

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

**FINANCIAL AUDIT  
For the Year Ended June 30, 2011**

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, 2011**

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**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
FINANCIAL AUDIT**

**Agency Officials**

Board Members of the Illinois State Board of Education:

Gery J. Chico, Chairperson (as of 06/07/11)  
Jesse H. Ruiz, Chairperson (until 05/27/11)  
Steven R. Gilford, Vice-Chairperson (as of 01/26/12)  
Dr. Christopher J. Ward, Vice-Chairperson (until 10/11/11)  
Dr. Vinni M. Hall, Secretary

James W. Baumann  
Melinda A. LaBarre  
Dr. Andrea S. Brown  
Dr. David L. Fields  
Lanita J. Koster

State Superintendent of Education

Dr. Christopher A. Koch, Ed.D.

Cabinet members:

General Counsel/Legal

Darren Reisberg

Chief Internal Auditor

Melissa Oller (as of 09/15/10)  
Lisa LaBonte (until 08/31/10)

Human Resources Director

Donald Evans

Public Information Director

Matthew Vanover

Chief Financial Officer

Linda Riley Mitchell

Assistant Superintendents:

Special Education and Support Services  
School Support Services for All Schools  
Standards and Assessments

Elizabeth Hanselman  
Linda Tomlinson  
Vacant (as of 08/17/11)  
John Evans (until 08/16/11)  
Connie Wise (until 06/30/11)  
Susie Morrison (as of 09/16/11)  
Vacant (until 09/15/11)  
Reyna Hernandez (as of 09/16/11)

Educational Programs

Center for Language & Early Child Development

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

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

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

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
FINANCIAL AUDIT**

**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 unqualified opinion on the Agency's basic financial statements.

**Summary of Findings**

The auditors identified a matter involving the Agency's internal control over financial reporting that they considered to be a material weakness. The material weakness is described in the accompanying Schedule of Findings listed in the table of contents as finding 11-1, *Financial Adjustments*.

**Exit Conference**

The Agency waived having an exit conference in a letter dated May 22, 2012, from the Agency's Chief Internal Auditor, Melissa Oller.

The response to the recommendation was provided by Melissa Oller in a letter dated May 22, 2012.



## INDEPENDENT AUDITORS' REPORT

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 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, 2011, which collectively comprise the Illinois State Board of Education's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Illinois State Board of Education's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the Illinois State Board of Education as of June 30, 2010, were audited by other auditors whose report dated March 24, 2011, expressed an unqualified opinion on the respective financial statements of the governmental activities, the major fund, and the aggregate remaining fund information.

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

As discussed in Note 2, the financial statements of the Illinois State Board of Education are intended to present the financial position and changes in financial position of only that portion of the governmental activities, the major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Illinois State Board of Education. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2011, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Illinois State Board of Education, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note 15 that were applied to restate the financial statements as of June 30, 2010. In our opinion, such adjustments are appropriate and have been properly applied.

The Illinois State Board of Education adopted the reporting and disclosure requirements of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, during the year ended June 30, 2011. The statement changed the classifications of governmental fund balances and clarified the definitions of existing fund types. The adoption of this statement had no effect on any of the Illinois State Board of Education's governmental funds' assets or liabilities nor was there any effect to the total amount of any of the Illinois State Board of Education's governmental fund balances as of and for the year ended June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 22, 2012 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

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

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

May 22, 2012

**STATE OF ILLINOIS**  
**ILLINOIS STATE BOARD OF EDUCATION**  
**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET**  
**JUNE 30, 2011**

(amounts expressed in thousands)

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>ASSETS</b>					
Unexpended appropriations	\$ 1,217,337	\$ 7,693	\$ 1,225,030	\$ -	\$ 1,225,030
Cash and cash equivalents	13	7,695	7,708	-	7,708
Securities lending collateral equity	-	137	137	-	137
Due from federal government	-	506,076	506,076	-	506,076
Due from local governments	25	2,341	2,366	-	2,366
Other receivables	2,943	515	3,458	-	3,458
Due from other State funds	3	3,730	3,733	-	3,733
Due from component units of the State	-	324	324	-	324
Inventories	-	1,412	1,412	-	1,412
Loans receivable	-	3,215	3,215	-	3,215
Prepaid expenses	-	-	-	551	551
Capital assets not being depreciated	-	-	-	3,093	3,093
Capital assets net of depreciation	-	-	-	13,512	13,512
<b>TOTAL ASSETS</b>	<u>\$ 1,220,321</u>	<u>\$ 533,138</u>	<u>\$ 1,753,459</u>	<u>\$ 17,156</u>	<u>\$ 1,770,615</u>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 1,134,490	\$ 11,775	\$ 1,146,265	\$ -	\$ 1,146,265
Obligations under securities lending	-	137	137	-	137
Due to federal government	-	1,267	1,267	-	1,267
Due to local governments	1,713,739	517,367	2,231,106	-	2,231,106
Due to other State funds	908	7,856	8,764	-	8,764
Due to component units of the State	287	1,019	1,306	-	1,306
Deferred revenue	-	43,998	43,998	(43,998)	-
Compensated absences, current portion	-	-	-	68	68
Installment purchase, current portion	-	-	-	194	194
Compensated absences, long-term portion	-	-	-	4,029	4,029
Installment purchase, long-term portion	-	-	-	189	189
Total Liabilities	<u>2,849,424</u>	<u>583,419</u>	<u>3,432,843</u>	<u>(39,518)</u>	<u>3,393,325</u>
<b>FUND BALANCES (DEFICIT)/NET ASSETS (DEFICIT)</b>					
Reserved for inventories	-	1,412	1,412	(1,412)	-
Reserved for long-term portion of loans receivable	-	3,215	3,215	(3,215)	-
Invested in capital assets, net of related debt	-	-	-	16,222	16,222
Restricted net assets	-	-	-	196	196
Unreserved, unrestricted	(1,629,103)	(54,908)	(1,684,011)	44,883	(1,639,128)
Total Fund Deficit/Net Deficit	<u>(1,629,103)</u>	<u>(50,281)</u>	<u>(1,679,384)</u>	<u>\$ 56,674</u>	<u>\$ (1,622,710)</u>
<b>TOTAL LIABILITIES AND FUND DEFICIT</b>	<u>\$ 1,220,321</u>	<u>\$ 533,138</u>	<u>\$ 1,753,459</u>		

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

**STATE OF ILLINOIS**  
**ILLINOIS STATE BOARD OF EDUCATION**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2011**  
(amounts expressed in thousands)

Total Fund Deficit - governmental funds	\$ (1,679,384)
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	16,605
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Prepaid expenses for governmental activities are current uses of financial resources for funds.	551
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Revenues in the Statement of Activities that do not provide current financial resources are deferred in governmental funds.	43,998
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Some liabilities reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds. These activities consist of:

Capital lease obligations	(383)
Compensated absences	(4,097)
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<b>NET DEFICIT OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ (1,622,710)</b>
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The accompanying notes to the basic financial statements are an integral part of this statement.



STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2011  
(amounts expressed in thousands)

	General Fund	Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Activities
<b>EXPENDITURES/EXPENSES</b>					
Program expense - education	\$ 6,930,578	\$ 2,869,577	\$ 9,800,155	\$ (4,300)	\$ 9,795,855
Debt service principal	71	114	185	(185)	-
Debt service interest	10	15	25	(25)	-
Capital outlays	841	1,694	2,535	(2,535)	-
Total Expenditures/Expenses	<u>6,931,500</u>	<u>2,871,400</u>	<u>9,802,900</u>	<u>(7,045)</u>	<u>9,795,855</u>
<b>PROGRAM REVENUES</b>					
Charges for services:					
Licenses and fees	170	1,895	2,065	-	2,065
Total charges for services	<u>170</u>	<u>1,895</u>	<u>2,065</u>	<u>-</u>	<u>2,065</u>
Operating grant revenue:					
Federal	-	2,822,719	2,822,719	39,405	2,862,124
Refunds	-	(3,406)	(3,406)	-	(3,406)
Total operating grant revenue	<u>-</u>	<u>2,819,313</u>	<u>2,819,313</u>	<u>39,405</u>	<u>2,858,718</u>
Net Program Deficit	<u>(6,931,330)</u>	<u>(50,192)</u>	<u>(6,981,522)</u>	<u>46,450</u>	<u>(6,935,072)</u>
<b>GENERAL REVENUES</b>					
Interest	-	58	58	-	58
Other (net)	3	997	1,000	-	1,000
Total General Revenues	<u>3</u>	<u>1,055</u>	<u>1,058</u>	<u>-</u>	<u>1,058</u>
<b>OTHER SOURCES (USES)</b>					
Appropriations from State resources	7,019,761	35,045	7,054,806	-	7,054,806
Receipts collected and remitted to State Treasury	(10,951)	-	(10,951)	-	(10,951)
Capital transfers to other State agencies	-	-	-	(7)	(7)
Operating transfers - out	-	(630)	(630)	-	(630)
Total Other Sources (Uses)	<u>7,008,810</u>	<u>34,415</u>	<u>7,043,225</u>	<u>(7)</u>	<u>7,043,218</u>
Change in fund balances/net assets	77,483	(14,722)	62,761	<u>\$ 46,443</u>	109,204
Lapsed appropriations	(97,909)	(1,897)	(99,806)		(99,806)
Fund Deficit/Net Deficit, July 1, 2010, as restated	<u>(1,608,677)</u>	<u>(33,662)</u>	<u>(1,642,339)</u>		<u>(1,632,108)</u>
<b>FUND DEFICIT/NET DEFICIT, JUNE 30, 2011</b>	<u>\$ (1,629,103)</u>	<u>\$ (50,281)</u>	<u>\$ (1,679,384)</u>		<u>\$ (1,622,710)</u>

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

**STATE OF ILLINOIS**  
**ILLINOIS STATE BOARD OF EDUCATION**  
**RECONCILIATION OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(amounts expressed in thousands)

Net Change in Fund Balances - governmental funds	\$ 62,761
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.	1,255
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	185
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. This amount represents the increase in unavailable revenue over the prior year.	39,405
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	20
Decrease in compensated absences	311
Decrease in other obligations	5,274
Some capital assets were transferred out to other State agencies and, therefore, were disposed of by the Agency without receipt for value.	(7)
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<u><u>\$ 109,204</u></u>

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

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011**

**1. ORGANIZATION**

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

The Illinois State Board of Education is organized to provide leadership, 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.

**FINANCIAL REPORTING ENTITY**

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

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

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

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011**

**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. A brief description of the Agency's government-wide and fund financial statements is as follows:

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

The Statement of Net Assets presents the assets and liabilities of the Agency's governmental activities with the difference being reported as net assets. 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 amount due in more than one year.

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

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

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

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

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011**

Additionally, the Agency administers the following fund type:

**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 specified purposes are accounted for in special revenue funds. All Agency administered State and federal trust funds are included in the Special Revenue Funds grouping.

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

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

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

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

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

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.

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011**

**SHARED FUND PRESENTATION**

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

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

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011**

**CASH AND CASH EQUIVALENTS**

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

**INVENTORIES**

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 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 reserves an equivalent portion of fund balance. Commodities are valued at the value assigned to the commodities by the donor, the U.S. Department of Agriculture.

**INTERFUND TRANSACTIONS AND TRANSACTIONS WITH STATE OF ILLINOIS COMPONENT UNITS**

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

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

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

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

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

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011**

**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	1,000,000	20 years

**COMPENSATED ABSENCES**

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

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



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**FUND BALANCES**

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent because they are either not in spendable form or legally required to be maintained intact.

Restricted – Amounts which can be spent only for specific purposes because of state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – Amounts which can be used only for specific purposes determined by formal action through a resolution. Fund balance commitments can only be removed or changed by action of the General Assembly.

Assigned – Amounts that are constrained by the Agency’s intent to be used for specific purposes but are neither restricted nor committed. Fund balance assignment can only be removed or changed by action of the General Assembly.

Unassigned – All amounts not included in other spendable classifications.

**NET ASSETS**

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

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

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

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

**USE OF ESTIMATES**

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

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**3. DEPOSITS**

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

Deposits in the custody of the State Treasurer, including cash on hand or in transit, totaled \$7.7 million at June 30, 2011. These deposits are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Agency does not own individual securities. Detail on the nature of these deposits is available within the State of Illinois' Comprehensive Annual Financial Report.

**Securities Lending Transactions**

Under the authority of the Treasurer's published investment policy that was developed in accordance with the State statute, 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 Group to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During fiscal year 2011, Deutsche Bank Group lent U.S. agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

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

During the fiscal year, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank Group 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, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2011 arising from securities lending agreements to the various funds of the State. The total allocated to the Agency at June 30, 2011 was \$137 thousand.

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**4. INTERFUND BALANCES AND ACTIVITY**

**BALANCES DUE TO/FROM OTHER FUNDS**

The following balances (amounts expressed in thousands) at June 30, 2011 represent amounts due from other funds of the Agency and other State of Illinois funds.

<u>Fund</u>	<u>Due from other State funds</u>	<u>Description/Purpose</u>
General	\$ 3	Grants for educational purposes
Nonmajor Governmental	<u>3,730</u>	Grants for educational purposes, technology loan programs, and temporary relocation expenses
Total	<u>\$ 3,733</u>	

The following balances (amounts expressed in thousands) at June 30, 2011 represent amounts due to other funds of the Agency and other State of Illinois funds.

<u>Fund</u>	<u>Due to other State funds</u>	<u>Description/Purpose</u>
General	\$ 908	Grants for educational purposes
Nonmajor Governmental	<u>7,856</u>	Grants for educational purposes and federal food service programs
Total	<u>\$ 8,764</u>	

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Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2011, were as follows:

<u>Fund</u>	<u>Transfers out to other State funds</u>	<u>Description/Purpose</u>
Nonmajor Governmental	<u>\$ 630</u>	Funds swept into General Revenue Fund and grants to schools for temporary relocation and emergency financial assistance

**5. BALANCES AND ACTIVITY BETWEEN THE AGENCY AND COMPONENT UNITS**

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

Amounts due to/from discretely presented component units of the State of Illinois at June 30, 2011 were as follows (amounts expressed in thousands):

<u>Fund</u>	<u>Due from component units</u>	<u>Due to component units</u>	<u>Description/Purpose</u>
General	\$ -	\$ 287	Grants for educational purposes
Nonmajor Governmental	<u>324</u>	<u>1,019</u>	Grants for educational purposes and for U.S. Department of Education Jobs programs
Total	<u>\$ 324</u>	<u>\$ 1,306</u>	

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**6. LOANS RECEIVABLE**

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

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

Loans receivable at June 30, 2011 consisted of the following:

<u>Program</u>	<u>Balance</u>
School District Emergency Financial Assistance Program	\$ 1,064
Charter Schools Revolving Loan Program	22
School Technology Revolving Loan Program	1,778
Temporary Relocation Expenses Revolving Grant Program	<u>351</u>
Total	<u>\$ 3,215</u>

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**7. CAPITAL ASSETS**

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2011 was as follows:

	Balance July 1, 2010	Additions	Deletions	Net Transfers	Balance June 30, 2011
Capital assets not being depreciated:					
Land	\$1,063	\$ -	\$ -	\$ -	\$1,063
Total capital assets not being depreciated	<u>1,063</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,063</u>
Capital assets being depreciated:					
Buildings	436	-	-	-	436
Equipment	6,519	653	-	(122)	7,050
Capital leases equipment	35	-	-	-	35
Total capital assets being depreciated	<u>6,990</u>	<u>653</u>	<u>-</u>	<u>(122)</u>	<u>7,521</u>
Less: accumulated depreciation					
Buildings	256	9	-	-	265
Equipment	5,480	338	-	(115)	5,703
Capital leases equipment	12	12	-	-	24
Total accumulated depreciation	<u>5,748</u>	<u>359</u>	<u>-</u>	<u>(115)</u>	<u>5,992</u>
Total capital assets being depreciated, net	<u>1,242</u>	<u>294</u>	<u>-</u>	<u>(7)</u>	<u>1,529</u>
Total capital assets, net	<u>\$2,305</u>	<u>\$ 294</u>	<u>\$ -</u>	<u>\$ (7)</u>	<u>\$2,592</u>

Depreciation expense for governmental activities for the year ended June 30, 2011 was charged to the Education function for an amount of \$359 thousand.

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Intangible asset activity (amounts expressed in thousands) for the year ended June 30, 2011 was as follows:

	Balance July 1, 2010	Additions	Deletions	Net Transfers	Balance June 30, 2011
Intangible assets not being amortized:					
Internally generated in development	\$1,393	\$637	\$-	\$-	\$2,030
Total Intangible assets not being amortized	1,393	637	-	-	2,030
Intangible assets being amortized:					
Internally generated computer software	14,752	1,245	-	-	15,997
Total intangible assets being amortized	14,752	1,245	-	-	15,997
Less: accumulated amortization Internally generated computer software	3,093	921	-	-	4,014
Total accumulated amortization	3,093	921	-	-	4,014
Total intangible assets being amortized, net	11,659	324	-	-	11,983
Total intangible assets, net	\$13,052	\$961	\$-	\$-	\$14,013

Amortization for governmental activities for the year ended June 30, 2011 was charged to the Education function for an amount of \$921 thousand.

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**8. LONG-TERM OBLIGATIONS**

**CHANGES IN LONG-TERM OBLIGATIONS**

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2011 were as follows:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2011</u>	<u>Amounts due within 1 year</u>
Compensated absences	\$ 4,408	\$2,718	\$3,029	\$4,097	\$ 68
Installment purchases	568	-	185	383	194
Other obligations	<u>5,274</u>	<u>-</u>	<u>5,274</u>	<u>-</u>	<u>-</u>
Total	<u>\$10,250</u>	<u>\$2,718</u>	<u>\$8,488</u>	<u>\$4,480</u>	<u>\$ 262</u>

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

**INSTALLMENT PURCHASE OBLIGATIONS**

The Agency has acquired certain office equipment, computer equipment, and other assets through installment purchase arrangements. Future debt service requirements under installment purchase contracts (amounts expressed in thousands) at June 30, 2011 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$194	\$17	\$211
2013	189	9	198
Total	<u>\$383</u>	<u>\$26</u>	<u>\$409</u>



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**9. PENSION PLAN**

**PLAN DESCRIPTION**

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

The financial position and results of operations of the SERS and the TRS for fiscal year 2011 are included in the State of Illinois' CAFR for the year ended June 30, 2011. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255 or by calling (217) 785-7202. The TRS also issues a separate CAFR that may be obtained by writing to the TRS, P.O. Box 19253, Springfield, Illinois, 62794-9253 or by calling (217) 753-0311. The State of Illinois CAFR may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1858 or by calling (217) 782-2053.

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

**FUNDING POLICY**

For employees covered by the SERS, the Agency pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2011 the employer contribution rate for the SERS was 27.988%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the entire employee portion of retirement for most State agencies, including the Agency, with employees covered by the State Employees' Retirement System. However, effective with the fiscal year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State agencies, including the Agency, for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pickup, when applicable, is subject to sufficient annual appropriations and those employee covered may vary across employee groups and State agencies.

For employees covered by the TRS, the Agency pays employer retirement contributions based on a statutory based percentage of .58%. For employees paid from federal funds, the fiscal year 2011 employer contribution rate to the TRS was 25.12%. In addition, the State of Illinois makes employer contributions "on behalf" of TRS covered employees. For the year ended June 30, 2011, State contributions were based on 9.4% of creditable earnings.

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**10. POST-EMPLOYMENT BENEFITS**

The State provides health, dental and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service to not have to contribute towards health, dental, and vision benefits. 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.

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 Comprehensive Annual Financial Report. 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 Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

**11. FUND DEFICITS**

The following funds had deficit balances at June 30, 2011 (amounts expressed in thousands):

General Revenue Fund	\$1,629,128
Drivers Education Fund	24,230
SBE Federal Department of Education Fund	36,429
U.S. Department of Education Jobs Program Fund	2,843

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

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**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, 2011.

**13. OTHER OBLIGATIONS**

A lawsuit against the City of Chicago and the Agency has resulted in a settlement requiring the Agency to pay \$19.25 million over 7 years to Chicago Public School District 299 to assist the district in providing special education services to identified eligible children within the least restrictive environment. The settlement, reached in July 1999, required the Agency to pay \$2.75 million per year through January 2006. In fiscal year 2005, a federal judge extended the ruling through the end of the 2009-2010 school year. Subsequently, a second motion to extend the Agency's settlement amount through August 1, 2011 was approved by the federal court.

Due to the district's failure to disburse an adequate amount of the Agency's portion of the settlement for the intended purpose, the Agency had paid only \$12.79 million of the settlement amount through June 30, 2011. ISBE's monitoring obligations under the settlement terminated August 1, 2011. The report of a special education compliance expert will be released January 3, 2012, after which time the parties will be given an opportunity to respond to the report. The court is expected to issue a final ruling on ISBE's settlement agreement by the close of fiscal year 2013.

Due to the expiration of the settlement agreement and the district's failure to disburse the funds for the intended purposes, ISBE believes the settlement balance of \$6.46 million is no longer a liability to ISBE or the State of Illinois.

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**14. COMMITMENTS AND CONTINGENCIES**

**OPERATING LEASES**

The Agency leases office space under the terms of a noncancelable operating lease agreement that requires the Agency to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was \$2.705 million for the year ended June 30, 2011.

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

Year ending June 30,	Amount
2012	\$ 2,340
2013	2,340
2014	2,340
2015	2,340
2016	2,340
Total	<u>\$ 11,700</u>

**FEDERAL FUNDING**

The Agency receives federal grants which are subject to review and audit by federal grantor agencies. Certain costs could be questioned as not being eligible expenditures under the terms of the grants. At June 30, 2011, 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.

**LITIGATION**

The Agency is named as a defendant in two separate lawsuits in which the plaintiffs claim personal injury stemming from tainted chicken tenders allegedly consumed by students and a claim regarding breach of a lease agreement.

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

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**15. PRIOR PERIOD ADJUSTMENT**

The Agency restated the beginning fund balance in the SBE Federal Department of Agriculture Fund and the SBE Federal Department of Education Fund, both nonmajor governmental funds, for the understatement of liabilities as a result of governmental nonexchange transactions not previously reported at June 30, 2010.

	Governmental Activities Governmental Funds	
	S.B.E. Federal Department of Agriculture Fund (410)	S.B.E. Federal Department Education Fund (561)
Fund Balances (Deficit) , June 30, 2010, as previously reported	\$1,612	(\$106)
Education Expenditures	(699)	(21,840)
Fund Balances (Deficit), June 30, 2010, as restated	<u>\$913</u>	<u>(\$21,946)</u>

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COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - GENERAL FUND  
BALANCE SHEET  
JUNE 30, 2011**

(amounts expressed in thousands)

	<b>General Revenue Fund (001)</b>	<b>Education Assistance Fund (007)</b>	<b>Common School Fund (412)</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 13	\$ -	\$ -	\$ 13
Due from local government	-	25	-	25
Other receivables	2,943	-	-	2,943
Due from other State funds	3	-	-	3
Unexpended appropriation	1,217,337	-	-	1,217,337
<b>TOTAL ASSETS</b>	<b>\$ 1,220,296</b>	<b>\$ 25</b>	<b>\$ -</b>	<b>\$ 1,220,321</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 1,134,490	\$ -	\$ -	\$ 1,134,490
Due to local governments	1,713,739	-	-	1,713,739
Due to other State funds	908	-	-	908
Due to component units of the State	287	-	-	287
<b>Total Liabilities</b>	<b>2,849,424</b>	<b>-</b>	<b>-</b>	<b>2,849,424</b>
<b>FUND BALANCES (DEFICIT)</b>				
Unassigned	(1,629,128)	25	-	(1,629,103)
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,220,296</b>	<b>\$ 25</b>	<b>\$ -</b>	<b>\$ 1,220,321</b>

**STATE OF ILLINOIS**  
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**COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(amounts expressed in thousands)

	<b>General Revenue Fund (001)</b>	<b>Education Assistance Fund (007)</b>	<b>Common School Fund (412)</b>	<b>Total</b>
<b>REVENUES</b>				
Licenses and fees	\$ 170	\$ -	\$ -	\$ 170
Other revenues	3	-	-	3
Total Revenues	<u>173</u>	<u>-</u>	<u>-</u>	<u>173</u>
<b>EXPENDITURES</b>				
Education	2,321,580	602,425	4,006,573	6,930,578
Debt service-principal	71	-	-	71
Debt service-interest	10	-	-	10
Capital outlay	841	-	-	841
Total Expenditures	<u>2,322,502</u>	<u>602,425</u>	<u>4,006,573</u>	<u>6,931,500</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(2,322,329)</u>	<u>(602,425)</u>	<u>(4,006,573)</u>	<u>(6,931,327)</u>
<b>OTHER SOURCES (USES)</b>				
Appropriations from State resources	2,410,356	602,439	4,006,966	7,019,761
Receipts collected and remitted to State Treasury	(10,921)	(30)	-	(10,951)
Net Other Sources	<u>2,399,435</u>	<u>602,409</u>	<u>4,006,966</u>	<u>7,008,810</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND NET OTHER SOURCES	77,106	(16)	393	77,483
Lapsed appropriations	(97,513)	-	(396)	(97,909)
Fund Balances (Deficit) July 1, 2010	<u>(1,608,721)</u>	<u>41</u>	<u>3</u>	<u>(1,608,677)</u>
<b>FUND BALANCES (DEFICIT) JUNE 30, 2011</b>	<u><u>\$ (1,629,128)</u></u>	<u><u>\$ 25</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (1,629,103)</u></u>

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COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - NONMAJOR FUNDS  
BALANCE SHEET  
JUNE 30, 2011  
(amounts expressed in thousands)

	Special Revenue Funds				
	Teacher Certificate Fee Revolving Fund (016)	School District Drivers Education Fund (031)	Emergency Financial Assistance Fund (130)	S.B.E. Special Purpose Trust Fund (144)	S.B.E. Teacher Certification Institute Fund (159)
<b>ASSETS</b>					
Cash and cash equivalents	\$ 2,262	\$ -	\$ 1	\$ 2,315	\$ 1,201
Securities lending collateral equity	-	-	-	-	-
Due from federal government	-	-	-	-	-
Due from local governments	-	-	3	3	-
Other receivables	-	-	-	-	-
Due from other State funds	-	-	295	-	-
Due from component units of the State	-	-	-	-	-
Inventories	-	-	-	-	-
Loans receivable	-	-	1,064	-	-
Unexpended appropriation	-	7,385	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 2,262</b>	<b>\$ 7,385</b>	<b>\$ 1,363</b>	<b>\$ 2,318</b>	<b>\$ 1,201</b>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 53	\$ 7,385	\$ -	\$ 20	\$ 1
Obligations under securities lending	-	-	-	-	-
Due to federal government	-	-	-	-	-
Due to local governments	-	24,230	-	-	-
Due to other State funds	-	-	-	6	-
Due to component units of the State	-	-	-	-	-
Deferred revenue	-	-	-	-	-
<b>Total Liabilities</b>	<b>53</b>	<b>31,615</b>	<b>-</b>	<b>26</b>	<b>1</b>
<b>FUND BALANCES</b>					
Nonspendable	-	-	-	-	-
Restricted	-	-	-	196	-
Committed	2,209	-	1,363	-	1,200
Assigned	-	-	-	2,096	-
Unassigned	-	(24,230)	-	-	-
<b>Total Fund Balances (Deficit)</b>	<b>2,209</b>	<b>(24,230)</b>	<b>1,363</b>	<b>2,292</b>	<b>1,200</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,262</b>	<b>\$ 7,385</b>	<b>\$ 1,363</b>	<b>\$ 2,318</b>	<b>\$ 1,201</b>



STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - NONMAJOR FUNDS  
BALANCE SHEET  
JUNE 30, 2011  
(amounts expressed in thousands)

	Special Revenue Funds				
	S.B.E. Federal Dept. of Agriculture Fund (410)	S.B.E. Federal Agency Service Fund (560)	S.B.E. Federal Dept. of Education Fund (561)	Charter Schools Revolving Loan Fund (567)	School Infrastructure Fund (568)
<b>ASSETS</b>					
Cash and cash equivalents	\$ 390	\$ 8	\$ 971	\$ 1	\$ -
Securities lending collateral equity	-	-	-	-	-
Due from federal government	47,266	145	438,405	-	-
Due from local governments	-	-	2,335	-	-
Other receivables	515	-	-	-	-
Due from other State funds	-	-	418	4	-
Due from component units of the State	-	-	324	-	-
Inventories	1,412	-	-	-	-
Loans receivable	-	-	-	22	-
Unexpended appropriation	-	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 49,583</b>	<b>\$ 153</b>	<b>\$ 442,453</b>	<b>\$ 27</b>	<b>\$ -</b>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 29	\$ 96	\$ 4,191	\$ -	\$ -
Obligations under securities lending	-	-	-	-	-
Due to federal government	3	-	1,264	-	-
Due to local governments	43,735	57	428,899	-	-
Due to other State funds	201	-	7,649	-	-
Due to component units of the State	-	-	897	-	-
Deferred revenue	5,173	-	35,982	-	-
Total Liabilities	49,141	153	478,882	-	-
<b>FUND BALANCES</b>					
Nonspendable	1,412	-	-	-	-
Restricted	-	-	-	-	-
Committed	-	-	-	27	-
Assigned	-	-	-	-	-
Unassigned	(970)	-	(36,429)	-	-
Total Fund Balances (Deficit)	442	-	(36,429)	27	-
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 49,583</b>	<b>\$ 153</b>	<b>\$ 442,453</b>	<b>\$ 27</b>	<b>\$ -</b>

STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - NONMAJOR FUNDS  
BALANCE SHEET  
JUNE 30, 2011  
(amounts expressed in thousands)

	Special Revenue Funds				Total
	School Technology Revolving Loan Program Fund (569)	Temporary Relocation Expenses Rev. Grant Fund (605)	US Dept of Education Jobs Program Fund (857)	Build Illinois Bond Fund (971)	
<b>ASSETS</b>					
Cash and cash equivalents	\$ 546	\$ -	\$ -	\$ -	\$ 7,695
Securities lending collateral equity	137	-	-	-	137
Due from federal government	-	-	20,260	-	506,076
Due from local governments	-	-	-	-	2,341
Other receivables	-	-	-	-	515
Due from other State funds	2,414	599	-	-	3,730
Due from component units of the State	-	-	-	-	324
Inventories	-	-	-	-	1,412
Loans receivable	1,778	351	-	-	3,215
Unexpended appropriation	-	-	-	308	7,693
<b>TOTAL ASSETS</b>	<b>\$ 4,875</b>	<b>\$ 950</b>	<b>\$ 20,260</b>	<b>\$ 308</b>	<b>\$ 533,138</b>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ 11,775
Obligations under securities lending	137	-	-	-	137
Due to federal government	-	-	-	-	1,267
Due to local governments	-	-	20,138	308	517,367
Due to other State funds	-	-	-	-	7,856
Due to component units of the State	-	-	122	-	1,019
Deferred revenue	-	-	2,843	-	43,998
Total Liabilities	137	-	23,103	308	583,419
<b>FUND BALANCES</b>					
Nonspendable	-	-	-	-	1,412
Restricted	-	-	-	-	196
Committed	4,738	950	-	-	10,487
Assigned	-	-	-	-	2,096
Unassigned	-	-	(2,843)	-	(64,472)
Total Fund Balances (Deficit)	4,738	950	(2,843)	-	(50,281)
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 4,875</b>	<b>\$ 950</b>	<b>\$ 20,260</b>	<b>\$ 308</b>	<b>\$ 533,138</b>

STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - NONMAJOR FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUNDS BALANCES  
FOR THE YEAR ENDED JUNE 30, 2011  
(amounts expressed in thousands)

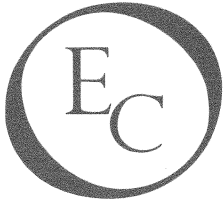
	<b>Special Revenue Funds</b>				
	<b>Teacher Certificate Fee Revolving Fund (016)</b>	<b>School District Drivers Education Fund (031)</b>	<b>Emergency Financial Assistance Fund (130)</b>	<b>S.B.E. Special Purpose Trust Fund (144)</b>	<b>S.B.E. Teacher Certification Institute Fund (159)</b>
<b>REVENUES</b>					
Federal government	\$ -	\$ -	\$ -	\$ 4,461	\$ -
Licenses and fees	1,656	-	-	-	239
Interest	-	-	7	-	-
Other revenues	-	-	-	95	-
Refunds	-	-	-	-	-
<b>Total Revenues</b>	<b>1,656</b>	<b>-</b>	<b>7</b>	<b>4,556</b>	<b>239</b>
<b>EXPENDITURES</b>					
Education	769	24,246	151	3,447	82
Debt service-principal	-	-	-	74	-
Debt service-interest	-	-	-	9	-
Capital outlay	-	-	-	-	-
<b>Total Expenditures</b>	<b>769</b>	<b>24,246</b>	<b>151</b>	<b>3,530</b>	<b>82</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>887</b>	<b>(24,246)</b>	<b>(144)</b>	<b>1,026</b>	<b>157</b>
<b>OTHER SOURCES (USES)</b>					
Appropriations from State resources	-	24,321	-	-	-
Operating transfers-out	-	-	(515)	-	-
<b>Net Other Sources (Uses)</b>	<b>-</b>	<b>24,321</b>	<b>(515)</b>	<b>-</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND NET OTHER SOURCES (USES)</b>	<b>887</b>	<b>75</b>	<b>(659)</b>	<b>1,026</b>	<b>157</b>
Lapsed appropriations	-	(75)	-	-	-
Fund Balances (Deficit) July 1, 2010, as restated	1,322	(24,230)	2,022	1,266	1,043
<b>FUND BALANCES (DEFICIT) JUNE 30, 2011</b>	<b>\$ 2,209</b>	<b>\$ (24,230)</b>	<b>\$ 1,363</b>	<b>\$ 2,292</b>	<b>\$ 1,200</b>

STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - NONMAJOR FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUNDS BALANCES  
FOR THE YEAR ENDED JUNE 30, 2011  
(amounts expressed in thousands)

	Special Revenue Funds				
	S.B.E. Federal Dept. of Agriculture Fund (410)	S.B.E. Federal Agency Services Fund (560)	S.B.E. Federal Dept. of Education Fund (561)	Charter Schools Revolving Loan Fund (567)	School Infrastructure Fund (568)
<b>REVENUES</b>					
Federal government	\$ 664,098	\$ 1,116	\$ 1,850,568	\$ -	\$ -
Licenses and fees	-	-	-	-	-
Interest	-	-	-	-	-
Other revenues	7	-	895	-	-
Refunds	(577)	-	(2,829)	-	-
Total Revenues	<u>663,528</u>	<u>1,116</u>	<u>1,848,634</u>	<u>-</u>	<u>-</u>
<b>EXPENDITURES</b>					
Education	663,528	1,116	1,861,848	-	362
Debt service-principal	18	-	22	-	-
Debt service-interest	2	-	4	-	-
Capital outlay	451	-	1,243	-	-
Total Expenditures	<u>663,999</u>	<u>1,116</u>	<u>1,863,117</u>	<u>-</u>	<u>362</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(471)</u>	<u>-</u>	<u>(14,483)</u>	<u>-</u>	<u>(362)</u>
<b>OTHER SOURCES (USES)</b>					
Appropriations from State resources	-	-	-	-	724
Operating transfers-out	-	-	-	-	-
Net Other Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>724</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND NET OTHER SOURCES (USES)	<u>(471)</u>	<u>-</u>	<u>(14,483)</u>	<u>-</u>	<u>362</u>
Lapsed appropriations	-	-	-	-	(362)
Fund Balances (Deficit) July 1, 2010, as restated	<u>913</u>	<u>-</u>	<u>(21,946)</u>	<u>27</u>	<u>-</u>
<b>FUND BALANCES (DEFICIT) JUNE 30, 2011</b>	<u>\$ 442</u>	<u>\$ -</u>	<u>\$ (36,429)</u>	<u>\$ 27</u>	<u>\$ -</u>

STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
COMBINING INDIVIDUAL GOVERNMENTAL FUNDS - NONMAJOR FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUNDS BALANCES  
FOR THE YEAR ENDED JUNE 30, 2011  
(amounts expressed in thousands)

	Special Revenue Funds				
	School Technology Revolving Loan Program Fund (569)	Temporary Relocation Expenses Rev. Grant Fund (605)	US Dept of Education Jobs Program Fund (857)	Build Illinois Bond Fund (971)	Total
<b>REVENUES</b>					
Federal government	\$ -	\$ -	\$ 302,476	\$ -	\$ 2,822,719
Licenses and fees	-	-	-	-	1,895
Interest	51	-	-	-	58
Other revenues	-	-	-	-	997
Refunds	-	-	-	-	(3,406)
<b>Total Revenues</b>	<u>51</u>	<u>-</u>	<u>302,476</u>	<u>-</u>	<u>2,822,263</u>
<b>EXPENDITURES</b>					
Education	1	168	305,319	8,540	2,869,577
Debt service-principal	-	-	-	-	114
Debt service-interest	-	-	-	-	15
Capital outlay	-	-	-	-	1,694
<b>Total Expenditures</b>	<u>1</u>	<u>168</u>	<u>305,319</u>	<u>8,540</u>	<u>2,871,400</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>50</u>	<u>(168)</u>	<u>(2,843)</u>	<u>(8,540)</u>	<u>(49,137)</u>
<b>OTHER SOURCES (USES)</b>					
Appropriations from State resources	-	-	-	10,000	35,045
Operating transfers-out	-	(115)	-	-	(630)
<b>Net Other Sources (Uses)</b>	<u>-</u>	<u>(115)</u>	<u>-</u>	<u>10,000</u>	<u>34,415</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND NET OTHER SOURCES (USES)</b>	<u>50</u>	<u>(283)</u>	<u>(2,843)</u>	<u>1,460</u>	<u>(14,722)</u>
Lapsed appropriations	-	-	-	(1,460)	(1,897)
Fund Balances (Deficit) July 1, 2010, as restated	4,688	1,233	-	-	(33,662)
<b>FUND BALANCES (DEFICIT) JUNE 30, 2011</b>	<u>\$ 4,738</u>	<u>\$ 950</u>	<u>\$ (2,843)</u>	<u>\$ -</u>	<u>\$ (50,281)</u>



**Independent Auditors' 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 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, 2011, which collectively comprise the Illinois State Board of Education's basic financial statements and have issued our report thereon dated May 22, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Illinois State Board of Education is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Illinois State Board of Education's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not for the purpose of expressing an opinion on the effectiveness of the Illinois State Board of Education's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Illinois State Board of Education's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in finding 11-1 in the accompanying Schedule of Findings to be a material weakness.

### Compliance and Other Matters

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

The Illinois State Board of Education's response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit the Illinois State Board of Education's response and, accordingly, we express no opinion on it.

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

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

May 22, 2012

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
SCHEDULE OF FINDINGS  
For the Year Ended June 30, 2011**

**CURRENT FINDING – GOVERNMENT AUDITING STANDARDS**

11-1 *Financial Adjustments*

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

During our review of the GAAP Reporting Packages submitted by the Agency to the Office of the State Comptroller and the draft financial statements, we noted the following errors:

- The Agency did not completely record as liabilities for fiscal year 2011 all grant expenditures incurred by its subrecipients as of June 30, 2011. Only those expenditure reports received by the Agency as of August 18, 2011, an internal cut-off date set by the Agency, were recorded as liabilities for fiscal year 2011. We also noted the Agency overstated the fiscal year 2011 beginning balance of nonmajor funds due to improper liability recognition. These conditions resulted in an overstatement of nonmajor funds ending fund balances totaling \$16,188,777 as of June 30, 2011 with corresponding unrecorded receivables from the Federal government, payables to local governments, and deferred revenue-unavailable of \$58,404,643, \$58,404,643 and \$38,727,748, respectively. Further, a restatement of nonmajor funds beginning fund balances was required, amounting to \$22,538,971.
- The assigned fund balance of the State Board of Education Special Purpose Trust Fund (Fund 144) of \$2,096,000 for fiscal year 2011 was presented as restricted net assets in the Statement of Net Assets and Governmental Funds Balance Sheet instead of unrestricted net assets.

The Agency subsequently made the necessary adjustments in the financial statements to properly record the above transactions.

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

Generally Accepted Accounting Principles (GAAP) for governmental entities is promulgated by the Governmental Accounting Standards Board (GASB). GASB No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, paragraph 20c indicates the eligibility requirement for reimbursements – that the provider offers resources on a reimbursement (expenditure-driven) basis and the recipient has incurred allowable costs under the applicable program. GASB 33 Implementation Guide Z.33.15 states that reimbursement eligibility requirements are met when recipients incur allowable costs, not when those costs are submitted for reimbursement. In addition, GASB 33 Footnote 10 also states that recognition of assets and revenues should not be delayed pending completion of purely routine requirements, such as the



**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
SCHEDULE OF FINDINGS  
For the Year Ended June 30, 2011**

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

11-1 *Financial Adjustments, Continued*

filing of claims for allowable costs under a reimbursement program or the filing of progress reports with the provider.

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, requires that amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, requires that net assets should be reported as restricted if constraints on net assets are either (1) externally imposed by creditors (e.g., debt covenants), grantors, contributors, or the laws or regulations of other governments, or (2) imposed by the government's own laws or constitutional provisions. Self-imposed restrictions, such as earmarking funds for a specific purpose, can easily be removed and therefore, are not considered restrictions for financial reporting purposes.

Agency officials stated that unrecorded liabilities were due to a different interpretation of liability measurement requirements under GASB 33 by the Agency and other liability misstatements were due to improper liability cut-off and compilation errors. The misclassification of the fund balance for fiscal year 2011 was due to errors in the current year implementation of GASB 54.

Failure to implement proper internal control procedures over financial reporting resulted in material misstatements in the Agency's financial statements.

***Recommendation***

We recommend the Agency review its current process for preparation and review of the annual financial statements as well as its policies and procedures for liability measurement and implementation of new accounting standards to ensure that financial information is complete and accurate.

***Agency Response***

Agency management concurs with the finding. The Agency will review its current process for financial statement preparation as well as develop and employ a new methodology to ensure the proper liability measurement and recognition for financial reporting in regards to the Agency's nonexchange transactions will be in compliance with GASB 33.



## INDEPENDENT ACCOUNTANTS' REPORT ON AGREED-UPON PROCEDURES

Honorable William G. Holland  
Auditor General  
State of Illinois

and

The Board Members of the  
Illinois State Board of Education

As Special Assistant Auditor for the Auditor General, we have performed each of the procedures enumerated below, which were agreed to by the Auditor General, solely to assist the users in evaluating management's assertion about the Illinois State Board of Education's compliance with respect to the reporting; during the year ended June 30, 2011, of the statewide high school dropout rate by grade level, sex, race, and the annual student dropout rate of and the number of students who graduate from, transfer from, or otherwise leave bilingual programs; by the State Board of Education pursuant to 105 ILCS 5/1A-4. These agreed-upon procedures were performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and our findings are as follows:

1. We reviewed the following articles of the School Code: 105 ILCS 5/1A-4; 105 ILCS 5/26-2a; and 105 ILCS 5/26-3a, noting the Agency's mandated duties.
2. We obtained and reviewed the fiscal year 2010 Annual Report for the State Board of Education, noting compliance with the statute as follows:
  - a. Using the most recently available data, the Board prepared and submitted to the General Assembly and the Governor on or before January 14, 2011 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, 2010: Each act or omission of a school district of which the State Board of Education has knowledge as a consequence of scheduled, approved visits and which constituted a failure by the district to comply with applicable State or federal laws or regulations relating to public education, the name of such district, the date or dates on which the State Board of Education notified the school district of such act or omission, and what action, if any, the school district took with respect thereto after being notified thereof by the State Board of Education.

- d. The report included the statewide high school dropout rate by grade level, sex and race and the annual student dropout rate of and the number of students who graduate from, transfer from or otherwise leave bilingual programs.
3. We documented and determined the adequacy of the Agency's procedures for accumulating and reviewing dropout and transitional bilingual education data.
4. We obtained the list of school districts and verified submission of student data in Student Information System (SIS) for a sample of 60 school districts. We noted no exceptions.
5. We obtained the supporting file for the "2008-2009 High School Dropout Rates, by Grade Level, Gender, and Race/Ethnicity" prepared by the Agency. We traced dropout data for 30 selected students from the Agency's supporting file of dropout data to SIS and 30 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 2008-2009 to those on the 2010 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 "2009-2010 Reasons for Exiting Limited English Proficient Programs" prepared by the Agency. We traced bilingual education data for 15 selected students from the Agency's supporting file of bilingual education data to SIS and 15 selected students to the Access file. We also traced bilingual education data for 15 selected students from SIS and another 15 students from Access file to the Agency's supporting file of bilingual education data. We noted no exceptions.
8. We compared bilingual education data totals per the Agency's supporting file of bilingual education data for the school year 2009-2010 to those on the 2010 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. We noted no exceptions.
9. We obtained the schedule of bilingual education data generated from the Statistical Package for the Social Sciences (SPSS). We compared bilingual education data totals per the SPSS schedule to those on the 2010 Annual Report filed with the General Assembly. All bilingual education data totals, by reason of exiting the bilingual program, on the SPSS schedule agreed to the report. We noted no exceptions.

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

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

May 22, 2012