STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION

FINANCIAL AUDIT
For the Year Ended June 30, 2015

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

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2015

Table of Contents **Page(s)**

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2015

Agency Officials

Board Members of the Illinois State Board of Education:	
James T. Meeks, Chairperson	Lula Ford
Steven R. Gilford, Vice-Chairperson	Craig Lindvahl
Melinda A. LaBarre, Secretary	Eligio Cerda Pimentel
Curt Bradshaw	John W. Sanders
State Superintendent of Education	
Through May 1, 2015	Dr. Christopher A. Koch, Ed.D.
May 1, 2015 to present	Dr. Tony Smith, Ph.D.
Cabinet members:	
General Counsel/Legal	
Through April 3, 2015	Nicole Bazer
April 4, 2015 to June 30, 2015	Marcilene Dutton (Acting)
July 1, 2015 to present	Stephanie Donovan
Chief Internal Auditor	Melissa Oller
First Deputy Superintendent - September 15, 2015 to present	Karen Corken
Deputy Superintendent/Chief Education Officer	
Through June 30, 2015	Susan C. Morrison
July 1, 2015 to present	Vacant
Chief Operating Officer and Director of Human Resources and Labor Relations - Through September 4, 2015	Donald W. Evans
Chief Operating Officer - October 16, 2015 to present	Janel Forde
Director of Human Resources and Labor Relations - September 7, 2015 to present	Anwar Johnson (Acting)
Chief Performance Officer	
Through November 28, 2014	Peter Godard
November 29, 2014 to present	Vacant
Director of Public Information/Deputy Superintendent	
Through September 4, 2015	Matthew Vanover
October 16, 2015 to present	Laine Evans
Chief Financial Officer	Robert Wolfe
Director of Assessment	
Through December 31, 2014	Dr. Mary O'Brian
January 1, 2015 to present	Vacant
Assistant Superintendents:	
Innovation and Improvement	
Through November 9, 2015	Amy Jo Clemens
November 10, 2015 to present	Vacant
Specialized Instruction Nutrition and Wellness	
Through March 5, 2015	Elizabeth Hanselman
March 6, 2015 to present	Vacant
Center for Language and Early Child Development	Reyna Hernandez
Educator Effectiveness	Dr. Jason Helfer

Agency offices are located at:

Alzina Building	James R. Thompson Center
100 North First Street	100 West Randolph Street
Springfield, Illinois 62777-0001	Suite 14-300
	Chicago, Illinois 60601-3268

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2015

Financial Statement Report

Summary

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

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

Exit Conference

This report was discussed with Agency personnel at an exit conference on December 22, 2015.

Attending were:

Representing Illinois State Board of Education	
State Superintendent of Education	Dr. Tony Smith, Ph.D.
General Counsel	Stephanie Donovan
Chief Internal Auditor	Melissa Oller
Chief Financial Officer	Robert Wolfe
Division Administrator, Federal and State Monitoring	Matthew Ulmer
Division Administrator, Fiscal and Procurement	Myong-Ae Kim
Representing E.C. Ortiz & Co., LLP	
Partner	Gilda B. Priebe
Manager	Villalyn S. Baluga
Manager	Netzyl S. Miraflores
Representing the Office of the Auditor General	
Audit Manager	Lisa Warden

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

INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board Members of the
Illinois State Board of Education

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Illinois State Board of Education, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Illinois State Board of Education's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

333 SOUTH DES PLAINES STREET, SUITE 2-N CHICAGO, IL 60661 tel: 312.876.1900 fax: 312.876.1911

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information for the Illinois State Board of Education, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements of the Illinois State Board of Education are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, the major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Illinois State Board of Education. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2015, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, effective for the year ended June 30, 2015, the Illinois State Board of Education adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, which establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, expenses, and expenditures. The statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The implementation of this statement significantly impacted the Illinois State Board of Education's government-wide financial statements and footnote disclosures with the recognition of a net pension liability, deferred outflows of resources and deferred inflows of resources on the Statement of Net Position and pension expense on the Statement of Activities. Additionally, the requirements of this statement resulted in the restatement of beginning net position as discussed in Note 14. Information regarding the Illinois State Board of Education's participation in the State Employees' Retirement System and the Teachers' Retirement System is disclosed in Note 9. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, effective for the year ended June 30, 2015, the Illinois State Board of Education adopted GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding the application of the transition provisions of GASB Statement No. 68. The statement clarifies the accounting for contributions to a defined benefit pension plan after the measurement date of a government's beginning net pension liability. The provisions of this statement were incorporated with the implementation of GASB Statement No. 68. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2015 on our consideration of the Illinois State Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Illinois State Board of Education's internal control over financial reporting and compliance.

Restricted Use of this Auditor's Report

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

E.C. Ortiz & Co., LLP

Chicago, Illinois
December 22, 2015

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
AS OF JUNE 30, 2015
(amounts expressed in thousands)

	General Fund	Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Net Position
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
Unexpended appropriations	$ 497,066	$ -	$ 497,066	$ -	$ 497,066
Cash and cash equivalents	-	15,504	15,504	-	15,504
Securities lending collateral equity with State Treasurer	-	597	597	-	597
Due from federal government	-	384,007	384,007	-	384,007
Due from local governments	-	65	65	-	65
Taxes receivable, net	-	51,922	51,922	-	51,922
Other receivables	-	774	774	-	774
Due from other Agency funds	11	1,195	1,206	(1,206)	-
Due from other State funds	84	20,684	20,768	-	20,768
Due from component units of the State	-	140	140	-	140
Inventories	-	1,274	1,274	-	1,274
Loans receivable	-	3,534	3,534	-	3,534
Prepaid expenses	-	-	-	1,291	1,291
Capital assets not being depreciated	-	-	-	1,063	1,063
Capital assets net of depreciation	-	-	-	29,354	29,354
Total Assets	497,161	479,696	976,857	30,502	1,007,359
Deferred outflows of resources - SERS pensions	-	-	-	13,025	13,025
Deferred outflows of resources - TRS pensions	-	-	-	2,789	2,789
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 497,161	$ 479,696	$ 976,857	$ 46,316	$ 1,023,173
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES					
Accounts payable and accrued liabilities	$ 6,181	$ 30,590	$ 36,771	$ -	$ 36,771
Obligations under securities lending of State Treasurer	-	597	597	-	597
Due to federal government	1	448	449	-	449
Due to local governments	2,129,742	363,676	2,493,418	-	2,493,418
Due to other State fiduciary funds	2	1	3	-	3
Due to other Agency funds	1,195	11	1,206	(1,206)	-
Due to other State funds	874	9,388	10,262	-	10,262
Due to component units of the State	356	1,720	2,076	-	2,076
Unearned revenue	-	997	997	-	997
Compensated absences, current portion	-	-	-	55	55
Reorganization incentive, current portion	-	-	-	3,309	3,309
Compensated absences, long-term portion	-	-	-	3,187	3,187
Reorganization incentive, long-term portion	-	-	-	8,596	8,596
Net pension liability - SERS, long-term portion	-	-	-	115,185	115,185
Net pension liability - TRS, long-term portion	-	-	-	58,464	58,464
Total Liabilities	2,138,351	407,428	2,545,779	187,590	2,733,369
Deferred inflows of resources - unavailable revenue - income taxes	-	8,669	8,669	(8,669)	-
Deferred inflows of resources - unavailable revenue - federal government	-	86,295	86,295	(86,295)	-
Deferred inflows of resources - unavailable revenue - other revenues	-	18	18	(18)	-
Deferred inflows of resources - SERS pensions	-	-	-	10,930	10,930
Deferred inflows of resources - TRS pensions	-	-	-	5,267	5,267
Total Liabilities and Deferred Inflows of Resources	2,138,351	502,410	2,640,761	108,805	2,749,566
FUND BALANCES (DEFICIT)/NET POSITION (DEFICIT)					
Fund Balances:					
Nonspendable	-	1,274	1,274	(1,274)	-
Restricted	-	442	442	(442)	-
Committed	-	74,855	74,855	(74,855)	-
Assigned	-	5,612	5,612	(5,612)	-
Unassigned	(1,641,190)	(104,897)	(1,746,087)	1,746,087	-
Net investment in capital assets	-	-	-	30,417	30,417
Restricted net position	-	-	-	3,624	3,624
Unrestricted net position	-	-	-	(1,760,434)	(1,760,434)
Total Fund Deficit/Net Deficit	(1,641,190)	(22,714)	(1,663,904)	$ (62,489)	$ (1,726,393)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND DEFICIT	$ 497,161	$ 479,696	$ 976,857		

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

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO STATEMENT OF NET POSITION
AS OF JUNE 30, 2015
(amounts expressed in thousands)

Total Fund Deficit - governmental funds		$ (1,663,904)
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.		30,417
Prepaid expenses for governmental activities are current uses of financial resources for funds.		1,291
Deferred outflows of resources related to pensions are not reported in the governmental funds since they do not provide current financial resources. These deferred outflows of resources consist of the following:		
Deferred outflows of resources - SERS pensions	$ 13,025	
Deferred outflows of resources - TRS pensions	2,789	15,814
Revenues in the Statement of Activities that do not provide current financial resources are deferred in governmental funds.		94,982
Deferred inflows of resources related to pensions are not reported in the governmental funds since they do not use current financial resources. These deferred inflows of resources consist of the following:		
Deferred inflows of resources - SERS pensions	(10,930)	
Deferred inflows of resources - TRS pensions	(5,267)	(16,197)
Some liabilities reported in the Statement of Net Position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds. These liabilities consist of:		
Compensated absences	(3,242)	
Reorganization incentive	(11,905)	
Net pension liability - SERS	(115,185)	
Net pension liability - TRS	(58,464)	(188,796)
NET DEFICIT FROM GOVERNMENTAL ACTIVITIES		$ (1,726,393)

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

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015
(amounts expressed in thousands)

	General Fund	Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Activities
EXPENDITURES/EXPENSES					
Program expense - education	$ 6,551,677	$ 2,396,124	$ 8,947,801	$ 15,346	$ 8,963,147
Capital outlays	1,775	4,367	6,142	(6,142)	-
Total Expenditures/Expenses	6,553,452	2,400,491	8,953,943	9,204	8,963,147
PROGRAM REVENUES					
Charges for services:					
Licenses and fees	-	5,186	5,186	-	5,186
Total charges for services	-	5,186	5,186	-	5,186
Operating grant revenue:					
Federal	-	2,199,714	2,199,714	(17,008)	2,182,706
Refunds	-	(1,177)	(1,177)	-	(1,177)
Total operating grant revenue	-	2,198,537	2,198,537	(17,008)	2,181,529
Net Program Deficit	(6,553,452)	(196,768)	(6,750,220)	(26,212)	(6,776,432)
GENERAL REVENUES					
Income taxes	-	285,935	285,935	8,669	294,604
Interest	-	87	87	-	87
Other revenues	6	157	163	15	178
Total General Revenues	6	286,179	286,185	8,684	294,869
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Appropriations from State resources	6,595,585	63,257	6,658,842	6,265	6,665,107
Reappropriations to Fiscal Year 2016	(40,000)	(20,357)	(60,357)	-	(60,357)
Lapsed appropriations	(10,712)	(25,154)	(35,866)	-	(35,866)
Receipts collected and transmitted to State Treasury	(2,968)	(1,444)	(4,412)	-	(4,412)
Transfers-out	-	(31,800)	(31,800)	-	(31,800)
Loss on disposal of capital assets	-	-	-	(17)	(17)
Net Other Sources (Uses) of Financial Resources	6,541,905	(15,498)	6,526,407	6,248	6,532,655
Net change in fund balances/net position	(11,541)	73,913	62,372	(11,280)	51,092
Fund Deficit/Net Deficit, July 1, 2014, as restated	(1,629,649)	(95,197)	(1,724,846)	(52,639)	(1,777,485)
Change in inventories	-	(1,430)	(1,430)	1,430	-
FUND DEFICIT/NET DEFICIT, JUNE 30, 2015	$ (1,641,190)	$ (22,714)	$ (1,663,904)	$ (62,489)	$ (1,726,393)

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

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015
(amounts expressed in thousands)

Net Change in Fund Balances - governmental funds		$ 62,372
Change in inventories		(1,430)
		60,942
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation and amortization expense to allocate those expenditures over the life of the assets. This is the amount by which capital outlays exceeded depreciation and amortization in the current period.		4,253
Deferred outflows of resources related to pension liability in the Statement of Activities that do not provide current financial resources are not reported in the governmental funds. This amount represents the increase in deferred outflows over the prior year.		5,163
Change in appropriations from State resources related to deferred outflows of resources which were not paid by the Agency.		6,265
Losses from capital assets no longer in use are not recorded in governmental funds, but are reported as other expenses in the Statement of Activities.		(17)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. This amount represents the decrease in unavailable revenue over the prior year.		(8,324)
Deferred inflows of resources related to pension liability in the Statement of Activities that do not use current financial resources are not reported in the governmental funds. This amount represents the increase in deferred inflows over the prior year.		(16,197)
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	$ 402	
Decrease in compensated absences	313	
Increase in reorganization incentive	(2,144)	
Increase in net pension liability - SERS	(4,179)	
Decrease in net pension liability - TRS	4,615	(993)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		$ 51,092

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

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

1. Organization

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

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

2. Summary of Significant Accounting Policies

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

(a) Financial Reporting Entity

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

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

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

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

(b) Basis of Presentation

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

The financial statements of the Agency are intended to present the net position and the changes in net position of only that portion of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Agency. They do not purport to, and do not, present fairly the net position of the State of Illinois as of June 30, 2015, and the changes in its net position for the year then ended in conformity with accounting principles generally accepted in the United States of America. A brief description of the Agency's government-wide and fund financial statements is as follows:

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

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

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

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

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

General - This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The services which are administered by the Agency and accounted for in the General Fund include, among others, social assistance, education (other than institutions of higher education), and health and social services. Certain resources obtained from federal grants and used to support general governmental activities are accounted for in the General Fund consistent with applicable legal requirements. The Agency's General Fund grouping contains four primary sub-accounts (General Revenue - 001, Education Assistance - 007, Common School - 412, and School Infrastructure - 568).

Additionally, the Agency reports the following governmental fund types:

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

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

(c) Measurement Focus and Basis of Accounting

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

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

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

(d) Shared Fund Presentation

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

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

Unexpended Appropriations

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

Appropriations from State Resources

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

Reappropriations to Future Year(s)

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

Lapsed Appropriations

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

Receipts Collected and Transmitted to State Treasury

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

Amount of SAMS Transfers-Out

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

(e) Cash and Cash Equivalents

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

(f) Inventories

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

(g) Prepaid Expenses

For governmental funds, prepaid expenses are recognized when paid.

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

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

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

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

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

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

(i) Capital Assets

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

Capitalization thresholds and the estimated useful lives are as follows:

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

(j) Compensated Absences

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

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

(k) Pensions

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

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

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

(l) Deferred Outflows/Inflows of Resources

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

(m) Fund Balances

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

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

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

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

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

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

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

(n) Net Position

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

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

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

Unrestricted - This consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

(o) 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.

(p) Adoption of New Accounting Pronouncements

Effective for the year ended June 30, 2015, the Agency adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27,* which establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, expenses, and expenditures. The statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The implementation of this statement significantly impacted the Agency's government-wide financial statements and footnote disclosures with the recognition of a net pension liability, deferred outflows of resources and deferred inflows of resources on the Statement of Net Position and pension expense on the Statement of Activities. Additionally, the requirements of this statement resulted in the restatement of beginning net position as discussed in Note 14. Information regarding the Agency's participation in the State Employees' Retirement System (SERS) and the Teachers' Retirement System (TRS) is disclosed in Note 9.

Effective for the year ended June 30, 2015, the Agency adopted GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68,* which addresses an issue regarding the application of the transition provisions of GASB Statement No. 68. The statement clarifies the accounting for contributions to a defined benefit pension plan after the measurement date of a government's beginning net pension liability. The provisions of this statement were incorporated with the implementation of GASB Statement No. 68.

(q) Future Adoption of GASB Statements

Effective for the year ending June 30, 2016, the Agency will adopt the following GASB statements:

Statement No. 72, *Fair Value Measurement and Application,* which addresses accounting and financial reporting issues related to fair value measurements and provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* which is intended to improve usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability, and establishes requirements for those pensions and pension plans that are not administered through a trust and pensions and pension plans not covered by Statements 67 and 68.

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* which is intended to improve financial reporting for governments by establishing a framework for the evaluation of accounting guidance that will result in governments applying that guidance with less variation. This statement will improve the usefulness of financial statement information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments. This statement is also intended to improve implementation guidance by elevating its authoritative status to a level that requires it to be exposed for a period of broad public comment prior to issuance, as is done for other GASB pronouncements.

Effective for the year ending June 30, 2017, the Agency will adopt the following GASB statements:

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* which replaces Statement No. 43 and addresses the financial reports of defined benefit other postemployment benefit (OPEB) plans that are administered through trusts that meet specified criteria. This statement follows the framework for financial reporting of defined benefit OPEB plans in Statement No. 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. This statement requires more extensive note disclosures and Required Supplementary Information (RSI) related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. This statement also sets forth note disclosure requirements for defined contribution OPEB plans.

Statement No. 77, *Tax Abatement Disclosures,* which is intended to improve financial reporting by requiring disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues.

Effective for the year ending June 30, 2018, the Agency will adopt the following GASB statement:

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which replaces the requirements of Statement No. 45 and requires governments to report a liability on the face of the financial statements for the OPEB they provide. This statement requires governments in all types of OPEB plans to present more extensive note disclosures and RSI about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

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

3. Deposits

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

Deposits in the custody of the State Treasurer, including cash on hand or in transit, totaled $15.50 million at June 30, 2015. These deposits are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Agency does not own individual securities. Detail on the nature of these deposits is available within the State of Illinois' CAFR.

Securities Lending Transactions

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

During Fiscal Year 2015, Deutsche Bank AG lent U.S. Agency securities and U.S. Treasury securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions during Fiscal Year 2015 on the amount of the loans of available, eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. Moreover, there were no losses during Fiscal Year 2015 resulting from a default of the borrowers or Deutsche Bank AG.

During Fiscal Year 2015, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent.

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2015 arising from securities lending agreements to the various funds of the State. The total allocated to the Agency at June 30, 2015 was $0.60 million.

4. Interfund Balances and Activity

Balances Due To/From Other Funds

The following balances (amounts expressed in thousands) at June 30, 2015 represent amounts due from other Agency and State of Illinois funds:

Fund	Due from other Agency funds	Due from other State funds	Description/Purpose
General	$ 11	$ 84	Grants for educational purposes.
Nonmajor	1,195	20,684	Grants for educational purposes and interfund borrowing for budget purposes.
Total	$ 1,206	$ 20,768	

The following balances (amounts expressed in thousands) at June 30, 2015 represent amounts due to other Agency and State of Illinois funds:

Fund	Due to other State fiduciary funds	Due to other Agency funds	Due to other State funds	Description/Purpose
General	$ 2	$ 1,195	$ 874	Due to other State fiduciary funds for payment of the Agency's share of the State's federal liability; to other Agency funds for educational purposes; and to other State funds for grants for educational purposes and for purchases of services.
Nonmajor	1	11	9,388	Due to other State fiduciary funds for payment of retirement costs; to other Agency funds for educational purposes; and to other State funds for grants for educational purposes, for federal food service programs and for purchases of services.
Total	$ 3	$ 1,206	$ 10,262	

Transfers to Other Funds

Interfund transfers-out (amounts expressed in thousands) for the year ended June 30, 2015 were as follows:

Fund	Transfers-out to other State funds	Description/Purpose
Nonmajor	$ 31,800	Transfers to General Revenue Account per State appropriation.
Total	$ 31,800	

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

The following balances (amounts expressed in thousands) at June 30, 2015 represent amounts due to/from discretely presented component units of the State of Illinois for payments for professional services and for State and federal grant programs:

	Due from	Due to	
Component Unit	Nonmajor Funds	General Fund	Nonmajor Funds
Eastern Illinois University	$ -	$ -	$ 14
Northeastern Illinois University	-	-	394
Western Illinois University	-	-	94
Illinois State University	-	296	474
Northern Illinois University	-	60	438
Southern Illinois University	-	-	236
University of Illinois	140	-	70
Total	$ 140	$ 356	$ 1,720

6. Loans Receivable

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

- School District Emergency Financial Assistance Program - This program is available to provide school districts with emergency financial assistance. As of June 30, 2015, this program had no loans receivable outstanding.

- Charter Schools Revolving Loan Program - This program is designed to encourage and financially support high quality charter schools throughout Illinois. Loans are available to charter schools in the initial years of their charters. As of June 30, 2015, this program had no loans receivable outstanding.

- School Technology Revolving Loan Program - This program is designed to provide school districts with the technology tools and research-proven software to help all of their students achieve the Illinois Learning Standards, especially in reading and mathematics. Three year loans are available to school districts through this program to assist in achieving these goals.

- Temporary Relocation Expenses Revolving Grant Program - This program is available to pay school district emergency relocation expenses incurred as a result of fire, earthquake, tornado, or other natural or man-made disaster or school building condemnation made by a Regional Office of Education and approved by the State Superintendent of Education. The purpose of the program is to assist school districts in providing a safe, temporary environment for learning.

Loans receivable (amounts expressed in thousands) at June 30, 2015 consisted of the following:

Program	Balance
School Technology Revolving Loan Program	$ 3,412
Temporary Relocation Expenses Revolving Grant Program	122
Total	$ 3,534

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

7. Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2015 was as follows:

	Balance July 1, 2014	Additions	Deletions	Net Transfers	Balance June 30, 2015
Capital assets not being depreciated/amortized:					
Land	$ 1,063	$ -	$ -	$ -	$ 1,063
Internally generated software	4,524	-	(735)	(5,259)	-
Total capital assets not being depreciated/amortized	5,587	-	(735)	(5,259)	1,063
Capital assets being depreciated/amortized:					
Buildings	436	-	-	-	436
Equipment	6,494	383	1,091	-	5,786
Internally generated software	27,508	5,759	-	5,259	38,526
Total capital assets being depreciated/amortized	34,438	6,142	1,091	5,259	44,748
Less accumulated depreciation/amortization:					
Buildings	291	9	-	-	300
Equipment	5,631	360	1,098	-	4,893
Internally generated software	7,922	2,279	-	-	10,201
Total accumulated depreciation/amortization	13,844	2,648	1,098	-	15,394
Total capital assets being depreciated/amortized, net	20,594	3,494	(7)	5,259	29,354
Governmental activity capital assets, net	$ 26,181	$ 3,494	$ (742)	$ -	$ 30,417

Depreciation expense and amortization for governmental activities (amounts expressed in thousands) for the year ended June 30, 2015 was charged to the Education function for an amount of $2,648.

8. Long-Term Obligations

Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2015 were as follows:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015	Amounts Due Within One Year
Compensated absences	$ 3,555	$ 2,318	$ 2,631	$ 3,242	$ 55
Reorganization incentive	9,761	5,025	2,881	11,905	3,309
Net pension liability - SERS	111,006	4,179	-	115,185	-
Net pension liability - TRS	63,079	-	4,615	58,464	-
Total	$ 187,401	$ 11,522	$ 10,127	$ 188,796	$ 3,364

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

Reorganization Incentive

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

Future requirements (amounts expressed in thousands) under these incentives as of June 30, 2015 were as follows:

Year Ending June 30	Amount
2016	$ 3,309
2017	4,196
2018	2,876
2019	1,524
Total	$ 11,905

9. Pension Plan

Defined Benefit Pension Plan

Plan Description

Substantially all of the Agency's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS) or the Teachers' Retirement System (TRS), which are pension trust funds in the State of Illinois reporting entity. The SERS is a single-employer defined benefit pension trust fund in which State employees participate except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. SERS is governed by Article 14 of the Illinois Pension Code (40 ILCS 5/1, et al.). The TRS is the administrator of a cost-sharing multiple-employer public employee defined benefit pension plan with a "special funding situation" as described below. TRS provides coverage to personnel in positions that require a certification under the teacher certification law that are employed by public school districts in Illinois (excluding Chicago), special districts and certain State agencies. There are 859 local school districts, 136 special districts, and 18 other State agencies that contribute to the TRS plan. The State of Illinois, as a nonemployer contributing entity, is legally mandated to make contributions to TRS, thus creating a special funding relationship with the plan. TRS is governed by Article 16 of the Illinois Pension Code.

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

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

- State Employees' Retirement System, 2101 South Veterans Parkway, P.O. Box 19255, Springfield, Illinois, 62794-9255, (217) 785-2340 or www.srs.illinois.gov.
- Teachers' Retirement System, 2815 West Washington Street, P.O. Box 19253, Springfield, Illinois, 62794-9253, (217) 753-0311 or www.trs.illinois.gov.

Benefit Provisions

<u>State Employees' Retirement System</u>
SERS provides retirement benefits based on the member's final average compensation and the number of years of credited service that have been established. The retirement benefit formula available to general State employees is 1.67% for each year of covered service and 2.2% for each year of noncovered service. The maximum retirement annuity payable is 75% of final average compensation as calculated under the regular formula. The minimum monthly retirement annuity payable is $15.00 for each year of covered employment and $25.00 for each year of noncovered employment.

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

Regular Formula Tier 1	Regular Formula Tier 2
A member must have a minimum of eight years of service credit and may retire at: • Age 60, with eight years of service credit. • Any age, when the member's age (years and whole months) plus years of service credit (years and whole months) equal 85 years (1,020 months) (Rule of 85) with eight years of credited service. • Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60). The retirement benefit is based on final average compensation and credited service. Final average compensation is the 48 highest consecutive months of service within the last 120 months of service. Under the Rule of 85, a member is eligible for the first 3% increase on January 1 following the first full year of retirement, even if the member is not age 60. If the member retires at age 60 or older, he/she will receive a 3% pension increase every year on January 1, following the first full year of retirement. If the member retires before age 60 with a reduced retirement benefit, he/she will receive a 3% pension increase every January 1 after the member turns age 60 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.	A member must have a minimum of 10 years of credited service and may retire at: • Age 67, with 10 years of credited service. • Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67). The retirement benefit is based on final average compensation and credited service. For regular formula employees, final average compensation is the average of the 96 highest consecutive months of service within the last 120 months of service. The retirement benefit is calculated on a maximum salary of $106,800. This amount increases annually by 3% or 1/2 of the Consumer Price Index, whichever is less. If the member retires at age 67 or older, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every year on January 1, following the first full year of retirement. The Calendar Year 2014 rate is $110,631. If the member retires before age 67 with a reduced retirement benefit, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every January 1 after the member turns age 67 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.

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

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

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

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

Contributions

<u>State Employees' Retirement System</u>
Contribution requirements of active employees and the State are established in accordance with Chapter 40, Section 5/14-133 of the Illinois Compiled Statutes (ILCS). Member contributions are based on fixed percentages of covered payroll ranging between 4.00% and 12.50%. Employee contributions are fully refundable, without interest, upon withdrawal from State employment. Tier 1 members contribute based on total annual compensation. Tier 2 members contribute based on an annual compensation rate not to exceed $106,800 with limitations for future years increased by the lesser of 3% or 1/2 of the annual percentage increase in the Consumer Price Index. For 2015, this amount was $111,572.

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

For Fiscal Year 2015, the required employer contributions were computed in accordance with the State's funding plan. This funding legislation provides for a systematic 50-year funding plan with an ultimate goal to achieve 90% funding of the plan's liabilities. In addition, the funding plan provided for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Since the 15-year phase-in period ended June 30, 2010, the State's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved. For Fiscal Year 2015, the employer contribution rate was 42.339%. The Agency's contribution amount for Fiscal Year 2015 was $0.91 million.

Teachers' Retirement System

The State maintains the primary responsibility for funding TRS. The Illinois Pension Code, as appended by Public Act 88-0593 and subsequent acts, provides that for years 2010 through 2045, the minimum contribution to TRS for each fiscal year be an amount determined to be sufficient to bring the total assets of TRS up to 90% funding. Contributions from active members and TRS contributing employers are also required by the Illinois Pension Code. The active member contribution rate for the year ended June 30, 2015 was 9.4% of salary. Employer contributions are made by or on behalf of employers from several sources. The State of Illinois provides the largest source of contributions through State appropriations. Employers also make contributions of 0.58% of total creditable earnings for the 2.2 benefit formula change and for teachers who are paid from federal funds. Additionally, employers contribute their portion of the cost of the Early Retirement Option and any excess salary increase or sick leave costs due as defined within Chapter 40, Section 5/16 of the ILCS.

For TRS, employee contributions are fully refundable, without interest, upon withdrawal from applicable employment. For Tier 1 members, there is no annual compensation limit on contributions. For Tier 2 members, annual compensation on which contributions are taken cannot exceed $106,800. This amount increases annually by the lesser of 3% or 1/2 of the annual percentage increase in the Consumer Price Index. For 2015, this amount was $111,572. The Agency's contribution amount for Fiscal Year 2015 was $2.76 million.

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

State Employees' Retirement System

At June 30, 2015, the Agency reported a liability of $115.19 million for its proportionate share of the State's net pension liability for SERS on the statement of net position. The net pension liability was measured as of June 30, 2014 (current year measurement date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Agency's portion of the net pension liability was based on the Agency's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2014. As of the current year measurement date of June 30, 2014, the Agency's proportion was

0.4250%, which was a decrease of 0.0296% from its proportion measured as of the prior year measurement date of June 30, 2013.

For the year ended June 30, 2015, the Agency recognized pension expense of $9.31 million. In addition, SERS made contributions from the General Revenue Fund (GRF) in the amount of $6.27 million on behalf of the Agency. At June 30, 2015, the Agency reported deferred outflows and deferred inflows of resources related to the pension liability from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 502	$ -
Changes of assumptions	10,444	-
Net difference between projected and actual investment earnings on pension plan investments	-	4,106
Changes in proportion	1,165	6,824
Agency contributions subsequent to the measurement date	914	-
Total	$ 13,025	$ 10,930

$0.91 million reported as deferred outflows of resources related to pensions resulting from Agency contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts expressed in thousands):

Year Ending June 30	SERS
2016	$ 447
2017	447
2018	447
2019	(160)
Total	$ 1,181

<u>Teachers' Retirement System</u>
At June 30, 2015, the Agency reported a liability of $58.46 million for its proportionate share of the TRS net pension liability on the statement of net position. The net pension liability was measured as of June 30, 2014 (current year measurement date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, and rolled forward

to June 30, 2014. The Agency's portion of the net pension liability was based on the Agency contributions relative to the contributions of all participating TRS employers and the State during the year ended June 30, 2014. As of the current year measurement date of June 30, 2014, the Agency's proportion was 0.0961%.

The net pension liability as of the beginning of this first measurement period under GASB Statement No. 68 was measured as of June 30, 2013, and the total pension liability was based on the June 30, 2013, actuarial valuation without any roll-up. The employers proportion of the net pension liability as of June 30, 2013 was based on the Agency's share of contributions to TRS relative to the contributions of all participating TRS employers and the State during the year ended June 30, 2013. At June 30, 2013, the Agency's proportion was 0.1007%.

For the year ended June 30, 2015, the Agency recognized pension of expense of $1.29 million. At June 30, 2015, the Agency reported deferred outflows and deferred inflows of resources related to the pension liability from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 31	$ -
Net difference between projected and actual investment earnings on pension plan investments	-	2,938
Changes in proportion	-	2,329
Agency contributions subsequent to the measurement date	2,758	-
Total	$ 2,789	$ 5,267

$2.76 million reported as deferred outflows of resources related to pensions resulting from Agency contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts expressed in thousands):

Year Ending June 30	TRS
2016	$ (1,292)
2017	(1,292)
2018	(1,292)
2019	(1,293)
2020	(67)
Total	$ (5,236)

Actuarial Methods and Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

	SERS	TRS
Valuation date	06/30/2014	06/30/2013*
Measurement date	06/30/2014	06/30/2014
Actuarial cost method	Entry Age	Entry Age
Actuarial Assumptions:		
Investment rate of return	7.25%	7.50%
Projected salary increases[1]	3.50% - 7.92%	4.75% - 9.90%
Inflation rate	3.00%	3.00%
Postretirement benefit increases		
Tier 1	3%, compounded	3%, compounded
Tier 2	Lesser of 3% or 1/2 of CPI[2], on original benefit	Lesser of 3% or 1/2 of CPI[2], not compounded
Retirement age experience study[3]	July 2009 - June 2013	July 2006 - June 2011
Mortality[4]		
SERS	105 percent of the RP 2014 Healthy Annuitant table, sex distinct, with rates projected to 2015.	
TRS	RP - 2000 Mortality Tables with future mortality improvements on generational basis.	

* The total pension liability is based on an actuarial valuation date of June 30, 2013, rolled-forward to the measurement date using generally accepted actuarial procedures.
1 Includes inflation rate listed.
2 Consumer Price Index.
3 The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined.
4 Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.

<u>State Employees' Retirement System</u>
The long-term expected real rate of return on pension plan investments was determined based on the simulated average 10-year annualized geometric return for each major asset class. These returns are

combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage. For each major asset class that is included in the pension plan's target asset allocation, calculated as of the measurement date of June 30, 2014, the best estimates of the geometric real rates of return are summarized in the following table:

	SERS	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	30%	5.69%
Fixed Income	20%	1.62%
Hedge Funds	10%	4.00%
International Equity	20%	6.23%
Real Estate	10%	5.50%
Infrastructure	5%	6.00%
Private Equity	5%	10.10%
Total	100%	5.03%

Teachers' Retirement System
The long-term expected rate of return assumption on pension plan investments under the TRS plan is based on a 2014 asset liability study. For each major asset class included in the pension plan's target asset allocation as of June 30, 2014, the measurement date, the best estimates of the expected arithmetic real rates of return are summarized in the following table:

	TRS	
Asset Class	Target Allocation	Long-Term Expected Real Rates of Return
U.S. Large Cap	18%	8.23%
Global Equity Excluding U.S.	18%	8.58%
Aggregate bonds	16%	2.27%
U.S. TIPS	2%	3.52%
NCREIF	11%	5.81%
Opportunistic Real Estate	4%	9.79%
ARS	8%	3.27%
Risk Parity	8%	5.57%
Diversified Inflation Strategy	1%	3.96%
Private Equity	14%	13.03%
Total	100%	

Discount Rate

State Employees' Retirement System

A discount rate of 7.09% was used to measure the total pension liability. This single blended discount rate was based on the expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 4.29%, based on an index of 20 year general obligation bonds with an average AA credit rating as published by the Federal Reserve. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions will be made based on the statutorily required rates under Illinois law. Based on these assumptions, the pension plan's fiduciary net position and future contributions will be sufficient to finance the benefit payments through the year 2066 for SERS. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2066, and the municipal bond rate was applied to all benefit payments after that date for SERS.

Teachers' Retirement System

A discount rate of 7.50% was used to measure the total pension liability. The projection of cash flows used to determine the discount rate assumed that employee contributions, employer contributions, and state contributions will be made at the current statutorily-required rates. For TRS, the plan's fiduciary net position is deemed sufficient to provide for all benefit payments to current plan members. As such, the discount rate which is equivalent to the long-term expected rate of return has been applied to all benefit payments for the liability calculation.

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

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

	1% Decrease 6.09%	Discount Rate 7.09%	1% Increase 8.09%
Agency's proportionate share of the SERS net pension liability	$ 138,793	$ 115,185	$ 95,586

	1% Decrease 6.50%	Discount Rate 7.50%	1% Increase 8.50%
Agency's proportionate share of the TRS net pension liability	$ 72,200	$ 58,464	$ 47,089

10. Post-Employment Benefits

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

Public Act 97-0695, effective July 1, 2012, altered the contributions to be paid by the State, annuitants, survivors, and retired employees under the State Employees Group Insurance Act. This Act requires the Director of Central Management Services to, on an annual basis, determine the amount that the State should contribute. The remainder of the cost of coverage shall be the responsibility of the annuitant, survivor, or retired employee. The costs were to be assessed beginning July 1, 2013. However, four putative class actions were filed challenging the validity of this legislation under, among other things, the pension protection clause of the Illinois Constitution of 1970. The four class actions were consolidated in the circuit court of Sangamon County. The circuit court dismissed each of them for failure to state a cause of action, without certifying any classes. The Illinois Supreme Court allowed direct appeal. On July 3, 2014, the Illinois Supreme Court issued an opinion in the retiree health insurance premium case. The Illinois Supreme Court disagreed with the circuit court and determined the circuit court should not have dismissed the case. The Supreme Court sent the case back to the circuit court for reconsideration. As a result, the Sangamon County Circuit Court has directed all retirement systems to discontinue withholding, as soon as possible, the retiree and survivor health insurance premiums that have been in effect since July 2013. The refunding of these premiums was repaid from an escrow account by June 15, 2015.

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

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

11. Fund Deficits

The following funds had deficit balances at June 30, 2015 (amounts expressed in thousands):

	Governmental Activities
General Revenue Account (001)	$ 1,641,190
Drivers Education Fund (031)	18,500
S.B.E. Federal Agency Services Fund (560)	1
S.B.E. Federal Department of Education Fund (561)	85,621

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, 2015.

13. Commitments and Contingencies

(a) Operating Leases

The Agency leases various real property and equipment under terms of noncancelable operating lease agreements that require the Agency to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under these operating leases was $2.86 million for the year ended June 30, 2015.

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

Year Ending June 30	Amount
2016	$ 2,340
Total	$ 2,340

(b) Federal Funding

The Agency receives federal grants which are subject to review and audit by federal grantor agencies. Certain costs could be questioned as not being an eligible expenditure under the terms of the grants. At June 30, 2015, there were no material questioned costs that have not been resolved with the federal awarding agencies. However, questioned costs could still be identified during audits to be conducted in the future. Management of the Agency believes there will be no material adjustments to the federal grants and, accordingly, has not recorded a provision for possible repayment.

(c) Litigation

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

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

14. Prior Period Adjustment

The Agency's financial statements have been restated as of July 1, 2014. The Governmental Activities were restated as a result of implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, which requires net pension liability to be reported as a component of long-term obligations in accrual-basis financial statements. In addition, deferred outflows and deferred inflows of resources related to changes in the net pension liability are required to be reported.

	Governmental Activities
Net Deficit, June 30, 2014, as previously reported	$ (1,607,786)
Beginning of year net pension liability - SERS	(111,006)
Beginning of year net pension liability - TRS	(63,079)
Beginning of year deferred outflow of resources - SERS	958
Beginning of year deferred outflow of resources - TRS	3,428
Net Deficit, June 30, 2014, as restated	$ (1,777,485)

15. Subsequent Event

The State of Illinois has not adopted a complete Fiscal Year 2016 operating budget as of the date of this report, December 22, 2015. The Agency is part of the executive branch of government and operates under a budget in which resources are appropriated for the use of the Agency. The General Assembly passed, and the Governor signed, the portion of the budget allowing for payments to be issued to school districts and related educational organizations, as well as payments from federal trust and special purpose trust funds. However, the Agency is presently unable to make payments from general and other State funds to vendors for operations. Payments to Agency employees from general and other State funds for work performed are being made pursuant to a July 2015 court order.

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
COMBINING SCHEDULE OF ACCOUNTS - GENERAL FUND
AS OF JUNE 30, 2015
(amounts expressed in thousands)

	General Revenue Account (001)	Education Assistance Account (007)	Common School Account (412)	School Infrastructure Account (568)	Total
ASSETS					
Unexpended appropriations	$ 497,066	$ -	$ -	$ -	$ 497,066
Due from other Agency funds	11	-	-	-	11
Due from other State funds	84	-	-	-	84
TOTAL ASSETS	$ 497,161	$ -	$ -	$ -	$ 497,161
LIABILITIES					
Accounts payable and accrued liabilities	$ 6,181	$ -	$ -	$ -	$ 6,181
Due to federal government	1	-	-	-	1
Due to local governments	2,129,742	-	-	-	2,129,742
Due to other State fiduciary funds	2	-	-	-	2
Due to other Agency funds	1,195	-	-	-	1,195
Due to other State funds	874	-	-	-	874
Due to component units of the State	356	-	-	-	356
Total Liabilities	2,138,351	-	-	-	2,138,351
FUND DEFICIT					
Unassigned	(1,641,190)	-	-	-	(1,641,190)
Total Fund Deficit	(1,641,190)	-	-	-	(1,641,190)
TOTAL LIABILITIES AND FUND DEFICIT	$ 497,161	$ -	$ -	$ -	$ 497,161

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015
(amounts expressed in thousands)

	General Revenue Account (001)	Education Assistance Account (007)	Common School Account (412)	School Infrastructure Account (568)	Total
REVENUES					
Other revenues	$ 6	$ -	$ -	$ -	$ 6
Total Revenues	6	-	-	-	6
EXPENDITURES					
Education	2,326,216	235,630	3,989,644	187	6,551,677
Capital outlays	1,775	-	-	-	1,775
Total Expenditures	2,327,991	235,630	3,989,644	187	6,553,452
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(2,327,985)	(235,630)	(3,989,644)	(187)	(6,553,446)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Appropriations from State resources	2,329,711	235,630	3,989,644	40,600	6,595,585
Reappropriations to Fiscal Year 2016	-	-	-	(40,000)	(40,000)
Lapsed appropriations	(10,299)	-	-	(413)	(10,712)
Receipts collected and remitted to State Treasury	(2,968)	-	-	-	(2,968)
Net Other Sources of Financial Resources	2,316,444	235,630	3,989,644	187	6,541,905
NET CHANGE IN FUND BALANCES	(11,541)	-	-	-	(11,541)
Fund Deficit, July 1, 2014	(1,629,649)	-	-	-	(1,629,649)
FUND DEFICIT, JUNE 30, 2015	$ (1,641,190)	$ -	$ -	$ -	$ (1,641,190)

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
COMBINING BALANCE SHEET - NONMAJOR FUNDS
AS OF JUNE 30, 2015
(amounts expressed in thousands)

	Special Revenue Funds			
	Teacher Certificate Fee Revolving Fund (016)	Drivers Education Fund (031)	School District Emergency Financial Assistance Fund (130)	S.B.E. Special Purpose Trust Fund (144)
ASSETS				
Cash and cash equivalents	$ 2,799	$ -	$ 1,102	$ 5,534
Securities lending collateral equity with State Treasurer	-	-	-	-
Due from federal government	-	-	-	-
Due from local governments	-	-	-	-
Taxes receivable, net	-	-	-	-
Other receivables	-	-	-	-
Due from other Agency funds	854	-	-	341
Due from other State funds	2,000	-	-	-
Due from component units of the State	-	-	-	-
Inventories	-	-	-	-
Loans receivable	-	-	-	-
TOTAL ASSETS	$ 5,653	$ -	$ 1,102	$ 5,875
LIABILITIES				
Accounts payable and accrued liabilities	$ 101	$ -	$ -	$ 48
Obligations under securities lending of State Treasurer	-	-	-	-
Due to federal government	-	-	-	-
Due to local governments	-	18,473	-	-
Due to other State fiduciary funds	-	-	-	-
Due to other Agency funds	-	-	-	11
Due to other State funds	2	-	-	5
Due to component units of the State	-	27	-	-
Unearned revenue	-	-	-	-
Total Liabilities	103	18,500	-	64
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - income taxes	-	-	-	-
Unavailable revenue - federal government	-	-	-	-
Unavailable revenue - other revenues	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-
FUND BALANCES (DEFICIT)				
Nonspendable	-	-	-	-
Restricted	-	-	-	199
Committed	5,550	-	1,102	-
Assigned	-	-	-	5,612
Unassigned	-	(18,500)	-	-
Total Fund Balances (Deficit)	5,550	(18,500)	1,102	5,811
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)	$ 5,653	$ -	$ 1,102	$ 5,875

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
COMBINING BALANCE SHEET - NONMAJOR FUNDS
AS OF JUNE 30, 2015
(amounts expressed in thousands)

	Special Revenue Funds			
	S.B.E. Teacher Certification Institution Fund (159)	**S.B.E. Federal Department of Agriculture Fund (410)**	**After-School Rescue Fund (512)**	**S.B.E. Federal Agency Services Fund (560)**
ASSETS				
Cash and cash equivalents	$ 650	$ 1,148	$ 51	$ 8
Securities lending collateral equity with State Treasurer	-	-	-	-
Due from federal government	-	44,028	-	193
Due from local governments	-	-	-	-
Taxes receivable, net	-	-	-	-
Other receivables	-	556	-	-
Due from other Agency funds	-	-	-	-
Due from other State funds	1,000	-	-	-
Due from component units of the State	-	9	-	-
Inventories	-	1,274	-	-
Loans receivable	-	-	-	-
TOTAL ASSETS	$ 1,650	$ 47,015	$ 51	$ 201
LIABILITIES				
Accounts payable and accrued liabilities	$ -	$ 18,911	$ -	$ 49
Obligations under securities lending of State Treasurer	-	-	-	-
Due to federal government	-	-	-	8
Due to local governments	-	25,683	-	142
Due to other State fiduciary funds	-	-	-	-
Due to other Agency funds	-	-	-	-
Due to other State funds	-	409	-	2
Due to component units of the State	-	88	-	-
Unearned revenue	-	407	-	-
Total Liabilities	-	45,498	-	201
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - income taxes	-	-	-	-
Unavailable revenue - federal government	-	757	-	1
Unavailable revenue - other revenues	-	18	-	-
Total Deferred Inflows of Resources	-	775	-	1
FUND BALANCES (DEFICIT)				
Nonspendable	-	1,274	-	-
Restricted	-	243	-	-
Committed	1,650	-	51	-
Assigned	-	-	-	-
Unassigned	-	(775)	-	(1)
Total Fund Balances (Deficit)	1,650	742	51	(1)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)	$ 1,650	$ 47,015	$ 51	$ 201

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
COMBINING BALANCE SHEET - NONMAJOR FUNDS
AS OF JUNE 30, 2015
(amounts expressed in thousands)

	Special Revenue Funds			
	S.B.E. Federal Department of Education Fund (561)	Charter Schools Revolving Loan Fund (567)	School Technology Revolving Loan Fund (569)	Temporary Relocation Expenses Revolving Grant Fund (605)
ASSETS				
Cash and cash equivalents	$ 2,190	$ 27	$ 1,550	$ 382
Securities lending collateral equity with State Treasurer	-	-	597	-
Due from federal government	339,786	-	-	-
Due from local governments	65	-	-	-
Taxes receivable, net	-	-	-	-
Other receivables	206	-	12	-
Due from other Agency funds	-	-	-	-
Due from other State funds	3	-	-	-
Due from component units of the State	131	-	-	-
Inventories	-	-	-	-
Loans receivable	-	-	3,412	122
TOTAL ASSETS	$ 342,381	$ 27	$ 5,571	$ 504
LIABILITIES				
Accounts payable and accrued liabilities	$ 11,481	$ -	$ -	$ -
Obligations under securities lending of State Treasurer	-	-	597	-
Due to federal government	440	-	-	-
Due to local governments	319,378	-	-	-
Due to other State fiduciary funds	1	-	-	-
Due to other Agency funds	-	-	-	-
Due to other State funds	8,970	-	-	-
Due to component units of the State	1,605	-	-	-
Unearned revenue	590	-	-	-
Total Liabilities	342,465	-	597	-
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - income taxes	-	-	-	-
Unavailable revenue - federal government	85,537	-	-	-
Unavailable revenue - other revenues	-	-	-	-
Total Deferred Inflows of Resources	85,537	-	-	-
FUND BALANCES (DEFICIT)				
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	-	27	4,974	504
Assigned	-	-	-	-
Unassigned	(85,621)	-	-	-
Total Fund Balances (Deficit)	(85,621)	27	4,974	504
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)	$ 342,381	$ 27	$ 5,571	$ 504

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
COMBINING BALANCE SHEET - NONMAJOR FUNDS
AS OF JUNE 30, 2015
(amounts expressed in thousands)

	Special Revenue Funds	Capital Projects Funds		
	Fund for the Advancement of Education (640)	**Capital Development Fund (141)**	**School Construction Fund (143)**	**Total**
ASSETS				
Cash and cash equivalents	$ 1	$ -	$ 62	$ 15,504
Securities lending collateral equity with State Treasurer	-	-	-	597
Due from federal government	-	-	-	384,007
Due from local governments	-	-	-	65
Taxes receivable, net	51,922	-	-	51,922
Other receivables	-	-	-	774
Due from other Agency funds	-	-	-	1,195
Due from other State funds	17,681	-	-	20,684
Due from component units of the State	-	-	-	140
Inventories	-	-	-	1,274
Loans receivable	-	-	-	3,534
TOTAL ASSETS	$ 69,604	$ -	$ 62	$ 479,696
LIABILITIES				
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 30,590
Obligations under securities lending of State Treasurer	-	-	-	597
Due to federal government	-	-	-	448
Due to local governments	-	-	-	363,676
Due to other State fiduciary funds	-	-	-	1
Due to other Agency funds	-	-	-	11
Due to other State funds	-	-	-	9,388
Due to component units of the State	-	-	-	1,720
Unearned revenue	-	-	-	997
Total Liabilities	-	-	-	407,428
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - income taxes	8,669	-	-	8,669
Unavailable revenue - federal government	-	-	-	86,295
Unavailable revenue - other revenues	-	-	-	18
Total Deferred Inflows of Resources	8,669	-	-	94,982
FUND BALANCES (DEFICIT)				
Nonspendable	-	-	-	1,274
Restricted	-	-	-	442
Committed	60,935	-	62	74,855
Assigned	-	-	-	5,612
Unassigned	-	-	-	(104,897)
Total Fund Balances (Deficit)	60,935	-	62	(22,714)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)	$ 69,604	$ -	$ 62	$ 479,696

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2015
(amounts expressed in thousands)

	Special Revenue Funds			
	Teacher Certificate Fee Revolving Fund (016)	**Drivers Education Fund (031)**	**School District Emergency Financial Assistance Fund (130)**	**S.B.E. Special Purpose Trust Fund (144)**
REVENUES				
Income taxes	$ -	$ -	$ -	$ -
Federal government	-	-	-	4,854
Licenses and fees	4,549	-	-	-
Interest	-	-	-	-
Other revenues	-	-	-	130
Refunds	-	-	-	-
Total Revenues	4,549	-	-	4,984
EXPENDITURES				
Education	2,616	18,500	369	1,592
Capital outlays	27	-	-	468
Total Expenditures	2,643	18,500	369	2,060
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,906	(18,500)	(369)	2,924
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	-	17,900	-	-
Reappropriations to Fiscal Year 2016	-	-	-	-
Lapsed appropriations	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-
Transfers-out	(5,000)	-	-	-
Net Other Sources (Uses) of Financial Resources	(5,000)	17,900	-	-
NET CHANGE IN FUND BALANCES	(3,094)	(600)	(369)	2,924
Fund Balances (Deficit), July 1, 2014	8,644	(17,900)	1,471	2,887
Change in inventories	-	-	-	-
FUND BALANCES (DEFICIT), JUNE 30, 2015	$ 5,550	$ (18,500)	$ 1,102	$ 5,811

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2015
(amounts expressed in thousands)

	Special Revenue Funds			
	S.B.E. Teacher Certification Institution Fund (159)	**S.B.E. Federal Department of Agriculture Fund (410)**	**After-School Rescue Fund (512)**	**S.B.E. Federal Agency Services Fund (560)**
REVENUES				
Income taxes	$ -	$ -	$ -	$ -
Federal government	-	818,308	-	502
Licenses and fees	637	-	-	-
Interest	-	-	-	-
Other revenues	-	27	-	-
Refunds	-	(157)	-	(8)
Total Revenues	637	818,178	-	494
EXPENDITURES				
Education	-	817,347	-	495
Capital outlays	-	522	-	-
Total Expenditures	-	817,869	-	495
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	637	309	-	(1)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	-	-	-	-
Reappropriations to Fiscal Year 2016	-	-	-	-
Lapsed appropriations	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-
Transfers-out	(1,800)	-	-	-
Net Other Sources (Uses) of Financial Resources	(1,800)	-	-	-
NET CHANGE IN FUND BALANCES	(1,163)	309	-	(1)
Fund Balances (Deficit), July 1, 2014	2,813	1,863	51	-
Change in inventories	-	(1,430)	-	-
FUND BALANCES (DEFICIT), JUNE 30, 2015	$ 1,650	$ 742	$ 51	$ (1)

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2015
(amounts expressed in thousands)

	Special Revenue Funds			
	S.B.E. Federal Department of Education Fund (561)	Charter Schools Revolving Loan Fund (567)	School Technology Revolving Loan Fund (569)	Temporary Relocation Expenses Revolving Grant Fund (605)
REVENUES				
Income taxes	$ -	$ -	$ -	$ -
Federal government	1,376,050	-	-	-
Licenses and fees	-	-	-	-
Interest	1	-	86	-
Other revenues	-	-	-	-
Refunds	(1,012)	-	-	-
Total Revenues	1,375,039	-	86	-
EXPENDITURES				
Education	1,356,865	-	-	-
Capital outlays	3,350	-	-	-
Total Expenditures	1,360,215	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	14,824	-	86	-
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	-	-	-	-
Reappropriations to Fiscal Year 2016	-	-	-	-
Lapsed appropriations	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-
Transfers-out	-	-	-	-
Net Other Sources (Uses) of Financial Resources	-	-	-	-
NET CHANGE IN FUND BALANCES	14,824	-	86	-
Fund Balances (Deficit), July 1, 2014	(100,445)	27	4,888	504
Change in inventories	-	-	-	-
FUND BALANCES (DEFICIT), JUNE 30, 2015	$ (85,621)	$ 27	$ 4,974	$ 504

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2015
(amounts expressed in thousands)

	Special Revenue Funds	Capital Projects Funds		
	Fund for the Advancement of Education (640)	Capital Development Fund (141)	School Construction Fund (143)	Total
REVENUES				
Income taxes	$ 285,935	$ -	$ -	$ 285,935
Federal government	-	-	-	2,199,714
Licenses and fees	-	-	-	5,186
Interest	-	-	-	87
Other revenues	-	-	-	157
Refunds	-	-	-	(1,177)
Total Revenues	285,935	-	-	2,489,902
EXPENDITURES				
Education	200,000	-	(1,660)	2,396,124
Capital outlays	-	-	-	4,367
Total Expenditures	200,000	-	(1,660)	2,400,491
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	85,935	-	1,660	89,411
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	-	25,000	20,357	63,257
Reappropriations to Fiscal Year 2016	-	-	(20,357)	(20,357)
Lapsed appropriations	-	(25,000)	(154)	(25,154)
Receipts collected and transmitted to State Treasury	-	-	(1,444)	(1,444)
Transfers-out	(25,000)	-	-	(31,800)
Net Other Sources (Uses) of Financial Resources	(25,000)	-	(1,598)	(15,498)
NET CHANGE IN FUND BALANCES	60,935	-	62	73,913
Fund Balances (Deficit), July 1, 2014	-	-	-	(95,197)
Change in inventories	-	-	-	(1,430)
FUND BALANCES (DEFICIT), JUNE 30, 2015	$ 60,935	$ -	$ 62	$ (22,714)

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

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

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board Members of the
Illinois State Board of Education

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Illinois State Board of Education, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Illinois State Board of Education's basic financial statements, and have issued our report thereon dated December 22, 2015.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

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

Purpose of this Report

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

E.C. Ortiz & Co., LLP

Chicago, Illinois
December 22, 2015

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

INDEPENDENT ACCOUNTANT'S REPORT ON AGREED-UPON PROCEDURES

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board Members of the
Illinois State Board of Education

As Special Assistant Auditors for the Auditor General, we have performed each of the procedures enumerated below, which were agreed to by the Auditor General, solely to assist the users in evaluating management's assertion about the Illinois State Board of Education's (Agency) compliance with respect to the reporting, during the year ended June 30, 2015, of the statewide high school dropout rate by grade level, sex, race; the annual student dropout rate of and the number of students who graduate from, transfer from, or otherwise leave bilingual programs; a critique and analysis of the status of education in Illinois; and each act or omission of a school district as a consequence of scheduled, approved visits and which constituted a failure by the district to comply with applicable State or federal laws or regulations pursuant to 105 ILCS 5/1A-4. These agreed-upon procedures were performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and our findings are as follows:

1. We reviewed the following articles of the School Code: 105 ILCS 5/1A-4; 105 ILCS 5/26-2a; and 105 ILCS 5/26-3a, noting the Agency's mandated duties.

2. We obtained and reviewed the Fiscal Year 2014 Annual Report for the State Board of Education, noting compliance with the statute as follows:

    a. Using the most recently available data, the Illinois State Board of Education prepared and submitted to the General Assembly and the Governor on or before January 14, 2015 a report or reports of its findings and recommendations.
    b. The Annual Report contained a separate section which provides a critique and analysis of the status of education in Illinois and which identifies its specific problems and recommends express solutions therefor.
    c. The Annual Report contained the following information for the preceding year ended June 30, 2014: Each act or omission of a school district of which the State Board of Education has knowledge as a consequence of scheduled, approved visits and which constituted a failure by the district to comply with applicable State or federal laws or regulations relating to public education, the name of such district, the date or dates on which the State Board of Education notified the school district of such act or omission, and what action, if any, the school district took with respect thereto after being notified thereof by the State Board of Education.

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d. The report included the statewide high school dropout rate by grade level, sex and race and the annual student dropout rate of and the number of students who graduate from, transfer from or otherwise leave bilingual programs.

3. We documented and determined the adequacy of the Agency's procedures for accumulating and reviewing dropout and transitional bilingual education data.

4. We obtained the list of school districts and verified submission of student data in Student Information System (SIS) for a sample of 40 school districts. We noted no exceptions.

5. We obtained the supporting file for the "2013-2014 High School Dropout Rates, by Grade Level, Gender, and Race/Ethnicity" prepared by the Agency. We traced dropout data for 20 selected students from the Agency's supporting file of dropout data to SIS and 20 selected students from SIS to Agency's supporting file of dropout data. We noted no exceptions.

6. We compared dropout data totals per the Agency's supporting file of dropout data for the school year 2013-2014 to those on the 2014 Annual Report filed with the General Assembly. All dropout totals, by grade level, gender, and race/ethnicity on the supporting file agreed to the report. We noted no exceptions.

7. We obtained the supporting file for the "2013-2014 Reasons for Exiting Limited English Proficient Programs" prepared by the Agency. We traced bilingual education data for 30 selected students from the Agency's supporting file of bilingual education data to SIS and 30 selected students from SIS to the Agency's supporting file of bilingual education data. We noted some exceptions as follows:

   - The total number of students per program exit codes reported in the 2014 Annual Report did not match with the supporting files.

Reasons for Exiting the LEP Program	*Per Supporting Files*	*As Reported in the Annual Report*	*Difference*
Withdrawn by Parents	2,206	2,177	29
Transferred	7,421	7,424	(3)
Graduated	1,962	1,975	(13)
Other	1,034	1,031	3
Have Not Exited	172,407	172,348	59

   - A total of 71 students classified in the 2014 Annual Report as transferred should have been classified as dropped out.

8. We compared bilingual education data totals per the Agency's supporting file of bilingual education data for school year 2013-2014 to those on the 2014 Annual Report filed with the General Assembly. All bilingual education data totals, by reason of exiting the bilingual program, on the supporting file agreed to the report but with exceptions which are described under Procedure No. 7 above.

9. We obtained the schedule of bilingual education data generated from the Statistical Analysis System (SAS). We compared bilingual education data totals per the SAS schedule to those on the 2014 Annual Report filed with the General Assembly. All bilingual education data totals, by reason of exiting the bilingual program, on the SAS schedule agreed to the report but with exceptions which are described under Procedure No. 7 above.

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

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

E.C. Ortiz & Co., LLP

Chicago, Illinois
December 22, 2015

STATE OF ILLINOIS
ILLINOIS STATE BOARD OF EDUCATION
PRIOR FINDING NOT REPEATED
FOR THE YEAR ENDED JUNE 30, 2015

A. **FINDING** (Required Information Not Included in the Annual Report)

During the prior examination period, it was noted that the Agency did not include the following required information in its 2013 Annual Report:

- Dates on which the Agency notified the school districts for each act or omission, and what action, if any, the school districts took with respect thereto after being notified thereof by the Agency.

- Reasons for exiting Limited English Proficient (LEP) programs that include information on the number of students who graduate from, transfer from or otherwise leave bilingual programs.

- Number of men and women teachers.

During the current examination period, the results of our testing showed the Agency included all the required information in its 2014 Annual Report. (Finding Code Nos. 2014-006, 2013-002, 12-5)