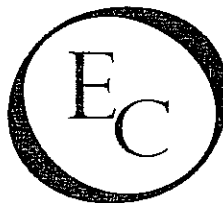


**STATE OF ILLINOIS
KANE COUNTY
REGIONAL OFFICE OF EDUCATION NO. 31**

**FINANCIAL AUDIT
(In Accordance with the Single Audit Act and OMB Circular A-133)
FOR THE YEAR ENDED JUNE 30, 2006**

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



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

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31

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KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31

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KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31

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**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
OFFICIALS**

Regional Superintendent
(current and during the audit period)

Dr. Clem Mejia

Associate Regional Superintendent
(current and during the audit period)

Ms. Julie Vallejo

Office is located at:

210 S. Sixth Street,
Geneva, Illinois, 60134

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
COMPLIANCE REPORT SUMMARY**

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

AUDITORS' REPORTS

The auditors' reports on compliance and on internal controls do not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF AUDIT FINDINGS

<u>Number of</u>	<u>This Audit</u>	<u>Prior Audit</u>
Audit findings	3	3
Repeated audit findings	1	1
Prior recommendations implemented or not repeated	2	—

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

SUMMARY OF FINDINGS AND QUESTIONED COSTS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Prior Finding Code</u>
FINDINGS (GOVERNMENT AUDITING STANDARDS)			
06-1	12	Controls Over Compliance with Laws and Regulations	05-1
06-2	15	Inadequate Controls Over Disposal of Property and Equipment	N/A
06-3	17	Improper Accounting of Transactions	N/A
FINDINGS AND QUESTIONED COSTS (FEDERAL COMPLIANCE)			
None			
PRIOR FINDINGS NOT REPEATED (GOVERNMENT AUDITING STANDARDS)			
05-2	26	Improper and Incomplete Accounting of On-behalf Payments of Payroll Costs	
PRIOR FINDINGS NOT REPEATED (FEDERAL COMPLIANCE)			
05-3	26	Quarterly Expenditure Reports not Submitted Timely	

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
JUNE 30, 2006**

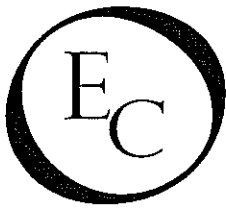
EXIT CONFERENCE

The Kane County Regional Office of Education No. 31 opted not to have an exit conference during the financial audit for the year ended June 30, 2006. Responses to the recommendations were provided by Dr. Clem Mejia in a letter dated December 15, 2006.

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
FINANCIAL STATEMENT REPORT SUMMARY**

The audit of the accompanying basic financial statements of the Kane County Regional Office of Education No. 31 was performed by E. C. Ortiz & Co., LLP.

Based on their audit, the auditors expressed an unqualified opinion on the Kane County Regional Office of Education No. 31's basic financial statements.



INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Kane County Regional Office of Education No. 31, as of and for the year ended June 30, 2006, which collectively comprise the Kane County Regional Office of Education No. 31's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Kane County Regional Office of Education No. 31's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Kane County Regional Office of Education No. 31, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

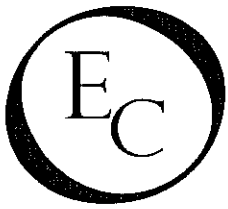
In accordance with *Government Auditing Standards*, we have also issued a report dated October 18, 2006 on our consideration of the Kane County Regional Office of Education No. 31's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and Illinois Municipal Retirement Fund Schedule of Funding Progress on pages 27 to 33 and page 63 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Kane County Regional Office of Education No. 31's basic financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison schedules, and Schedule of Disbursements to School District Treasurers and Others are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Kane County Regional Office of Education No. 31. The combining and individual nonmajor fund financial statements, budgetary comparison schedules, Schedule of Disbursements to School District Treasurers and Others, and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

E. C. Ortiz & Co. LLP

Chicago, Illinois
October 18, 2006



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

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Kane County Regional Office of Education No. 31, as of and for the year ended June 30, 2006, which collectively comprise the Kane County Regional Office of Education No. 31's basic financial statements and have issued our report thereon dated October 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Kane County Regional Office of Education No. 31's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting which we reported on the accompanying Schedule of Findings and Questioned Costs as items 06-2 and 06-3.

Compliance and Other Matters

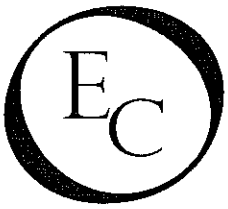
As part of obtaining reasonable assurance about whether the Kane County Regional Office of Education No. 31's financial statements are free of material misstatement, we performed tests

of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance which we reported on the accompanying Schedule of Findings and Questioned Costs as item 06-1.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, agency management, others within the organization, the Illinois State Board of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

E. C. Ortiz & Co. LLP

Chicago, Illinois
October 18, 2006



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

We have audited the compliance of the Kane County Regional Office of Education No. 31 with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Kane County Regional Office of Education No. 31's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Kane County Regional Office of Education No. 31's management. Our responsibility is to express an opinion on the Kane County Regional Office of Education No. 31's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Kane County Regional Office of Education No. 31's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Kane County Regional Office of Education No. 31's compliance with those requirements.

In our opinion, the Kane County Regional Office of Education No. 31 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Kane County Regional Office of Education No. 31 is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Kane County Regional Office of Education No. 31's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, agency management, others within the organization, Illinois State Board of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

E.C. Buttz & Co. LLP

Chicago, Illinois
October 18, 2006

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

Part I: Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weakness(es)? _____ Yes X None reported
- Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weakness(es)? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? _____ Yes X No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.196A	McKinney Education for Homeless Children
84.010A	Title I - School Improvement & Accountability

Dollar threshold used to distinguish between type A and type B Programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

Part II: Findings Related to the Financial Statements

FINDING NO. 06-1 - Controls Over Compliance with Laws and Regulations (Repeated from 2005 - Finding No. 05-1)

Criteria/Specific Requirements:

- A. The Illinois School Code 105 ILCS 5/3-14.11 states that the Regional Superintendent shall examine at least once each year all books, accounts, and vouchers of every school treasurer in his educational service region, and if he finds any irregularities in them, to report them at once, in writing, to the trustees in Class II county school units, to the respective school boards of those school districts which form a part of a Class II county school unit but which are not subject to the jurisdiction of the trustees of schools of any township in which any such district is located, or to the respective school boards of the district in Class I county school units whose duty it shall be to take immediately such action as the case demands. (This mandate has existed in its current form since at least 1953.)
- B. The Illinois School Code 105 ILCS 5/3-14.5 requires the Regional Superintendent to visit each public school in the county at least once a year, noting the methods of instruction, the branches taught, the text-books used, and the discipline, government and general condition of the schools. (This mandate has existed in its current form since at least 1953.)

Conditions:

- A. The Regional Office of Education No. 31 is not examining all books, accounts, and vouchers of every school treasurer in his educational service area at least once each year. Regional Office officials noted that they believe this mandate is outdated and that they are satisfying the intent of the statute by other reviews they undertake. For example, the Regional Superintendent has been examining school district financial statements on an annual basis.
- B. The Regional Office of Education No. 31 performs compliance inspections for each school district in his region annually but not each public school. While the Illinois Public School Accreditation Process Compliance Component document completed at these inspections includes many of the items delineated in 105 ILCS 5/3-14.5, it does not include a review of the methods of instruction and the textbooks used in the district.

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

Part II: Findings Related to the Financial Statements (Continued)

FINDING NO. 06-1 - Controls Over Compliance with Laws and Regulations (Repeated from 2005 - Finding No. 05-1) (Continued)

Effect:

The Regional Office of Education No. 31 did not comply with statutory requirements.

Causes:

- A. The Regional Office of Education No. 31's management stated that the procedures currently being performed are deemed sufficient to comply with this mandate and that this mandate is outdated.
- B. The Regional Superintendent stated that the periodic compliance visits completed at the school districts were sufficient to satisfy the statutory requirement. In addition, due to the magnitude of the task and the limited budget, the visit could not be performed for each public school in the district on an annual basis.

Recommendations:

- A. The Regional Office of Education No. 31 should comply with the requirements of 105 ILCS 5/3-14.11.
- B. The Regional Superintendent should visit each public school annually to review all items noted in the statute as required by 105 ILCS 5/3-14.5.

If the Regional Office believes that any of these statutory mandates are obsolete or otherwise unnecessary, then it should seek legislative action to revise the statutes accordingly.

Management's Responses:

- A. The Illinois Association of Regional Superintendents of Schools and the Illinois State Board of Education have agreed to seek legislation to remove duplicative and/or obsolete sections of the Illinois School Code. Both parties agree that section 5/3-7 of the Illinois School Code is a more current, thorough, and comprehensive requirement concerning a public school district's financial transactions. As a result, the two parties working together will seek legislation to repeal section 5/3-14.11 of the Illinois School Code.

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

Part II: Findings Related to the Financial Statements (Continued)

FINDING NO. 06-1 - Controls Over Compliance with Laws and Regulations (Repeated from 2005 - Finding No. 05-1) (Continued)

Management's Responses (Continued):

- B. The Illinois Association of Regional Superintendents of Schools and the Illinois State Board of Education have agreed to seek legislation to remove duplicative and/or obsolete sections of the Illinois School Code. Both parties agree that section 1.20 of the 23rd Illinois Administrative Code is a more current, thorough, and comprehensive requirement concerning visitation of public schools by the Regional Superintendent. As a result, the two parties working together will seek legislation to repeal section 5/3-14.5 of the Illinois School Code.

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

Part II: Findings Related to the Financial Statements (Continued)

FINDING NO. 06-2 - Inadequate Controls Over Disposal of Property and Equipment

Criteria/Specific Requirements:

The Kane County Regional Office of Education No. 31 Fixed Assets Inventory Management Policy states that when property or equipment is removed from inventory for any reason, the Asset Inventory Disposal form is to be filled out and signed by (1) the person requesting the disposal, (2) finance department, and (3) the Regional Superintendent.

In addition, sound internal controls require that disposals or transfers be formally documented and approved by authorized personnel before the disposition. Upon disposal/transfer of property and equipment, the fixed asset inventory records should be updated to reflect movement or deletion.

Condition:

The Kane County Regional Office of Education No. 31 did not have adequate controls over disposal of fixed assets.

- Proper forms were not used to document disposal or retirement of 24 equipment items.
- Capital Asset/Fixed Asset Disposal Forms were not signed or approved by the Regional Superintendent.
- Current fixed asset inventory records were not updated to reflect the disposal of two (2) equipment items.

Effect:

Inadequate documentation of deletions and adjustments of fixed asset records may result in unauthorized dispositions and differences not being investigated thoroughly. Loss of ROE property and equipment may not be detected timely or remain undetected without proper approval of disposals and an accurate property inventory listing. In addition, fixed assets are not reported accurately if the inventory list is not updated in a timely manner.

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

Part II: Findings Related to the Financial Statements (Continued)

FINDING NO. 06-2 - Inadequate Controls Over Disposal of Property and Equipment
(Continued)

Cause:

The Regional Office converted to a new accounting system, which includes a new fixed assets inventory system. The staff-in-charge of updating the inventory list was waiting to update the list after obtaining the approval for the disposal of fixed assets.

Recommendation:

We recommend that disposals/transfers of property and equipment be approved by authorized personnel before the disposition and the disposal/transfer is formally documented. The fixed asset listing should be updated promptly to reflect accurate balances.

Management's Response:

The Regional Office of Education does have a system and forms in place for disposal of property and equipment. We acknowledge that the forms in question were not completely processed since the Regional Superintendent had not signed the form yet. Our plan to address this situation is as follows:

- A. With the purchase of the new software system in place and a redesigned form to be used for the disposal of fixed assets and checks and balances put in place by the new Finance Director, this problem should not happen again. Also, in regards to the minimum amount needed for the item to be considered a fixed asset as per conversation with the Kane County ROE's IT Manager and the auditors, this will help to make sure all fixed assets that are in the new software system will be maintained properly.

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

Part II: Findings Related to the Basic Financial Statements (Continued)

FINDING NO. 06-3 - Improper Accounting of Transactions

Criteria/Specific Requirements:

Title 23 Illinois Administrative Code: Education and Cultural Resources, Chapter I, Section 525.160, *Fiscal Procedures* requires the Regional Superintendent of Schools in each Regional Office of Education to maintain accurate financial records in accordance with 23 Illinois Administrative Code 110 *Program Accounting Manual and Regional Office of Education (ROE) Accounting Manual*, as applicable. The Manual requires that the ROE accounting system be organized and operated on a fund basis. The transactions and balances of each fund and each source of funds are to be accounted for separately. Separate funds or separate source of fund codes are used to account for resources of a program or activity that are restricted to spending of a specified type or for a specified purpose.

Generally accepted accounting principles require that disbursements made as an advance be accounted for with no net asset effect and the advances monitored for collection.

Conditions:

The ROE did not properly record the following transactions:

- The ROE received \$564,165 in fiscal year 2006 for the Youth Home Education Program. Rather than recording the revenue in the Youth Home Education Fund as was done in previous years, the ROE recorded the revenue under the Regional Program Development Fund.
- The ROE purchased computer related items for school districts as an added service. We noted that purchases totaling \$23,747 were recorded as expenses upon purchase and payment to the vendors and as revenues in the Local Technology Fund upon billing and collection from the school districts instead of recognizing these purchases as advances (receivables).
- Purchases for school districts totaling \$62,100 paid from the Local Technology Fund were recorded as purchased services expenses. The reimbursements received for these purchases were recorded as a deduction of software expenses instead of a reduction of purchased services expenses.

The purchases made for school districts were approved by the Regional Superintendent. However, there are no written procedures to provide guidance for the processing and recording of these transactions.

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

Part II: Findings Related to the Basic Financial Statements (Continued)

FINDING NO. 06-3 - Improper Accounting of Transactions (Continued)

Effect:

Transactions are not being recorded in accordance with the Illinois Program Accounting Manual and ROE Accounting Manual. Financial reports prepared by the ROE require additional analysis in order to be comparable and consistent with reporting requirements and GAAP. Revenues for the Youth Home Education Fund and Regional Program Development Fund were understated and overstated, respectively, by \$564,165. Local Technology Fund revenues and expenses were overstated by \$23,747. Purchased services expenses and software expenses were overstated and understated, respectively, by \$62,100. Absence of written procedures covering purchases for school districts resulted in inconsistent processing and accounting of these transactions.

Cause:

The Kane County Regional Office of Education No. 31's management stated that the Youth Home Education program had more than enough program funds to finance its current year's expenses and the fund balance in the Youth Home Education program can be used for general purposes. Instead of recording the revenues in the same fund as previous years, the revenues were recorded under the Regional Program Development Fund, which is part of the general fund accounts, in lieu of a fund transfer from the Youth Home Education fund. Computer-related purchases for the school districts were treated as separate transactions of purchase and billing and the deduction of software expenses instead of purchased services was an oversight.

Recommendation:

Kane County Regional Office of Education No. 31 should establish procedures to ensure that transactions are carefully reviewed for proper accounting and recognition as required by generally accepted accounting principles, the Illinois Administrative Code and the ROE Accounting Manual.

Specifically, the ROE should ensure that revenues are recorded under the program or activity that generated the revenues. Operating transfers should be made and recorded if the ROE deems it necessary to reallocate the remaining funds that can be used for general purposes to other programs/funds. This would enable the ROE to review the net operating results of each of its programs accurately.

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

Part II: Findings Related to the Basic Financial Statements (Continued)

FINDING NO. 06-3 - Improper Accounting of Transactions (Continued)

Recommendation (Continued):

The ROE should develop formal policies and procedures covering purchases for school districts. At a minimum, these policies and procedures should include:

- Documentation of the justification for the on behalf purchase;
- Billing and collection of the purchase; and
- Accounting for the purchase and monitoring of the receivables.

Accounting for these purchases should be recorded as a receivable from the school districts and not as revenues and expenses. In this way, the receivables are recorded and can be easily tracked.

Management's Response:

We understand and agree that the findings are a result of coding and processing error. The revenue for the Youth Home account should have been deposited in to that account and then excess funds could be transferred to the Regional Program Development. The following safeguards and improvements have been addressed to ameliorate these situations:

A. Youth Home Education Program

In FY 2006, an entry was made by the former Finance Director in which money was deposited and recorded in the Regional Program Development Fund instead of the Youth Home Education Program. On July 1, 2006, a new finance system was installed. This system has added controls and features which will aid against having this type of error in the future. Our previous system did not have the ability to have multiple people notified and approve financial entries. Thus the previous Finance Director entered this incorrectly and in the future, based upon the agreement between District 303, the Chief Judge of Kane County, and the Regional Office of Education, the funds will be put into the Youth Home Program Fund and then at the end of the year, any excess funds will be transferred to the Regional Program Development Fund.

B. Invoicing Issue

The Kane County ROE, on behalf of four school districts, purchases the software support license allowing each district to save up to 15% each year. To process this, a vendor invoices Kane County ROE which then invoices each district for their appropriate costs.

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

Part II: Findings Related to the Basic Financial Statements (Continued)

FINDING NO. 06-3 - Improper Accounting of Transactions (Continued)

Management's Response (Continued):

The money received from the districts matches the amount invoiced by the vendor to the ROE. The coding error was a misunderstanding between the manager preparing the requisition and the Finance Department entering it into the finance system. In accordance with the Illinois Administrative Code Title 23 Section 110.50 on expenditure accounting and with the installation of the new finance system on July 1, 2006, this type of coding error should not occur because it is done electronically rather than from a paper description, with various levels of approvals.

C. Recording Issue

In regards to this finding, the Kane County ROE was cited for recording purchases as expenses upon purchase and payment to the vendors and as revenues in the Local Technology Fund upon billing and collection from the school districts instead of recognizing these purchases as advances (receivables). The new Kane County ROE Finance Director and the Regional Superintendent have reviewed this finding and agree with it. The ROE purchased a software license agreement on behalf of seven districts. Each district paid \$2 per user and the ROE paid the remainder of about \$62,000. The coding error was a misunderstanding between the manager preparing the requisition and the Finance Department entering it into the finance system. In accordance with Title 23 Section 110.50 subsection 11 of the Illinois Administrative Code and with the installation of the new finance system on July 1, 2006, this type of coding error should not occur because it is done electronically rather than from a paper description, with various levels of approval.

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

Part III. Findings and Questioned Costs for Federal Awards

INSTANCES OF NONCOMPLIANCE:

None

REPORTABLE CONDITIONS:

None

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
JUNE 30, 2006**

FINDING NO. 06-1 - Controls Over Compliance with Laws and Regulations (Repeated from 2005 - Finding No. 05-1)

Conditions:

- A. The Regional Office of Education No. 31 is not examining all books, accounts, and vouchers of every school treasurer in his educational service area at least once each year. Regional Office officials noted that they believe this mandate is outdated and that they are satisfying the intent of the statute by other reviews they undertake. For example, the Regional Superintendent has been examining school district financial statements on an annual basis.
- B. The Regional Office of Education No. 31 performs compliance inspections for each school district in his region annually but not each public school. While the Illinois Public School Accreditation Process Compliance Component document completed at these inspections includes many of the items delineated in 105 ILCS 5/3-14.5, it does not include a review of the methods of instruction and the textbooks used in the district.

Plans:

- A. The Illinois Association of Regional Superintendents of Schools and the Illinois State Board of Education will seek legislation to repeal section 5/3-14.11 of the Illinois School Code.
- B. The Illinois Association of Regional Superintendents of Schools and the Illinois State Board of Education will seek legislation to repeal section 5/3-14.5 of the Illinois School Code.

Anticipated Date of Completion:

As soon as practical.

Name of Contact Person:

Clem Mejia, Regional Superintendent

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
JUNE 30, 2006**

FINDING NO. 06-2 - Inadequate Controls Over Disposal of Property and Equipment

Condition:

The Kane County Regional Office of Education No. 31 did not have adequate controls over disposal of fixed assets.

- Proper forms were not used to document disposal or retirement of 24 equipment items.
- Capital Asset/Fixed Asset Disposal Forms were not signed or approved by the Regional Superintendent.
- Current fixed asset inventory records were not updated to reflect the disposal of two (2) equipment items.

Plan:

With the purchase of the new software system in place and a redesigned form to be used for the disposal of fixed assets and checks and balances put in place by the new Finance Director, this problem should not happen again. Also, in regards to the minimum amount needed for the item to be considered a fixed asset as per conversation with the Kane County ROE's IT Manager and the auditors, this will help to make sure all fixed assets that are in the new software system will be maintained properly.

Anticipated Date of Completion:

As soon as possible.

Name of Contact Person:

Tom Campeggio, Finance Director

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
JUNE 30, 2006**

FINDING NO. 06-3 - Improper Accounting of Transactions

Conditions:

The ROE did not properly record the following transactions:

- The ROE received \$564,165 in fiscal year 2006 for the Youth Home Education Program. Rather than recording the revenue in the Youth Home Education Fund as was done in previous years, the ROE recorded the revenue under the Regional Program Development Fund.
- The ROE purchased computer related items for school districts as an added service. We noted that purchases totaling \$23,747 were recorded as expenses upon purchase and payment to the vendors and as revenues in the Local Technology Fund upon billing and collection from the school districts instead of recognizing these purchases as advances (receivables).
- Purchases for school districts totaling \$62,100 paid from the Local Technology Fund were recorded as purchased services expenses. The reimbursements received for these purchases were recorded as a deduction of software expenses instead of a reduction of purchased services expenses.

The purchases made for school districts were approved by the Regional Superintendent. However, there are no written procedures to provide guidance for the processing and recording of these transactions.

Plans:

The following safeguards and improvements have been addressed to ameliorate these situations:

A. Youth Home Education Program

On July 1, 2006, a new finance system was installed. This system has added controls and features which will aid against having this type of error in the future. Our previous system did not have the ability to have multiple people notified and approve financial entries. Thus the previous Finance Director entered this incorrectly and in the future, based upon the agreement between District 303, the Chief Judge of Kane County, and the Regional Office of Education, the funds will be put into the Youth Home Program Fund and then at the end of the year, any excess funds will be transferred to the Regional Program Development Fund.

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
JUNE 30, 2006**

FINDING NO. 06-3 - Improper Accounting of Transactions

Plan (Continued):

B. Invoicing Issue

In accordance with the Illinois Administrative Code Title 23 Section 110.50 on expenditure accounting and with the installation of the new finance system on July 1, 2006, this type of coding error should not occur because it is done electronically rather than from a paper description, with various levels of approvals.

C. Recording Issue

In accordance with Title 23 Section 110.50 subsection 11 of the Illinois Administrative Code and with the installation of the new finance system on July 1, 2006, this type of coding error should not occur because it is done electronically rather than from a paper description, with various levels of approval.

Anticipated Date of Completion:

As soon as possible.

Name of Contact Person:

Tom Campeggio, Finance Director

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006**

<u>Finding No.</u>	<u>Condition</u>	<u>Current Status</u>
05-1	Controls Over Compliance with Laws and Regulations	Repeated
05-2	Improper and Incomplete Accounting of On-behalf Payments of Payroll Costs	Resolved
05-3	Quarterly Expenditure Reports not Submitted Timely	Resolved

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

This discussion and analysis of the Kane County Regional Office of Education's financial report provides an overview of the financial activities for the year ended June 30, 2006 with comparative information for the year ended June 30, 2005. The intent of this discussion and analysis is to look at the ROE's performance as a whole. Readers should review the financial statements and any notes to the basic financial statements to assist them in understanding the role of the ROE, its operations and financial condition.

The purpose of the Kane County Regional Office of Education is to promote quality education for the citizens of the Kane County Educational Service Region by acting as an advocate for education, providing leadership, performing regulatory functions as directed by the Illinois State Board of Education and the Illinois School Code, providing access to needed resources and disseminating information to school districts, educators and the community.

Mission

The mission of the Kane County Regional Office of Education is to provide leadership in the learning community by developing educational resources, facilitating learning and collaborating with all educational partners.

Education Service Region

The Kane County Regional Office of Education serves over 125,000 students, which includes 114,344 public school students and 11,000 private/parochial students. Our region includes nine (K-12) unit districts, two community college districts, 160 public school buildings and over 9,000 public/private school teachers.

Overview/Issues

Again, there were some programs that were required under the Illinois School Code that did not receive continued funding or were reduced for this fiscal year. Although legislation was enacted to make some of these programs optional, the expectation from our constituents is that we continue and even expand the programs. The need does not go away for programs such as the Illinois Administrator's Academy and Gifted Education. A major funding source for Professional Development comes from the ROE/ISC budget which flows through the Illinois State Board of Education budget. Our ROE school services budget continued to be reduced since the last fiscal year with the expectation that we maintain or expand services to our school districts. The need to build and maintain an enterprise fund so that ROEs can provide needed services to our schools and personnel in the future, without relying on total State support is critical. In addition, as funding at the County level gets more competitive and there are less funds to distribute locally, County Boards are looking to the ROE to set aside funds from the various grants received to contribute to such items as rent, utilities, building maintenance and other items, which previously had been provided by the County.

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

We will again be allocating funds next fiscal year to these items and to an upcoming move of our Office to a new facility where we haven't been asked to contribute in past years. We continue to show student growth in our area and to have several new schools built every year in our region. Our overall budget for next year will reflect some deduction in new line items and maintenance of present programs at this year's level. We will continue to aggressively pursue new grants and opportunities to be able to expand the services provided by our Office and to provide funding and resources for our local school districts.

2006 Financial Highlights

- Within the Governmental Funds, the General Fund revenues decreased by \$135,302 (19%) from \$697,677 in FY 2005 to \$562,375 in FY 2006. General Fund expenditures increased by \$1,404,054 (234%) from \$599,944 in FY 2005 to \$2,003,998 in FY 2006.
- Within the Governmental Funds, the Special Fund revenue increased by \$719,405 (19%) from \$3,882,374 in FY 2005 to \$4,601,779 in FY 2006. The Special Fund expenditures decreased by \$79,706 (2%) from \$3,962,410 in FY 2005 to \$3,882,704 in FY 2006.
- The Enterprise Fund revenue increased by \$154,901 (52%) from \$297,194 in FY 2005 to \$452,095 in FY 2006. The Enterprise Fund expenditures increased by \$493,855 (169%) from \$292,184 in FY 2005 to \$786,039 in FY 2006.

The funds that comprise the budget for the Kane County ROE are derived from various sources of revenue. About 90% of the funds to operate and maintain services come from State and Federal grants that are on a July 1 - June 30 fiscal year. The remaining 10% of the operating budget is obtained from the County of Kane. This does not include the County's contribution of facilities, utilities, high-speed internet access and other miscellaneous/salary costs. The County is on a December 1 - November 30 fiscal year.

The major revenues received from State and Federal sources were the following: Regional Safe Schools Initiative - \$892,317; Truancy and Optional Education - \$319,283; Reading First - \$189,701; Title I - School Improvement & Accountability - \$910,894; McKinney Homeless grant - \$577,651; and Youth Home Education - \$970,846.

Using This Report

This report consists of a series of financial statements and other information, as follows:

- *Management's Discussion and Analysis* introduces financial statements and provides an analytical overview of the Regional Office's financial activities.
- The *Government-wide financial statements* consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the Regional Office of Education as a whole and present an overall view of the Office's finances.

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

- Fund financial statements report the Regional Office's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to the financial statements provide additional information that is needed for a full understanding of the data provided in the basic financial statements.
- Required supplementary information further explains the financial statements and supplementary information provides detailed information about the non-major funds.

The Statement of Net Assets and the Statement of Activities

Government-wide Financial Statements

The Government-wide statements report information about the Regional Office of Education No. 31 as a whole. The Statement of Net Assets includes all of the assets and liabilities, with the difference reported as *net assets*. All of the current year revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid using Generally Accepted Accounting Principles and GASB Statement No. 34.

The Government-wide statements report the Office's net assets and how they have changed. Net assets- the difference between assets and liabilities- are one way to measure the ROE's financial condition.

- Over time, increases or decreases in the net assets can be an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the Regional Office's overall financial condition, additional non-financial factors, such as new laws, rules, regulations, and actions by officials at the state level need to be considered.

Fund Financial Statements

The fund financial statements provide detailed information about the Regional Office's funds. Funds are accounting devices that allow the tracking of specific sources of funding and spending on particular programs. Some funds are required by state law. The Regional Office of Education No. 31 established other funds to control and manage money for particular purposes.

The Office has three kinds of funds:

- Governmental Funds account for those funds through which most governmental functions of the Region are financed. These focus on how cash and other financial assets that can be readily converted to cash flow in and out and the balances left at the year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer resources

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

that can be spent in the near future to finance the Office's programs. The Office's Governmental Funds include: the General Fund and the Special Revenue Fund. The governmental funds required financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

- Proprietary Funds account for resources from fees charged directly to those entities or individuals that use its services. Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by government-wide financial statements but with more detail for major and non-major enterprise funds. The proprietary funds required financial statements include a Statement of Net Assets, Statement of Revenues, Expenses and Changes in Fund Net Assets and a Statement of Cash Flows.
- Fiduciary Funds are used to account for assets held by the Regional Office of Education No. 31 in a trust capacity or as an agent for individuals and private or governmental organizations. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The fiduciary funds required financial statements include a Statement of Fiduciary Net Assets.

Government-Wide Financial Analysis

As noted earlier, net assets may serve when examined over time as one indicator of the financial position of the Regional Office. The net assets at the end of FY 2006 and FY 2005 totaled \$2,447,138 and \$3,488,935, respectively. The analysis that follows provides a summary of the Office's net assets as of June 30.

CONDENSED STATEMENT OF NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
ASSETS						
Current assets	\$ 2,629,461	\$ 3,981,325	\$ 385,514	\$ 640,610	\$ 3,014,975	\$ 4,621,935
Capital assets, net of depreciation	<u>258,390</u>	<u>243,695</u>	<u>17,893</u>	<u>14,427</u>	<u>276,283</u>	<u>258,122</u>
TOTAL ASSETS	<u>2,887,851</u>	<u>4,225,020</u>	<u>403,407</u>	<u>655,037</u>	<u>3,291,258</u>	<u>4,880,057</u>
Current liabilities	<u>800,454</u>	<u>1,350,677</u>	<u>43,666</u>	<u>40,445</u>	<u>844,120</u>	<u>1,391,122</u>
TOTAL LIABILITIES	<u>800,454</u>	<u>1,350,677</u>	<u>43,666</u>	<u>40,445</u>	<u>844,120</u>	<u>1,391,122</u>
NET ASSETS						
Invested in capital assets, net of related debt	258,390	243,695	17,893	14,427	276,283	258,122
Restricted	512,650	454,934	-	-	512,650	454,934
Unrestricted	<u>1,316,357</u>	<u>2,175,714</u>	<u>341,848</u>	<u>600,165</u>	<u>1,658,205</u>	<u>2,775,879</u>
TOTAL NET ASSETS	<u>\$ 2,087,397</u>	<u>\$ 2,874,343</u>	<u>\$ 359,741</u>	<u>\$ 614,592</u>	<u>\$ 2,447,138</u>	<u>\$ 3,488,935</u>

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

The Regional Office of Education's net assets decreased by \$1,041,797 (30%) from FY 2005. The decrease occurred in both Governmental and Proprietary Funds. In addition, net assets related to the Teacher Institute Fund are considered restricted for teacher professional development.

CHANGES IN NET ASSETS

The following analysis shows the changes in net assets for the years ended June 30, 2005 and 2006.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues:						
Program revenues:						
Charges for services	\$ 213,956	\$ 165,130	\$ 445,556	\$ 293,035	\$ 659,512	\$ 458,165
Operating grants and contributions	4,361,941	3,703,754	-	-	4,361,941	3,703,754
General revenues:						
State and local sources	218,091	394,435	-	-	218,091	394,435
Interest income	143,651	79,540	6,539	4,159	150,190	83,699
On-behalf payments	226,515	237,192	-	-	226,515	237,192
Total revenues	5,164,154	4,580,051	452,095	297,194	5,616,249	4,877,245
Expenses:						
Salaries	1,091,454	1,179,407	55,622	500	1,147,076	1,179,907
Benefits	344,703	343,806	10,224	151	354,927	343,957
Purchased services	2,379,596	2,121,599	447,154	268,841	2,826,750	2,390,440
Supplies and materials	223,931	82,729	12,473	13,844	236,404	96,573
Capital expenditures	878	681	-	-	878	681
Depreciation	108,245	103,848	5,710	2,283	113,955	106,131
Payments to other governmental units	1,280,067	512,750	224,000	-	1,504,067	512,750
Miscellaneous	216,618	897	30,856	6,565	247,474	7,462
On-behalf payments	226,515	237,192	-	-	226,515	237,192
Total expenses	5,872,007	4,582,909	786,039	292,184	6,658,046	4,875,093
Income (loss) before operating transfers	(707,853)	(2,858)	(333,944)	5,010	(1,041,797)	2,152
Operating transfers	(79,093)	(4)	79,093	4	-	-
Change in net assets	(786,946)	(2,862)	(254,851)	5,014	(1,041,797)	2,152
Net assets, beginning	2,874,343	2,877,205	614,592	609,578	3,488,935	3,486,783
Net assets, ending	\$ 2,087,397	\$ 2,874,343	\$ 359,741	\$ 614,592	\$ 2,447,138	\$ 3,488,935

Governmental Activities

Revenues for governmental activities were \$5,164,154 and expenses were \$5,872,007. The increase in General Fund expenditures is mainly due to the increase in Regional Program Development expenses for the Youth Home Education program. Consequently, operating

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

transfers were made from the Youth Home Education Fund. Some grants increased while others decreased or were not funded in FY 2006. Title I - School Improvement and Accountability increased by \$379,426 due to having more schools on the academic watch list and the need to provide services to these schools. McKinney Education for Homeless grant increased by \$239,317 due to the increase in the number of students in the program. Title V - Innovative Programs - SEA Projects, Technology - Enhancing Education - Competitive and Title IV - Community Service grants were closed out, thus revenues decreased by \$631,232. In addition, the increase in Institute Fund revenues is attributed to the increase in teacher certification. Expenses were proportionally increased or decreased to meet the funding level.

Business-Type Activities

Revenues for business-type activities were \$452,095 and expenditures were \$786,039. The increase in revenues and expenditures is attributed to the increase in Technology workshops as well as the increase in background investigations conducted in FY 2006.

Financial Analysis of the Kane County Regional Office of Education No. 31 Funds

As previously noted, the Regional Office of Education No. 31 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The ROE's Governmental Funds reported combined fund balances were \$1,829,007.

Governmental Fund Highlights

- The Illinois State Board of Education line item was not increased to support for school services.
- County support for the Regional Office of Education No. 31 remained at level funding.
- There was an increase in the state aid foundation level to \$5,334 per student from \$4,964. This helped to off-set the reduction in the grant dollars provided for the Safe Schools Program.

Proprietary Fund Highlights

Total proprietary fund net assets decreased by \$254,851 (41%). This is attributed to the increase in purchased services and payments to other governments related to Technology and other local workshops.

Fiduciary Fund Highlights

There was a decrease of \$17,996 (18%) in total fiduciary funds for FY 2006. Transactions during FY 2006 represent mainly transfers in and out of funds for the Distributive Fund.

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

Budgetary Highlights

The Regional Office of Education No. 31 annually prepares budgets for several funds which serve as a guideline for activities and expenditures. The Regional Superintendent annually prepares an Office Operations Budget and submits it to the County Board for their approval. The Office Operations Budget covers a fiscal year which runs from December 1 to November 30. All grant budgets are prepared by the Regional Office of Education No. 31 and submitted to the granting agency for approval. Amendments must be submitted under guidelines established by the granting agency. Additionally, all Regional Office of Education funds are reported and included in our annual report. In addition, the Institute Fund is printed in a newspaper of general circulation in Kane County.

Capital Assets

Regional Office of Education No. 31's capital assets include office equipment, computers, audio-visual equipment, and office furniture. The Regional Office of Education No. 31 maintains an inventory of capital assets which have been accumulated over time. For FY 2006, total additions amounted to \$132,116 and there were no retirements. Depreciation expense for FY 2006 was \$113,955.

Economic Factors and Next Years' Budget

At the time these financial statements were prepared and audited, the Regional Office was aware of several existing circumstances that could affect its financial health in the future:

- The state aid foundation level has increased to \$5,334 per student.
- The interest rate on investments remains low and will impact interest earned.
- Most grants have remained near or at previous levels.
- County Board support for Regional Office of Education No. 31 will remain level.

Contacting the Kane County Regional Office

This financial report is designed to provide the Regional Office's citizens, taxpayers, clients, and other constituents with a general overview of its finances and to demonstrate the accountability for the money it receives. If the reader has questions concerning this report or needs additional financial information, please contact the Regional Superintendent of the Regional Office of Education No. 31 at 210 South Sixth Street, Geneva, IL 60134. For a more detailed analysis and explanation of operations and programs, the complete FY 2005 Annual Report is posted on the Kane County ROE website at <http://www.kaneroe.org>.

BASIC FINANCIAL STATEMENTS

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
 STATEMENT OF NET ASSETS
 JUNE 30, 2006

EXHIBIT A

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets			
Cash	\$ 2,189,671	\$ 97,380	\$ 2,287,051
Investments	357,054	145,000	502,054
Accounts receivable	5,278	143,134	148,412
Due from other governmental agencies	77,458	-	77,458
Total current assets	<u>2,629,461</u>	<u>385,514</u>	<u>3,014,975</u>
Noncurrent assets			
Capital assets, net	258,390	17,893	276,283
TOTAL ASSETS	<u>2,887,851</u>	<u>403,407</u>	<u>3,291,258</u>
LIABILITIES			
Accounts payable	507,843	6,559	514,402
Due to other governmental agencies	221,702	37,107	258,809
Deferred revenues	70,909	-	70,909
TOTAL LIABILITIES	<u>800,454</u>	<u>43,666</u>	<u>844,120</u>
NET ASSETS			
Invested in capital assets, net of related debt	258,390	17,893	276,283
Restricted	512,650	-	512,650
Unrestricted	1,316,357	341,848	1,658,205
TOTAL NET ASSETS	<u>\$ 2,087,397</u>	<u>\$ 359,741</u>	<u>\$ 2,447,138</u>

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

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2006

EXHIBIT B

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contribution	Primary Government		Total
				Governmental Activities	Business-Type Activities	
FUNCTIONS/PROGRAMS						
Primary government						
Governmental activities:						
Instructional services						
Salaries	\$ 1,091,454	\$ 30,498	\$ 1,144,573	\$ 83,617	\$ -	\$ 83,617
Benefits	344,703	7,317	360,733	23,347	-	23,347
Purchased services	2,379,596	120,054	1,429,844	(829,698)	-	(829,698)
Supplies and materials	223,931	5,014	218,097	(820)	-	(820)
Capital expenditures	878	-	72,408	71,530	-	71,530
Depreciation expense	108,245	-	-	(108,245)	-	(108,245)
Miscellaneous	216,618	1,663	2,181	(212,774)	-	(212,774)
Payments to other governments	1,280,067	49,410	1,134,105	(96,552)	-	(96,552)
Administrative						
On-behalf payments	226,515	-	-	(226,515)	-	(226,515)
Total governmental activities	5,872,007	213,956	4,361,941	(1,296,110)	-	(1,296,110)
Business-type activities:						
Professional development	786,039	445,556	-	-	(340,483)	(340,483)
Total business-type activities	786,039	445,556	-	-	(340,483)	(340,483)
Total primary government	\$ 6,658,046	\$ 659,512	\$ 4,361,941	(1,296,110)	(340,483)	(1,636,593)
General revenues:						
Local sources						
Intergovernmental				27,307	-	27,307
State sources				190,784	-	190,784
Interest income				143,651	6,539	150,190
On-behalf payments				226,515	-	226,515
Transfers				(79,093)	79,093	-
Total general revenues and transfers				509,164	85,632	594,796
Change in net assets				(786,946)	(254,851)	(1,041,797)
Net assets - beginning				2,874,343	614,592	3,488,935
Net assets - ending				\$ 2,087,397	\$ 359,741	\$ 2,447,138

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

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
 GOVERNMENTAL FUNDS
 BALANCE SHEET
 JUNE 30, 2006

EXHIBIT C

	General Fund	Education Fund	Institute Fund	Nonmajor Special Revenue Funds	Total Governmental Funds
ASSETS					
Cash (overdraft)	\$ (3,441)	\$ 1,506,557	\$ 467,260	\$ 219,295	\$ 2,189,671
Investments	307,054	-	50,000	-	357,054
Accounts receivable	-	-	1,725	3,553	5,278
Due from other governmental agencies	-	77,458	-	-	77,458
TOTAL ASSETS	303,613	1,584,015	518,985	222,848	2,629,461
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	110,966	383,573	6,335	6,969	507,843
Due to other governmental agencies	-	221,702	-	-	221,702
Deferred revenues	-	68,699	-	2,210	70,909
Total liabilities	110,966	673,974	6,335	9,179	800,454
FUND BALANCES					
Restricted	-	-	512,650	-	512,650
Unrestricted	192,647	910,041	-	213,669	1,316,357
Total fund balances	192,647	910,041	512,650	213,669	1,829,007
TOTAL LIABILITIES AND FUND BALANCES	\$ 303,613	\$ 1,584,015	\$ 518,985	\$ 222,848	\$ 2,629,461

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

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006**

EXHIBIT D

Total fund balances - governmental funds	\$ 1,829,007
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	<u>258,390</u>
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Net assets of governmental activities	<u><u>\$ 2,087,397</u></u>
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The notes to the financial statements are an integral part of this statement.

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
 GOVERNMENTAL FUNDS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2006

EXHIBIT E

	General Fund	Education Fund	Institute Fund	Nonmajor Special Revenue Funds	Total Governmental Funds
REVENUES					
Federal sources	\$ -	\$ 1,814,784	\$ -	\$ -	\$ 1,814,784
Slate sources	190,784	2,544,717	-	2,440	2,737,941
Local sources					
Intergovernmental	27,307	-	21,930	13,982	63,219
Fees for services	-	-	126,671	51,373	178,044
Interest	117,769	21,341	3,748	793	143,651
On-behalf payments	226,515	-	-	-	226,515
Total revenues	562,375	4,380,842	152,349	68,588	5,164,154
EXPENDITURES					
Current:					
Instructional services:					
Salaries	97,449	971,763	-	22,242	1,091,454
Benefits	31,600	307,767	-	5,336	344,703
Purchased services	1,082,241	1,209,799	55,652	31,904	2,379,596
Supplies and materials	31,903	188,371	2,553	1,104	223,931
Capital expenditures	60,859	62,959	-	-	123,818
Miscellaneous	214,211	1,194	393	820	216,618
Payments to other governments	259,220	984,812	36,035	-	1,280,067
On-behalf payments	226,515	-	-	-	226,515
Total expenditures	2,003,998	3,726,665	94,633	61,406	5,886,702
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,441,623)	654,177	57,716	7,182	(722,548)
OTHER FINANCING SOURCES (USES)					
Transfers in (out)	1,166,840	(1,245,933)	-	-	(79,093)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES	(274,783)	(591,756)	57,716	7,182	(801,641)
FUND BALANCES, BEGINNING OF YEAR	467,430	1,501,797	454,934	206,487	2,630,648
FUND BALANCES, END OF YEAR	\$ 192,647	\$ 910,041	\$ 512,650	\$ 213,669	\$ 1,829,007

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

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
GOVERNMENTAL FUNDS

EXHIBIT F

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Net change in fund balances \$ (801,641)

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	122,940
Depreciation expense	(108,245)
	<hr/>

Change in net assets of governmental activities \$ (786,946)

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

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2006

EXHIBIT G

	Business Type Activities - Enterprise Funds		Total
	ESC Professional Development Local 2	Nonmajor Proprietary Funds	
ASSETS			
Current assets			
Cash	\$ 72,233	\$ 25,147	\$ 97,380
Investments	145,000	-	145,000
Accounts receivable	20,266	122,868	143,134
Total current assets	<u>237,499</u>	<u>148,015</u>	<u>385,514</u>
Noncurrent assets			
Capital assets, net	<u>1,042</u>	<u>16,851</u>	<u>17,893</u>
TOTAL ASSETS	<u>238,541</u>	<u>164,866</u>	<u>403,407</u>
LIABILITIES			
Accounts payable	3,075	3,484	6,559
Due to other government agencies	-	37,107	37,107
TOTAL LIABILITIES	<u>3,075</u>	<u>40,591</u>	<u>43,666</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,042	16,851	17,893
Unrestricted	<u>234,424</u>	<u>107,424</u>	<u>341,848</u>
TOTAL NET ASSETS	<u>\$ 235,466</u>	<u>\$ 124,275</u>	<u>\$ 359,741</u>

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

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2006**

EXHIBIT H

	Business Type Activities - Enterprise Funds		Total
	ESC Professional Development Local 2	Nonmajor Proprietary Funds	
OPERATING REVENUES			
Local sources	\$ 103,083	\$ 342,473	\$ 445,556
OPERATING EXPENSES			
Salaries	10,657	44,965	55,622
Benefits	3,677	6,547	10,224
Purchased services	30,614	416,540	447,154
Supplies and materials	173	12,300	12,473
Miscellaneous	30,856	-	30,856
Payments to other governments	224,000	-	224,000
Depreciation	329	5,381	5,710
Total operating expenses	<u>300,306</u>	<u>485,733</u>	<u>786,039</u>
OPERATING LOSS	(197,223)	(143,260)	(340,483)
NONOPERATING REVENUES			
Interest	<u>6,539</u>	<u>-</u>	<u>6,539</u>
LOSS BEFORE OPERATING TRANSFERS	(190,684)	(143,260)	(333,944)
OPERATING TRANSFERS			
Transfers in	<u>-</u>	<u>79,093</u>	<u>79,093</u>
CHANGE IN NET ASSETS	(190,684)	(64,167)	(254,851)
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>426,150</u>	<u>188,442</u>	<u>614,592</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 235,466</u>	<u>\$ 124,275</u>	<u>\$ 359,741</u>

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

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2006

EXHIBIT I

	Business Type Activities - Enterprise Funds		
	ESC Professional Development	Nonmajor Proprietary Funds	Total
	Local 2		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts for workshops and services	\$ 97,885	\$ 274,454	\$ 372,339
Payments to suppliers	(296,902)	(480,206)	(777,108)
Net cash used in operating activities	(199,017)	(205,752)	(404,769)
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITY:			
Cash transfer from other funds	-	79,093	79,093
Net cash provided by noncapital financing activity	-	79,093	79,093
CASH FLOWS FROM CAPITAL FINANCING ACTIVITY:			
Purchase of capital assets	-	(9,176)	(9,176)
Net cash used in capital financing activity	-	(9,176)	(9,176)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investments	18,127	-	18,127
Interest	6,539	-	6,539
Net cash provided by investing activities	24,666	-	24,666
NET DECREASE IN CASH	(174,351)	(135,835)	(310,186)
CASH, BEGINNING OF YEAR	246,584	160,982	407,566
CASH, END OF YEAR	\$ 72,233	\$ 25,147	\$ 97,380
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	\$ (197,223)	\$ (143,260)	\$ (340,483)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	329	5,381	5,710
Effects of changes in assets and liabilities:			
Accounts receivable	(5,198)	(68,019)	(73,217)
Accounts payable	3,075	146	3,221
Net cash used in operating activities	\$ (199,017)	\$ (205,752)	\$ (404,769)

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

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2006

EXHIBIT J

ASSETS

Cash	<u>\$ 84,042</u>
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LIABILITIES

Due to other governmental agencies	<u>\$ 84,042</u>
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The notes to the financial statements are an integral part of this statement.

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Kane County Regional Office of Education No. 31 operates under the School Code (Articles 3 and 3A of Illinois Compiled Statutes, Chapter 105). The Regional Superintendent of Schools (Superintendent) serves as chief administrative officer of the Regional Office of Education No. 31 and is elected to the position for a four year term pursuant to Article 3 of Illinois Compiled Statutes, Chapter 105. The principal financial duty of the Superintendent is to receive and distribute monies due to school districts from general state aid, state categorical grants, and various other sources.

The superintendent's responsibilities for administering the school educational service region programs include, but are not limited to, providing directions to teachers and school officials on science, art and teaching methods; implementing the State Board of Education's Policy Programs; encouraging camaraderie among teachers' institute; making public notice of unfilled teaching positions within the region; and ensuring of the safety, health and welfare of the students in the region by periodically inspecting the school buildings and ensuring that the bus drivers have valid driving licenses and are properly trained to operate the school buses.

These are the only activities considered to be part of (controlled by or dependent on) the Kane County Regional Office of Education No. 31, as determined by the application of the criteria set forth in Governmental Accounting Standards Board Statement No. 14, The Financial Reporting Entity. The criteria for inclusion of an entity include, but are not limited to, legal standing, fiscal dependency, imposition of will and potential for financial benefit or burden.

Kane County Regional Office of Education No. 31 has determined that no other outside agency meets any of the above criteria and, therefore, no other agency has been included as a component unit in the financial statements. Furthermore, the Kane County Regional Office of Education No. 31 does not consider itself to be a component unit of any other entity.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. The statements distinguish between those activities of the ROE that are governmental in nature and those that are considered business-type activities. *Governmental activities* normally are supported by operating grants and contributions,

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

charges for services and intergovernmental revenues. *Business-type activities* normally are supported by amounts assessed or received from local sources for the ROE programs.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. New Accounting Pronouncements

Effective July 1, 2005, the Kane County Regional Office of Education No. 31 adopted the following accounting pronouncements:

- GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.
- GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment of NCGA Statement 1*, which amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section.
- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation (an amendment of GASB Statement No. 34)*, which clarifies the definition of legal enforceability as it relates to net assets restricted by enabling legislation and requires disclosure of the amount of net assets restricted by enabling legislation.
- GASB Statement No. 47, *Accounting for Termination Benefits*, which establishes accounting and financial reporting standards for termination benefits.

There was no significant impact on the Kane County Regional Office of Education No. 31's financial statements as a result of adopting the above statements.

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of Kane County Regional Office of Education No. 31 are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The Kane County Regional Office of Education No. 31 applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The government-wide financial statements are reported using the economic *resources measurement focus* and the *accrual basis of accounting*. Proprietary fund financial statements also report using this same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund and fiduciary financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e. when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Kane County Regional Office of Education No. 31 considers revenues as available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance.

There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

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

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

When both restricted and unrestricted resources are available for use, it is the ROE's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Fund Accounting

The accounts of the Kane County Regional Office of Education No. 31 are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue, and expenditures. The resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by type in the basic financial statements. The following summarizes the fund types used:

Governmental Fund Types

Governmental Funds are those through which most governmental functions are financed. The acquisition, use and balances of the expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund - Accounts for resources traditionally associated with government which are not required, legally or by sound financial management, to be accounted for in another fund. The general fund is reported as a major governmental fund in the financial statements. The following are included in the general funds:

ROE/ISC Operations - Accounts for grant monies received for, and payment of, assisting schools in all areas of school improvement.

Regional Program Development - This program provides for the general improvement and expansion of education within Kane County Regional Office of Education No. 31 including the educational program for the students at the Juvenile Justice Center (Youth Home Education).

Learning Technology Center - Accounts for resources and payments of expenditures for Learning Technology HUB program for the purpose of providing a coordinated, statewide support infrastructure which assists school districts in planning for, implementing, assessing results and educating school staff in the use of technology and telecommunications in curricular, instructional and administrative functions.

Special Revenue Funds - Accounts for the proceeds of specific revenue sources (other than those accounted for in the Fiduciary Funds) that are legally restricted to

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

expenditures for specified purposes. The Kane County Regional Office of Education No. 31 reported the following special revenue funds as major governmental funds.

Institute Fund - Accounts for fees collected for the registration and renewal of teaching certificates. These fees are used to defray administrative expenses incidental to teachers' institutes, workshops or meetings of a professional nature that are designed to promote the professional growth of teachers or for the purpose of defraying the expense of any general or special meeting of teachers or school personnel, which has been approved by the Kane County Regional Office of Education No. 31. All funds generated remain restricted until expended only on the aforementioned activities.

Education Fund - Accounts for state and federal grant monies received for, and payment of, expenditures incurred in administering numerous grant awards which include:

ROE/ISC Technology - Program designed to support learning technology services to the local school districts.

Federal Special Education - IDEA Flow-Through - Funds used to enhance the capacity of schools to safely and effectively educate all students by applying research-based behavior support systems that maximize academic achievement of student and teacher outcomes.

Regional Safe Schools - This fund is an alternative schooling program for disruptive youth, creating alternative placement for those students who are suspended and/or are deemed ineligible.

General State Aid - Accounts for grant monies received for, and payment of expenditures for regional learning academy supplements.

Truants' Alternative and Optional Education Program (TAP) - Accounts for resources and payment of expenditures to provide support service and evaluate compliance with recommendations to Kane and DeKalb County truants and their parents. TAP was established under a grant from the State of Illinois.

Career Awareness and Development Program - Funds provide career awareness and development training opportunities for elementary and middle school educators to integrate information on career and career planning into context of the fundamental learning areas.

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

SOS - Q4 Teacher Quality - System of Support, Quadrant Four is a State coordination and services grant for improving teacher quality through professional development. Funds were received by the Professional Development Alliance and provided to Regional System of Support Providers (RESPROs).

Title II - Teacher Quality Leadership - Accounts for grant monies received for, and payment of, expenditures incurred in providing workshops to teachers for improvement of instruction in the classroom.

FY 04/FY 05/FY 06 Title I - Reading First Part B SEA Funds / Reading First Coordinator / Reading First Technical Assistant - Funds provide assistance to school districts in establishing reading programs for students in kindergarten through third grade that are based on scientifically based reading research. Reading first also focuses on teacher development and ensuring that all teachers, including special education teachers, have the tools they need to effectively help their students learn to read.

Title I - School Improvement & Accountability - Accounts for federal monies received for, and payment of, expenditures of the Title I - Accountability grant. This grant provides school districts with funds to carry out their school improvement and corrective action responsibilities under Section 1116(c) of Title I while offering students in schools identified for improvement and corrective action the opportunity to transfer to another higher performing public school, including a public charter within the district.

McKinney Education for Homeless Children - Accounts for grant monies received for and payment of, expenditures associated with a Federal program designed to provide counseling and educational support to homeless children and their families. The programs are funded by a Federal Stewart B. McKinney Education for Homeless Children and Youth Grant administered through the Illinois State Board of Education.

Technology - Enhancing Education - Competitive - Funds provide coordinated support and infrastructure which assists school districts in planning for, implementing, assessing results and educating school staff in the use of technology and telecommunications in curricular, instructional and administrative functions.

Title IV - Community Service - Accounts for monies received for, and payment of expenditures for Safe and Drug Free Schools and Communities

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Programs. These programs enhance the Nation's efforts to prevent illegal use of drugs and violence among, and promote safety and discipline for, students at all levels in the community.

Youth Home Education - Funds are used to provide an educational program for the students at the Juvenile Justice Center.

Standards Aligned Classroom - Funds are used to offer additional opportunities for teachers and administrators to gain knowledge and skills in aligning classroom level curriculum and assessment to the Illinois Learning Standards.

Nonmajor Special Revenue Funds - The Kane County Regional Office of Education No. 31 reported the following special revenue funds as non-major governmental funds.

General Education Development (GED) - Accounts for the revenues and expenditures associated with the processing of applications for the high school level test of General Education Development and the issuance of diplomas upon the successful completion of the examination.

Bus Driver Training - Accounts for the revenues received from individuals and contractors to sponsor instructional training courses for school bus drivers.

Supervisory - Accounts for travel and other expenditures necessary to perform the duty of supervising the school districts in Kane County Regional Office of Education No. 31. This fund includes the balance of the Payroll Clearing Fund.

Local Truancy - Accounts for revenues received from local sources to address the truancy problem in Kane County.

Proprietary Fund Types

Enterprise Funds - to account for resources from fees charged directly to those entities or individuals that use its services.

Education Service Center (ESC) Professional Development Local 2 - This fund was created to maintain control of all revenues and expenses from workshops conducted by Kane County Regional Office of Education No. 31. The ROE reported this fund as a major enterprise fund.

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Nonmajor Proprietary Funds - the Kane County Regional Office of Education No. 31 reported the following proprietary funds as non-major funds:

Visual Media Cooperative - Accounts for funds received and disbursed by the Superintendent as administrative agent for the Kane County Visual Media Cooperative. The Visual Media Cooperative is a cooperative of school districts, which maintains a library of educational films. New and replacement films and videos are financed from rental charges to users.

Business Partners Initiative - The Business Partners Initiative currently involves a partnership with Dukane Corporation of St. Charles, Illinois to provide overhead projectors, LCD projectors and various other multimedia products to schools throughout Illinois at a cost significantly below retail price.

Technology - A collaboration between the Northeastern Illinois Regional Offices of Education to provide computer workshops for the teachers of Northern Illinois. This fund is locally funded by Area 1, which is made of the Northeastern Illinois Regional Offices of Education.

Local Counselors Academy - Accounts for local revenues and disbursements related to Counselors Academy Program.

Criminal Background Investigation - Accounts for the assessments received from the school districts to pay for the processing of fingerprinting the substitute teachers and expenditures incurred providing this service to the school districts.

Kane County Human Resources Consortium - Used to account for monies received for, and partial payment of, expenditures for the Kane County Human Resources Consortium program.

Fiduciary Fund Types

Fiduciary Funds are used to account for assets held in a trustee capacity or as an agent for individuals or private or governmental organizations. The Fiduciary Funds include the following:

Agency Funds - The Agency Funds are used to account for assets held as an agent for individuals, private organizations, other governmental units and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of operations. The Agency Funds include the following:

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Payroll - Accounts for all payroll that is incurred. Any fund that has payroll remits the money to the Payroll Fund, the Fund then pays the employee. This is an administrative agent for the ROE's payroll.

Juvenile Drug Court - The ROE provides fiscal support to the Sixteenth Judicial Circuit for a program to assist juvenile drug offenders in DeKalb, Kane and Kendall Counties. The program is funded by a grant from the City of Aurora.

Distributive Fund - The Distributive Fund accounts for state and federal revenues and assets held by Kane County Regional Office of Education No. 31 as an agent for the school districts within the jurisdiction. These funds are custodial in nature and do not involve measurement of the results of operations. The amounts due to the school districts are equal to the assets.

F. Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available.

Non-exchange transactions, in which the ROE receives value without directly giving value in return, includes grants and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the ROE must provide local resources to be used for specific purpose, and expenditure requirements, in which the resources are provided to the ROE on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

G. Cash and Cash Equivalents

For presentation in the financial statements, investments with an original maturity of three months or less at the time they are purchased by the ROE are considered to be cash equivalents. Investments with an original maturity of more than three months are reported as investments.

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

H. Capital Assets

Capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Assets but are not reported in the fund financial statements.

Capital assets are recorded at cost at time of acquisition or fair value at the date of donation. The ROE capitalizes items costing \$500 or more. Depreciation is calculated on a straight-line basis over the estimated useful lives (five to seven years) of the respective assets.

I. Deferred Revenues

The ROE reports unearned deferred revenue in the governmental fund Balance Sheet. Deferred and unearned revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period.

J. Net Assets

Net assets present the difference between assets and liabilities in the Statement of Net Assets. Net assets of the ROE are classified as follows:

Invested in Capital Assets - represents the ROE's total investment in capital assets. There is no outstanding debt related to these assets at this time.

Restricted Net Assets - represent resources in which the ROE is legally obligated to spend in accordance with restrictions imposed by enabling legislation.

Unrestricted Net Assets - represent resources used for transactions relating to the general operations of the ROE and may be used at the discretion of management to meet expenses for any purpose.

K. Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

L. Budgets and Budgetary Accounting

Kane County Regional Office of Education No. 31 did not formally adopt a budget for the year ended June 30, 2006 and is not legally required to do so. The Illinois State Board of Education requires budgets for certain State and Federal programs. These budgets were used to prepare the Budgetary Comparison Schedules for the following programs:

General Fund:

- ROE/ISC Operations

Special Revenue Funds:

- ROE/ISC Technology
- Regional Safe Schools
- Truants' Alternative and Optional Education Program (TAP)
- FY04 Title I - Reading First Part B SEA Funds
- FY05 Title I - Reading First Part B SEA Funds
- FY06 Title I - Reading First Part B SEA Funds
- McKinney Education for Homeless Children

M. Revenue from Federal and State Grants

Revenues from federal and State grant awards are recorded net of the amount due to the State for the unused portion of the grant or the amount carried over to the following fiscal year project. Amounts due to the State or carried over to the following year project are recorded as liabilities.

NOTE 2 - CASH AND INVESTMENTS

Deposits

The Kane County Regional Office of Education No. 31 utilizes several different bank accounts for its various activities. The book balance of such accounts is \$2,371,093 at June 30, 2006, while the bank balance was \$3,275,905. The difference between the above amounts primarily represents checks that have been issued but have not yet cleared the bank as of June 30, 2006.

Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, the ROE's deposits may not be recovered. Originally, GASB Statement No. 3 discussed three categories of custodial credit risk as follows:

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Category 1 includes deposits covered by depository insurance or collateral held by Kane County Regional Office of Education No. 31 in its name.

Category 2 includes deposits covered by collateral held by the financial institutions in a pledged safekeeping account in the name of Kane County Regional Office of Education No. 31.

Category 3 includes deposits which are uncollateralized or the collateral is held by the financial institution trust department but not in the name of Kane County Regional Office of Education No. 31.

The ROE's deposits are covered by the Federal Deposit Insurance Corporation (FDIC) and by collateral held by the financial institution in the ROE's name. Although deposit balances classified under the traditional risk categories of 1 and 2 have been determined under GASB Statement No. 40 to be exposed to only minimal risk, and, based on this conclusion, the GASB chose to limit disclosure of custodial credit risk to deposits that meet the definition of "Category 3", the ROE has decided to include categories 1 and 2 in the discussion. The following table reflects the ROE's level of risk as of June 30, 2006:

	Bank Balance
Category 1	\$ 545,000
Category 2	2,682,992
Category 3	-
Exempt	47,913
Total	\$ 3,275,905

The exempt funds are those deposited into the Illinois Funds.

Investments

The ROE's established investment policy follows the State of Illinois Public Funds Investment Act which authorizes the ROE to purchase certain obligations of the U.S. Treasury, federal agencies and instrumentalities; certificates of deposit and time deposits covered by Federal depository insurance; commercial paper of U.S. corporations with assets exceeding \$500,000,000, if such paper is rated at the highest classification established by at least two standard rating services; money market funds and the Illinois Funds.

The ROE has pooled its investments. Investments are stated at fair value. Net income from investments of pooled funds is allocated and credited to the original sources of the funds. As of June 30, 2006, the ROE's investments are certificate of deposits totaling \$502,054.

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The ROE's policy for reducing its exposure to the risk is to structure the ROE's portfolio so that securities mature to meet the ROE's cash requirements for ongoing operations. As of June 30, 2006, all the investments have investment maturities of six to eighteen months.

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ROE's policy for managing its exposure to the risk is to limit investments to those allowable by the Illinois Public Funds Investment Act. As of June 30, 2006, the ROE's investment in the State investment pool (Illinois Funds) was rated AAAM by Standard & Poor's.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The ROE's policy for mitigating the risk is to diversify the investment portfolio so that the failure of any one issue will not place an undue financial burden on the ROE. As of June 30, 2006, the ROE's investments are certificates of deposits with four local banks.

Custodial Credit Risk for investments is the risk that, in the event of a failure of the counterparty, the ROE will not be able to recover the value of the investments that are in the possession of an outside party. Originally, GASB Statement No. 3 discussed three categories of custodial credit risk as follows:

Category 1 includes investments that are insured or collateralized with securities held by the Kane County Regional Office of Education No. 31 in its name.

Category 2 includes investments collateralized with securities held by the financial institution in the name of Kane County Regional Office of Education No. 31.

Category 3 includes uninsured and uncollateralized investments or the collateral is held by the financial institution trust department but not in the name of Kane County Regional Office of Education No. 31.

Although investments classified under the traditional risk categories of 1 and 2 have been determined under GASB Statement No. 40 to be exposed to only minimal risk, and, based on this conclusion, the GASB chose to limit disclosure of custodial credit risk to investments that meet the definition of "Category 3", the ROE has decided to include categories 1 and 2 in the discussion. The ROE does not have a policy for custodial credit risk that further limits custodial arrangements from what is required by the State of Illinois Public Funds Investment Act. The following table reflects the ROE's level of risk as of June 30, 2006:

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

	Carrying Amount	Bank Balance	Category		
			1	2	3
Certificates of deposit	\$ 502,054	\$ 502,054	\$ 502,054	\$ -	\$ -

NOTE 3 - DUE TO/FROM OTHER GOVERNMENTS

The Kane County Regional Office of Education No. 31's General Fund, Special Revenue Fund and Agency Fund have funds due to and from various other governmental units which consist of the following:

Due From Other Governments:

Local School Districts	\$ 21,221
Illinois State Board of Education	56,237
Total	<u>\$ 77,458</u>

Due To Other Governments:

Local School Districts	\$ 158,664
Illinois State Board of Education	50,145
DuPage Regional Office of Education No. 19	50,000
Total	<u>\$ 258,809</u>

NOTE 4 - CAPITAL ASSETS ACTIVITY

A summary of changes in capital assets for the year ended June 30, 2006 is as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2006</u>
GOVERNMENTAL FUNDS				
Furniture and equipment	\$ 662,044	\$ 122,940	\$ -	\$ 784,984
Less: accumulated depreciation	418,349	108,245	-	526,594
Capital assets, net	<u>\$ 243,695</u>	<u>\$ 14,695</u>	<u>\$ -</u>	<u>\$ 258,390</u>
PROPRIETARY FUNDS				
Equipment	\$ 16,710	\$ 9,176	\$ -	\$ 25,886
Less: accumulated depreciation	2,283	5,710	-	7,993
Capital assets, net	<u>\$ 14,427</u>	<u>\$ 3,466</u>	<u>\$ -</u>	<u>\$ 17,893</u>

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 5 - DISTRIBUTIVE FUND INTEREST

Interest earned on the Distributive Fund's cash and investments is periodically distributed to each participating school district based on the school district's enrollment.

NOTE 6 - SALARIES AND PENSION PLAN CONTRIBUTIONS

The salaries of the Regional Superintendent and the Associate Regional Superintendent are paid by the State of Illinois. The salaries of all other employees of the Kane County Regional Office of Education No. 31 are paid by Kane County. Pension plan contributions associated with these salaries are also paid either by the State of Illinois or Kane County.

The Kane County Regional Office of Education No. 31 reimburses Kane County for salaries paid as well as the employer contributions made to the Illinois Municipal Retirement Fund (IMRF). Pension plan obligations for Kane County Regional Office of Education No. 31 employees (except for visual media personnel) are included in the statistics IMRF provides to Kane County.

NOTE 7 - RETIREMENT FUND COMMITMENTS

Teachers' Retirement System of the State of Illinois

The Kane County Regional Office of Education No. 31 participates in the Teachers' Retirement System of the State of Illinois (TRS). TRS is a cost-sharing multiple-employer defined benefit pension plan that was created by the Illinois legislature for the benefit of Illinois public school teachers employed outside the city of Chicago. The Illinois Pension Code outlines the benefit provisions of TRS, and amendments to the plan can be made only by legislative action with the Governor's approval. The State of Illinois maintains primary responsibility for the funding of the plan, but contributions from participating employers and members are also required. The TRS Board of Trustees is responsible for the system's administration.

TRS members include all active nonannuitants who are employed by a TRS-covered employer to provide services for which teacher certification is required. The active member contribution rate through June 30, 2006 was 9.4 percent of their creditable earnings. These contributions, which may be paid on behalf of employees by the employer, are submitted to TRS by the employer. In addition, virtually all employers and members pay a contribution to the Teachers' Health Insurance Security (THIS) Fund, a separate fund in the State Treasury that is not a part of this retirement plan. The employer THIS Fund contribution was 0.6

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

percent during the year ended June 30, 2006, and the member THIS Fund health insurance contribution was 0.80 percent.

The State of Illinois makes contributions directly to TRS on behalf of the Kane County Regional Office of Education No. 31's TRS-covered employees.

- **On-Behalf Contributions.** The State of Illinois makes employer pension contributions on behalf of Kane County Regional Office of Education No. 31. For the year ended June 30, 2006, the State of Illinois contributions were based on 7.06 percent of creditable earnings, and Kane County Regional Office of Education No. 31, recognized revenue and expenditures of \$26,156 in pension contributions that the State of Illinois paid directly to TRS. For the years ended June 30, 2005 and June 30, 2004, the State of Illinois contribution rates as percentages of creditable earnings were 11.76 percent (\$38,442) and 13.98 percent (\$51,260), respectively.

The Kane County Regional Office of Education No. 31 makes three other types of employer contributions directly to TRS.

- **2.2 Formula Contributions.** Employers contribute 0.58 percent of creditable earnings for the 2.2 formula change. Contributions for the year ended June 30, 2006 were \$1,984. Contributions for the years ended June 30, 2005, and June 30, 2004, were \$1,896 and \$2,118 respectively.
- **Federal and Trust Fund Contributions.** When TRS members are paid from federal and trust funds administered by Kane County Regional Office of Education No. 31, there is a statutory requirement for Kane County Regional Office of Education No. 31 to pay an employer pension contribution from those funds. Under a policy adopted by the TRS Board of Trustees that was first effective in the fiscal year ended June 30, 2006, employer contributions for employees paid from federal and trust funds will be the same as the state contribution rate to TRS. For the year ended June 30, 2006, the employer pension contribution was 7.06 percent of salaries paid from federal and trust funds. For the two years ended June 30, 2005, the employer pension contribution was 10.5 percent of salaries paid from those funds. For the year ended June 30, 2006, salaries totaling \$108,574 were paid from federal and trust funds that required employer contributions of \$7,665. For the years ended June 30, 2005 and June 30, 2004, required Kane County Regional Office of Education No. 31 contributions were \$8,578 and \$13,306, respectively.
- **Early Retirement Option (ERO).** Kane County Regional Office of Education No. 31 is also required to make one-time employer contributions to TRS for members retiring under the Early Retirement Option (ERO). The payments vary depending on the age and salary of the member and under which ERO program the member retires. Under Public Act 94-0004, a "Pipeline ERO" program is provided for members to retire under the

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

same terms as the ERO program that expired June 30, 2005, provided they meet certain conditions and retire on or before July 1, 2007. If members do not meet these conditions, they can retire under the "Modified ERO" program which requires higher member and employer contributions to TRS. Also, under Modified ERO, Public Act 94-0004 eliminates the waiver of member and employer ERO contributions that had been in effect for members with 34 years of service (unless the member qualifies for the Pipeline ERO). Under the ERO program that expired on June 30, 2005 and the Pipeline ERO, the maximum employer contribution is 100 percent of the member's highest salary used in the final average salary calculation. Under the Modified ERO, the maximum employer contribution is 117.5 percent. Both the 100 percent and 117.5 percent maximums apply when the member is age 55 at retirement. For the year ended June 30, 2006, the Kane County Regional Office of Education No. 31 paid \$0 to TRS for employer contributions under the Pipeline ERO and Modified ERO programs. For the years ended June 30, 2005 and June 30, 2004, the Kane County Regional Office of Education No. 31 paid \$0 and \$0, respectively in employer ERO contributions.

TRS financial information, an explanation of TRS' benefits, and descriptions of member, employer and State funding requirements can be found in the TRS *Comprehensive Annual Financial Report* for the year ended June 30, 2005. The report for the year ended June 30, 2006, is expected to be available in late 2006. The reports may be obtained by writing to the Teachers' Retirement System of the State of Illinois, P.O. Box 19253, 2815 West Washington Street, Springfield, IL 62794-9253. The most current report is also available on the TRS web site at trs.illinois.gov.

Illinois Municipal Retirement Fund

The Kane County Regional Office of Education No. 31 defined benefit pension plan, Illinois Municipal Retirement Fund (IMRF), provides retirement, disability, annual cost of living adjustments and death benefits to plan members and beneficiaries. IMRF acts as a common investment and administrative agent for local governments and school districts in Illinois. The Illinois Pension Code establishes the benefit provisions of the plan that can only be amended by the Illinois General Assembly. IMRF issues a financial report that includes financial statements and required supplementary information. That report may be obtained at www.imrf.org/pubs/pubs_homepage.htm or by writing to the Illinois Municipal Retirement Fund, 2211 York Road, Suite 500, Oak Brook, Illinois 60523.

Employees participating in IMRF are required to contribute 4.50% of their annual covered salary. The member rate is established by State statute. Kane County Regional Office of Education No. 31 is required to contribute at an actuarially determined rate. The employer rate for calendar year 2005 was 0.00% percent of payroll. The employer contribution requirements are established and may be amended by the IMRF Board of Trustees. IMRF's unfunded actuarial accrued liability is being amortized as a level percentage of projected

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

payroll on a closed basis (overfunded liability amortized on open basis). The amortization period at December 31, 2005 was 5 years.

For December 31, 2005, Kane County Regional Office of Education No. 31's annual pension cost of \$0 was equal to Kane County Regional Office of Education No. 31's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expense), (b) projected salary increases of 4.00% a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4% to 11.6% per year depending on age and service, attributable to seniority/merit, and (d) post-retirement benefit increases of 3% annually. The actuarial value of IMRF assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period with a 15% corridor.

The assumptions used for the 2005 actuarial valuation were based on the 2002-2004 experience study.

TREND INFORMATION			
<u>Actuarial Valuation Date</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/05	\$ -	100%	\$ -
12/31/04	-	100%	-
12/31/03	-	100%	-
12/31/02	-	100%	-
12/31/01	-	100%	-
12/31/00	35	100%	-
12/31/99	-	100%	-
12/31/98	-	100%	-
12/31/97	894	100%	-
12/31/96	407	100%	-

NOTE 8 - DEFICIT FUND BALANCES

The following funds have deficit fund balances as of June 30, 2006:

ROE/ISC Operations	\$ 3,356
Regional Safe Schools	3,943
SOS - Q4 Teacher Quality	111
Local Counselors Academy	<u>3,484</u>
Total Deficit Fund Balances	<u>\$ 10,894</u>

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Above deficit fund balances are expected to correct themselves through payments from the State, receipts from local sources and interest income in the next fiscal year.

NOTE 9 - ON-BEHALF PAYMENTS

The breakdown of the on-behalf payments by the State of Illinois for the Regional Superintendent and the Associate Regional Superintendent of the Kane County Regional Office of Education No. 31 are as follows:

Regional Superintendent's salary	\$ 88,540
Regional Superintendent's fringe benefits (includes State paid insurance)	20,188
Associate Regional Superintendent's salary	79,686
Associate Regional Superintendent's fringe benefits (includes State paid insurance)	11,945
TRS Contributions	<u>26,156</u>
Total	<u>\$ 226,515</u>

NOTE 10 - INTERFUND TRANSFERS

The composition of interfund transfers for the year ended June 30, 2006 is as follows:

	<u>Transfers-out</u>	<u>Transfers-in</u>
General Fund - Regional Program Development	\$ -	\$ 1,166,840
Education Fund - Youth Home Education	(1,245,933)	-
Proprietary Funds - Local Counselors Academy	-	79,093
Proprietary Funds - Business Partners Initiative	(13,526)	-
Proprietary Funds - Technology	-	13,526

**REQUIRED SUPPLEMENTARY INFORMATION
(OTHER THAN MANAGEMENT DISCUSSION AND ANALYSIS)**

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
REQUIRED SUPPLEMENTARY SCHEDULE
JUNE 30, 2006**

**ILLINOIS MUNICIPAL RETIREMENT FUND
SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/05	\$ 39,735	\$ 36,357	(\$ 3,378)	109.29%	\$ -	0.00%
12/31/04	36,912	34,983	(1,929)	105.51%	-	N/A
12/31/03	35,405	32,550	(2,855)	108.77%	-	N/A
12/31/02	36,844	30,249	(6,595)	121.80%	-	N/A
12/31/01	36,844	28,200	(8,644)	130.65%	-	N/A
12/31/00	35,413	26,815	(8,598)	132.06%	-	N/A
12/31/99	31,535	24,678	(6,857)	127.79%	-	N/A
12/31/98	27,340	27,750	410	98.52%	-	N/A
12/31/97	24,270	24,312	42	99.83%	-	N/A
12/31/96	20,940	15,932	(5,008)	131.43%	6,960	N/A

On a market value basis, the actuarial value of assets as of December 31, 2005 is \$40,066.
On a market basis, the funded ratio would be 110.20%.

***Digest of Changes**

The actuarial assumptions used to determine the actuarial accrued liability for 2005 are based on the 2002-2004 Experience Study. The principal changes were:

- The 1994 Group Annuity Mortality implemented.
- For Regular members, fewer normal and more early retirements are expected to occur.

SUPPLEMENTARY INFORMATION

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
GENERAL FUND
COMBINING SCHEDULE OF ACCOUNTS
JUNE 30, 2006

SCHEDULE 1

	ROE/ISC Operations	Regional Program Development	Learning Technology Center	Total
ASSETS				
Cash (overdrafts)	\$ 8,448	\$ (11,889)	\$ -	\$ (3,441)
Investments	-	307,054	-	307,054
TOTAL ASSETS	8,448	295,165	-	303,613
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	11,804	99,162	-	110,966
FUND BALANCES				
Unrestricted	(3,356)	196,003	-	192,647
TOTAL LIABILITIES AND FUND BALANCES	\$ 8,448	\$ 295,165	\$ -	\$ 303,613

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31

SCHEDULE 2

GENERAL FUND

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2006

	ROE/ISC Operations	Regional Program Development	Learning Technology Center	Total
REVENUES				
State sources	\$ 190,784	\$ -	\$ -	\$ 190,784
Local sources				
Intergovernmental	-	27,307	-	27,307
Interest	-	117,769	-	117,769
On-behalf payments	226,515	-	-	226,515
Total revenues	417,299	145,076	-	562,375
EXPENDITURES				
Salaries	97,449	-	-	97,449
Benefits	31,600	-	-	31,600
Purchased services	59,962	998,242	24,037	1,082,241
Supplies and materials	1,773	24,111	6,019	31,903
Capital expenditures	-	57,974	2,885	60,859
Miscellaneous	-	214,211	-	214,211
Payments to other governments	-	259,220	-	259,220
On-behalf payments	226,515	-	-	226,515
Total expenditures	417,299	1,553,758	32,941	2,003,998
DEFICIENCY OF REVENUES OVER EXPENDITURES				
	-	(1,408,682)	(32,941)	(1,441,623)
OTHER FINANCING SOURCES				
Transfers in	-	1,166,840	-	1,166,840
DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES				
	-	(241,842)	(32,941)	(274,783)
FUND BALANCES (DEFICIT), BEGINNING OF YEAR				
	(3,356)	437,845	32,941	467,430
FUND BALANCES (DEFICIT), END OF YEAR				
	\$ (3,356)	\$ 196,003	\$ -	\$ 192,647

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006**

SCHEDULE 3

	<u>ROE/ISC Operations</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
State sources	\$ 190,784	\$ 190,784	\$ -
Local sources			
Interest	-	-	-
On-behalf payments	-	226,515	226,515
	<u>190,784</u>	<u>417,299</u>	<u>226,515</u>
Total revenues			
EXPENDITURES			
Salaries	100,000	97,449	2,551
Benefits	31,900	31,600	300
Purchased services	56,600	59,962	(3,362)
Supplies and materials	2,284	1,773	511
On-behalf payments	-	226,515	(226,515)
	<u>190,784</u>	<u>417,299</u>	<u>(226,515)</u>
Total expenditures			
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
FUND DEFICIT, BEGINNING OF YEAR		<u>(3,356)</u>	
FUND DEFICIT, END OF YEAR		<u>\$ (3,356)</u>	

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
 EDUCATION FUND
 COMBINING SCHEDULE OF ACCOUNTS
 JUNE 30, 2006

SCHEDULE 4

	ROE/ISC Technology	Federal Special Education - IDEA Flow-Through	Regional Safe Schools	General State Aid	Truants' Alternative and Optional Education Program (TAP)
ASSETS					
Cash (overdrafts)	\$ 1,039	\$ (19,183)	\$ 120,810	\$ 278,413	\$ 43,685
Due from other governmental agencies	-	21,221	-	11,126	-
TOTAL ASSETS	<u>1,039</u>	<u>2,038</u>	<u>120,810</u>	<u>289,539</u>	<u>43,685</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	32	847	124,330	-	29,110
Due to other governmental agencies	993	-	423	-	-
Deferred revenues	-	-	-	-	-
Total liabilities	<u>1,025</u>	<u>847</u>	<u>124,753</u>	<u>-</u>	<u>29,110</u>
FUND BALANCES					
Fund balances (deficit), unrestricted	14	1,191	(3,943)	289,539	14,575
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,039</u>	<u>\$ 2,038</u>	<u>\$ 120,810</u>	<u>\$ 289,539</u>	<u>\$ 43,685</u>

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
 EDUCATION FUND
 COMBINING SCHEDULE OF ACCOUNTS
 JUNE 30, 2006

SCHEDULE 4
 (CONTINUED)

	Career Awareness and Development Program	SOS - Q4 Teacher Quality	Title II - Teacher Quality Leadership	FY 04 Title I - Reading First Part B SEA Funds	FY 05 Title I - Reading First Part B SEA Funds
ASSETS					
Cash (overdrafts)	\$ -	\$ (111)	\$ 9,198	\$ (42,909)	\$ 31,986
Due from other governmental agencies	-	-	-	45,111	-
TOTAL ASSETS	-	(111)	9,198	2,202	31,986
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	-	-	-	-	21,166
Due to other governmental agencies	-	-	-	-	10,262
Deferred revenues	-	-	9,054	-	-
Total liabilities	-	-	9,054	-	31,428
FUND BALANCES					
Fund balances (deficit), unrestricted	-	(111)	144	2,202	558
TOTAL LIABILITIES AND FUND BALANCES	\$ -	\$ (111)	\$ 9,198	\$ 2,202	\$ 31,986

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
 EDUCATION FUND
 COMBINING SCHEDULE OF ACCOUNTS
 JUNE 30, 2006

SCHEDULE 4
 (CONTINUED)

	FY 06 Title I - Reading First Part B SEA Funds	Title I - School Improvement & Accountability	Reading First Coordinator	Reading First Technical Assistant	McKinney Education for Homeless Children
ASSETS					
Cash (overdrafts)	\$ 39,883	\$ 217,196	\$ 18,225	\$ 36,925	\$ 184,886
Due from other governmental agencies	-	-	-	-	-
TOTAL ASSETS	<u>39,883</u>	<u>217,196</u>	<u>18,225</u>	<u>36,925</u>	<u>184,886</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	199	207,835	-	-	54
Due to other governmental agencies	38,467	-	-	-	171,557
Deferred revenues	-	-	16,863	35,226	7,556
Total liabilities	<u>38,666</u>	<u>207,835</u>	<u>16,863</u>	<u>35,226</u>	<u>179,167</u>
FUND BALANCES					
Fund balances (deficit), unrestricted	1,217	9,361	1,362	1,699	5,719
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 39,883</u>	<u>\$ 217,196</u>	<u>\$ 18,225</u>	<u>\$ 36,925</u>	<u>\$ 184,886</u>

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
 EDUCATION FUND
 COMBINING SCHEDULE OF ACCOUNTS
 JUNE 30, 2006

SCHEDULE 4
 (CONTINUED)

	Technology - Enhancing Education - Competitive	Title IV - Community Service	Youth Home Education	Standards Aligned Classroom	Total
ASSETS					
Cash (overdrafts)	\$ -	\$ -	\$ 568,988	\$ 17,526	\$ 1,506,557
Due from other governmental agencies	-	-	-	-	77,458
TOTAL ASSETS	-	-	568,988	17,526	1,584,015
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	-	-	-	-	383,573
Due to other governmental agencies	-	-	-	-	221,702
Deferred revenues	-	-	-	-	68,699
Total liabilities	-	-	-	-	673,974
FUND BALANCES					
Fund balances (deficit), unrestricted	-	-	568,988	17,526	910,041
TOTAL LIABILITIES AND FUND BALANCES	\$ -	\$ -	\$ 568,988	\$ 17,526	\$ 1,584,015

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
EDUCATION FUND

SCHEDULE 5

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2006

	ROE/ISC Technology	Federal Special Education - IDEA Flow-Through	Regional Safe Schools	General State Aid	Truants' Alternative and Optional Education Program (TAP)
REVENUES					
Federal sources	\$ -	\$ 87,339	\$ -	\$ -	\$ -
State sources	67,240	-	892,317	267,031	319,283
Local sources	-	-	-	-	-
Interest	-	-	6,781	793	-
Total revenues	67,240	87,339	899,098	267,824	319,283
EXPENDITURES					
Salaries	43,668	59,394	214,260	64,100	237,715
Benefits	11,489	18,162	79,873	18,606	59,314
Purchased services	11,533	7,995	37,774	2,002	21,720
Supplies and materials	550	-	2,709	1,984	517
Capital expenditures	-	-	-	53,704	-
Miscellaneous	-	-	-	-	-
Payments to other governments	-	-	557,701	45,452	-
Total expenditures	67,240	85,551	892,317	185,848	319,266
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	1,788	6,781	81,976	17
OTHER FINANCING USES					
Transfers out	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING USES OVER EXPENDITURES	-	1,788	6,781	81,976	17
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	14	(597)	(10,724)	207,563	14,558
FUND BALANCES (DEFICIT), END OF YEAR	\$ 14	\$ 1,191	\$ (3,943)	\$ 289,539	\$ 14,575

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
 EDUCATION FUND
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2006

SCHEDULE 5
 (CONTINUED)

	Career Awareness and Development Program	SOS - Q4 Teacher Quality	Title II - Teacher Quality Leadership	FY 04 Title I - Reading First Part B SEA Funds	FY 05 Title I - Reading First Part B SEA Funds
REVENUES					
Federal sources	\$ -	\$ -	\$ 43,658	\$ 85,111	\$ 4,572
State sources	-	28,000	-	-	-
Local sources	-	-	-	-	-
Interest	-	-	144	1,092	1,117
Total revenues	-	28,000	43,802	86,203	5,689
EXPENDITURES					
Salaries	-	19,623	-	2,500	3,206
Benefits	-	4,028	-	550	1,140
Purchased services	-	4,460	42,371	76,340	226
Supplies and materials	-	-	1,287	5,721	-
Capital expenditures	-	-	-	-	-
Miscellaneous	71	-	-	-	-
Payments to other governments	-	-	-	-	-
Total expenditures	71	28,111	43,658	85,111	4,572
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(71)	(111)	144	1,092	1,117
OTHER FINANCING USES					
Transfers out	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING USES OVER EXPENDITURES	(71)	(111)	144	1,092	1,117
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	71	-	-	1,110	(559)
FUND BALANCES (DEFICIT), END OF YEAR	\$ -	\$ (111)	\$ 144	\$ 2,202	\$ 558

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
 EDUCATION FUND
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2006

SCHEDULE 5
 (CONTINUED)

	FY 06 Title I - Reading First Part B SEA Funds	Title I - School Improvement & Accountability	Reading First Coordinator	Reading First Technical Assistant	McKinney Education for Homeless Children
REVENUES					
Federal sources	\$ 66,533	\$ 910,894	\$ 26,390	\$ 7,095	\$ 577,651
State sources	-	-	-	-	-
Local sources	1,217	279	1,200	1,505	4,443
Interest	-	-	-	-	-
Total revenues	<u>67,750</u>	<u>911,173</u>	<u>27,590</u>	<u>8,600</u>	<u>582,094</u>
EXPENDITURES					
Salaries	16,045	3,324	20,058	4,876	35,279
Benefits	3,319	3,471	4,412	1,313	7,020
Purchased services	46,865	679,710	1,920	850	163,552
Supplies and materials	304	165,048	-	56	-
Capital expenditures	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Payments to other governments	-	-	-	-	-
Total expenditures	<u>66,533</u>	<u>851,553</u>	<u>26,390</u>	<u>7,095</u>	<u>371,800</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,217	59,620	1,200	1,505	4,443
OTHER FINANCING USES					
Transfers out	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING USES OVER EXPENDITURES	1,217	59,620	1,200	1,505	4,443
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	-	(50,259)	162	194	1,276
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ 1,217</u>	<u>\$ 9,361</u>	<u>\$ 1,362</u>	<u>\$ 1,699</u>	<u>\$ 5,719</u>

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
 EDUCATION FUND
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2006

SCHEDULE 5
 (CONTINUED)

	Technology - Enhancing Education - Competitive	Title IV - Community Service	Youth Home Education	Standards Aligned Classroom	Total
REVENUES					
Federal sources	\$ -	\$ -	\$ -	\$ 5,541	\$ 1,814,784
State sources	-	-	970,846	-	2,544,717
Local sources	-	-	-	-	-
Interest	-	-	2,770	-	21,341
Total revenues	-	-	973,616	5,541	4,380,842
EXPENDITURES					
Salaries	-	-	247,715	-	971,763
Benefits	-	-	95,070	-	307,767
Purchased services	-	311	111,867	303	1,209,799
Supplies and materials	-	-	10,195	-	188,371
Capital expenditures	-	-	9,255	-	62,959
Miscellaneous	1,123	-	-	-	1,194
Payments to other governments	-	-	9,859	-	984,812
Total expenditures	1,123	311	483,961	303	3,726,665
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,123)	(311)	489,655	5,238	654,177
OTHER FINANCING USES					
Transfers out	-	-	(1,245,933)	-	(1,245,933)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING USES OVER EXPENDITURES	(1,123)	(311)	(756,278)	5,238	(591,756)
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	1,123	311	1,325,266	12,288	1,501,797
FUND BALANCES (DEFICIT), END OF YEAR	-	\$ -	\$ 568,988	\$ 17,526	\$ 910,041

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
 EDUCATION FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2006

SCHEDULE 6

	ROE/ISC Technology			Regional Safe Schools			Variance Favorable (Unfavorable)
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	
REVENUES							
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	68,233	67,240	(993)	892,740	892,317	(423)	(423)
Local sources	-	-	-	-	-	-	-
Interest	-	-	-	-	6,781	6,781	6,781
Total revenues	<u>68,233</u>	<u>67,240</u>	<u>(993)</u>	<u>892,740</u>	<u>899,098</u>	<u>6,358</u>	<u>6,358</u>
EXPENDITURES							
Salaries	43,500	43,668	(168)	220,741	214,260	6,481	6,481
Benefits	11,169	11,489	(320)	79,300	79,873	(573)	(573)
Purchased services	12,064	11,533	531	40,700	37,774	2,926	2,926
Supplies and materials	1,500	550	950	5,000	2,709	2,291	2,291
Capital expenditures	-	-	-	5,764	-	5,764	5,764
Payments to other governments	-	-	-	541,235	557,701	(16,466)	(16,466)
Total expenditures	<u>68,233</u>	<u>67,240</u>	<u>993</u>	<u>892,740</u>	<u>892,317</u>	<u>423</u>	<u>423</u>
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ -	\$ -	\$ 6,781	\$ 6,781	\$ 6,781
FUND BALANCES (DEFICIT), BEGINNING OF YEAR		14			(10,724)		
FUND BALANCES (DEFICIT), END OF YEAR		<u>\$ 14</u>			<u>\$ (3,943)</u>		

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
 EDUCATION FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2006

SCHEDULE 6
 (CONTINUED)

	Truants' Alternative and Optional Education Program (TAP)			FY 04 Title I - Reading First Part B SEA Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Federal sources	\$ -	\$ -	\$ -	\$ 91,893	\$ 85,111	\$ (6,782)
State sources	319,283	319,283	-	-	-	-
Local sources	-	-	-	-	-	-
Interest	-	-	-	-	1,092	1,092
Total revenues	<u>319,283</u>	<u>319,283</u>	<u>-</u>	<u>91,893</u>	<u>86,203</u>	<u>(5,690)</u>
EXPENDITURES						
Salaries	241,715	237,715	4,000	2,450	2,500	(50)
Benefits	56,558	59,314	(2,756)	500	550	(50)
Purchased services	20,510	21,720	(1,210)	60,260	76,340	(16,080)
Supplies and materials	500	517	(17)	8,683	5,721	2,962
Capital expenditures	-	-	-	-	-	-
Payments to other governments	-	-	-	20,000	-	20,000
Total expenditures	<u>319,283</u>	<u>319,266</u>	<u>17</u>	<u>91,893</u>	<u>85,111</u>	<u>6,782</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>17</u>	<u>\$ 17</u>	<u>\$ -</u>	<u>1,092</u>	<u>\$ 1,092</u>
FUND BALANCES (DEFICIT), BEGINNING OF YEAR		<u>14,558</u>			<u>1,110</u>	
FUND BALANCES (DEFICIT), END OF YEAR		<u>\$ 14,575</u>			<u>\$ 2,202</u>	

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
 EDUCATION FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2006

SCHEDULE 6
 (CONTINUED)

	FY 05 Title I - Reading First Part B SEA Funds			FY 06 Title I - Reading First Part B SEA Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Federal sources	\$ 42,764	\$ 4,572	\$ (38,192)	\$ 205,524	\$ 66,533	\$ (138,991)
State sources	-	-	-	-	-	-
Local sources	-	1,117	1,117	-	1,217	1,217
Interest	-	5,689	(37,075)	205,524	67,750	(137,774)
Total revenues	42,764	11,177	(37,075)	205,524	67,750	(137,774)
EXPENDITURES						
Salaries	3,150	3,206	(56)	40,600	16,045	24,555
Benefits	1,027	1,140	(113)	8,967	3,319	5,648
Purchased services	32,587	226	32,361	129,053	46,865	82,188
Supplies and materials	6,000	-	6,000	10,168	304	9,864
Capital expenditures	-	-	-	-	-	-
Payments to other governments	-	-	-	16,736	-	16,736
Total expenditures	42,764	4,572	38,192	205,524	66,533	138,991
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ 1,117	\$ 1,117	\$ -	\$ 1,217	\$ 1,217
FUND BALANCES (DEFICIT), BEGINNING OF YEAR		(559)				
FUND BALANCES (DEFICIT), END OF YEAR	\$ -	\$ 558		\$ -	\$ 1,217	\$ 1,217

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
 EDUCATION FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2006

SCHEDULE 6
 (CONTINUED)

	McKinney Education for Homeless Children			Total	Variance Favorable (Unfavorable)
	Budget	Actual	Budget		
REVENUES					
Federal sources	\$ 661,440	\$ 577,651	\$ 1,001,621	\$ 733,867	\$ (267,754)
State sources	-	-	1,280,256	1,278,840	(1,416)
Local sources	-	4,443	-	14,650	\$ 14,650
Interest	-	582,094	(79,346)	2,027,357	(254,520)
Total revenues	661,440	1,163,794	2,281,877	2,027,357	(254,520)
EXPENDITURES					
Salaries	44,000	35,279	596,156	552,673	43,483
Benefits	10,000	7,020	167,521	162,705	4,816
Purchased services	607,440	163,552	902,614	358,010	544,604
Supplies and materials	-	-	31,851	9,801	22,050
Capital expenditures	-	-	5,764	-	5,764
Payments to other governments	-	371,800	577,971	929,501	(351,530)
Total expenditures	661,440	577,651	2,281,877	2,012,690	269,187
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	4,443	\$ -	\$ 14,667	\$ 14,667
FUND BALANCES (DEFICIT), BEGINNING OF YEAR		1,276		5,675	
FUND BALANCES (DEFICIT), END OF YEAR		\$ 5,719		\$ 20,342	

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2006

SCHEDULE 7

	GED	Bus Driver Training	Supervisory	Local Tuancy	Total
Cash	\$ 78,476	\$ 8,269	\$ -	\$ 132,550	\$ 219,295
Accounts receivable	3,053	500	-	-	3,553
Total assets	81,529	8,769	-	132,550	222,848

ASSETS

Total assets

LIABILITIES AND FUND BALANCES

LIABILITIES

Accounts payable	7,368	-	-	(399)	6,969
Deferred revenues	-	2,210	-	-	2,210
Total liabilities	7,368	2,210	-	(399)	9,179

FUND BALANCES

Fund balances, unrestricted	74,161	6,559	-	132,949	213,669
TOTAL LIABILITIES AND FUND BALANCES	\$ 81,529	\$ 8,769	\$ -	\$ 132,550	\$ 222,848

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
 NONMAJOR SPECIAL REVENUE FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2006

	GED	Bus Driver Training	Supervisory	Local Tuancy	Total
REVENUES					
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	-	1,440	1,000	-	2,440
Local sources	-	-	-	-	-
Intergovernmental	-	-	-	13,982	13,982
Fees for services	43,381	7,992	-	-	51,373
Interest	-	-	-	793	793
Total revenues	43,381	9,432	1,000	14,775	68,588
EXPENDITURES					
Salaries	19,164	-	-	3,078	22,242
Benefits	4,977	-	-	359	5,336
Purchased services	21,129	9,775	1,000	-	31,904
Supplies and materials	497	607	-	-	1,104
Miscellaneous	500	-	-	320	820
Total expenditures	46,267	10,382	1,000	3,757	61,406
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,886)	(950)	-	11,018	7,182
FUND BALANCES, BEGINNING OF YEAR	77,047	7,509	-	121,931	206,487
FUND BALANCES, END OF YEAR	\$ 74,161	\$ 6,559	\$ -	\$ 132,949	\$ 213,669

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
 NONMAJOR PROPRIETARY FUNDS
 COMBINING STATEMENT OF NET ASSETS
 JUNE 30, 2006

SCHEDULE 9

ASSETS	Visual Media Cooperative	Business Partners Initiative	Technology	Local Counselors Academy	Criminal Background Investigation	Kane County		Total
						Human Resources	Consortium	
Current assets								
Cash (overdrafts)	\$ 44,211	\$ -	\$ (55,348)	\$ -	\$ 10,564	\$ 25,720	\$ -	\$ 25,147
Accounts receivable	21	-	73,847	-	-	49,000	-	122,868
Total current assets	44,232	-	18,499	-	10,564	74,720	-	148,015
Noncurrent assets								
Capital assets, net	-	-	-	-	11,249	5,602	-	16,851
Total noncurrent assets	-	-	-	-	11,249	5,602	-	16,851
TOTAL ASSETS	44,232	-	18,499	-	21,813	80,322	-	164,866
LIABILITIES								
Accounts payable	-	-	-	3,484	-	-	-	3,484
Due to other governmental agencies	37,107	-	-	-	-	-	-	37,107
TOTAL LIABILITIES	37,107	-	-	3,484	-	-	-	40,591
NET ASSETS								
Invested in capital assets, net of related debt	-	-	-	-	11,249	5,602	-	16,851
Unrestricted	7,125	-	18,499	(3,484)	10,564	74,720	-	107,424
TOTAL NET ASSETS	\$ 7,125	\$ -	\$ 18,499	\$ (3,484)	\$ 21,813	\$ 80,322	\$ -	\$ 124,275

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
 NON-MAJOR PROPRIETARY FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2006

SCHEDULE 10

	Visual Media Cooperative	Business Partners Initiative	Technology	Local Counselors Academy	Criminal Background Investigation	Kane County Human Resources Consortium	Total
OPERATING REVENUES							
Local sources							
Intergovernmental	\$ -	\$ -	\$ -	\$ 11,126	\$ -	\$ 49,000	\$ 60,126
Fees for services	-	4,304	86,176	-	191,867	-	282,347
Total operating revenues	-	4,304	86,176	11,126	191,867	49,000	342,473
OPERATING EXPENSES							
Salaries	-	-	-	38,400	-	6,565	44,965
Benefits	-	-	-	4,569	-	1,978	6,547
Purchased services	358	-	145,312	46,866	177,112	46,892	416,540
Depreciation	-	-	-	-	3,226	2,155	5,381
Supplies and materials	-	10,487	-	530	240	1,043	12,300
Total operating expenses	358	10,487	145,312	90,365	180,378	58,633	485,733
OPERATING INCOME (LOSS)	(358)	(6,183)	(59,136)	(79,239)	11,289	(9,633)	(143,260)
NONOPERATING REVENUES							
Interest	-	-	-	-	-	-	-
INCOME (LOSS) BEFORE OPERATING TRANSFERS	(358)	(6,183)	(59,136)	(79,239)	11,289	(9,633)	(143,260)
OTHER FINANCING SOURCES (USES)							
Transfers in (out)	-	(13,526)	13,526	79,093	-	-	79,093
CHANGES IN NET ASSETS	(358)	(19,709)	(45,610)	(146)	11,289	(9,633)	(64,167)
NET ASSETS, BEGINNING OF YEAR	7,483	19,709	64,109	(3,338)	10,524	89,955	188,442
NET ASSETS, END OF YEAR	\$ 7,125	\$ -	\$ 18,499	\$ (3,484)	\$ 21,813	\$ 80,322	\$ 124,275

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
 NONMAJOR PROPRIETARY FUNDS
 COMBINING STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2006

SCHEDULE 11

CASH FLOWS FROM OPERATING ACTIVITIES:

	Visual Media Cooperative	Business Partners Initiative	Technology	Local Counselors Academy	Criminal Background Investigation	Kane County Human Resources Consortium	Total
Receipts for workshops and services	\$ -	\$ 4,304	\$ 35,157	\$ 11,126	\$ 191,867	\$ 32,000	\$ 274,454
Payments to suppliers	(358)	(10,487)	(145,312)	(90,219)	(177,352)	(56,478)	(480,206)
Net cash provided by (used in) operating activities	(358)	(6,183)	(110,155)	(79,093)	14,515	(24,478)	(205,752)

CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITY:

Cash transfer from other funds	-	(13,526)	13,526	79,093	-	-	79,093
Net cash provided by (used in) noncapital financing activity	-	(13,526)	13,526	79,093	-	-	79,093

CASH FLOWS FROM CAPITAL FINANCING ACTIVITY:

Purchase of capital assets	-	-	-	-	(1,419)	(7,757)	(9,176)
Net cash used in capital financing activity	-	-	-	-	(1,419)	(7,757)	(9,176)

NET INCREASE (DECREASE) IN CASH

	(358)	(19,709)	(96,629)	-	13,096	(32,235)	(135,835)
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CASH (OVERDRAFTS), BEGINNING OF YEAR

	44,569	19,709	41,281	-	(2,532)	57,955	160,982
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CASH (OVERDRAFTS), END OF YEAR

	\$ 44,211	\$ -	\$ (55,348)	\$ -	\$ 10,564	\$ 25,720	\$ 25,147
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Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:

Operating income (loss)	\$ (358)	\$ (6,183)	\$ (59,136)	\$ (79,239)	\$ 11,289	\$ (9,633)	\$ (143,260)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation	-	-	-	-	3,226	2,155	5,381
Effects of changes in assets and liabilities:							
Accounts receivable	-	-	(51,019)	-	-	(17,000)	(68,019)
Accounts payable	-	-	-	146	-	-	146

Net cash provided by (used in) operating activities

	\$ (358)	\$ (6,183)	\$ (110,155)	\$ (79,093)	\$ 14,515	\$ (24,478)	\$ (205,752)
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KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
 FIDUCIARY FUNDS
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2006

SCHEDULE 12

	<u>Payroll</u>	<u>Juvenile Drug Court</u>	<u>Distributive Fund</u>	<u>Total</u>
ASSETS				
Cash	<u>\$ 65,512</u>	<u>\$ 18,530</u>	<u>\$ -</u>	<u>\$ 84,042</u>
LIABILITIES				
Due to other governmental agencies	<u>\$ 65,512</u>	<u>\$ 18,530</u>	<u>\$ -</u>	<u>\$ 84,042</u>

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
 FIDUCIARY FUNDS
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - ALL AGENCY FUNDS
 JUNE 30, 2006

SCHEDULE 13

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>
PAYROLL				
ASSETS				
Cash	\$ 85,056	\$ 1,603,690	\$ 1,623,234	\$ 65,512
LIABILITIES				
Due to other governmental agencies	\$ 85,056	\$ 1,603,690	\$ 1,623,234	\$ 65,512
JUVENILE DRUG COURT				
ASSETS				
Cash	\$ 16,982	\$ 57,079	\$ 55,531	\$ 18,530
LIABILITIES				
Due to other governmental agencies	\$ 16,982	\$ 57,079	\$ 55,531	\$ 18,530
DISTRIBUTIVE				
ASSETS				
Cash	\$ -	\$ 1,776,493	\$ 1,776,493	\$ -
LIABILITIES				
Due to other governmental agencies	\$ -	\$ 1,776,493	\$ 1,776,493	\$ -
TOTAL - ALL AGENCY FUNDS				
ASSETS				
Cash	\$ 102,038	\$ 3,437,262	\$ 3,455,258	\$ 84,042
LIABILITIES				
Due to other governmental agencies	\$ 102,038	\$ 3,437,262	\$ 3,455,258	\$ 84,042

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
SCHEDULE OF DISBURSEMENTS TO SCHOOL DISTRICT
TREASURERS AND OTHERS
FOR THE YEAR ENDED JUNE 30, 2006**

SCHEDULE 14

Valley Education for Employment System

Vocational Education - Career and Tech. Grant	\$ 30,580
Vocational Education - Career and Technical Education Improvement	1,252,985
Vocational Education - Agriculture Education	27,888
Vocational Education - Perkins - IIE	465,040
	<hr/>
	\$ 1,776,493
	<hr/> <hr/>

KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2006

SCHEDULE 15

Federal Grantor/Pass-Through Grantor Program/Grant Title	CFDA Number	Pass-Through Number	FY 2006 Expenditures
<u>DEPARTMENT OF EDUCATION</u>			
Reading First State Grants			
Passed-Through Illinois State Board of Education			
<i>Title I - Reading First Part B SEA Funds</i>	84.357A	2006-4337-00	\$ 85,111
<i>Title I - Reading First Part B SEA Funds</i>	84.357A	2006-4337-02	4,572
<i>Title I - Reading First Part B SEA Funds</i>	84.357A	2006-4337-01	30,442
<i>Title I - Reading First Part B SEA Funds</i>	84.357A	2006-4337-04	36,091
Passed-Through Lake County Regional Office of Education No. 34			
<i>Title I - Reading First Part B SEA Funds</i>	84.357A	2005-4337-01	26,390
<i>Title I - Reading First Part B SEA Funds</i>	84.357A	2005-4337-04	7,095
			<u>189,701</u>
Education for Homeless Children and Youth			
Passed-Through Illinois State Board of Education			
<i>McKinney Education for Homeless Children</i>	(M) 84.196A	2006-4920-00	<u>577,651</u>
Special Education Grants to States			
Passed-Through Northern Suburban Special Education District			
<i>Federal Special Education - IDEA Flow-Through</i>	84.027	2006-4630-01	<u>85,551</u>
Other Federal Grants			
Passed-Through Will County Regional Office of Education No. 56			
<i>Standards Aligned Classroom</i>	84.289A	2005-4999-00	<u>303</u>
Improving Teacher Quality State Grants			
Passed-Through Will County Regional Office of Education No. 56			
<i>Title II - Teacher Quality - Leadership</i>	84.367A	2006-4935-SS	<u>43,658</u>
Title I Grants to Local Educational Agencies			
Passed-Through Will County Regional Office of Education No. 56			
<i>Title I - School Improvement & Accountability</i>	(M) 84.010A	2006-4331-SS	<u>851,553</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 1,748,417</u></u>

(M) Program was audited as a major program

The accompanying notes are an integral part of this schedule.

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

Note 1. Reporting Entity Basis of Presentation and Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Kane County Regional Office of Education No. 31 and is prepared on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Note 2. Subrecipients

The Kane County Regional Office of Education No. 31 provided federal awards totaling \$371,800 to the following:

Subrecipient	McKinney Education for Homeless Children (CFDA #84.196A)
DuPage County Regional Office of Education No. 19	\$ 107,400
Suburban Cook County Regional Office of Education No. 14	102,800
Lake County Regional Office of Education No. 34	87,200
Will County Regional Office of Education No. 56	44,600
Grundy/Kendall Counties Regional Office of Education No. 24	29,800
Total	\$ 371,800

Note 3. Description of Federal Programs Audited as a Major Program

McKinney Education for Homeless Children was designed to provide counseling and educational support to homeless children and their families. The programs are funded by a Federal Stewart B. McKinney Education for Homeless Children and Youth Grant administered through the Illinois State Board of Education.

Title I - School Improvement & Accountability provides school districts with funds to carry out their school improvement and corrective action responsibilities under Section 1116(c) of Title I while offering students in schools identified for improvement and corrective action the opportunity to transfer to another higher performing public school, including a public charter within the district.

**KANE COUNTY REGIONAL OFFICE OF EDUCATION NO. 31
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

Note 4. Non-Cash Assistance

Not Applicable.

Note 5. Amount of Insurance

Not Applicable.

Note 6. Loans or Loan Guarantees Outstanding

Not Applicable.