

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

**FINANCIAL AUDIT**

**For the Year Ended June 30, 2020**

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, 2020**

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

**FINANCIAL AUDIT**

**For the Year Ended June 30, 2020**

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**Other Reports Issued Under a Separate Cover**

The Illinois State Board of Education's Compliance Examination for the year ended June 30, 2020, will be issued under a separate cover.

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

**FINANCIAL AUDIT**

**For the Year Ended June 30, 2020**

**AGENCY OFFICIALS**

State Superintendent of Education	Dr. Carmen I. Ayala
Executive staff:	
Legal Officer	
7/1/19 – 7/15/19	Vacant
Effective 7/16/19	Trisha Olson
Internal Audit Officer	Tassi Maton
Education Officer	Dr. Ernesto Matias
Financial Officer	Robert Wolfe
Operating Officer	Melissa Oller
Policy & Communications Officer	
7/1/19 – 9/15/19	Vacant
Effective 9/16/19	Irma Snopek
Research & Evaluation Officer	Dr. Brenda M. Dixon

**BOARD OFFICERS**

Chairperson	Darren Reisberg
Vice-Chairperson	Dr. Donna S. Leak
Secretary	Dr. Cristina Pacione-Zayas

**GOVERNING BOARD MEMBERS**

Member	Dr. Christine Benson
Member	Dr. David Lett
Member	Jane Quinlan
Member	Jacqueline Robbins
Member	Susie Morrison
Member (thru 6/24/20)	Cynthia Latimer
Member (6/25/20 – Present)	Vacant

**AGENCY OFFICES**

The Illinois State Board of Education primary administrative offices are located at:

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

Alzina Building  
100 N. First Street  
Springfield, Illinois 62777

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

**FINANCIAL AUDIT**

**For the Year Ended June 30, 2020**

**FINANCIAL STATEMENT REPORT**

**SUMMARY**

The audit of the accompanying financial statements of the Illinois State Board of Education (Agency) was performed by Kerber, Eck & Braeckel LLP.

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

**SUMMARY OF FINDINGS**

The auditors identified a matter involving the Agency's internal control over financial reporting that they considered to be a material weakness.

<b>Item No.</b>	<b>Page</b>	<b>Last Reported</b>	<b>Description</b>	<b>Finding Type</b>
CURRENT FINDINGS				
2020-001	60	N/A	Lack of Census Data Reconciliations	Significant Deficiency

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

**FINANCIAL AUDIT**

**For the Year Ended June 30, 2020**

**EXIT CONFERENCE**

The finding and recommendation appearing in this report were discussed with Agency personnel at an exit conference on May 4, 2021.

Attending were:

Representing Illinois State Board of Education

Carmen Ayala, State Superintendent  
Tassi Maton, Internal Audit Officer  
Melissa Oller, Operating Officer  
Trisha Olson, Legal Officer  
Brenda Dixon, Research & Evaluation Officer  
Irma Snopek, Policy & Communications Officer  
Robert Wolfe, Financial Officer  
Ernesto Matias, Education Officer  
Tim Imler, Director of Funding and Disbursements  
Derek Dexheimer, Acting Supervisor Funding and Disbursements  
Regina Toland, Director of Fiscal Support Services  
Miguel Calderon, Director of Human Services  
Sally Burton, Internal Auditor III

Representing Kerber, Eck & Braeckel LLP

Josh Shugart, Partner  
Kate Ward, Partner  
Marci Petropoulos, Manager  
Amanda Wells, Manager

Representing the Office of the Auditor General

Janis Van Durme, Senior Audit Manager

The response to the recommendation was provided by Tassi Maton, Internal Audit Officer, in correspondence dated May 7, 2021.

## Independent Auditor's Report

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Honorable Frank J. Mautino  
Auditor General  
State of Illinois

and

The Board Members of the  
State of Illinois, 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 State of Illinois, Illinois State Board of Education (Agency), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Agency, as of June 30, 2020 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 to the financial statements, the financial statements of the Agency 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 Agency. These financial statements do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2020, and the respective changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

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



### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements.

The accompanying supplementary information in the combining general fund schedules and combining nonmajor fund financial statements as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2021, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency'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 State of Illinois, Illinois State Board of Education, and the Agency's management and is not intended to be and should not be used by anyone other than these specified parties.

Springfield, Illinois  
May 11, 2021

STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET  
AS OF JUNE 30, 2020  
(amounts expressed in thousands)

	General Fund	Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Net Position
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>					
Unexpended appropriations	\$ 401,045	\$ 8,000	\$ 409,045	\$ -	\$ 409,045
Cash and cash equivalents	1,912	26,842	28,754	-	28,754
Securities lending collateral equity with State Treasurer	-	755	755	-	755
Due from federal government	-	553,985	553,985	-	553,985
Due from local governments	371	562	933	-	933
Other receivables	543	273	816	-	816
Due from other Agency funds	-	4,296	4,296	(4,296)	-
Due from other State funds	68	3,050	3,118	-	3,118
Due from component units of the State	117	7	124	-	124
Inventories	-	1,698	1,698	-	1,698
Loans receivable	-	1,337	1,337	-	1,337
Prepaid expenses	-	-	-	1,455	1,455
Capital assets not being depreciated	-	-	-	1,063	1,063
Capital assets net of depreciation	-	-	-	33,110	33,110
<b>Total assets</b>	<b>404,056</b>	<b>600,805</b>	<b>1,004,861</b>	<b>31,332</b>	<b>1,036,193</b>
Deferred outflows of resources - SERS pensions	-	-	-	29,171	29,171
Deferred outflows of resources - TRS pensions	-	-	-	1,104	1,104
Deferred outflows of resources - OPEB	-	-	-	52,390	52,390
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 404,056</b>	<b>\$ 600,805</b>	<b>\$ 1,004,861</b>	<b>\$ 113,997</b>	<b>\$ 1,118,858</b>
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>					
Accounts payable and accrued liabilities	\$ 23,112	\$ 19,297	\$ 42,409	\$ -	\$ 42,409
Obligations under securities lending of State Treasurer	-	755	755	-	755
Due to federal government	1	4,538	4,539	-	4,539
Due to local governments	1,198,844	549,021	1,747,865	-	1,747,865
Due to other Agency funds	4,296	-	4,296	(4,296)	-
Due to other State funds	2,199	10,472	12,671	-	12,671
Due to component units of the State	2,379	2,153	4,532	-	4,532
Unearned revenue	-	878	878	-	878
Compensated absences, current portion	-	-	-	50	50
Capital lease obligations, current portion	-	-	-	30	30
Reorganization incentive, current portion	-	-	-	131	131
OPEB liability, current portion	-	-	-	5,438	5,438
Compensated absences, long-term portion	-	-	-	3,586	3,586
Capital lease obligations, long-term portion	-	-	-	21	21
Reorganization incentive, long-term portion	-	-	-	29	29
Net pension liability - SERS, long-term portion	-	-	-	145,717	145,717
Net pension liability - TRS, long-term portion	-	-	-	3,094	3,094
OPEB liability, long-term portion	-	-	-	183,790	183,790
<b>Total liabilities</b>	<b>1,230,831</b>	<b>587,114</b>	<b>1,817,945</b>	<b>337,590</b>	<b>2,155,535</b>
Deferred inflows of resources - unavailable revenue - federal government	-	118,892	118,892	(118,892)	-
Deferred inflows of resources - SERS pensions	-	-	-	11,089	11,089
Deferred inflows of resources - TRS pensions	-	-	-	34,117	34,117
Deferred inflows of resources - OPEB	-	-	-	35,608	35,608
<b>Total liabilities and deferred inflows of resources</b>	<b>1,230,831</b>	<b>706,006</b>	<b>1,936,837</b>	<b>299,512</b>	<b>2,236,349</b>
<b>FUND BALANCES (DEFICITS)/NET POSITION (DEFICIT)</b>					
Fund Balances:					
Nonspendable	-	1,698	1,698	(1,698)	-
Restricted	-	1,203	1,203	(1,203)	-
Committed	-	16,836	16,836	(16,836)	-
Assigned	-	9,832	9,832	(9,832)	-
Unassigned	(826,775)	(134,770)	(961,545)	961,545	-
Net investment in capital assets	-	-	-	34,122	34,122
Restricted net position	-	-	-	4,260	4,260
Unrestricted net position	-	-	-	(1,155,873)	(1,155,873)
<b>Total Fund Balances (Deficits)/Net Position</b>	<b>(826,775)</b>	<b>(105,201)</b>	<b>(931,976)</b>	<b>\$ (185,515)</b>	<b>\$ (1,117,491)</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICITS)/NET POSITION</b>	<b>\$ 404,056</b>	<b>\$ 600,805</b>	<b>\$ 1,004,861</b>		

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

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
STATEMENT OF NET POSITION  
AS OF JUNE 30, 2020**

(amounts expressed in thousands)

**Total Fund deficit - governmental funds** \$ (931,976)

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 34,173

Prepaid expenses for governmental activities are current uses of financial resources for funds. 1,455

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

Deferred outflows of resources - SERS pensions	\$ 29,171	
Deferred outflows of resources - TRS pensions	1,104	
Deferred outflows of resources - OPEB	<u>52,390</u>	82,665

Revenues in the Statement of Activities that do not provide current financial resources are deferred in the governmental funds. 118,892

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

Deferred inflows of resources - SERS pensions	(11,089)	
Deferred inflows of resources - TRS pensions	(34,117)	
Deferred inflows of resources - OPEB	<u>(35,608)</u>	(80,814)

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	(3,636)	
Capital lease obligations	(51)	
Reorganization incentive	(160)	
Net pension liability - SERS	(145,717)	
Net pension liability - TRS	(3,094)	
OPEB liability	<u>(189,228)</u>	(341,886)

**NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ (1,117,491)

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

STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
For the Year Ended June 30, 2020  
(amounts expressed in thousands)

	General Fund	Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Activities
<b>EXPENDITURES/EXPENSES</b>					
Program expense - education	\$ 8,936,065	\$ 2,427,509	\$ 11,363,574	\$ 5,757	\$ 11,369,331
Debt service - principal	-	28	28	(28)	-
Debt service - interest	-	11	11	-	11
Capital outlays	1,496	4,618	6,114	(6,114)	-
Total Expenditures/Expenses	<u>8,937,561</u>	<u>2,432,166</u>	<u>11,369,727</u>	<u>(385)</u>	<u>11,369,342</u>
<b>PROGRAM REVENUES</b>					
Charges for services:					
Licenses and fees	-	4,778	4,778	-	4,778
Total charges for services	<u>-</u>	<u>4,778</u>	<u>4,778</u>	<u>-</u>	<u>4,778</u>
Operating grant revenue:					
Federal	-	2,397,316	2,397,316	13,247	2,410,563
Refunds	-	(1,184)	(1,184)	-	(1,184)
Total operating grant revenue	<u>-</u>	<u>2,396,132</u>	<u>2,396,132</u>	<u>13,247</u>	<u>2,409,379</u>
Net Program Deficit	<u>(8,937,561)</u>	<u>(31,256)</u>	<u>(8,968,817)</u>	<u>13,632</u>	<u>(8,955,185)</u>
<b>GENERAL REVENUES</b>					
Interest	-	72	72	-	72
Other revenues	1	160	161	-	161
Other operating grants	-	74	74	-	74
Total General Revenues	<u>1</u>	<u>306</u>	<u>307</u>	<u>-</u>	<u>307</u>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>					
Appropriations from State resources	9,188,459	45,391	9,233,850	-	9,233,850
Reappropriations to Fiscal Year 2021	(222,424)	(25,732)	(248,156)	-	(248,156)
Lapsed appropriations	(9,031)	-	(9,031)	-	(9,031)
Receipts collected and transmitted to State Treasury	(11,689)	-	(11,689)	-	(11,689)
Amount of SAMS transfers-out	347	-	347	-	347
Net Other Sources (Uses) of Financial Resources	<u>8,945,662</u>	<u>19,659</u>	<u>8,965,321</u>	<u>-</u>	<u>8,965,321</u>
Net change in fund balances/net position	8,102	(11,291)	(3,189)	13,632	10,443
Fund Balances (Deficits)/Net Position, July 1, 2019	(834,877)	(94,193)	(929,070)	(198,864)	(1,127,934)
Change in inventories	-	283	283	(283)	-
<b>FUND BALANCES (DEFICITS)/NET POSITION, JUNE 30, 2020</b>	<u>\$ (826,775)</u>	<u>\$ (105,201)</u>	<u>\$ (931,976)</u>	<u>\$ (185,515)</u>	<u>\$ (1,117,491)</u>

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

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2020**

Net Change in Fund Balances - governmental funds	\$ (3,189)
Change in inventories	283
	<u>(2,906)</u>

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. 1,393

Deferred outflows of resources related to pension and OPEB liabilities in the Statement of Activities that do not provide current financial resources are not reported in the governmental funds. This amount represents the increase in deferred outflows over the prior year. 4,446

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 28

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. 13,247

Deferred inflows of resources related to pension and OPEB liabilities in the Statement of Activities that do not use current financial resources are not reported in the governmental funds. This amount represents the decrease in deferred inflows over the prior year. 23,174

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	\$ 893	
Increase in compensated absences	(446)	
Decrease in reorganization incentive	143	
Increase in net pension liability - SERS	(7,673)	
Decrease in net pension liability - TRS	118	
Increase in OPEB liability	(21,974)	<u>(28,939)</u>

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ 10,443

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

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020**

**1. Organization**

The Illinois State Board of Education (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 accessing the State Comptroller Office's website - <https://illinoiscomptroller.gov/financial-data/find-a-report/comprehensive-reporting/comprehensive-annual-financial-report-cafr/>.

**STATE OF ILLINOIS  
ILLINOIS STATE BOARD OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020**

**(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, 2020, 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 appropriations from State and Federal operating grant revenues.

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

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

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

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

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**General** - This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The services which are administered by the Agency and accounted for in the General Fund include, among others, social assistance, education (other than institutions of higher education), and health and social services. Certain resources obtained from federal grants and used to support general governmental activities are accounted for in the General Fund consistent with applicable legal requirements. The Agency's General Fund grouping contains three primary sub-accounts (General Revenue - 001, Education Assistance - 007, and Common School - 412) and two secondary sub-accounts (School Infrastructure - 568 and Fund for the Advancement of Education - 640).

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 Federal operating grants. All revenue sources including fees and other miscellaneous revenues are considered to be measurable and available only when cash is received.



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**(d) Shared Fund Presentation**

The financial statement presentation for the General Revenue (001), Education Assistance (007), Common School (412), School Infrastructure (568) and the Fund for the Advancement of Education (640) Accounts of the General Fund; the Drivers Education Fund (031), the Capital Development Fund (141) and the School Construction Fund (143) represent only the portion of the shared funds that can be directly attributed to the operations of the Agency. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' CAFR.

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

**Unexpended Appropriations**

This "asset" account represents lapse period transactions processed by the State Comptroller's Office after June 30 annually, in accordance with the Statewide Accounting Management System (SAMS) records, plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year and voucher, interfund payment, and mandatory SAMS transfer transactions held by the State Comptroller's Office at June 30.

**Appropriations from State Resources**

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

**Reappropriations to Future Year(s)**

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

**Lapsed Appropriations**

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

**Receipts Collected and Transmitted to State Treasury**

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

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**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) Eliminations**

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

**(f) Cash and Cash Equivalents**

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

**(g) Inventories**

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

**(h) Prepaid Expenses**

Payments made to vendors and subrecipients which benefit periods subsequent to the year ended June 30, 2020 are reported as expenditures in governmental funds and as prepaid expenses in the government-wide statement of net position.

**(i) Interfund Transactions and Transactions with State of Illinois Component Units**

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

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**Services provided and used** - Sales and purchases of goods and services between funds for a price approximating their external exchange value.

Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the governmental funds balance sheet and government-wide statement of net position.

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

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

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

**(j) Capital Assets**

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

Capitalization thresholds and the estimated useful lives are as follows:

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

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**(k) Compensated Absences**

The liability for compensated absences reported in the government-wide statement of net position consists of unpaid, accumulated vacation and sick leave balances for Agency employees.

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

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

**(l) Pensions**

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

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

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

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

The State provides health, dental, vision and life insurance benefits for certain retirees and their dependents through the State Employees Group Insurance Program (“SEGIP”).

The total OPEB liability, deferred outflows of resources, deferred inflows of resources, expense, and expenditures associated with the program have been determined through an actuarial valuation using certain actuarial assumptions as applicable to the current measurement period. (see Note 10).

The OPEB liabilities, deferred outflows of resources, deferred inflows of resources, and OPEB expense have been recognized in the government-wide financial statements. The governmental fund financial statements report OPEB expenditures for amounts paid for OPEB and changes in the beginning and ending balances of amounts owed for OPEB.

**(n) Deferred Outflows/Inflows of Resources**

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

**(o) Fund Balances**

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

**Nonspendable** - This consists of amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The Agency’s nonspendable fund balance consists of amounts for inventories.

**Restricted** - This consists of amounts that are restricted to specific purposes, that is, when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. The Agency’s restricted fund balances consist of amounts restricted by enabling legislation and private organization grants.

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

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

**Assigned** - This consists of net amounts that are constrained by the Agency's intent to be used for specific purposes, but that are neither restricted nor committed. Fund balance assignments can only be removed or changed by action of the General Assembly. The Agency's assigned fund balances consist of amounts for indirect cost recovery of Federal monies.

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

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

**(p) Net Position**

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

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

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

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

**(q) Use of Estimates**

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

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**(r) Adoption of New Accounting Pronouncements**

Effective for the year ending June 30, 2020, the Agency adopted the following GASB statements:

Statement No. 92, Omnibus 2020, which is intended to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

This statement addresses a variety of topics and includes specific provisions about reporting intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit OPEB plan, the applicability of Statements No. 73 and Statement No. 74 to reporting assets accumulated for postemployment benefits, the applicability of Statement No. 84 to postemployment benefit arrangements, measurement of liabilities and assets related to asset retirement obligations in a government acquisition and reference to nonrecurring fair value measurements of assets and liabilities in authoritative literature. The topics within this statement that were not effective for the Agency's fiscal year ended June 30, 2020 were, upon the Agency's adoption of GASB Statement No. 95, delayed for the Agency until the fiscal year ended June 30, 2022. The implementation of this statement had no financial impact on the Agency's net position or results of operations

Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which provided temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. The effective dates of certain provisions in Statements that were scheduled to become effective for periods beginning after June 15, 2018, and later were postponed by one year.

Statement 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*, which is intended to (1) increase consistency and comparability related to the reporting of fiduciary component units when a potential component unit does not have a government board and primary government performs those duties; (2) mitigate costs associated with reporting; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans. The topics within this statement that were not effective for the Agency's fiscal year ended June 30, 2020 are effective for the Agency's fiscal year ended June 30, 2022. The implementation of this statement had no financial impact on the Agency's net position or results of operations.

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**(s) Future Adoption of GASB Statements**

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

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

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

Statement No. 93, *Replacement of Interbank Offered Rates*, the primary provision of which is intended to address accounting and financial reporting implications that result from the replacement of an interbank offered rate as an appropriate benchmark interest rate.

Effective for the year ending June 30, 2022, the Agency will adopt the following GASB statements:

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

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

Effective for the year ending June 30, 2023, the Agency will adopt the following GASB statements:

Statement No. 91, *Conduit Debt Obligations*, which is intended to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.



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Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which is intended to improve financial reporting by addressing issues related to public-private and public-public partnerships (PPPs). This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs).

Statement No. 96, *Subscription-Based Information Technology Arrangements*, which is intended to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments).

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 \$28.754 million at June 30, 2020. These deposits are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Agency does not own individual securities. Detail on the nature of these deposits is available within the State of Illinois’ CAFR.

**4. Interfund Balances and Activity**

***Balances Due To/From Other Funds***

The following balances (amounts expressed in thousands) at June 30, 2020 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	\$ -	\$ 68	Grants for educational purposes.
Nonmajor	4,296	3,050	Grants for educational purposes.
Total	<u>\$ 4,296</u>	<u>\$ 3,118</u>	

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The following balances (amounts expressed in thousands) at June 30, 2020 represent amounts due to other Agency and State of Illinois funds:

Fund	Due to other Agency funds	Due to other State funds	Description/Purpose
General	\$ 4,296	\$ 2,199	Due to other Agency funds for grants for education purposes and to other State funds for grants for educational purposes and for purchases of services.
Nonmajor	-	10,472	Due to other State funds for grants for educational purposes, for federal food service programs and for purchases of services.
Total	<u>\$ 4,296</u>	<u>\$ 12,671</u>	

***Transfers to Other Funds***

Interfund transfers-out (amounts expressed in thousands) for the year ended June 30, 2020 were as follows:

Fund	Transfers-out to other State funds	Description/Purpose
General	\$ 347	Transfers from General Revenue Account per State appropriation.

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

The following balances (amounts expressed in thousands) at June 30, 2020 represent amounts due to discretely presented component units of the State of Illinois for payments for professional services and for State and federal grant programs:

Component Unit	Due From		Due to	
	General Fund	Nonmajor Funds	General Fund	Nonmajor Funds
Governors State University	\$ 117	\$ -	\$ 5	\$ -
Northeastern Illinois University	-	-	-	394
Western Illinois University	-	-	50	96
Illinois State University	-	-	747	973
Northern Illinois University	-	-	295	620
Southern Illinois University	-	-	809	26
University of Illinois	-	7	473	44
Total	<u>\$ 117</u>	<u>\$ 7</u>	<u>\$ 2,379</u>	<u>\$ 2,153</u>

**6. Loans Receivable**

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

- School District Emergency Financial Assistance Program - This program is available to provide school districts with emergency financial assistance. As of June 30, 2020, 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, 2020, 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.

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Loans receivable (amounts expressed in thousands) at June 30, 2020 consisted of the following:

<u>Program</u>	<u>Balance</u>
School Technology Revolving Loan Program	\$ 1,331
Temporary Relocation Expenses Revolving Grant Program	<u>6</u>
Total	<u>\$ 1,337</u>

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**7. Capital Assets**

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2020 was as follows:

	Balance July 1, 2019	Additions	Deletions	Net Transfers	Balance June 30, 2020
Capital assets not being depreciated:					
Land	\$ 1,063	\$ -	\$ -	\$ -	\$ 1,063
Total capital assets not being depreciated	<u>1,063</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,063</u>
Capital assets being depreciated/amortized:					
Buildings	436	-	-	-	436
Equipment	6,144	57	231	-	5,970
Capital leases - equipment	116	-	-	-	116
Internally generated Software	51,444	6,057	-	-	57,501
Total capital assets being depreciated/amortized	<u>58,140</u>	<u>6,114</u>	<u>231</u>	<u>-</u>	<u>64,023</u>
Less accumulated depreciation/amortization:					
Buildings	335	9	-	-	344
Equipment	4,286	533	231	-	4,588
Capital leases - equipment	48	25	-	-	73
Internally generated Software	21,754	4,154	-	-	25,908
Total accumulated depreciation/amortization	<u>26,423</u>	<u>4,721</u>	<u>231</u>	<u>-</u>	<u>30,913</u>
Total capital assets being depreciated/amortized, net	<u>31,717</u>	<u>1,393</u>	<u>-</u>	<u>-</u>	<u>33,110</u>
Governmental activity capital assets, net	<u>\$ 32,780</u>	<u>\$ 1,393</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,173</u>

Depreciation expense and amortization for governmental activities (amounts expressed in thousands) for the year ended June 30, 2020 was charged to the Education function for an amount of \$4,721.

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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, 2020 were as follows:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020	Amounts Due Within One Year
Compensated absences	\$ 3,190	\$ 2,543	\$ 2,097	\$ 3,636	\$ 50
Capital lease obligations	79	-	28	51	30
Reorganization incentive	303	46	189	160	131
Net pension liability - SERS	138,044	7,673	-	145,717	-
Net pension liability – TRS	3,212	-	118	3,094	-
OPEB liability	<u>167,254</u>	<u>21,974</u>	<u>-</u>	<u>189,228</u>	<u>5,438</u>
Total	<u>\$312,082</u>	<u>\$32,236</u>	<u>\$2,432</u>	<u>\$341,886</u>	<u>\$ 5,649</u>

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

**Capital Lease Obligations**

The Agency leases office equipment with a historical cost and accumulated depreciation (amounts expressed in thousands) of \$116 and \$73, respectively, under capital lease arrangements. Although lease terms vary, certain leases are renewable subject to appropriation by the General Assembly. If renewal is reasonably assured, leases requiring appropriation by the General Assembly are considered non-cancelable leases for financial reporting. Future minimum lease payments (amounts expressed in thousands) at June 30, 2020 were as follows:

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Year Ending June 30	Principal	Interest	Total
2021	\$ 30	\$ 6	\$ 36
2022	21	2	23
Total	<u>\$ 51</u>	<u>\$ 8</u>	<u>\$ 59</u>

**Reorganization Incentive**

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

Future requirements (amounts expressed in thousands) under these incentives as of June 30, 2020 were as follows:

Year Ending June 30	Amount
2021	\$ 131
2022	15
2023	14
Total	<u>\$ 160</u>

**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. 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.). TRS is the administrator of a cost-sharing multiple-employer public employee defined benefit pension plan with a "special funding situation" as described below.

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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 851 local school districts, 127 special districts, and 12 other State agencies that contribute to the TRS plan as of the measurement date June 30, 2019.

The State of Illinois, as a nonemployer contributing entity, is legally mandated to make contributions to TRS, thus creating a special funding relationship with the plan. TRS is governed by article 16 of the Illinois Pension Code.

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

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

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

***Benefit Provisions***

State Employees' Retirement System

SERS provides retirement benefits based on the member's final average compensation and the number of years of service credit that have been established. The retirement benefit formula available to general State employees that are covered under the Federal Social Security Act is 1.67% for each year of service and for noncovered employees it is 2.2% for each year of service. The maximum retirement annuity payable is 75% of final average compensation as calculated under the regular formula. The minimum monthly retirement annuity payable is \$15 for each year of covered service and \$25 for each year of noncovered service.

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



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<b>Regular Formula Tier 1</b>	<b>Regular Formula Tier 2</b>
<p>A member must have a minimum of eight years of service credit and may retire at:</p> <ul style="list-style-type: none"> <li>• Age 60, with 8 years of service credit.</li> <li>• 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.</li> <li>• Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60).</li> </ul> <p>The retirement benefit is based on final average compensation and credited service. Final average compensation is the 48 highest consecutive months of service within the last 120 months of service.</p> <p>Under the Rule of 85, a member is eligible for the first 3% increase on January 1 following the first full year of retirement, even if the member is not age 60. If the member retires at age 60 or older, he/she will receive a 3% pension increase every year on January 1, following the first full year of retirement.</p> <p>If the member retires before age 60 with a reduced retirement benefit, he/she will receive a 3% pension increase every January 1 after the member turns age 60 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</p>	<p>A member must have a minimum of 10 years of credited service and may retire at:</p> <ul style="list-style-type: none"> <li>• Age 67, with 10 years of credited service.</li> <li>• Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67).</li> </ul> <p>The retirement benefit is based on final average compensation and credited service. For regular formula employees, final average compensation is the average of the 96 highest consecutive months of service within the last 120 months of service. The retirement benefit is calculated on a maximum salary of \$106,800. This amount increases annually by 3% or 1/2 of the Consumer Price Index, whichever is less.</p> <p>If the member retires at age 67 or older, he/she will receive a pension increase of 3% or 1/2 of the Consumer Price Index for the preceding calendar year, whichever is less, every year on January 1, following the first full year of retirement. The Calendar Year 2019 rate is \$114,952.</p> <p>If the member retires before age 67 with a reduced retirement benefit, he/she will receive a pension increase of 3% or 1/2 of the Consumer Price Index for the preceding calendar year, whichever is less, every January 1 after the member turns age 67 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</p>

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

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.

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

Teachers' Retirement System

TRS provides retirement benefits, whereby, most members retire under a formula that provides 2.2% of final average salary up to a maximum of 75% with 34 years of service. Under Tier 1, a member qualifies for an age retirement annuity after reaching age 62 with 5 years of credited service, age 60 with 10 years of credited service, or age 55 with 20 years of credited service. If a member retires between the ages of 55 and 60 with fewer than 35 years of service, the annuity will be 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***

State Employees' Retirement System

Contribution requirements of active employees and the State are established in accordance with Chapter 40, section 5/14-133 of the Illinois Compiled Statutes. Member contributions are based on fixed percentages of covered payroll ranging between 4.00% and 12.50%. Employee contributions are fully refundable, without interest, upon withdrawal from State employment. Tier 1 members contribute based on total annual compensation. Tier 2 members contribute based on an annual compensation rate not to exceed \$106,800 with limitations for future years increased by the lesser of 3% or 1/2 of the annual percentage increase in the Consumer Price Index. For 2020, this amount was \$115,929.

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 2020, 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.

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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 2020, the employer contribution rate was 54.290%. The Agency's contribution amount for Fiscal Year 2020 was \$1.024 million. In addition, the Agency recorded \$9.801 million of revenue and expenditures in the General Revenue account of the General Fund to account for on-behalf payments made by SERS for Agency employees.

Teachers' Retirement System

The State maintains the primary responsibility for funding TRS. The Illinois Pension Code, as appended by Public Act 88-0593 and subsequent acts, provides that for years 2010 through 2045, the minimum contribution to TRS for each fiscal year be an amount determined to be sufficient to bring the total assets of TRS up to 90% funding. Contributions from active members and TRS contributing employers are also required by the Illinois Pension Code. The active member contribution rate for the year ended June 30, 2020 was 9.0% of salary. Employer contributions are made by or on behalf of employers from several sources. The State of Illinois provides the largest source of contributions through State appropriations. Employers also make contributions of 0.58% of total creditable earnings for the 2.2 benefit formula change and for teachers who are paid from federal funds. Additionally, employers contribute their portion of any excess salary increase or sick leave costs due as defined within Chapter 40, section 5/16 of the Illinois Compiled Statutes.

For TRS, employee contributions are fully refundable, without interest, upon withdrawal from applicable employment. For Tier 1 members, there is no annual compensation limit on contributions. For Tier 2 members, annual compensation on which contributions are taken cannot exceed \$106,800. This amount increases annually by the lesser of 3% or 1/2 of the annual percentage increase in the Consumer Price Index. For 2020, this amount was \$115,929. The Agency's contribution for Fiscal Year 2020 was \$0.954 million. The Agency recognized revenue and expenditures in the General Revenue account of the General Fund of \$23.911 million in pension contributions from the State.

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

State Employees' Retirement System

At June 30, 2020 the Agency reported a liability of \$145.717 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, 2019 (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, 2019. As of the current year measurement date of June 30, 2019, the Agency's proportion was 0.4364%, which was an increase of 0.0188% from its proportion measured as of the prior year measurement date of June 30, 2018.

For the year ended June 30, 2020, the Agency recognized pension expense of \$12.648 million.

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At June 30, 2020, the Agency reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2019, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,822
Changes of assumptions	4,061	2,103
Net difference between projected and actual investment earnings on pension plan investments	-	213
Changes in proportion	14,285	6,951
Agency contributions subsequent to the measurement date	10,825	-
Total	<u>\$ 29,171</u>	<u>\$ 11,089</u>

\$10.825 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, 2021. 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
2021	\$ 2,691
2022	1,009
2023	2,400
2024	1,157
Total	<u>\$ 7,257</u>

Teachers' Retirement System

At June 30, 2020, the Agency reported a liability of \$3.094 million for its proportionate share of the TRS net pension liability on the statement of net position. The State's proportionate share of the net pension liability (as a nonemployer contributing entity in a special funding situation) for the Agency was \$220.228 million as of the measurement date. The total net pension liability for the Agency's employees participating in the TRS was \$223.322 million as of the measurement date.

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The net pension liability was measured as of June 30, 2019 (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, 2018, and rolled forward to June 30, 2019. The Agency's portion of the net pension liability was based on the Agency's contributions relative to the contributions of all participating TRS employers and the State during the year ended June 30, 2019. At June 30, 2019, the measurement date, the Agency's proportionate share was 0.00382% for the TRS plan, which was a 0.00031% decrease from its proportion measured at the prior year measurement date of June 30, 2018.

For the year ended June 30, 2020, the Agency recognized \$(12.159) million through pension expense. At June 30, 2020, the Agency reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2019, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 51	\$ -
Changes of assumptions	69	59
Net difference between projected and actual investment earnings on pension plan investments	5	-
Changes in proportion	25	34,058
Agency contributions subsequent to the measurement date	954	-
Total	<u>\$ 1,104</u>	<u>\$ 34,117</u>

\$0.954 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, 2021. 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
2021	\$ (10,335)
2022	(9,864)
2023	(9,423)
2024	(4,328)
2025	(17)
Total	<u>\$ (33,967)</u>

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*Actuarial Methods and Assumptions*

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

	<u>SERS</u>	<u>TRS</u>
Valuation date	06/30/19	06/30/18*
Measurement date	06/30/19	06/30/19
Actuarial cost method	Entry Age	Entry Age
Actuarial assumptions:		
Investment rate of return	6.75%	7.00%
Projected salary increases**	2.75% - 7.17%	4.00% - 9.50%
Inflation rate	2.25%	2.50%
Postretirement benefit increases		
Tier 1	3%, compounded	3%, compounded
Tier 2	Lesser of 3% or ½ of CPI <sup>^</sup> , on original benefit	1.25% not compounded
Retirement age experience study <sup>^^</sup>	July 2015 - June 2018	July 2014 - June 2017
Mortality <sup>^^^</sup>		
SERS	Pub-2010 General and Public Safety Healthy Retiree mortality tables, sex distinct, with rates projected to 2018 generational mortality improvement factors were updated to projection scale MP-2018	
TRS	RP - 2014 with future mortality improvements on a fully generational basis using projection table MP-2017	
Note: the above actuarial assumptions were used to calculate the total pension liability as of the current year measurement data and are consistent with the actuarial assumptions used to calculate the total pension liability as of the prior year measurement date except for the following:		
	<u>SERS</u>	<u>TRS</u>
Investment rate of return	7.00%	
Projected salary increases**	3.00% to 7.42%	
Inflation rate	2.50%	
Retirement age experience study <sup>^^</sup>	July 2012 – June 2015	
Mortality	105% of the RP 2014 Healthy	

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	Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added
*	The total pension liability is based on an actuarial valuation date of June 30, 2018, rolled-forward to the measurement date using generally accepted actuarial procedures.
**	Includes inflation rate listed.
^	Consumer Price Index
^^	The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined.
^^^	Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.

State Employees' Retirement System

The long-term expected real rate of return on pension plan investments was determined using the best estimates of geometric real rates of return for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in the pension plan's target asset allocation, calculated as of the measurement date of June 30, 2019, the best estimates of the geometric real rates of return are summarized in the following table:

Asset Class	SERS	
	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	23.00%	4.80%
Developed Foreign Equity	13.00%	4.60%
Emerging Market Equity	8.00%	6.90%
Private Equity	7.00%	6.80%
Intermediate Investment Grade Bonds	14.00%	0.70%
Long-term Government Bonds	4.00%	1.00%
TIPS	4.00%	0.80%
High Yield and Bank Loans	5.00%	2.70%
Opportunistic Debt	8.00%	4.20%
Emerging Market Debt	2.00%	2.70%
Real Estate	10.00%	4.40%
Infrastructure	2.00%	4.10%
Total	100.00%	

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Teachers' Retirement System

The long-term expected rate of return assumption on pension plan investments under the TRS plan was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2019, that were used by the actuary are summarized in the following table:

Asset Class	TRS	
	Target Allocation	Long-Term Expected Real Rates of Return
U.S. Equities Large Cap	15.00%	6.30%
U.S. Equities Small/Mid Cap	2.00%	7.70%
International Equities Developed	14.00%	7.00%
Emerging Market Equities	3.00%	9.50%
U.S. Bonds Core	8.00%	2.20%
U.S. Bonds High Yield	4.00%	4.00%
International Debt Developed	2.00%	1.10%
Emerging International Debt	3.00%	4.40%
Real Estate	16.00%	5.20%
Real Return	4.00%	1.80%
Absolute Return	14.00%	4.10%
Private Equity	15.00%	9.70%
Total	100.00%	

***Discount Rate***

State Employees' Retirement System

A discount rate of 6.47% 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 6.75% and a municipal bond rate of 3.13%, based on an index of 20 year general obligation bonds with an average AA credit rating as published by the Federal Reserve. The projection of cash flows used to determine this single discount rate assumed that contributions will be made based on the statutorily required rates under Illinois law. Based on these assumptions, it has been determined that the pension plan's fiduciary net position and future contributions will be sufficient to finance the benefit payments through the year 2073 for SERS. As a result, the long-term expected rate of return on pension plan investments has been applied to projected benefit payments through the year 2073, at which time the municipal bond rate has been applied to all remaining benefit payments.



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Teachers' Retirement System

A discount rate of 7.00% was used to measure the total pension liability. This single blended discount rate was based on the expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.13%, based on an S&P Municipal Bond 20-year High Grade Rate Index. The projection of cash flows used to determine the discount rate assumed that employee contributions, employer contributions, and state contributions will be made at the current statutorily-required rates. Based on these assumptions, the pension plan's fiduciary net position and future contributions will be sufficient to finance the benefit payments through the year 2121. As a result, the long-term expected rate of return on pension plan investments has been applied to projected benefit payments through the year 2121, at which time the municipal bond rate has been applied to all remaining benefit payments.

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

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

	1% Decrease <u>5.47%</u>	Discount Rate <u>6.47%</u>	1% Increase <u>7.47%</u>
Agency's proportionate share of the SERS net pension liability	\$ 176,228	\$ 145,717	\$ 120,632
	1% Decrease <u>6.00%</u>	Discount Rate <u>7.00%</u>	1% Increase <u>8.00%</u>
Agency's proportionate share of the TRS net pension liability	\$ 3,780	\$ 3,094	\$ 2,531

**10. Post-Employment Benefits**

***Plan Description***

The State Employees Group Insurance Act of 1971 ("Act"), as amended, authorizes the Illinois State Employees Group Insurance Program ("SEGIP") to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the Agency's full-time employees are members of SEGIP. Members receiving monthly benefits from the SERS and the TRS are eligible for these other post-employment benefits ("OPEB").

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The eligibility provisions for each of the retirement systems are defined within Note 9. Certain TRS members eligible for coverage under SEGIP include: certified teachers employed by certain State agencies, executives employed by the Board of Education, regional superintendents, regional assistant superintendents, TRS employees and members with certain reciprocal service.

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

***Benefits Provided***

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

***Funding Policy and Annual Other Postemployment Benefit Cost***

OPEB offered through SEGIP are financed through a combination of retiree premiums, State contributions and Federal government subsidies from the Medicare Part D program. Contributions are deposited in the Health Insurance Reserve Fund, which covers both active State employees and retirement members. Annuitants may be required to contribute towards health and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the SERS do not contribute toward health and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health and vision benefits. All annuitants are required to pay for dental benefits regardless of retirement date. The Director of Central Management Services shall, on an annual basis, determine the amount the State shall contribute toward the basic program of group health benefits. State contributions are made primarily from the General Revenue Account of the General Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree health insurance benefit and a separate trust has not been established for the funding of OPEB.

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For Fiscal Year 2020, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was \$11,681.04 (\$6,703.92 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and \$14,959.44 (\$5,592.24 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

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

The total OPEB liability, as reported at June 30, 2020, was measured as of June 30, 2019, with an actuarial valuation as of June 30, 2018. At June 30, 2020, the Agency recorded a liability of \$189.228 million for its proportionate share of the State's total OPEB liability. The Agency's portion of the OPEB liability was based on the Agency's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2019. As of the current year measurement date of June 30, 2019, the Agency's proportion was .4312%, which was an increase of .0140% from its proportion measured as of the prior year measurement date of June 30, 2018.

The Agency recognized OPEB expense for the year ended June 30, 2020, of \$15.025 million. At June 30, 2020, the Agency reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2019, from the following sources (amounts expressed in thousands):

**Deferred outflows of resources**

Differences between expected and actual experience	\$ 272
Changes in assumptions	6,579
Changes in proportion and differences between employer contributions and proportionate share of contributions	40,101
Agency contributions subsequent to the measurement date	<u>5,438</u>
<b>Total deferred outflows of resources</b>	<b><u>\$ 52,390</u></b>

**Deferred inflows of resources**

Differences between expected and actual experience	\$ 2,887
Changes in assumptions	11,677
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>21,044</u>
<b>Total deferred inflows of resources</b>	<b><u>\$ 35,608</u></b>

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The amounts reported as deferred outflows of resources related to OPEB resulting from Agency contributions subsequent to the measurement date will be recognized as a reduction to the OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (amounts expressed in thousands):

<u>Year Ending June 30</u>	
2021	\$ 1,716
2022	1,716
2023	4,176
2024	3,321
2025	<u>415</u>
Total	<u><u>\$ 11,344</u></u>

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*Actuarial Methods and Assumptions*

The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on SERS and TRS active, inactive, and retiree data as of June 30, 2018, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2018.

Valuation date	06/30/18
Measurement date	06/30/19
Actuarial cost method	Entry Age Normal
Inflation rate	2.50%
Projected salary increases*	2.75% - 12.25%
Discount rate	3.13%
Healthcare cost trend rate:	
Medical (Pre-Medicare)	8.0% grading down 0.5% in the first year to 7.5%, then grading down 0.11% in the second year to 7.39%, followed by grading down of 0.5% per year over 5 years to 4.89% in year 7
Medical (Post-Medicare)	9.0% grading down 0.5% per year over 9 years to 4.5%
Dental and Vision	6.0% grading down 0.5% per year over 3 years to 4.5%
<b>Retirees' share of benefit-related costs</b>	Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5% for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100% of the required dependent premium. Premiums for plan year 2019 and 2020 are based on actual premiums. Premiums after 2020 were projected based on the same healthcare cost trend rates applied to per capita claim costs but excluding the additional trend rate that estimates the impact of the Excise Tax.
*	Dependent upon service and participation in the respective retirement systems. Includes inflation rate listed.

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Since the last measurement date on June 30, 2019, the State has not made any significant changes to the benefit terms affecting the measurement of the collective total OPEB liability. On December 20, 2019, the *Further Consolidated Appropriations Act, 2020* (Public Law 116-94) was signed into law repealing the federal excise taxes of 40% on total employer premium spending in excess of specified dollar amounts, also known as the "Cadillac Tax." The impact of this repeal to the State's financial statements, which could be significant, is not known at this time.

Additionally, the demographic assumptions used in this OPEB valuation are identical to those used in the June 30, 2018 valuations for SERS and TRS as follows:

	<b>Retirement Age Experience Study<sup>^</sup></b>	<b>Mortality<sup>^^</sup></b>
<b>SERS</b>	July 2012 – June 2015	105 percent of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added
<b>TRS</b>	July 2014 – June 2017	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2017
<sup>^</sup> The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined. A modified experience review was completed for SERS for the 3-year period ending June 30, 2015. Changes were made to the assumptions regarding investment rate of return, projected salary increases, inflation rate, and mortality based on this review. All other assumptions remained unchanged.		
<sup>^^</sup> Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.		

***Discount rate***

Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 3.62% at June 30, 2018, and 3.13% at June 30, 2019, was used to measure the total OPEB liability.

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

The following presents the plan's total OPEB liability, calculated using a Single Discount Rate of 3.13%, as well as what the plan's total OPEB liability would be if it were calculated using a Single Discount rate that is one percentage point higher (4.13%) or lower (2.13%) than the current rate (amounts expressed in thousands):

	1% Decrease <u>2.13%</u>	Current Single Discount Rate Assumption 3.13%	1% Increase <u>4.13%</u>
Agency's proportionate share of total OPEB liability	\$ 222,866	\$ 189,228	\$ 162,321

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

The following presents the plans total OPEB liability, calculated using the healthcare cost trend rates as well as what the plan's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point higher or lower, than the current healthcare cost trend rates (amounts in table expressed in thousands). The key trend rates are 8.0% in 2020 decreasing to an ultimate trend rate of 4.89% in 2027, for non-Medicare coverage, and 9.0% decreasing to an ultimate trend rate of 4.5% in 2029 for Medicare coverage.

	1% Decrease <u>          </u>	Current Healthcare Cost Trend Rates Assumption <u>          </u>	1% Increase <u>          </u>
Agency's proportionate share of total OPEB liability	\$ 158,669	\$ 189,228	\$ 228,808

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**11. Fund Deficits**

The following funds had deficit balances at June 30, 2020 (amounts expressed in thousands):

	<u>Governmental Activities</u>
General Revenue Account (001)	\$ (826,825)
Drivers Education Fund (031)	(16,000)
S.B.E Federal Agency Services Fund (560)	(96)
S.B.E. Federal Department of Education Fund (561)	(118,334)

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

**12. Risk Management**

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

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

The Agency's risk management activities for self-insurance, unemployment insurance and workers' compensation are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the General Fund of the State. The claims are not considered to be a liability of the Agency; and accordingly, have not been reported in the Agency's financial statements for the year ended June 30, 2020.



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**13. Commitments and Contingencies**

**(a) Operating Leases**

The Agency leases real property 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 was \$2.879 million for the year ended June 30, 2020.

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

<u>Year Ending June 30</u>	<u>Amount</u>
2021	<u>\$ 2,034</u>
Total	<u>\$ 2,034</u>

**(b) Federal Funding**

The Agency receives federal grants which are subject to review and audit by federal grantor agencies. Certain costs could be questioned as not being an eligible expenditure under the terms of the grants. At June 30, 2020, there were no material questioned costs that have not been resolved with the federal awarding agencies. However, questioned costs could still be identified during audits to be conducted in the future. Management of the Agency believes there will be no material adjustments to the federal grants and, accordingly, has not recorded a provision for possible repayment.

**(c) Litigation**

A class action complaint has been filed against the Agency and the Chicago Public Schools claiming that the school system and the Agency violated the rights of special education students whose native language is not English by not providing translation and interpreter services during meetings and dispute resolution proceedings. If the case goes to trial, the Agency could be liable for a portion of the Plaintiffs' attorneys' fees as well as the costs of providing translation or interpretation services in certain settings. The Agency has engaged in significant negotiations with Plaintiff's counsel and anticipates reaching a Settlement Agreement shortly.

A suit has been filed in the Court of Claims alleging breach of contract and loss of wages related to ISBE's refusal to pay for services claimed to have been rendered under contract. The Agency asserts that payment was lawfully withheld under the contract because of failure to perform. If the Court of Claims finds in favor of the Plaintiff, the Agency will be liable for loss of wages plus attorney's fees and costs.

A complaint has been filed against the Agency, six school districts and one Superintendent of schools in her individual capacity, alleging denial of educational funds for 11 children placed at a

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residential facility. The complaint includes request for preliminary injunction and declaratory judgment, along with breach of contract claim, quantum merit claim, in connection with multiple school districts' failure to enroll the children residing at the residential facility for provision of educational services, which reportedly has been unpaid. If the case proceeds to trial, the Agency could be liable for a portion of the Plaintiffs' attorneys' fees. The Agency has engaged in significant negotiations with Plaintiff's counsel pertaining to the continued placement of the students pending a decision on the merits of the case, as well as possible legislation to address the issue at the heart of this litigation.

A suit has been filed in the Southern District of New York on behalf of all special education students in the United States against the Mayor of New York City, the New York City Department of Education, all school districts in the United States and all state departments of education alleging wholesale denial of a free appropriated public education to students with disabilities in connection with the school closures occurring in 2020 due to the COVID-19 pandemic. In an order in late September 2020, the Court stated it "harbors considerable doubt" that it has jurisdiction over any school district outside of New York. The Court notes that service does not appear to have been made on every school district in the United States and believes that jurisdiction should be raised and decided sua sponte before considering anything else. Attorneys for the Plaintiffs are responding to a Rule to Show Cause, which is expected to be heard sometime in October 2020. Although highly unlikely, the Agency could be liable for a portion of the Plaintiffs' attorneys' fees.

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. 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 2020, 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 2020 on the amount of loans of available, eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification.

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In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. There were no losses during Fiscal Year 2020 resulting from a default of the borrowers or Deutsche Bank AG.

During Fiscal Year 2020, 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, 2020 arising from securities lending agreements to the various funds of the State. The total allocated to the Agency at June 30, 2020 was \$0.755 million.

**15. Coronavirus Pandemic Implications**

In December 2019, a novel strain of coronavirus surfaced and spread around the world, resulting in business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The United States and the State of Illinois declared a state of emergency in March 2020. The June 30, 2020 financial statements reflect the known financial impact of the COVID-19 outbreak and related stay at home orders for Fiscal Year 2020. The Agency anticipates continued impact to its financial position and continues to monitor and evaluate the situation. The extent to which the coronavirus may impact financial activity will depend on future developments, which are highly uncertain and cannot be predicted. New information continues to emerge concerning the severity of the coronavirus and the actions required to contain or treat it, potentially impacting operations and program management.

SUPPLEMENTARY INFORMATION

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COMBINING SCHEDULE OF ACCOUNTS - GENERAL FUND  
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(amounts expressed in thousands)

	General Revenue Account (001)	Education Assistance Account (007)	Common School Account (412)	School Infrastructure Account (568)	Fund for the Advancement of Education (640)	Total
<b>ASSETS</b>						
Unexpended appropriations	\$ 400,776	\$ 266	\$ -	\$ 3	\$ -	\$ 401,045
Cash and cash equivalents	1,862	-	-	50	-	1,912
Due from local governments	371	-	-	-	-	371
Other receivables	543	-	-	-	-	543
Due from other State funds	68	-	-	-	-	68
Due from component units of the State	117	-	-	-	-	117
<b>TOTAL ASSETS</b>	<b>\$ 403,737</b>	<b>\$ 266</b>	<b>\$ -</b>	<b>\$ 53</b>	<b>\$ -</b>	<b>\$ 404,056</b>
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities	\$ 22,846	\$ 266	\$ -	\$ -	\$ -	\$ 23,112
Due to federal government	1	-	-	-	-	1
Due to local governments	1,198,844	-	-	-	-	1,198,844
Due to other Agency funds	4,296	-	-	-	-	4,296
Due to other State funds	2,196	-	-	3	-	2,199
Due to component units of the State	2,379	-	-	-	-	2,379
<b>Total liabilities</b>	<b>1,230,562</b>	<b>266</b>	<b>-</b>	<b>3</b>	<b>-</b>	<b>1,230,831</b>
<b>FUND BALANCES (DEFICIT)</b>						
Unassigned	(826,825)	-	-	50	-	(826,775)
<b>Total fund balances (deficit)</b>	<b>(826,825)</b>	<b>-</b>	<b>-</b>	<b>50</b>	<b>-</b>	<b>(826,775)</b>
<b>TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)</b>	<b>\$ 403,737</b>	<b>\$ 266</b>	<b>\$ -</b>	<b>\$ 53</b>	<b>\$ -</b>	<b>\$ 404,056</b>

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COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - GENERAL FUND  
For the Year Ended June 30, 2020  
(amounts expressed in thousands)

	General Revenue Account (001)	Education Assistance Account (007)	Common School Account (412)	School Infrastructure Account (568)	Fund for the Advancement of Education (640)	Total
<b>REVENUES</b>						
Other revenues	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ 1
<b>Total revenues</b>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>
<b>EXPENDITURES</b>						
Education	4,137,214	728,622	3,298,016	33,513	738,700	8,936,065
Capital outlays	1,496	-	-	-	-	1,496
<b>Total expenditures</b>	<u>4,138,710</u>	<u>728,622</u>	<u>3,298,016</u>	<u>33,513</u>	<u>738,700</u>	<u>8,937,561</u>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	<u>(4,138,709)</u>	<u>(728,622)</u>	<u>(3,298,016)</u>	<u>(33,513)</u>	<u>(738,700)</u>	<u>(8,937,560)</u>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>						
Appropriations from State resources	4,166,365	728,850	3,298,016	256,528	738,700	9,188,459
Reappropriations to Fiscal Year 2021	-	-	-	(222,424)	-	(222,424)
Lapsed appropriations	(8,287)	(208)	-	(536)	-	(9,031)
Receipts collected and transmitted to State Treasury	(11,684)	-	-	(5)	-	(11,689)
Amount of SAMS transfers-out	347	-	-	-	-	347
<b>Net other sources (uses) of financial resources</b>	<u>4,146,741</u>	<u>728,642</u>	<u>3,298,016</u>	<u>33,563</u>	<u>738,700</u>	<u>8,945,662</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>8,032</u>	<u>20</u>	<u>-</u>	<u>50</u>	<u>-</u>	<u>8,102</u>
Fund balances (deficits), July 1, 2019	<u>(834,857)</u>	<u>(20)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(834,877)</u>
<b>FUND BALANCES (DEFICIT), JUNE 30, 2020</b>	<u>\$ (826,825)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50</u>	<u>\$ -</u>	<u>\$ (826,775)</u>

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	Special Revenue					
	Teacher Certificate Fee Revolving Fund (016)	Drivers Education Fund (031)	School District Emergency Financial Assistance Fund (130)	S.B.E. Special Purpose Trust Fund (144)	S.B.E. Teacher Certification Institute Fund (159)	S.B.E. Federal Department of Agriculture Fund (410)
<b>ASSETS</b>						
Unexpended appropriations	\$ -	\$ 8,000	\$ -	\$ -	\$ -	\$ -
Cash and cash equivalents	7,335	-	1,002	12,525	964	629
Securities lending collateral equity with State Treasurer	-	-	-	-	-	-
Due from federal government	-	-	-	-	-	45,439
Due from local governments	-	-	-	-	-	7
Other receivables	-	-	-	-	-	265
Due from other Agency funds	-	-	-	-	-	-
Due from other State funds	3,000	-	-	-	-	28
Due from component units of the State	-	-	-	-	-	7
Inventories	-	-	-	-	-	1,698
Loans receivable	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 10,335</b>	<b>\$ 8,000</b>	<b>\$ 1,002</b>	<b>\$ 12,525</b>	<b>\$ 964</b>	<b>\$ 48,073</b>
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities	\$ 124	\$ 26	\$ -	\$ 235	\$ 7	\$ 11,925
Obligations under securities lending of State Treasurer	-	-	-	-	-	-
Due to federal government	-	-	-	-	-	276
Due to local governments	2	23,948	-	-	-	33,845
Due to other State funds	5	-	-	1,299	7	79
Due to component units of the State	-	26	-	-	-	-
Unearned revenue	-	-	-	-	-	206
<b>Total liabilities</b>	<b>131</b>	<b>24,000</b>	<b>-</b>	<b>1,534</b>	<b>14</b>	<b>46,331</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable revenue - federal government	-	-	-	-	-	340
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>340</b>
<b>FUND BALANCES (DEFICITS)</b>						
Nonspendable	-	-	-	-	-	1,698
Restricted	-	-	-	1,159	-	44
Committed	10,204	-	1,002	-	950	-
Assigned	-	-	-	9,832	-	-
Unassigned	-	(16,000)	-	-	-	(340)
<b>Total fund balances (deficits)</b>	<b>10,204</b>	<b>(16,000)</b>	<b>1,002</b>	<b>10,991</b>	<b>950</b>	<b>1,402</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICITS)</b>	<b>\$ 10,335</b>	<b>\$ 8,000</b>	<b>\$ 1,002</b>	<b>\$ 12,525</b>	<b>\$ 964</b>	<b>\$ 48,073</b>

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	Special Revenue					
	After-School Rescue Fund (512)	S.B.E. Federal Agency Services Fund (560)	S.B.E. Federal Department of Education Fund (561)	Charter Schools Revolving Loan Fund (567)	School Technology Revolving Loan Fund (569)	Temporary Relocation Expenses Revolving Grant Fund (605)
<b>ASSETS</b>						
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash and cash equivalents	51	315	615	27	2,518	480
Securities lending collateral equity with State Treasurer	-	-	-	-	755	-
Due from federal government	-	310	508,236	-	-	-
Due from local governments	-	-	555	-	-	-
Other receivables	-	-	-	-	8	-
Due from other Agency funds	-	-	4,296	-	-	-
Due from other State funds	-	-	22	-	-	-
Due from component units of the State	-	-	-	-	-	-
Inventories	-	-	-	-	-	-
Loans receivable	-	-	-	-	1,331	6
<b>TOTAL ASSETS</b>	<b>\$ 51</b>	<b>\$ 625</b>	<b>\$ 513,724</b>	<b>\$ 27</b>	<b>\$ 4,612</b>	<b>\$ 486</b>
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities	\$ -	\$ 233	\$ 6,636	\$ -	\$ -	\$ -
Obligations under securities lending of State Treasurer	-	-	-	-	755	-
Due to federal government	-	-	4,262	-	-	-
Due to local governments	-	67	491,159	-	-	-
Due to other State funds	-	317	8,754	-	-	-
Due to component units of the State	-	8	2,119	-	-	-
Unearned revenue	-	-	672	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>625</b>	<b>513,602</b>	<b>-</b>	<b>755</b>	<b>-</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable revenue - federal government	-	96	118,456	-	-	-
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>96</b>	<b>118,456</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES (DEFICITS)</b>						
Nonspendable	-	-	-	-	-	-
Restricted	-	-	-	-	-	-
Committed	51	-	-	27	3,857	486
Assigned	-	-	-	-	-	-
Unassigned	-	(96)	(118,334)	-	-	-
<b>Total fund balances (deficits)</b>	<b>51</b>	<b>(96)</b>	<b>(118,334)</b>	<b>27</b>	<b>3,857</b>	<b>486</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICITS)</b>	<b>\$ 51</b>	<b>\$ 625</b>	<b>\$ 513,724</b>	<b>\$ 27</b>	<b>\$ 4,612</b>	<b>\$ 486</b>



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COMBINING BALANCE SHEET - NONMAJOR FUNDS  
AS OF JUNE 30, 2020

(amounts expressed in thousands)

	Special Revenue	Capital Projects			
	State Charter School Commission Fund (674)	Capital Development Fund (141)	School Construction Fund (143)	Total	
<b>ASSETS</b>					
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	8,000
Cash and cash equivalents	381	-	-	-	26,842
Securities lending collateral equity with State Treasurer	-	-	-	-	755
Due from federal government	-	-	-	-	553,985
Due from local governments	-	-	-	-	562
Other receivables	-	-	-	-	273
Due from other Agency funds	-	-	-	-	4,296
Due from other State funds	-	-	-	-	3,050
Due from component units of the State	-	-	-	-	7
Inventories	-	-	-	-	1,698
Loans receivable	-	-	-	-	1,337
<b>TOTAL ASSETS</b>	<b>\$ 381</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>600,805</b>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 111	\$ -	\$ -	\$ -	19,297
Obligations under securities lending of State Treasurer	-	-	-	-	755
Due to federal government	-	-	-	-	4,538
Due to local governments	-	-	-	-	549,021
Due to other State funds	11	-	-	-	10,472
Due to component units of the State	-	-	-	-	2,153
Unearned revenue	-	-	-	-	878
<b>Total liabilities</b>	<b>122</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>587,114</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue - federal government	-	-	-	-	118,892
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>118,892</b>
<b>FUND BALANCES (DEFICITS)</b>					
Nonspendable	-	-	-	-	1,698
Restricted	-	-	-	-	1,203
Committed	259	-	-	-	16,836
Assigned	-	-	-	-	9,832
Unassigned	-	-	-	-	(134,770)
<b>Total fund balances (deficits)</b>	<b>259</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(105,201)</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICITS)</b>	<b>\$ 381</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>600,805</b>

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, 2020  
(amounts expressed in thousands)

	Special Revenue					
	Teacher Certificate Fee Revolving Fund (016)	Drivers Education Fund (031)	School District Emergency Financial Assistance Fund (130)	S.B.E. Special Purpose Trust Fund (144)	S.B.E Teacher Certification Institute Fund (159)	S.B.E. Federal Department of Agriculture Fund (410)
<b>REVENUES</b>						
Federal government	\$ -	\$ -	\$ -	\$ 7,212	\$ -	\$ 823,406
Licenses and fees	3,430	-	-	-	489	-
Interest	-	-	-	-	-	-
Other revenues	-	-	-	160	-	-
Other operating grants	-	-	-	74	-	-
Refunds	-	-	-	-	-	(668)
<b>Total revenues</b>	<b>3,430</b>	<b>-</b>	<b>-</b>	<b>7,446</b>	<b>489</b>	<b>822,738</b>
<b>EXPENDITURES</b>						
Education	1,687	16,000	-	5,280	1,174	822,280
Debt service:						
Principal	-	-	-	28	-	-
Interest	-	-	-	11	-	-
Capital outlays	697	-	-	245	-	820
<b>Total expenditures</b>	<b>2,384</b>	<b>16,000</b>	<b>-</b>	<b>5,564</b>	<b>1,174</b>	<b>823,100</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>1,046</b>	<b>(16,000)</b>	<b>-</b>	<b>1,882</b>	<b>(685)</b>	<b>(362)</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>						
Appropriations from State resources	-	16,000	-	-	-	-
Reappropriations to Fiscal Year 2021	-	-	-	-	-	-
<b>Net other sources (uses) of financial resources</b>	<b>-</b>	<b>16,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>1,046</b>	<b>-</b>	<b>-</b>	<b>1,882</b>	<b>(685)</b>	<b>(362)</b>
Fund balances (deficits), July 1, 2019	9,158	(16,000)	1,002	9,109	1,635	1,481
Change in inventories	-	-	-	-	-	283
<b>FUND BALANCES (DEFICITS), JUNE 30, 2020</b>	<b>\$ 10,204</b>	<b>\$ (16,000)</b>	<b>\$ 1,002</b>	<b>\$ 10,991</b>	<b>\$ 950</b>	<b>\$ 1,402</b>

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, 2020  
(amounts expressed in thousands)

	Special Revenue					
	After-School Rescue Fund (512)	S.B.E. Federal Agency Services Fund (560)	S.B.E. Federal Department of Education Fund (561)	Charter Schools Revolving Loan Fund (567)	School Technology Revolving Loan Fund (569)	Temporary Relocation Expenses Revolving Grant Fund (605)
<b>REVENUES</b>						
Federal government	\$ -	\$ 3,903	\$ 1,562,795	\$ -	\$ -	\$ -
Licenses and fees	-	-	-	-	-	-
Interest	-	-	-	-	72	-
Other revenues	-	-	-	-	-	-
Other operating grants	-	-	-	-	-	-
Refunds	-	(3)	(513)	-	-	-
<b>Total revenues</b>	<b>-</b>	<b>3,900</b>	<b>1,562,282</b>	<b>-</b>	<b>72</b>	<b>-</b>
<b>EXPENDITURES</b>						
Education	-	3,961	1,572,504	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlays	-	-	2,856	-	-	-
<b>Total expenditures</b>	<b>-</b>	<b>3,961</b>	<b>1,575,360</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>-</b>	<b>(61)</b>	<b>(13,078)</b>	<b>-</b>	<b>72</b>	<b>-</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>						
Appropriations from State resources	-	-	-	-	-	-
Reappropriations to Fiscal Year 2021	-	-	-	-	-	-
<b>Net other sources (uses) of financial resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>-</b>	<b>(61)</b>	<b>(13,078)</b>	<b>-</b>	<b>72</b>	<b>-</b>
Fund balances (deficits), July 1, 2019	51	(35)	(105,256)	27	3,785	486
Change in inventories	-	-	-	-	-	-
<b>FUND BALANCES (DEFICITS), JUNE 30, 2020</b>	<b>\$ 51</b>	<b>\$ (96)</b>	<b>\$ (118,334)</b>	<b>\$ 27</b>	<b>\$ 3,857</b>	<b>\$ 486</b>

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, 2020

(amounts expressed in thousands)

	Special Revenue	Capital Projects			
	State Charter School Commission Fund (674)	Capital Development Fund (141)	School Construction Fund (143)	Total	
<b>REVENUES</b>					
Federal government	\$ -	\$ -	\$ -	\$ 2,397,316	
Licenses and fees	859	-	-	4,778	
Interest	-	-	-	72	
Other revenues	-	-	-	160	
Other operating grants	-	-	-	74	
Refunds	-	-	-	(1,184)	
<b>Total revenues</b>	<u>859</u>	<u>-</u>	<u>-</u>	<u>2,401,216</u>	
<b>EXPENDITURES</b>					
Education	964	-	3,659	2,427,509	
Debt service:					
Principal	-	-	-	28	
Interest	-	-	-	11	
Capital outlays	-	-	-	4,618	
<b>Total expenditures</b>	<u>964</u>	<u>-</u>	<u>3,659</u>	<u>2,432,166</u>	
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(105)</u>	<u>-</u>	<u>(3,659)</u>	<u>(30,950)</u>	
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>					
Appropriations from State resources	-	25,000	4,391	45,391	
Reappropriations to Fiscal Year 2021	-	(25,000)	(732)	(25,732)	
<b>Net other sources (uses) of financial resources</b>	<u>-</u>	<u>-</u>	<u>3,659</u>	<u>19,659</u>	
<b>NET CHANGE IN FUND BALANCES</b>	<u>(105)</u>	<u>-</u>	<u>-</u>	<u>(11,291)</u>	
Fund balances (deficits), July 1, 2019	364	-	-	(94,193)	
Change in inventories	-	-	-	283	
<b>FUND BALANCES (DEFICITS), JUNE 30, 2020</b>	<u>\$ 259</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (105,201)</u>	



Kerber, Eck & Braeckel LLP  
3200 Robbins Road  
Suite 200A  
Springfield, IL 62704

P 217.789.0960  
F 217.789.2822

Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

Honorable Frank J. Mautino  
Auditor General  
State of Illinois

and

The Board Members of the  
State of Illinois, Illinois State Board of Education

**Report on the Financial Statements**

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 State of Illinois, Illinois State Board of Education (Agency), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated May 11, 2021.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Agency'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*.

**Internal Control Over Financial Reporting**

Management of the Agency is responsible for establishing and maintaining effective internal control over financial reporting (internal control).

In planning and performing our audit of the financial statements, we considered the Agency's 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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings as item 2020-001, that we consider to be a significant deficiency.

### **State of Illinois, Illinois State Board of Education's Response to the Finding**

The Agency's response to the finding identified in our audit is described in the accompanying Schedule of Findings. The Agency's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Springfield, Illinois  
May 11, 2021

**ILLINOIS STATE BOARD OF EDUCATION  
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS  
FOR THE YEAR ENDED JUNE 30, 2020**

**2020-001 Finding: Lack of Census Data Reconciliations**

The Illinois State Board of Education (Agency) did not have a reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate.

Census data is demographic data (date of birth, gender, years of service, etc.) of the active, inactive, or retired members of a pension or OPEB plan. The accumulation of inactive or retired members' census data occurs before the current accumulation period of census data used in the plan's actuarial valuation (which eventually flows into each employer's financial statements), meaning the plan is solely responsible for establishing internal controls over these records and transmitting this data to the plan's actuary. In contrast, responsibility for active members' census data during the current period is split between the plan and each member's current employer(s). Initially, employers must accurately transmit census data elements of their employees to the plan. Then, the plan must record and retain these records for active employees and then transmit this census data to the plan's actuary.

We noted the Agency's employees are members of the State Employees' Retirement System of Illinois (SERS) for their pensions and the State Employees Group Insurance Program sponsored by the State of Illinois, Department of Central Management Services (CMS) for their OPEB. In addition, we noted these plans have characteristics of different types of pension and OPEB plans, including single employer plans and cost-sharing multiple-employer plans.

During testing, we noted the following:

- 1) The Agency has not performed an initial complete reconciliation of its census data recorded by SERS and CMS to its internal records to establish a base year of complete and accurate data.
- 2) After establishing a base year, the Agency had not developed a process to annually obtain from SERS and CMS the incremental changes recorded by SERS and CMS in their census data records and reconcile these changes back to the Agency's internal supporting records.

**ILLINOIS STATE BOARD OF EDUCATION  
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS  
FOR THE YEAR ENDED JUNE 30, 2020**

For employers participating in plans with multiple-employer and cost-sharing features, the American Institute of Certified Public Accountants' *Audit and Accounting Guide: State and Local Governments* (AAG-SLG) (§ 13.177 for pensions and § 14.184 for OPEB) notes the determination of net pension/OPEB liability, pension/OPEB expense, and the associated deferred inflows and deferred outflows of resources depends on employer-provided census data reported to the plan being complete and accurate along with the accumulation and maintenance of this data by the plan being complete and accurate. To help mitigate the risk of the plan's actuary using incomplete or inaccurate census data within similar agent multiple-employer plans, the AAG-SLG (§ 13.181 (A-27) for pensions and § 14.141 for OPEB) recommends an employer annually reconcile its active members' census data to a report from the plan of census data submitted to the plan's actuary, by comparing the current year's census data file to both the prior year's census data file and its underlying records for changes occurring during the current year.

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Agency to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

Agency management indicated the Agency was not aware of the need to perform the annual reconciliation.

Failure to reconcile active members' census data reported to and held by SERS and CMS to the Agency's records could result in each plan's actuary relying on incomplete or inaccurate census data in the calculation of the Agency's pension and OPEB balances, which could result in a misstatement of these amounts.

**Recommendation**

We recommend the Agency work with SERS and CMS to develop an annual reconciliation process of its active members' census data from its underlying records to a report from each plan of census data submitted to the plan's actuary. After completing an initial full reconciliation, the Agency may limit the annual reconciliation to focus on the incremental changes to the census data file from the prior actuarial valuation, provided no risks are identified that incomplete or inaccurate reporting of census data may have occurred during prior periods.

**Agency Response**

The Agency agrees with the finding. The Agency is developing an annual reconciliation process for active members' census data in collaboration with CMS and SERS.



**ILLINOIS STATE BOARD OF EDUCATION  
SCHEDULE OF FINDINGS – PRIOR FINDING NOT REPEATED  
FOR THE YEAR ENDED JUNE 30, 2020**

**A. Finding: Financial Statement Reporting Error**

The Illinois State Board of Education (Agency) did not maintain sufficient controls over financial reporting to ensure the financial statements were complete and accurate.

During the prior audit, we noted the Agency improperly reported reappropriations of \$56.3 million as lapsed appropriations. Additionally, the Agency improperly excluded Fund 141, Capital Development Fund, which had no activity, from the Agency's financial statements. This fund had appropriations of \$25 million and reappropriations of \$25 million, netting to a zero fund balance. These misstatements were identified during the financial audit and subsequently corrected by Agency personnel.

During the current audit, we noted the Agency strengthened their internal controls over financial reporting to ensure the financial statements were complete and accurate in order to ensure adherence to accounting principles generally accepted in the United States of America. (Finding Code No. 2019-001, 2018-001, 2017-001)