in Note 2 of the notes to financial statements. The Schedule of Expenditures of Federal Awards includes the expenditures of awards received directly from federal agencies and awards passed through other State agencies and local agencies.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting. Expenditures for the Food Donation Program (CFDA #10.550) represent the value of donated commodities received from the U.S. Department of Agriculture (USDA) and made available to approved sponsors of other federally funded meal programs. The commodities were valued based on USDA price lists.

3. INDIRECT COSTS

The Agency may claim indirect cost reimbursements for all of its federal award programs. The indirect cost rate established with the U.S. Department of Education for allocating indirect costs to federal award programs is 19.9 percent of allowable costs allocated to each federal award administered by the Agency.

4. DESCRIPTION OF MATERIAL FEDERAL AWARD PROGRAMS

The following is a brief description of the material programs included in the Schedule of Expenditures of Federal Awards:

A. U.S. DEPARTMENT OF AGRICULTURE

The Agency accounted for the revenues and expenditures incurred in the administration of all major USDA awards in the S.B.E. Federal Department of Agriculture Fund (410).

- **School Breakfast Program (CFDA #10.553); National School Lunch Program (CFDA #10.555); Special Milk Program for Children (CFDA #10.556); and Summer Food Services Program for Children (CFDA #10.559)**

The purpose of these programs is to provide reimbursements to approved program sponsors for a portion of the cost of providing nutritious meals to eligible children and encourage the consumption of fluid milk by children enrolled in schools or half-day kindergartens where they do not have access to other federally funded meal programs.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

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

FOR THE YEAR ENDED JUNE 30, 2006

- **Food Donation Program (CFDA #10.550)**
The purpose of this program is to make agricultural commodities available to approved sponsors of other federally funded meal programs as a supplement to cash grants.
- **Child and Adult Care Food Program (CFDA #10.558)**
The purpose of this program is to provide reimbursements to approved program sponsors for a portion of the cost of providing nutritious meals to eligible children and adults where they do not have access to other federally funded meal programs.
- **State Administration Expenses for Child Nutrition (CFDA #10.560)**
The purpose of this program is to provide funds to State Agencies for administrative expenses incurred in supervising and providing technical support to approved sponsors of child nutrition programs.

B. U.S. DEPARTMENT OF EDUCATION

The Agency accounted for the revenues and expenditures incurred in the administration of all major U.S. Department of Education awards in the S.B.E. Federal Department of Education Fund (561).

- **Title I Grants to Local Educational Agencies (CFDA #84.010)**
The purpose of this program is to help local education agencies and schools improve the teaching and learning of children failing, or most at-risk of failing to meet challenging State academic standards.
- **Migrant Education – State Grant Program (CFDS #84.011)**
The purpose of this program is to assist States to ensure that migratory children have the opportunity to meet the same challenging State content and performance standards that all children are expected to meet.
- **Title I Program for Neglected and Delinquent Children (CFDA #84.013)**
The purpose of this program is to provide educational services to children in local and state institutions (Department of Corrections) for neglected and delinquent children and youth so that they meet the same state standards as other students and transition from institutionalization to further schooling and employment.
- **Special Education - Grants to States (CFDA #84.027)**
The purpose of this program is to provide grants to States to assist them in providing a free appropriate public education to all children with disabilities.
- **Vocational Education - Basic Grants to States (CFDA #84.048)**
The purpose of this program is to assist States and outlying areas to expand and improve their programs of vocational education and provide equal access in vocational education to special needs populations.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

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

FOR THE YEAR ENDED JUNE 30, 2006

- **Special Education - Preschool Grants (CFDA #84.173)**
The purpose of this program is to provide grants to States to assist them in providing a free appropriate public education to preschool disabled children aged three through five years.
- **Safe & Drug-Free Schools and Communities - State Grants (CFDA #84.186)**
The purpose of this program is to support the national education goal that every school in the United States will be free of drugs, violence, firearms and alcohol, and will offer a disciplined environment conducive to learning.
- **Education for the Homeless Children and Youth (CFDA #84.196)**
The purpose of this program is to address the problems that homeless children and youth face in enrolling, attending, and succeeding in school. The state agency shall ensure that homeless children and youth have equal access to the same free, appropriate public education as provided to other children and youth.
- **Even Start - State Educational Agencies (CFDA #84.213)**
The purpose of this program is to help break the cycle of poverty and illiteracy and improve the educational opportunities of low-income families by integrating early childhood education, adult literacy or adult basic education and parenting education into a unified family literacy program.
- **Improvement of Education (CFDA #84.215)**
The purpose of this program is to conduct nationally significant programs to improve the quality of education, assist all students to meet challenging State content standards, and contribute to the achievement of elementary and secondary students.
- **Tech-Prep Education (CFDA #84.243)**
The purpose of this program is to distribute funds to States to enable them to provide planning and demonstration grants to consortia of local education agencies and postsecondary education agencies for the development and operation of four-year programs designed to provide a tech-prep education program leading to a two-year associate degree or a two-year certificate and to provide, in a systematic manner, strong, comprehensive links between secondary schools and postsecondary educational institutions.
- **21st Century Community Learning (CFDA #84.287)**
The purpose of this program is to provide academically focused after-school programs, particularly to students who attend high-poverty, low performing schools, to help those students meet State and local performance standards in core academic subjects, and to offer families of participating students opportunities for literacy and other related educational development.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

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

FOR THE YEAR ENDED JUNE 30, 2006

- **State Grants for Innovative Purposes (CFDA #84.298)**
The purpose of this program is to assist State and local educational agencies in the reform of elementary and secondary education.
- **Education Technology State Grants (CFDA #84.318)**
The purpose of this program is to provide grants to State educational agencies on a formula basis to support the development and implementation of systematic technology plans at the State, local and school levels to improve the teaching and learning of all children.
- **Comprehensive School Reform Demonstration (CFDA #84.332)**
The purpose of this program is to improve public education by pursuing comprehensive school reform as part of a district-wide school improvement strategy. Schools, working with their central offices, teachers and parents, develop a comprehensive school reform model based on reliable research and effective practices that fit their students' needs to achieve the Illinois Learning Standards.
- **Reading First State Grants (CFDA #84.357)**
The purpose of this program is to use research-based instructional methods to see that students, K – 3, in qualifying districts and schools learn to read well by grade 3; and to see that teachers in qualifying districts and schools develop and use reading teaching strategies that have foundations in effective, relevant research.
- **English Language Acquisition Grants (CFDA #84.365)**
The purpose of this program is to assist school districts in teaching English to limited-English-proficient students and in helping these students meet the same challenging State standards required of all other students.
- **Mathematics/Science Partnership (CFDA #84.366)**
The purpose of this program is to improve the academic achievement of students in mathematics and science by encouraging states, institutions of higher education (IHEs), local educational agencies (LEAs), and elementary and secondary schools to participate in programs that: improve and upgrade the status and stature of mathematics and science teaching by encouraging IHEs to improve mathematics and science teacher education; focus on the education of mathematics and science teachers as a career-long process; bring mathematics and science teachers together with scientists, mathematicians, and engineers to improve their teaching skills; and develop more rigorous mathematics and science curricula that are aligned with state and local academic achievement standards expected for postsecondary study in engineering, mathematics, and science.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

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

FOR THE YEAR ENDED JUNE 30, 2006

- **Improving Teacher Quality State Grants (CFDA #84.367)**
The purpose of this program is to provide grants to State educational agencies, local educational agencies, State agencies for higher education, and eligible partnerships in order to: increase student academic achievement through strategies such as improving teacher and principal quality and increasing the number of highly qualified teachers in the classroom and highly qualified principals and assistant principals in schools; and hold educational agencies and schools accountable for improvements in student academic achievement.

- **Grants for State Assessment and Related Activities (CFDA #84.369)**
The purpose of this program is to develop and implement additional assessments for grades 4, 6, and 7 in reading and mathematics, as required by the No Child Left Behind (NCLB) Act. This program is to provide the States with funding for the cost of developing the additional assessments and standards being required. These funds are then to be utilized to develop, refine, expand, improve and ensure continued validity and reliability of the State assessment program. The major emphasis of the funds is to improve classroom teacher knowledge and skills on assessment in addition to assessment development.

- **Hurricane Education Recovery Act (CFDA #84.938)**
The purpose of this program is to assist in meeting the educational needs of individuals and educational institutions affected by hurricanes in the Gulf of Mexico in calendar year 2005.

5. NON-CASH AWARDS

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

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES

FOR THE FOURTEEN MONTHS ENDED AUGUST 31, 2006

	Appropriations (Net of Transfers) (1)	Expenditures through June 30, 2006 (2)	Lapse Period Expenditures (July-August) (2)	Total Expenditures (2)	Balances Reappropriated July 1, 2006	Lapsed Balances (2)
GENERAL REVENUE FUND - 001						
Personal Services	\$ 14,362,900	\$ 14,295,047	\$ 42,238	\$ 14,337,285	\$ -	\$ 25,615
Employee Retirement Contribution						
Paid by the State	505,700	501,557	(75)	501,482	-	4,218
State Employees/Teachers' Retirement	468,300	403,029	-	403,029	-	65,271
Social Security	538,500	433,166	396	433,562	-	104,938
Contractual Services	14,024,200	4,362,627	8,381,910	12,744,537	-	1,279,663
Travel	343,700	259,736	54,132	313,868	-	29,832
Commodities	59,600	59,335	176	59,511	-	89
Printing	85,200	79,369	2,190	81,559	-	3,641
Equipment	70,900	69,951	394	70,345	-	555
Telecommunications	452,800	302,848	111,987	414,835	-	37,965
Operation of Automotive Equipment	20,300	16,675	2,619	19,294	-	1,006
Interfund Cash Transfers	450,000	450,000	-	450,000	-	-
Lump Sum and Other Purposes	472,700	456,808	6,069	462,877	-	9,823
Awards and Grants	1,650,529,235	1,546,800,295	53,955,680	1,600,755,975	28,215,622	21,557,638
Total General Revenue Fund	1,682,384,035	1,568,490,443	62,557,716	1,631,048,159	28,215,622	23,120,254
EDUCATION ASSISTANCE FUND - 007						
Awards and Grants	1,141,275,000	1,127,099,509	10,385,860	1,137,485,369	-	3,789,631
TEACHER CERTIFICATE FEE REVOLVING FUND - 016						
Personal Services	1,288,700	873,833	-	873,833	-	414,867
Employee Retirement Contribution						
Paid by the State	28,800	28,532	-	28,532	-	268
State Employees/Teachers' Retirement	70,900	68,930	-	68,930	-	1,970
Social Security	34,300	30,588	-	30,588	-	3,712
Group Insurance	292,000	200,463	-	200,463	-	91,537
Lump Sum and Other Purposes	1,399,000	1,099,520	27,267	1,126,787	-	272,213
Total Teacher Certificate Fee Revolving Fund	3,113,700	2,301,866	27,267	2,329,133	-	784,567

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES

FOR THE FOURTEEN MONTHS ENDED AUGUST 31, 2006

	Appropriations (Net of Transfers) (1)	Expenditures through June 30, 2006 (2)	Lapse Period Expenditures (July-August) (2)	Total Expenditures (2)	Balances Reappropriated July 1, 2006	Lapsed Balances (2)
DRIVERS EDUCATION FUND - 031						
Personal Services	\$ 46,200	\$ 42,394	-	\$ 42,394	\$ -	\$ 3,806
Employee Retirement Contribution	1,700	1,696	-	1,696	-	4
Paid by the State	600	255	-	255	-	345
State Employees' Teachers' Retirement	650	582	-	582	-	68
Social Security	14,650	14,595	-	14,595	-	55
Group Insurance	15,750,000	15,748,009	-	15,748,009	-	1,991
Awards and Grants						
Total Drivers Education Fund	15,813,800	15,807,531	-	15,807,531	-	6,269
SCHOOL DISTRICT EMERGENCY FINANCIAL						
ASSISTANCE FUND - 130	1,000,000	-	-	-	-	1,000,000
Awards and Grants						
SBE SPECIAL PURPOSE TRUST						
FUND - 144	17,300,000	12,882,090	2,969,651	15,851,741	-	1,448,259
Lump Sum and Other Purposes						
SBE TEACHER CERTIFICATION INSTITUTE						
FUND - 159	125,000	-	-	-	-	125,000
Lump Sum and Other Purposes						

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES

FOR THE FOURTEEN MONTHS ENDED AUGUST 31, 2006

	Appropriations (Net of Transfers) (1)	Expenditures through June 30, 2006 (2)	Lapse Period Expenditures (July-August) (2)	Total Expenditures (2)	Balances Reappropriated July 1, 2006	Lapsed Balances (2)
SBE FEDERAL DEPARTMENT OF AGRICULTURE						
FUND - 410						
Personal Services	\$ 3,501,300	\$ 3,104,667	\$ (168)	\$ 3,104,499	\$ -	\$ 396,801
Employee Retirement Contribution	113,300	112,123	-	112,123	-	1,177
Paid by the State	251,400	245,146	67	245,213	-	6,187
State Employees/Teachers' Retirement	93,300	86,807	13	86,820	-	6,480
Social Security	765,200	730,126	-	730,126	-	35,074
Group Insurance	2,500,000	895,096	321,700	1,216,796	-	1,283,204
Contractual Services	300,000	211,640	44,150	255,790	-	44,210
Travel	75,000	26,851	4,894	31,745	-	43,255
Commodities	75,000	48,253	23,070	71,323	-	3,677
Printing	75,000	47,093	779	47,872	-	27,128
Equipment	50,000	30,114	2,695	32,809	-	17,191
Telecommunications	450,000,000	418,961,711	28,055,973	447,017,684	-	2,982,316
Awards and Grants						
Total SBE Federal Department of Agriculture Fund	457,799,500	424,499,627	28,453,173	452,952,800	-	4,846,700
COMMON SCHOOL FUND - 412						
Awards and Grants	3,286,059,600	3,273,300,601	3,102,657	3,276,403,258	-	9,656,342
SBE FEDERAL AGENCY SERVICES						
FUND- 560						
Personal Services	230,500	66,400	-	66,400	-	164,100
Employee Retirement Contribution	4,800	2,619	-	2,619	-	2,181
Paid by the State	15,300	5,269	-	5,269	-	10,031
State Employees/Teachers' Retirement	7,200	1,220	-	1,220	-	5,980
Social Security	41,400	11,867	-	11,867	-	29,533
Group Insurance	215,000	24,799	24,821	49,620	-	165,380
Contractual Services	30,000	7,754	479	8,233	-	21,767
Travel	9,000	2,400	-	2,400	-	6,600
Commodities	2,000	1,472	-	1,472	-	528
Printing	11,000	1,500	-	1,500	-	9,500
Equipment	9,000	222	-	222	-	8,778
Telecommunications	5,500,000	799,536	144,054	943,590	-	4,556,410
Awards and Grants						
Total SBE Federal Agency Services Fund	6,075,200	925,058	169,354	1,094,412	-	4,980,788

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES

FOR THE FOURTEEN MONTHS ENDED AUGUST 31, 2006

	Appropriations (Net of Transfers) (1)	Expenditures through June 30, 2006 (2)	Lapse Period Expenditures (July-August) (2)	Total Expenditures (2)	Balances	
					Reappropriated July 1, 2006	Lapsed Balances (2)
SBE FEDERAL DEPARTMENT OF EDUCATION						
FUND - 561						
Personal Services	\$ 12,644,300	\$ 11,308,347	\$ -	\$ 11,308,347	\$ -	\$ 1,335,953
Employee Retirement Contribution						
Paid by the State	443,400	424,618	-	424,618	-	18,782
State Employees'/Teachers' Retirement	933,200	893,204	-	893,204	-	39,996
Social Security	406,200	306,781	-	306,781	-	99,419
Group Insurance	2,669,300	2,299,465	1,012	2,300,477	-	368,823
Contractual Services	35,348,100	17,492,744	7,516,598	25,009,342	-	10,338,758
Travel	1,350,000	604,521	114,173	718,694	-	631,306
Commodities	305,000	125,739	9,400	135,139	-	169,861
Printing	341,000	9,242	16,323	25,565	-	315,435
Equipment	380,000	95,436	560	95,996	-	284,004
Telecommunications	400,000	100,982	11,458	112,440	-	287,560
Awards and Grants	1,644,030,000	1,067,304,144	251,878,080	1,319,182,224	-	324,847,776
Total SBE Federal Department of Education Fund	1,699,250,500	1,100,965,223	259,547,604	1,360,512,827	-	338,737,673
CHARTER SCHOOLS REVOLVING LOAN						
FUND - 567						
Awards and Grants	20,000	-	-	-	-	20,000
SCHOOL INFRASTRUCTURE FUND - 568						
Personal Services	76,500	38,115	-	38,115	-	38,385
Employee Retirement Contribution						
Paid by the State	1,600	1,525	-	1,525	-	75
State Employees'/Teachers' Retirement	300	230	-	230	-	70
Social Security	1,200	538	-	538	-	662
Group Insurance	13,800	7,961	-	7,961	-	5,839
Total School Infrastructure Fund	93,400	48,369	-	48,369	-	45,031

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES

FOR THE FOURTEEN MONTHS ENDED AUGUST 31, 2006

	Appropriations (Net of Transfers) (1)	Expenditures through June 30, 2006 (2)	Lapse Period Expenditures (July-August) (2)	Total Expenditures (2)	Balances Reappropriated July 1, 2006	Lapsed Balances (2)
SCHOOL TECHNOLOGY REVOLVING LOAN						
PROGRAM FUND - 569						
Awards and Grants	\$ 5,000,000	\$ 3,827,454	\$ -	\$ 3,827,454	\$ -	\$ 1,172,546
	800,000	354,080	120,323	474,403	-	325,597
	8,316,109,735	7,530,501,851	367,333,605	7,897,835,456	28,215,622	390,058,657
TOTAL All Appropriated Funds						
NONAPPROPRIATED FUNDS						
Refunds						
SBE FEDERAL DEPARTMENT OF AGRICULTURE						
FUND 410	-	15,444	-	15,444	-	-
SBE FEDERAL AGENCY SERVICES						
FUND - 560	-	43,668	-	43,668	-	-
SBE FEDERAL DEPARTMENT OF EDUCATION						
FUND - 561	-	2,672,232	-	2,672,232	-	-
Total Nonappropriated Funds	-	2,731,344	-	2,731,344	-	-
Total All Funds	\$ 8,316,109,735	\$ 7,533,233,195	\$ 367,333,605	\$ 7,900,566,800	\$ 28,215,622	\$ 390,058,657

(1) Public Acts 94-15, 94-798.

(2) The data was taken directly from Agency records which have been reconciled to those of the State Comptroller.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES
AND LAPSED BALANCES

FOR THE FOURTEEN MONTHS ENDED AUGUST 31,

	2006	2005
<i>GENERAL REVENUE FUND - 001</i>		
Appropriations (Net of Transfers)	\$ 1,682,384,035	\$ 2,118,987,039
Expenditures		
Personal Services	14,337,285	15,652,935
Employee Retirement Contribution		
Paid by the State	501,482	48,727
State Employees'/Teachers' Retirement	403,029	860,686
Social Security	433,562	469,867
Contractual Services	12,744,537	13,840,265
Travel	313,868	277,130
Commodities	59,511	36,336
Printing	81,559	8,875
Equipment	70,345	65,899
Telecommunications	414,835	293,173
Operation of Automotive Equipment	19,294	11,908
Lump Sum and Other Purposes	462,877	953,914
Awards and Grants	1,600,755,975	2,028,681,609
Interfund Transfers	450,000	400,000
Total Expenditures	1,631,048,159	2,061,601,324
Reappropriated to next fiscal year	28,215,622	7,455
Lapsed Balances	23,120,254	57,378,260
<i>EDUCATION ASSISTANCE FUND - 007</i>		
Appropriations (Net of Transfers)	1,141,275,000	731,900,000
Expenditures		
Awards and Grants	1,137,485,369	731,900,000
Lapsed Balances	3,789,631	-

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES
AND LAPSED BALANCES

FOR THE FOURTEEN MONTHS ENDED AUGUST 31,

	2006	2005
<i>TEACHER CERTIFICATION FEE REVOLVING FUND - 016</i>		
Appropriations (Net of Transfers)	\$ 3,113,700	\$ 1,503,000
Expenditures		
Personal Services	873,833	68,915
Employee Retirement Contribution		
Paid by the State	28,532	2,757
State Employees'/Teachers' Retirement	68,930	7,941
Social Security	30,588	965
Group Insurance	200,463	13,525
Lump Sum and Other Purposes	1,126,787	1,277,536
Total Expenditures	2,329,133	1,371,639
Lapsed Balances	784,567	131,361
<i>DRIVERS EDUCATION FUND - 031</i>		
Appropriations (Net of Transfers)	15,813,800	15,830,700
Expenditures		
Personal Services	42,394	43,628
Employee Retirement Contribution		
Paid by the State	1,696	1,745
State Employees'/Teachers' Retirement	255	263
Social Security	582	597
Group Insurance	14,595	14,754
Awards and Grants	15,748,009	15,723,241
Total Expenditures	15,807,531	15,784,228
Lapsed Balances	6,269	46,472

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES
AND LAPSED BALANCES

FOR THE FOURTEEN MONTHS ENDED AUGUST 31,

	2006	2005
<i>SCHOOL DISTRICT EMERGENCY FINANCIAL ASSISTANCE FUND - 130</i>		
Appropriations (Net of Transfers)	\$ 1,000,000	\$ 5,333,000
Expenditures	-	-
Lapsed Balances	1,000,000	5,333,000
<i>SBE SPECIAL PURPOSE TRUST FUND - 144</i>		
Appropriations (Net of Transfers)	17,300,000	-
Expenditures		
Lump Sum and Other Purposes	15,851,741	-
Lapsed Balances	1,448,259	-
<i>SBE TEACHER CERTIFICATION INSTITUTE FUND - 159</i>		
Appropriations (Net of Transfers)	125,000	125,000
Expenditures		
Lump Sum and Other Purposes	-	52
Lapsed Balances	125,000	124,948
<i>SBE G.E.D. TESTING FUND - 161</i>		
Appropriations (Net of Transfers)	-	800,000
Expenditures		
Lump Sum and Other Purposes	-	423,426
Lapsed Balances	-	376,574

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES
AND LAPSED BALANCES

FOR THE FOURTEEN MONTHS ENDED AUGUST 31,

	<u>2006</u>	<u>2005</u>
<i>SBE SCHOOL BUS DRIVER PERMIT FUND - 162</i>		
Appropriations (Net of Transfers)	\$ -	\$ 12,000
Expenditures	-	-
Lapsed Balances	-	12,000
<i>SBE FEDERAL NATIONAL COMMUNITY SERVICE FUND - 183</i>		
Appropriations (Net of Transfers)	-	8,615
Expenditures		
Personal Services	-	6,265
Employee Retirement Contribution		
Paid by the State	-	251
State Employees'/Teachers' Retirement	-	722
Group Insurance	-	1,376
Total Expenditures	-	8,614
Lapsed Balances	-	1
<i>SBE DEPARTMENT OF HEALTH AND HUMAN SERVICES FUND - 239</i>		
Appropriations (Net of Transfers)	-	8,329
Expenditures		
Personal Services	-	6,070
Employee Retirement Contribution		
Paid by the State	-	243
State Employees'/Teachers' Retirement	-	699
Social Security	-	86
Group Insurance	-	1,230
Total Expenditures	-	8,328
Lapsed Balances	-	1

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES
AND LAPSED BALANCES

FOR THE FOURTEEN MONTHS ENDED AUGUST 31,

	2006	2005
<i>SBE FEDERAL DEPARTMENT OF AGRICULTURE FUND - 410</i>		
Appropriations (Net of Transfers)	\$ 457,799,500	\$ 458,730,700
Expenditures		
Personal Services	3,104,499	3,093,023
Employee Retirement Contribution		
Paid by the State	112,123	118,739
State Employees'/Teachers' Retirement	245,213	392,573
Social Security	86,820	86,327
Group Insurance	730,126	670,873
Contractual Services	1,216,796	1,099,592
Travel	255,790	246,611
Commodities	31,745	18,403
Printing	71,323	26,912
Equipment	47,872	25,752
Telecommunications	32,809	46,396
Awards and Grants	447,017,684	433,726,295
Total Expenditures	452,952,800	439,551,496
Lapsed Balances	4,846,700	19,179,204
<i>COMMON SCHOOL FUND - 412</i>		
Appropriations (Net of Transfers)	3,286,059,600	2,958,451,200
Expenditures		
Awards and Grants	3,276,403,258	2,957,525,422
Lapsed Balances	9,656,342	925,778

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES
AND LAPSED BALANCES

FOR THE FOURTEEN MONTHS ENDED AUGUST 31,

	2006	2005
<i>SCHOOL TECHNOLOGY REVOLVING FUND - 544</i>		
Appropriations (Net of Transfers)	\$ -	\$ 125,000
Expenditures		
Awards and Grants	-	69,406
Lapsed Balances	-	55,594
<i>SBE FEDERAL AGENCY SERVICE FUND - 560</i>		
Appropriations (Net of Transfers)	6,075,200	9,381,400
Expenditures		
Personal Services	66,400	128,933
Employee Retirement Contribution		
Paid by the State	2,619	5,159
State Employees'/Teachers' Retirement	5,269	16,117
Social Security	1,220	3,026
Group Insurance	11,867	23,795
Contractual Services	49,620	90,537
Travel	8,233	10,383
Commodities	2,400	-
Printing	1,472	2,906
Equipment	1,500	-
Telecommunications	222	5,991
Awards and Grants	943,590	2,211,934
Total Expenditures	1,094,412	2,498,781
Lapsed Balances	4,980,788	6,882,619

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES
AND LAPSED BALANCES

FOR THE FOURTEEN MONTHS ENDED AUGUST 31,

	<u>2006</u>	<u>2005</u>
<i>SBE FEDERAL DEPARTMENT OF EDUCATION FUND - 561</i>		
Appropriations (Net of Transfers)	\$ 1,699,250,500	\$ 1,751,202,700
Expenditures		
Personal Services	11,308,347	11,018,885
Employee Retirement Contribution		
Paid by the State	424,618	426,434
State Employees'/Teachers' Retirement	893,204	1,394,374
Social Security	306,781	309,228
Group Insurance	2,300,477	2,083,375
Contractual Services	25,009,342	18,293,095
Travel	718,694	661,972
Commodities	135,139	93,949
Printing	25,565	192
Equipment	95,996	99,892
Telecommunications	112,440	129,633
Awards and Grants	1,319,182,224	1,329,571,045
Total Expenditures	<u>1,360,512,827</u>	<u>1,364,082,074</u>
Lapsed Balances	<u>338,737,673</u>	<u>387,120,626</u>
<i>CHARTER SCHOOLS REVOLVING LOAN FUND - 567</i>		
Appropriations (Net of Transfers)	<u>20,000</u>	<u>20,000</u>
Expenditures		
Awards and Grants	<u>-</u>	<u>20,000</u>
Lapsed Balances	<u>20,000</u>	<u>-</u>

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES
AND LAPSED BALANCES

FOR THE FOURTEEN MONTHS ENDED AUGUST 31,

	2006	2005
 <i>SCHOOL INFRASTRUCTURE FUND - 568</i>		
Appropriations (Net of Transfers)	\$ 93,400	\$ 93,000
Expenditures		
Personal Services	38,115	66,203
Employee Retirement Contribution		
Paid by the State	1,525	2,648
State Employees'/Teachers' Retirement	230	399
Social Security	538	934
Group Insurance	7,961	13,525
Total Expenditures	48,369	83,709
Lapsed Balances	45,031	9,291
 <i>SCHOOL TECHNOLOGY REVOLVING LOAN FUND PROGRAM</i>		
<i>FUND - 569</i>		
Appropriations (Net of Transfers)	5,000,000	7,000,000
Expenditures		
Awards and Grants	3,827,454	-
Total Expenditures	3,827,454	-
Lapsed Balances	1,172,546	7,000,000
 <i>TEMPORARY RELOCATION EXPENSES REVOLVING</i>		
<i>GRANT FUND - 605</i>		
Appropriations (Net of Transfers)	800,000	1,000,000
Expenditures		
Awards and Grants	474,403	818,374
Lapsed Balances	325,597	181,626

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES
AND LAPSED BALANCES

FOR THE FOURTEEN MONTHS ENDED AUGUST 31,

	2006	2005
<i>NATIONAL CENTER FOR EDUCATION STATISTICS FUND - 791</i>		
Appropriations (Net of Transfers)	\$ -	\$ 8,047
Expenditures		
Personal Services	-	5,524
Employee Retirement Contribution		
Paid by the State	-	221
State Employees'/Teachers' Retirement	-	890
Social Security	-	419
Group Insurance	-	753
Total Expenditures	-	7,807
Lapsed Balances	-	240
 TOTAL - ALL APPROPRIATED FUNDS		
Appropriations	8,316,109,735	8,060,519,730
Expenditures	7,897,835,456	7,575,754,680
Reappropriated to next fiscal year	28,215,622	7,455
Lapsed Balances	390,058,657	484,757,595

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES
AND LAPSED BALANCES

FOR THE FOURTEEN MONTHS ENDED AUGUST 31,

	2006	2005
Non-appropriated Funds		
<i>SBE FEDERAL DEPARTMENT OF AGRICULTURE FUND - 410</i>		
Expenditures		
Refunds	\$ 15,444	\$ 24,717
<i>SBE FEDERAL AGENCY SERVICE FUND - 560</i>		
Expenditures		
Refunds	43,668	-
<i>SBE FEDERAL DEPARTMENT OF EDUCATION FUND - 561</i>		
Expenditures		
Refunds	2,672,232	-
Total Nonappropriated Funds	2,731,344	24,717
Total Expenditures - All Funds	\$ 7,900,566,800	\$ 7,575,779,397

The Agency made no Efficiency Initiative Payment during the examination period.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

COMPARATIVE SCHEDULE OF OPERATING EXPENDITURES BY EXPENDITURE TYPE

FOR THE YEARS ENDED JUNE 30,

Description	2006	2005	Variance Increase/ (Decrease)
Personal Services	\$ 29,770,873	\$ 30,090,381	-1.06%
Employee Retirement Contribution Paid by the State	1,072,595	606,924	76.73%
State Employees'/Teachers' Retirement	1,616,130	2,674,664	-39.58%
Social Security	860,091	871,449	-1.30%
Group Insurance	3,265,489	2,823,206	15.67%
Contractual Services	39,020,295	33,323,489	17.10%
Travel	1,296,585	1,196,096	8.40%
Commodities	228,795	148,688	53.88%
Printing	179,919	38,885	362.70%
Equipment	215,713	191,543	12.62%
Telecommunications	560,306	475,193	17.91%
Operation of Automotive Equipment	19,294	11,908	62.03%
Lump Sum and Other Purposes	17,441,405	2,654,928	556.94%
Awards and Grants	7,801,837,966	7,500,247,326	4.02%
Interfund Transfers	450,000	400,000	12.50%
Refunds	2,731,344	24,717	10950.47%
Total Expenditures	7,900,566,800	7,575,779,397	4.29%
State Distributive Expenditures	(6,050,546,209)	(5,735,238,051)	5.50%
Federal Distributive Expenditures	(1,767,143,498)	(1,765,509,274)	0.09%
Total Distributive Expenditures	(7,817,689,707)	(7,500,747,325)	5.59%
Total Operating Expenditures*	\$ 82,877,093	\$ 75,032,072	10.46%

*Total operating expenditures includes only the amount used to carry out the Agency's administrative responsibilities.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

SCHEDULE OF CHANGES IN STATE PROPERTY

FOR THE YEARS ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>
Property and Equipment, Beginning of Fiscal Year	\$ 15,327,113	\$ 17,556,048
Additions:		
Purchases and other additions	351,485	1,297,501
Deletions:		
Transfers-out	1,088,739	2,216,179
Trade-ins, adjustments and other deletions	252,808	1,310,257
Property and Equipment, June 30	<u>\$ 14,337,051</u>	<u>\$ 15,327,113</u>
Property and Equipment by location		
Springfield - Alzina Building, Concourse	\$ 1,904,148	\$ 2,304,245
Springfield - Alzina Building, First Floor	120,349	105,355
Springfield - Alzina Building, Second Floor	2,708,292	2,770,677
Springfield - Alzina Building, Third Floor	6,549,624	6,885,840
Springfield - Alzina Building, Fourth Floor	717,250	695,419
Springfield - Warehouse	-	252,537
Lombard - Philip J. Rock Center	1,499,003	1,499,003
Chicago - James R. Thompson Center	838,385	814,037
Property and Equipment, June 30	14,337,051	15,327,113
Accrual adjustments		
Property and Equipment accounts payable - June 30	-	-
Property and Equipment, accrual basis - June 30	<u>\$ 14,337,051</u>	<u>\$ 15,327,113</u>

Note: The data was reconciled to Agency property reports (C-15 Agency Report of State Property) submitted to the Office of the Comptroller. This summary schedule was prepared using State property records required by the Illinois Administrative Code. The capitalization policy in the Code is different than the capitalization policy established by the Office of the Comptroller for financial reporting in accordance with generally accepted accounting principles.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

COMPARATIVE SCHEDULE OF CASH RECEIPTS

FOR THE YEARS ENDED JUNE 30,

	2006	2005
GENERAL REVENUE (001)		
Federal government indirect cost recoveries		
U.S. Department of Agriculture	\$ 250,841	\$ 34,445
U.S. Department of Education	781,262	874,133
U.S. Department of Health and Human Services	4,063	1,439
Private Business Schools	169,225	159,875
Miscellaneous	8,106	7,157
Prior Year Refunds/Adjustments	2,734,786	3,060,673
Total General Revenue Fund	<u>3,948,283</u>	<u>4,137,722</u>
EDUCATION ASSISTANCE FUND (007)		
Prior Year Refunds/Adjustments	<u>-</u>	<u>16,074</u>
TEACHER CERTIFICATE FEE REVOLVING FUND (016)		
Teacher certification filing fees	1,632,734	1,520,829
Prior Year Refunds/Adjustments	830	430
Total Teacher Certificate Fee Revolving Fund	<u>1,633,564</u>	<u>1,521,259</u>
DRIVERS EDUCATION FUND (031)		
Prior Year Refunds/Adjustments	<u>52</u>	<u>-</u>
SCHOOL DISTRICT EMERGENCY FINANCIAL ASSISTANCE FUND (130)		
Loan Repayments - interest	31,446	34,933
Loan Repayments - principal	701,856	612,981
Total School District Emergency Financial Assistance Fund	<u>733,302</u>	<u>647,914</u>
SBE SPECIAL PURPOSE TRUST FUND (144)		
Human services	<u>16,000,000</u>	<u>-</u>
SBE TEACHER CERTIFICATION INSTITUTE FUND (159)		
Teacher certification filing fees	242,593	199,625
Prior Year Refunds/Adjustments	319,800	-
Total S.B.E. Teacher Certification Institute Fund	<u>562,393</u>	<u>199,625</u>
SBE GED TESTING FUND (161)		
High school equivalency testing fees	-	402,729
Prior Year Refunds/Adjustments	-	1,590
Total S.B.E. Teacher Certification Institute Fund	<u>-</u>	<u>404,319</u>

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

COMPARATIVE SCHEDULE OF CASH RECEIPTS

FOR THE YEARS ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>
<i>SBE FEDERAL NAT'L COMMUNITY SERVICE FUND (183)</i>		
Corporation for National and Community Service grants	\$ -	\$ 148,287
Prior Year Refunds/Adjustments	-	14,406
Total S.B.E. Federal Nat'l Community Service Fund	<u>-</u>	<u>162,693</u>
<i>SBE DEPARTMENT OF HEALTH AND HUMAN SERVICES FUND (239)</i>		
U.S. Department of Health and Human Services grants	-	314,859
<i>SBE FEDERAL DEPARTMENT OF LABOR TRUST FUND (392)</i>		
U.S. Department of Labor grants	-	173,518
<i>SBE FEDERAL DEPARTMENT OF AGRICULTURE FUND (410)</i>		
U.S. Department of Agriculture grants	457,910,931	436,285,157
Other program revenue	93,945	23,190
Prior Year Refunds/Adjustments	237,993	263,066
Total S.B.E. Federal Department of Agriculture Fund	<u>458,242,869</u>	<u>436,571,413</u>
<i>COMMON SCHOOL FUND (412)</i>		
Prior Year Refunds/Adjustments	<u>3,324</u>	-
<i>SCHOOL TECHNOLOGY REVOLVING FUND (544)</i>		
Student Fees	-	120
<i>SBE FEDERAL AGENCY SERVICES FUND (560)</i>		
U.S. Department of Labor grants	-	730,601
Corporation for National and Community Service grants	1,112,484	488,239
U.S. DHHS Refugee Services grants	76,758	690,802
U.S. DHHS Training Services grants	152,175	169,347
Prior Year Refunds/Adjustments	66,456	-
Total SBE Federal Agency Services Fund	<u>1,407,873</u>	<u>2,078,989</u>
<i>SBE FEDERAL DEPARTMENT OF EDUCATION FUND (561)</i>		
U.S. Department of Education grants	1,257,442,821	1,298,361,657
Miscellaneous	2,407	467
Prior Year Refunds/Adjustments	6,608,667	2,966,569
Total S.B.E. Federal Department of Education Fund	<u>1,264,053,895</u>	<u>1,301,328,693</u>

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

COMPARATIVE SCHEDULE OF CASH RECEIPTS

FOR THE YEARS ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>
<i>CHARTER SCHOOLS REVOLVING LOAN FUND (567)</i>		
Loan Repayments - principal	\$ 22,095	\$ 17,939
<i>SCHOOL INFRASTRUCTURE FUND (568)</i>		
Prior Year Refunds/Adjustments	49,936	46,158
<i>SCHOOL TECHNOLOGY REVOLVING LOAN PROGRAM FUND (569)</i>		
Loan Repayments - interest	105,583	206,492
Loan Repayments - principal	4,753,284	7,437,657
Interest	4,022	10,893
Prior Year Refunds/Adjustments	33,563	17,486
Total School Technology Revolving Loan Program Fund	4,896,452	7,672,528
<i>TEMPORARY RELOCATION EXPENSES REVOLVING GRANT FUND (605)</i>		
General Revenue Fund transfers-in	450,000	400,000
Loan repayments - principal	201,065	132,515
Total Temporary Relocation Expenses Revolving Grant Fu	651,065	532,515
<i>FUND FOR ILLINOIS' FUTURE (611)</i>		
Prior Year Refunds/Adjustments	-	37,329
 Total Cash Receipts	 <u>\$ 1,752,205,103</u>	 <u>\$ 1,755,863,667</u>

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

RECONCILIATION SCHEDULE OF CASH RECEIPTS TO DEPOSITS REMITTED TO THE STATE COMPTROLLER

FOR THE YEAR ENDED JUNE 30, 2006

	General Revenue Fund (001)	Education Assistance Fund (007)	Teacher Certificate Fee Revolving Fund (016)	Drivers Education Fund (031)	School District Emergency Financial Asst Fund (130)
Cash Receipts per Agency	\$ 1,209,189	\$ -	\$ 1,562,962	\$ -	\$ 733,302
Adjustments:	-	-	-	-	-
Cash on Hand at June 30, 2005	4,308	-	69,772	-	-
Cash on Hand at June 30, 2006	(3,870)	-	(61,638)	-	-
Receipts in transit at June 30, 2005	2,732	-	-	-	-
Receipts in transit at June 30, 2006	-	-	(19,032)	-	-
Prior Year Refunds/Adjustments	2,734,786	-	830	52	-
Refunds in transit at June 30, 2005	-	-	-	-	-
Refunds in transit at June 30, 2006	-	-	-	-	-
Totals	3,947,145	-	1,552,894	52	733,302
Receipts per Comptroller (SB04)	3,947,145	-	1,552,924	52	733,302
Agency/Comptroller variance	\$ -	\$ -	\$ (30) a	\$ -	\$ -

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

RECONCILIATION SCHEDULE OF CASH RECEIPTS TO DEPOSITS REMITTED TO THE STATE COMPTROLLER

FOR THE YEAR ENDED JUNE 30, 2006

	S.B.E. Special Purpose Trust Fund (144)	S.B.E. Teacher Certification Institute Fund (159)	S.B.E. GED Testing Fund (161)	S.B.E. Federal Department of Agriculture Fund (410)	Common School Fund (412)
Cash Receipts per Agency	\$ 16,000,000	\$ 226,369	\$ -	\$ 458,004,876	\$ -
Adjustments:	-	-	-	-	-
Cash on Hand at June 30, 2005	-	16,224	-	-	-
Cash on Hand at June 30, 2006	-	(10,119)	-	-	-
Receipts in transit at June 30, 2005	-	-	-	-	-
Receipts in transit at June 30, 2006	-	(4,302)	-	-	-
Prior Year Refunds/Adjustments	-	319,800	-	237,993	3,324
Refunds in transit at June 30, 2005	-	-	-	1,817	-
Refunds in transit at June 30, 2006	-	-	-	-	-
Totals	16,000,000	547,972	-	458,244,686	3,324
Receipts per Comptroller (SB04)	16,000,000	547,972	-	458,244,686	3,324
Agency/Comptroller variance	\$ -	\$ -	\$ -	\$ -	\$ -

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

RECONCILIATION SCHEDULE OF CASH RECEIPTS TO DEPOSITS REMITTED TO THE STATE COMPTROLLER

FOR THE YEAR ENDED JUNE 30, 2006

		School Technology Revolving Fund (544)	S.B.E. Federal Agency Services Fund (560)	S.B.E. Federal Department of Education Fund (561)	Charter Schools Revolving Loan Infrastructure Fund (567)	School Infrastructure Fund (568)
Cash Receipts per Agency	\$	-	\$ 1,341,417	\$ 1,257,445,228	\$ 22,095	\$ -
Adjustments:		-	-	-	-	-
Cash on Hand at June 30, 2005		-	-	-	-	-
Cash on Hand at June 30, 2006		-	-	-	-	-
Receipts in transit at June 30, 2005		-	-	-	-	-
Receipts in transit at June 30, 2006		-	-	-	-	-
Prior Year Refunds/Adjustments		-	66,456	6,608,667	-	49,936
Refunds in transit at June 30, 2005		-	-	18,185	-	-
Refunds in transit at June 30, 2006		-	-	-	-	-
Totals		-	1,407,873	1,264,072,080	22,095	49,936
Receipts per Comptroller (SB04)		<u>(355,494)</u>	<u>1,407,873</u>	<u>1,264,072,080</u>	<u>22,095</u>	<u>49,936</u>
Agency/Comptroller variance	\$	<u>355,494</u> b	\$ -	\$ -	\$ -	\$ -

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

RECONCILIATION SCHEDULE OF CASH RECEIPTS TO DEPOSITS REMITTED TO THE STATE COMPTROLLER

FOR THE YEAR ENDED JUNE 30, 2006

	School Tech. Revolving Loan Program Fund (569)	Temporary Relocation Expenses Revolving Grant Fund (605)	Total
Cash Receipts per Agency	\$ 4,570,728	\$ 651,065	\$ 1,741,767,231
Adjustments:	-	-	-
Cash on Hand at June 30, 2005	292,161	-	382,465
Cash on Hand at June 30, 2006	(258,581)	-	(334,208)
Receipts in transit at June 30, 2005	-	-	2,732
Receipts in transit at June 30, 2006	-	-	(23,334)
Prior Year Refunds/Adjustments	33,563	-	10,055,407
Refunds in transit at June 30, 2005	-	-	20,002
Refunds in transit at June 30, 2006	-	-	-
Totals	4,637,871	651,065	1,751,870,295
Receipts per Comptroller (SB04)	4,637,871	651,065	1,751,514,831
Agency/Comptroller variance	\$ -	\$ -	\$ 355,464

a Agency/Comptroller variance due to a FY04 draft being deposited in FY06.

b Agency/Comptroller variance due to a deposit posting to the wrong fund in FY05 and not being corrected by Comptroller until FY06.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

COMPARATIVE SCHEDULE OF DISTRIBUTIVE EXPENDITURES BY FUND

FOR THE YEARS ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>
General Revenue Fund		
ADA School Safety & Education Block	\$ -	\$ 54,840,999
After School Programs	12,207,917	-
Agricultural Education	217,100	1,876,060
Alternative Education/Regional Safe Schools	18,035,498	17,035,420
Bilingual Reimbursement-Over 500,000	35,896,565	35,896,600
Bilingual Reimbursement-Less Than 500,000	28,655,399	28,655,399
Career & Technical Education	-	35,967,149
Chicago Aerospace Education Initiative	920,000	
Compensation Regional Supt & Assistants	-	638,198
District Consolidation	7,058,936	3,514,822
Early Childhood Block Grant	-	242,074,914
Educational Materials Unit	-	1,121,000
Fast Growth Grants	-	9,999,964
Free Lunch and Breakfast Program	20,999,958	20,499,995
General State Aid Supplemental	-	27,076,408
Grants to Local Governments, Not For Profits	2,090,077	-
Grants for School Transportation	802,823	-
Healthy Kids/Healthy Minds/Expanded Vision	3,000,000	
Illinois Breakfast Incentive	723,039	699,511
Illinois Economic Education Program	250,000	100,000
Illinois Governmental Student Internship	129,900	129,900
Jobs for Illinois Graduates Program	4,000,000	3,000,000
Materials for the Visually Impaired	1,121,000	
Metro East Consortium/Student Advocacy	1,881,200	217,100
Minority Transition	578,460	289,400
Orphanage & Tuition Claims	12,819,504	16,766,401
Parent/Guardian Transportation	14,453,847	14,454,275
Philip J. Rock Center	3,055,500	2,855,500
Reading Improvement Block	-	76,114,558
Recording for Blind and Dyslexic	168,800	168,800
Regional Superintendents Services	5,270,000	5,470,000
South Cook Intermediate Service Center	300,000	300,000
Special Education Personnel Reimbursement	358,913,167	352,039,554
Special Education - Extraordinary	256,836,199	243,048,000
Special Education - Orphans & Foster Children	87,412,674	96,569,298
Special Education Private Facility Tuition	89,081,753	-
Standards, Assessment and Accountability - Learning Standar	3,342,700	3,505,000

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

COMPARATIVE SCHEDULE OF DISTRIBUTIVE EXPENDITURES BY FUND

FOR THE YEARS ENDED JUNE 30.

	<u>2006</u>	<u>2005</u>
General Revenue Fund (Continued)		
State Charter Schools	\$ 3,421,500	\$ 3,421,500
Summer Bridges	-	21,763,418
Summer School payments	8,114,400	6,762,000
Tax Equivalent Grants	222,600	222,600
Teach America	450,000	450,000
Teacher Education	-	4,734,922
Teachers Academy for Math and Science	-	1,000,000
Technology for Success Reimbursement	-	4,105,620
Textbook Program - Reappropriation	15,832,069	26,313,432
Textbook Program - Section 18-17	910,878	13,294,265
Transitional Assistance	11,799,999	7,699,771
Transporting Common School Pupils Reimbursement	261,630,000	261,630,000
Transporting Handicapped Students Reimbursement	310,328,386	300,482,692
Trauma Intervention	250,000	-
Truant Alternative	17,574,127	15,565,688
Tuition Disabled Children	-	66,811,475
	<hr/>	<hr/>
Total General Revenue Fund	1,600,755,975	2,029,181,608
	<hr/>	<hr/>
Education Assistance Fund		
Career & Technical Education*	36,047,463	-
Early Childhood Block Grant*	242,172,888	-
General State Aid	665,560,000	-
General State Aid Supplemental*	21,587,929	731,900,000
Reading Improvement Block*	75,908,849	-
School Safety & Educational Improvement Block Grant	64,840,999	-
Summer Bridges*	21,741,629	-
Teacher Education*	4,739,992	-
Technology for Success Reimbursement*	4,885,620	-
	<hr/>	<hr/>
Total Education Assistance Fund	1,137,485,369	731,900,000
	<hr/>	<hr/>

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

COMPARATIVE SCHEDULE OF DISTRIBUTIVE EXPENDITURES BY FUND

FOR THE YEARS ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>
Common School Fund		
Advance Placement Classes	\$ 1,500,000	\$ -
Agriculture Education*	500,000	-
Arts Education	1,136,664	-
Bilingual Education - Over 500,000	1,000,000	-
Bilingual Education - Less Than 500,000	1,000,000	-
Career & Technical Education*	2,000,000	-
Compensation for Regional Superintendents & Assistants	7,802,828	7,224,222
Early Childhood Block Grant*	30,000,000	-
General State Aid	3,230,124,160	2,950,301,200
Grow Your Own Teachers	1,339,606	-
	<hr/>	<hr/>
Total Common School Fund	3,276,403,258	2,957,525,422
Other Funds		
Charter Schools Revolving Loan Fund	-	20,000
Drivers Education Fund	15,748,009	15,723,241
Federal Trust Funds	1,767,143,498	1,765,509,274
School Technology Revolving Fund	-	69,406
School Technology Revolving Loan Fund	3,827,454	-
SBE Special Purpose Trust Fund	15,851,741	-
Temporary Relocation Expense Revolving Fund	474,403	818,374
	<hr/>	<hr/>
Total Other Funds	1,803,045,105	1,782,140,295
	<hr/>	<hr/>
TOTAL DISTRIBUTIVE EXPENDITURES	\$ 7,817,689,707	\$ 7,500,747,325

* Grants were paid from GRF in FY05

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES

The expenditures for the Agency's operating divisions are financed by appropriations from various funds. The Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances compares expenditures by appropriated line item and by fund and program for the fiscal years ended June 30, 2006 and 2005. The Agency's explanations for significant fluctuations in expenditures are detailed below.

General Revenue Fund (001)

Personal Services – The decrease is generally due to a reduction in personal services appropriation in FY06 and changes in administration, which resulted in the buy-out of the Superintendent's contract and lump sum payouts to other top-level managers in FY05.

Employee Retirement Contribution Paid by the State – The increase was due to a one-time change in FY05 that allowed for contributions paid by the State to be paid from the personal services line. In FY06, these costs returned to being paid entirely from the contributions paid by the State line.

State Employees'/Teachers' Retirement – The decrease was due to the contributions percentage decreasing from 16.107% in FY05 to 7.702% in FY06.

Contractual Services – The decrease is generally due to the cancellation of the warehouse rent agreement at the end of FY05.

Commodities – The increase is generally due to the purchase of office supplies through the CMS contract and the U.S. Communities contract and the purchase of toner cartridges, data storage tapes and training materials for ISBE staff.

Printing – The increase is generally due to the need to replenish the agency stock of copier paper and envelopes (there was a surplus of copy paper in FY05 due to the closure of agency print shop). Also, in FY06, letterhead had to be printed externally.

Telecommunications – This increase is generally due to increases in telecommunication rates. Also, the State Board of Education is utilizing more video conferencing technology to save on the increasing costs of travel reimbursement.

Lump Sums and Other Purposes – This decrease is generally due to the elimination of the Teachers Academy for Math and Science line item in FY06.

Awards and Grants – The decrease was generally due to appropriation changes in FY06. In FY05, several programs were shifted to the Education Assistance Fund (007) and to the Common School Fund (412) e.g., Summer Bridges, Teacher Education, Technology for Success, School Safety & Education Improvement Block Grant, Reading Improvement Block Grant, Early Childhood Block Grant, General State Aid Hold Harmless, Fast Growth Grants and Career and Technical Education. Also, there were no appropriations for Teachers Academy for Math and Science or for Fast Growth Grants for FY06.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES

(Continued)

Education Assistance Fund (007)

Awards and Grants – The increase was due to appropriation changes. Several programs were shifted from the General Revenue Fund (001) to the Education Assistance Fund (007), e.g. Summer Bridge, Teacher Education, Technology for Success, School Safety & Education Improvement Block Grant, Reading Improvement Block Grant, Early Childhood Block Grant, General State Aid Hold Harmless, Fast Growth Grants and Career and Technical Education.

Teacher Certification Fee Revolving Fund (016)

Personal Services – The increase was due to an additional appropriation that was created under the Teaching and Learning Center for teacher certification activities. In FY05 there was one full-time position paid from this line item compared to 15.5 paid in FY06.

Employee Retirement Contribution Paid by the State – Due to the additional appropriation for teacher certification activities, more staff were paid from this fund and consequently employee retirement contributions paid by the state increased.

State Employees'/Teachers' Retirement – Due to the additional appropriation for teacher certification activities, more staff were paid from this fund and consequently state employees/teachers' retirement expenses increased.

Social Security – Due to the additional appropriation for teacher certification activities, more staff were paid from this fund and consequently social security expenses increased.

Group Insurance – Due to the additional appropriation for teacher certification activities, more staff were paid from this fund and consequently group insurance expenses increased.

SBE Special Purpose Trust Fund (144)

Lump Sum and Other Purposes – The SBE Special Purpose Trust Fund (144) did not exist in FY05; it was established in FY06.

SBE GED Testing Fund (161)

Lump Sum and Other Purposes – The decrease was due to the transfer of the GED Testing Fund (161) appropriation to the Illinois Community College Board at the end of FY05.

SBE Federal National Community Service Fund (183)

Personal Services and Related Line Items – The decrease was due to an appropriation fund change in fiscal year 2005 that combined the SBE Federal National Community Service Fund (183), SBE Federal Department of Health and Human Services Fund (239) and SBE Federal Department of Labor Fund (392) into a new SBE Federal Agency Services Fund (560).

SBE Federal Department of Health and Human Services Funds (239)

Personal Services and Related Line Items – The decrease in these three expenditures was due to an appropriation fund change that combined the SBE Federal National Community Service Fund (183), SBE Federal Department of Health and Human Services Fund (239) and SBE Federal Department of Labor Fund (392) into a new SBE Federal Agency Services Fund (560).

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
(Continued)

SBE Federal Department of Agriculture Fund (410)

State Employees'/Teachers' Retirement – The decrease was due to the contributions percentage decreasing from 16.107% in FY05 to 7.702% in FY06.

Printing – The increase was generally due to the “What’s In A Meal?” document being printed externally (the agency print shop closed after FY05). Also, special paper was ordered for the new color copier (regular stock paper did not work—since that time the copier has been replaced and regular stock paper is again acceptable).

Equipment – The increase was generally due to the purchase of 20 laptops for Child Nutrition monitors in FY06.

Award and Grants – The increase was due to an increase in the meal reimbursement rates established by the United States Department of Agriculture (USDA) and an increase in the number of participants in USDA child nutrition programs.

Common School Fund (412)

Awards and Grants – In part, the increase was due to an increase in the Common School Fund for General State Aid (GSA). Also, there were several new initiatives funded out of the Common School Fund (e.g. Advanced Placement Classes, Arts Education, and Grow Your Own Teachers Initiative). A portion of the Early Childhood Block Grant (\$30M) was shifted from the General Revenue Fund to the Common School Fund in FY06 which also accounts for the increase.

School Technology Revolving Fund (544)

Awards and Grants – The decrease is due to the elimination of the fund per PA94-0091 in FY06.

SBE Federal Agency Service Fund (560)

Personal Services – The decrease was generally due to the State Board of Education no longer receiving funds for the Refugee program from the federal Department of Health and Human Services in FY06.

Contractual Services – The decrease was generally due to the State Board of Education no longer receiving funds for the Refugee program.

Awards and Grants – The decrease was generally due to the State Board of Education no longer receiving funds for the Refugee program.

SBE Federal Department of Education Fund (561)

State Employees'/Teachers' Retirement – The decrease was due to the contributions percentage decreasing from 16.107% in FY05 to 7.702% in FY06.

Contractual Services – The increase was generally due to additional student assessment activities. In FY06 there were additional costs for enhanced testing as well as new test development for student assessments. The writing component of ISAT was not assessed in FY05, but was reinstated in FY06. Also, there were additional costs for alternative assessment testing in FY06.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES

(Continued)

Commodities – The increase was generally due the purchase of Early Childhood and English Language Learning (ELL) testing materials, as well as books for ELL, Reading First and Special Education programs.

Printing – The increase was generally due to several documents being printed externally (the agency print shop closed after FY05). Also, special paper was ordered for the new color copier (regular stock paper did not work—since that time the copier has been replaced and regular stock paper is again usable).

Awards and Grants – The decrease is generally due to a funding decrease in several federal programs awarded to the IL State Board of Education from the United States Department of Education.

Charter School Revolving Loan Fund (567)

Awards and Grants – The decrease is due to no new charter schools in FY06.

School Infrastructure Fund (568)

Personal Services – The decrease is due to paying only ½ of a full time staff member out of this fund in FY06 compared to one full time position in FY05.

School Technology Revolving Loan Program Fund (569)

Awards and Grants – The increase is due to the School Technology Revolving Loan Program not operating in FY05 due to uncertainty of revenues in the fund and staff changes. In FY06 the program was resumed.

Temporary Relocation Expenses Revolving Grant Fund (605)

Awards and Grants – The decrease is due to different school emergency expenditures between FY05 and FY06. This fund is used to assist school districts with emergency relocation expenses for unplanned emergency situations such as tornadoes, fires, floods, etc.

National Center for Education Statistics Fund (791)

Personal Services and Related Line Items – The decrease was due to an appropriation fund change that dissolved this fund into SBE Federal Department of Education Fund (561).

Non-appropriated expenditures:

SBE Federal Agency Services Fund (560)

Refunds – The increase in FY06 is generally due to a refund which was made to the Corporation for National and Community Service from recovered Learn and Serve funds. The funds could no longer be re-issued as grants.

SBE Federal Department of Education Fund (561)

Refunds – The increase in FY06 is due to a refund which was made to the U.S. Department of Education. The returned funds were grant funds that schools did not expend. The funds could no longer be re-issued as grants.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS

To analyze cash receipts, the Comparative Schedule of Cash Receipts was utilized to identify significant fluctuations in Agency cash receipts by fund and by source for the fiscal years ended June 30, 2006 and 2005. The following are explanations obtained from Agency officials for the identified fluctuations:

General Revenue Fund – 001

US Department of Agriculture – The increase in FY06 was due to the indirect cost rate increasing and a deposit in FY05 posted to the wrong sub account. The deposit was posted to the US Department of Education sub account in error.

S.B.E. Special Purpose Trust Fund – 144

Human Services – The increase in FY06 was due to this being the first year for this fund.

S.B.E. Teacher Certification Institute Fund - 159

Teacher certification filing fees – The increase in FY06 was due to the number of certificates for renewal in FY06 being greater than the number due in FY05.

Prior Year Refunds/Adjustments – The increase in FY06 was due to returned funds that did not occur in FY05.

S.B.E. GED Testing Fund – 161

High School Equivalency Testing Fees – The decrease in FY06 was due to the GED testing program being transferred to Illinois Community College Board.

S.B.E. Federal Nat'l Community Service Fund - 183

Corporation for National and Community Service Grants – The decrease in FY06 was due to the movement of this fund's activity to fund 560.

S.B.E. Department of Health and Human Services Fund – 239

US Department of Health and Human Services Grant – The decrease in FY06 was due to the movement of this fund's activity to fund 560.

S.B.E. Federal Dept. of Labor Trust Fund – 392

US Department of Labor Grant – The decrease in FY06 was due to the movement of this fund's activity to fund 560.

S.B.E. Federal Department of Agriculture Fund – 410

Other Program Revenue - The increase in FY06 was due to a payment received from a settled lawsuit.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
(Continued)

SBE Federal Agency Services Fund – 560

US Department of Labor Grants – The decrease in FY06 was due to no funds being granted in FY06.

Corporation for National and Community Service Grants - The increase in FY06 was due to an increase in funds expended from the grant and in FY05 funds were deposited into both fund 183 and fund 560.

US DHHS Refugee Service Grants - The decrease in FY06 was due to less grant funds being expended.

Prior Year Refunds/Adjustments – The increase in FY06 was due to returned funds that did not occur in FY05 and returned funds in FY05 were reported in funds 183.

S.B.E. Federal Dept. of Education Fund – 561

Prior Year Refunds/Adjustments – The increase in FY06 was due to an increase in funds returned. In FY06 there was a large refund for the Reading First program that did not occur in FY05.

School Technology Revolving Loan Program Fund – 569

Loan repayments - interest – The decrease in FY06 was due to no new loans in FY06 and a decrease in loan applications from prior fiscal years which resulted in a decrease in the payments received in FY06. Also, loans from previous fiscal years are now paid off.

Loan repayments – principal – The decrease in FY06 was due to no new loans in FY06 and a decrease in loan applications from prior fiscal years which resulted in a decrease in the payments received in FY06. Also, loans from previous fiscal years are now paid off.

Temporary Relocation Expenses Revolving Grant Fund – 605

Loan repayments - principal – The increase in FY06 was due to large repayments from four school districts in FY06.

Fund for Illinois' Future – 611

Prior Year Refunds/Adjustments – The decrease was due to unspent funds returned from recipients for funded projects in FY05. The FY05 refunds were returned funds from Chicago Public Schools.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING

Lapse period expenditures result from vouchers received late in the fiscal year for goods received or services provided prior to June 30. To analyze significant lapse period spending, the Schedule of Appropriations, Expenditures and Lapsed Balances was used to compare lapse period expenditures to total expenditures in fiscal year 2006. The following explanations were obtained from Agency officials.

General Revenue Fund – 001

Contractual Services - The significant lapse period expenditures were for the payment of professional fees for ISAT test grading and development of ACT test components provided prior to June 30.

Telecommunications - The significant lapse period expenditures were for the payment of telecommunication charges incurred prior to June 30, but billed the agency by the Department of Central Management Services during lapse period.

SBE Federal Department of Agriculture Fund – 410

Contractual Services – The significant lapse period expenditures were for the payment of the prorated share of the Statewide Federal Single Audit and Summer Food Service site inspections provided prior to June 30.

Printing - The significant lapse period expenditures were for the payment of digital printing supplies and window envelopes procured prior to June 30, but billed the Agency during lapse period.

SBE Federal Agency Services Fund – 560

Contractual Services - The significant lapse period expenditures was for payment of HIV prevention education services provided prior to June 30.

SBE Department of Education Fund – 561

Contractual Services - The significant lapse period expenditures were for the payment of professional fees incurred prior to June 30 for ISAT test grading and development of ACT test components.

Printing – The significant lapse period expenditures were for the payment of digital printing supplies and window envelopes procured prior to June 30, but billed the Agency during lapse period.

Awards and Grants – The significant lapse period expenditures were primarily for grant payments from the Title 1 Low Income program made based on expenditure reports received during lapse period.

Temporary Relocation Expenses Revolving Grant Fund – 605

Awards and Grants – The significant lapse period expenditures were for loan payments made during lapse period for Southeastern CUSD 337 and Casey-Westfield school districts.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2005

ANALYSIS OF SIGNIFICANT ACCOUNT BALANCES

The following explanations were obtained from Agency official for the identified accounts:

Major Fund/General Fund

Unexpended appropriation – This balance represents the amount of lapse period warrants issued plus an increase in liabilities for reappropriated accounts (textbook program) in the current year.

Due to other government – local – This balance represents liabilities of the Agency at June 30 to local education agencies for mandated categorical programs, paid from the succeeding year appropriation

Fund Balance, Unreserved: Undesignated – This deficit is primarily represented by liabilities of the Agency at June 30 to local education agencies for mandated categorical programs, which are paid from the succeeding year appropriation.

Nonmajor Funds/Special Revenue Funds

Cash and cash equivalents – This balance represents cash balances in the Agency's special revenue funds.

Due from other governments – federal – This balance represents amounts due primarily from the U.S. Department of Agriculture and the U.S. Department of Education for reimbursement of grant payments due to local education agencies at June 30.

Due from other funds - This balance represents amounts due from other State agencies and from other ISBE funds.

Loans receivable – This balance represents amounts due primarily to the Agency from school districts that have borrowed funds under the Agency's emergency financial assistance, technology, or temporary relocation programs.

Inventories – This balance represents the value of the commodities inventory in the SBE Federal Department of Agriculture Fund at June 30.

Accounts payable and accrued liabilities – This balance represents liabilities of the Agency at June 30, primarily for professional and artistic services, where final payments were completed after June 30.

Due to other government – federal – This balance represents liabilities of the Agency at June 30 to federal agencies for grant payments due from local education agencies at June 30.

Due to other governments – local – This balance represents grant payments due to local education agencies at June 30, primarily from the SBE Federal Department of Agriculture Fund and the SBE Federal Department of Education Fund and the Drivers Education Fund.

Deferred revenue – This balance represents grant revenues received for obligations not realized in the current fiscal year, primarily in the SBE Federal Department of Agriculture Fund and the SBE Federal Department of Education Fund.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
FOR THE YEAR ENDED JUNE 30, 2005
ANALYSIS OF SIGNIFICANT ACCOUNT BALANCES
(Continued)

Fund Balance, Reserved for Inventories – This balance represents a reservation of fund balance for the value of the commodities inventory in the SBE Federal Department of Agriculture Fund at June 30.

Fund Balance, Reserved for Long-term portion of loans receivable – This balance represents a reservation of fund balance for the portion of loans receivable due after the State's availability period and do not represent available spendable resources.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

ANALYSIS OF ACCOUNTS RECEIVABLE

Receivables of the Illinois State Board of Education consist mainly of reimbursement or formula allocation amounts due to the Agency arising from its administration of federal and State grant awards. The principal grantors are agencies of the federal government or other State agencies; therefore, the Agency's receivables are considered fully collectible.

The following is a schedule of receivable balances (expressed in thousands) at June 30, 2006.

	<u>2006</u>	<u>2005</u>
Due from other government – federal	\$ 296,079	\$ 202,204
Due from other governments – local	18	21
Other receivables	28	131
Due from other State funds	274	964
Due from component units	<u>79</u>	<u>136</u>
Total receivables	\$ <u>296,478</u>	\$ <u>203,456</u>

Receivable amounts are recorded at year-end through the annual process of adjusting the financial statements to generally accepted accounting principles (GAAP) for reporting purposes.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

SCHEDULE OF INDIRECT COST REIMBURSEMENTS

FOR THE YEARS ENDED JUNE 30,

(Unaudited)

Indirect cost reimbursements are primarily Letter of Credit draw downs of federal funds which are deposited directly into the General Revenue Fund, and the SBE Federal Agency Services, Department of Agriculture and Department of Education Funds in the State treasury. Indirect costs are based on a fixed rate which is negotiated annually with the cognizant federal agency, the U.S. Department of Education. Following are reimbursements deposited during fiscal years 2006 and 2005.

<u>Federal Programs/Grants</u>	<u>2006</u>	<u>2005</u>
Child Nutrition Grants	\$ 739,039	\$ 139,830
Education for the Homeless Children and Youth	16,919	3,131
Even Start - State Educational Agencies	47,825	4,675
Math/Science Partnership	39,637	5,897
Migrant Education - Basic State Grant Programs	2,882	-
NCLB - State Assessment	-	224,201
Safe and Drug Free Schools and Communities - State Grants	83,695	11,486
Special Education - Grants to States	971,195	232,252
Special Education - Preschool Grants	136,640	18,910
Title I Grants to Local Education Agencies	543,946	120,732
Vocational Education - Basic Grants to States	65,043	28,993
Technology Literacy Challenge Program	65,303	11,196
Charter Schools	1,207	2,261
Title V - Innovative Education Program Strategies	19,785	13,005
Reading First State Grants	62,484	24,499
Rural Education	4,343	1,079
Title II - Teaching	185,430	22,019
Title III - English Language	90,156	23,634
Title IV - 21st Century	58,623	9,253
Advanced Placement Fee Payment Program	28,653	2,920
Transition To Teaching	1,288	-
Special Education - State Personnel Development	13,254	-
Special Ed - Tech Asst /Children w/ Disabilities	52,737	-
Title I Program for Neglected & Delinquent Children	4,782	-
Comprehensive School Reform Demonstration	3,440	-
Tech Prep Program	23,042	-
Refugee Children Impact	162	1,771
Training School Health Personnel	23,068	6,529
Learn and Serve America	-	1,747
Total Indirect Cost Reimbursements	\$ 3,284,578	\$ 910,020

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

AGENCY FUNCTIONS AND PLANNING PROGRAM

The Illinois State Board of Education consists of a nine-member lay-citizen governing board and an administrative agency which is responsible to that Board. Members of the governing board are appointed by the Governor, with the advice and consent of the Senate. The appointments are based on statutory requirements designed to assure representation throughout the State and a balance of political affiliations. In September 2004, the legislation re-aligned the terms of seven of the nine board members and authorized the Governor to appoint seven new appointments to the State Board of Education.

The Board is responsible for matters related to public schools and selected private schools, serving students from pre-school through secondary school and vocational education. In support of these responsibilities, the Board is required to analyze the present and future aims, needs and requirements of education in the State. The specific powers and duties of the State Board of Education are described in Article 1A of the School Code (105 ILCS 5/1A et seq.).

The Governor, with the advice and consent of the Senate, appoints the Chair of the State Board of Education. The current chair is Jesse H. Ruiz.

The Board appoints the State Superintendent of Education. The current State Superintendent of Education, Dr. Christopher Koch, was appointed to an interim position on December 1, 2006. The former Superintendent of Education, Dr. Randy J. Dunn, served from September 20, 2004 thru November 30, 2006.

The Board mailing address is:

Illinois State Board Education
100 North First Street
Springfield, Illinois 62777-0001

Planning Program

The work of the State Board of Education is directed toward the vision, mission, and goals of Illinois education:

Vision for Illinois Education

The Illinois public school will enable all students to succeed in post-secondary education and career opportunities, to be effective life-long, learners, and to participate actively in our democracy.

The actions of the Board are guided by its mission statement and three goals with fifteen strategic objectives.

State Board of Education Mission

The Illinois State Board of Education will provide leadership, advocacy and support for the work of school districts, policymakers, and citizens in making Illinois education second to none.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

AGENCY FUNCTIONS AND PLANNING PROGRAM
(Continued)

The goals and objectives are intended to assist the Agency in reaching the ultimate learning outcome for every student in Illinois. The Board ensures the goals and objectives are met through monitoring the performance strategies. The Board provides assistance to school districts in meeting the goals and related objectives listed below:

A. Enhancing Literacy

The Illinois State Board of Education fosters increased literacy by providing support for effective instruction and broad approaches to impact all students through the following strategies:

1. Establish literacy as the top education priority and assist schools in delivering high quality reading skills and literacy instruction beginning in early childhood and continuing through the high school grades.
2. Partner with other agencies to educate parents on how to be their child's first teachers to stimulate development in reading and writing.
3. Assist school's efforts to create and sustain early childhood and kindergarten program options (including full-day programs for at-risk students) that focus on early language and literacy.
4. Collaborate with higher education and other agencies on integrated teacher education and professional development programs themed around literacy.

B. Improving Educator Quality for All Children

1. Partner with higher education and other agencies to ensure educators have the preparation and background to teach successfully in rural and urban settings and work with at-risk students.
2. Provided high quality professional development in best practices for educators working in schools struggling to meet academic requirements.
3. Work with higher education and other entities to develop school leaders who are successful in raising student achievement.
4. Developing strategies to recruit, induct, mentor and retain educators to serve "hard-to-staff" schools for at least five years.
5. Create networks (including online resources) to provide support, induction and mentoring, especially for first-time teachers and those teachers moving from initial to standard certification.

C. Expanding Data-Informed School Management and Support Practices

1. Establish a variety of shared services and cost-savings initiatives.
2. Leverage new state revenues to obtain public and private matching funds for innovative programs and services tied to the strategic planning initiatives.
3. Provide or broker expert fiscal guidance, including online support services, for school districts.
4. Foster and provide additional incentives for school district reorganization of multiple types.
5. Increase school-based technology for data-informed decision-making at the building level, reflecting greater access to educational research and outcomes evaluation for school improvement.
6. Establish a consistent role for the Regional Offices of Education and Intermediate Service Centers to be key providers of support services and hold them accountable for service delivery

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

AGENCY FUNCTIONS AND PLANNING PROGRAM
(Continued)

in conjunction with the Agency's responsibility to provide them with technical and fiscal support.

Following is a summary of State Board activities designed to achieve the above goals:

- Review and revise current statewide professional development programs to ensure focus on 21st century literacy skills.
- Collect and disseminate best practices targeting 21st century literacy skills acquisition at key transition points; have the best practices reviewed by the appropriate professional educators and disseminate those most recommended best practices.
- Complete and disseminate Spanish language arts standards to support Spanish-language students in accessing content knowledge and obtaining skills necessary for literacy.
- Review recommendations of and work with the Illinois Early Learning Council to coordinate and integrate the continuum of birth to eight services, focusing on 21st century literacy skills.
- Support ongoing efforts with the Illinois PTA to expand parents' role as their children's first teachers.
- Develop a new approval and accreditation model for higher education preparation programs to ensure the ability of pre-service educators to work with all students.
- Revise and streamline the system of Illinois certification to support the efforts of all Illinois educators to be highly qualified.
- Expand advance placement opportunities in high schools through teacher professional development activities and expand course offerings.
- Research 1st year teacher education graduates to determine needs for support, induction, mentoring and work with higher education institutions in responding to those needs.
- Explore the use of multi-state consortia to accomplish ongoing and strategic plan initiatives.
- Convene a reorganization workgroup to explore additional options and incentives for legislative proposals to increase the number of school district reorganizations.
- Assess second-generation technology needs in school districts and advocate for funding proposals to meet those needs.
- Collaborate with the Regional Offices of Education/Intermediate Service Centers to provide professional development to teachers, paraprofessionals and administrators on the alignment and transition of pre-kindergarten programs.
- Expand the focus of the Annual Connections Conference and other professional organizational conferences, bringing together pre-service teachers and teacher educators, to include the integration of 21st century literacy skills across the curriculum.

The Agency has established formal, written long-term objectives and short-term objectives and strategies along with time frames for achieving objectives. Key measurement criteria have been developed to assess progress toward objectives and accomplishments.

We believe this planning program is adequate.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

**AVERAGE NUMBER OF EMPLOYEES AND
AVERAGE SALARY PER EMPLOYEE**

(Unaudited)

Average number of employees by division is presented as follows on a two-year comparative basis:

	<u>2006</u>	<u>2005</u>
NUMBER OF EMPLOYEES AT JUNE 30		
State Operating and Trust Funds	280	266
Federal Trust Funds	<u>206</u>	<u>228</u>
Total Agency employees at June 30	<u>486</u>	<u>494</u>
AVERAGE NUMBER OF EMPLOYEES		
State Operating and Trust Funds	221	272
Federal Trust Funds	<u>276</u>	<u>225</u>
Total average number of employees	<u>497</u>	<u>497</u>
Total personal service expenditures	<u>\$ 30,710,286</u>	<u>\$ 30,510,176</u>
Average salary per employee	<u>\$ 61,792</u>	<u>\$ 61,389</u>

Note: The above does not include the superintendents and assistant superintendents of the regional offices of education.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

ANNUAL STATISTICS – SUMMARY OF DEMOGRAPHIC DATA

(Unaudited)

Number of Public School Districts, 2004-2005

	<u>Operating</u>	<u>Nonoperating</u>	<u>Other</u>	<u>Total</u>
Elementary (Pre K-8)	381	0	0	381
Secondary (9-12)	103	2	0	105
Unit	404	0	0	404
Dept. of Corrections	1	0	0	1
Total	889	2	0	891

Number of Public and Nonpublic Attendance Centers, 2004-2005

	<u>Public</u>	<u>Nonpublic (1)</u>	<u>Total</u>
Elementary	2,610	1,167	3,777
Junior High	611	N/A	611
High School	671	171	842
Special Education and Others	357	97	454
Total	4,249	1,435	5,684

(1) Voluntarily reported and registered with ISBE.

School Enrollment, 2004-2005

	<u>Public</u>	<u>Nonpublic (2)</u>	<u>Total</u>	<u>Percent</u>
Elementary (Pre K-8)	1,483,369	187,939	1,671,308	71.4%
Secondary (9-12)	613,676	54,381	668,057	28.6%
Total	2,097,045	242,320	2,339,365	100.0%
Percent	90%	10%		

(2) Nonpublic schools reported data on a voluntary basis; does not include ungraded students.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

ANNUAL STATISTICS – SUMMARY OF DEMOGRAPHIC DATA
(Continued)

(Unaudited)

Racial – Ethnic Distribution of Statewide Public School Enrollment, 2004-2005

	<u>Students</u>	<u>Percent</u>
White Non-Hispanic	1,186,235	56.5%
Black Non-Hispanic	431,049	20.5%
Hispanic	383,546	18.3%
Asian-Pacific Islander	77,044	3.7%
American Indian-Alaskan	3,831	0.2%
Multi Racial	15,798	0.8%
Total	<u>2,097,503</u>	<u>100.0%</u>
Total percent of minority students		<u>43.4%</u>

Public School Bilingual Education Enrollment, 2004-2005

	<u>Chicago</u>	<u>Downstate</u>	<u>Total</u>	<u>Percent</u>
Spanish	55,803	70,289	126,092	80.6%
Polish	3,075	3,450	6,525	4.2%
Arabic	992	1,605	2,597	1.7%
Urdu	1,021	1,114	2,135	1.4%
Korean	177	1,433	1,610	1.0%
Cantonese (Chinese)	1,312	311	1,623	1.0%
Pilipino (Tagalog)	439	809	1,248	0.8%
Gujarati	190	993	1,183	0.8%
Vietnamese	515	600	1,115	0.7%
Serbian	400	306	706	0.5%
Russian	103	773	876	0.6%
Lithuanian	53	834	887	0.6%
Others	258	454	712	0.4%
Japanese	36	645	681	0.4%
Bosnian	382	211	593	0.4%
Mandarin	153	466	619	0.4%
Bulgarian	188	377	565	0.4%
Ukrainian	255	280	535	0.3%

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

ANNUAL STATISTICS – SUMMARY OF DEMOGRAPHIC DATA
(Continued)

(Unaudited)

Public School Bilingual Education Enrollment, 2004-2005 (Continued)

	<u>Chicago</u>	<u>Downstate</u>	<u>Total</u>	<u>Percent</u>
Romanian	245	199	444	0.3%
Assyrian (Syriac, Aramaic)	221	218	439	0.3%
Albanian, Gheg (Kosovo/Maced)	161	247	408	0.3%
French	191	247	438	0.3%
Hindi	77	272	349	0.2%
Malayalam	32	299	331	0.2%
Farsi (Persian)	53	145	198	0.1%
Telugu (Telegu)	24	152	176	0.1%
Haitian-Creole	72	75	147	0.1%
Panjabi (Punjabi)	13	143	156	0.1%
Greek	47	114	161	0.1%
Italian	21	111	132	0.1%
Cambodian (Khmer)	79	53	132	0.1%
Albanian, Tosk (Albanian)	4	105	109	0.1%
Portuguese	41	88	129	0.1%
Yoruba	91	41	132	0.1%
German	16	96	112	0.1%
Lao	9	98	107	0.1%
Thai	39	66	105	0.1%
Turkish	30	93	123	0.1%
Maay Maay (MayMay)	78	37	115	0.1%
Others (Identified)	570	1,035	1,605	1.0%
Total	<u>67,466</u>	<u>88,884</u>	<u>156,350</u>	<u>100</u>

Twelfth Grade Graduates, 2004-2005

	<u>Public</u>	<u>Nonpublic</u>	<u>Total</u>
Male	61,047	6,647	67,694
Female	62,568	7,203	69,771
Total	<u>123,615</u>	<u>13,850</u>	<u>137,465</u>

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

ANNUAL STATISTICS – SUMMARY OF DEMOGRAPHIC DATA
(Continued)

(Unaudited)

Public Secondary School Dropouts by General and Ethnicity, 2004-2005

	<u>Female</u>	<u>Male</u>	<u>Total</u>
White Non-Hispanic	3,741	5,106	8,847
Black Non-Hispanic	4,670	5,986	10,656
Hispanic	3,153	4,089	7,242
Asian-Pacific Islander	225	316	541
American Indian-Alaskan	28	25	53
Multiracial	23	18	41
	<hr/>	<hr/>	<hr/>
Total	11,840	15,540	27,380

Public School Pupil-to-Teacher Ratios

<u>School Year</u>	<u>Elementary</u>	<u>Secondary</u>	<u>Special Education</u>
1988-89	20.3	17.1	5.2
1989-90	20.2	16.8	5.1
1990-91	19.8	16.7	5.0
1991-92	19.8	16.9	5.1
1992-93	19.7	17.2	5.0
1993-94	19.9	18.0	4.9
1994-95	19.7	18.1	4.9
1995-96	19.5	17.9	4.8
1996-97	20.1	18.7	Not available
1997-98	20.0	18.4	Not available
1998-99	19.6	18.3	Not available
1999-00	19.3	18.1	Not available
2000-01	19.1	18.0	Not available
2001-02	19.0	18.1	Not available
2002-03	18.4	18.2	Not available
2003-04	19.4	18.8	Not available
2004-05	18.9	18.4	Not available

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

ANNUAL STATISTICS – SUMMARY OF DEMOGRAPHIC DATA
(Continued)

(Unaudited)

Median/Mean Salaries for Selected Full-Time Personnel, 2004-2005

	<u>Median</u>	<u>Mean</u>
Regional Superintendents	\$ 88,126	\$ 89,232
District Superintendents	116,495	130,843
District Administrative Staff	114,093	115,115
Principals	92,834	95,994
Assistant Principals	90,113	88,190
Pupil Personnel Specialists	59,483	62,083
Supervisors	88,617	89,655
Special Ed/Speech Language Staff	52,029	54,925
Elementary Teachers (PreK-8)	50,054	53,189
Secondary Teachers (9-12)	56,531	61,350
All Classroom Teachers (PreK-12)	51,830	55,498
First-Year Teachers	37,263	37,500

Data excludes Chicago District #299. Salaries include board-paid retirement, extra-duty pay, flexible benefit plans, bonus payments and retirement incentives.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

SERVICE EFFORTS AND ACCOMPLISHMENTS

(Unaudited)

The general objective of Service Efforts and Accomplishments (SEA) reporting is to provide the user of the Agency's financial statements with the information necessary to evaluate the efficiency and effectiveness of the Agency's use of financial and other resources. This is especially important given the significance of the Illinois State Board of Education to the State as a whole and the ongoing public debate concerning education policy across the nation. The following data was extracted from the School Report Card: Statewide Trend Data. School Report cards are supposed to be made public by November 1 of each year, however the Agency has not been able to provide the 2006 performance measures as of January 2007 (*).

Particular service efforts and accomplishments reported by the Agency are as follows:

Performance Indicators	Performance Measures	
	2006	2005
Schools/Students		
Number of Operating School Districts	873	889
Number of Schools with Report Card Information	*	3,884
Low-Income Rate	40.0%	40.0%
Limited English Proficient Rate	6.6%	6.6%
Dropout Rate	3.5%	4.0%
Attendance Rate	94.0%	93.9%
Student Mobility Rate	16.0%	16.1%
Chronic Truancy Rate	2.2%	2.2%
Graduation Rate	87.8%	87.4%

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

SERVICE EFFORTS AND ACCOMPLISHMENTS

(Continued)

(Unaudited)

Performance Indicators	Performance Measures	
Student Achievement – Percent of Students Meeting or Exceeding State Performance Standards	2006	2005
Reading		
Third Grade	*	67
Fifth Grade	*	63
Eight Grade	*	73
Eleventh Grade	*	60
Mathematics		
Third Grade	*	79
Fifth Grade	*	73
Eight Grade	*	54
Eleventh Grade	*	53
Science		
Fourth Grade	*	71
Seventh Grade	*	75
Eleventh Grade	*	53
ACT Composite Score (schools with Report Card Information)	21	20
Percent of Class Taking ACT	*	94

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

SERVICE EFFORTS AND ACCOMPLISHMENTS
(Continued)

(Unaudited)

Performance Indicators	Performance Measures	
Teacher Information	2006	2005
Total Number of Teachers (FTE)	*	128,079
Years of Teaching Experience (average)	*	13.6
Percent with Graduate Degree	*	49.1
Students Per Teacher (elementary)	*	18.9
Students Per Teacher (secondary)	*	18.4
Students Per Administrator	*	209.5
Teacher Salary (average)	*	\$55,558
Administrator Salary (average)	*	\$97,051
 Financial Information (05-06)		
Instructional Expenditures Per Pupil	*	\$5,216
Operational Expenditures Per Pupil	\$9,099	\$8,786
 <u>Percent of Expenditures by Function</u>		
Instruction	*	46.9
General Administration	*	2.6
Support Services	*	31.5
Other Expenditures	*	19.0
 <u>Percent of Expenditures by Fund</u>		
Education	*	71.5
Operations and Maintenance	*	8.4
Transportation	*	3.6
Bond and Interest	*	6.5
All Other	*	10

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2006

HURRICANE KATRINA RELIEF EFFORTS
(Unaudited)

In response to the call of help during the Hurricane Katrina disaster, the Governor ordered the state's public schools to waive residency requirements and enroll any child displaced by the hurricane that relocates to live with family, friends or in a shelter in Illinois. The agency did not send any personnel, equipment or provide services to aid in the Katrina relief effort. However, monies were expended to aid schools that had an influx of students affected by the disaster. As of September 2005, the agency had assisted over 850 students who were placed in school districts around Illinois. Furthermore as of June 19, 2006 the agency indicated that it had expended approximately \$2.24 million in funds from the Hurricane Education Recovery Act (HERA) and supplemental money in support of these students. The HERA provides financial support to schools of up to \$6,000 per student and \$7,500 per students served under the Individuals with Disabilities Education ACT (IDEA).