



STATE OF ILLINOIS
**OFFICE OF THE
 AUDITOR GENERAL**

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #39
MACON/PIATT COUNTIES

FINANCIAL AUDIT
For the Year Ended: June 30, 2016

Release Date: August 22, 2017

FINDINGS THIS AUDIT: 1				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	No Repeat Findings			
Category 1:	0	0	0				
Category 2:	1	0	1				
Category 3:	0	0	0				
TOTAL	1	0	1				
FINDINGS LAST AUDIT: 1							

SYNOPSIS

- **(16-1)** The Regional Office of Education #39 did not properly apply the appropriate accounting principles to capital lease transactions.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).
Category 2: Findings that are **significant deficiencies** in internal control and/or **noncompliance** with State laws and regulations.
Category 3: Findings that have **no internal control issues but are in noncompliance** with federal and/or State laws and regulations.

{ Revenues and expenditures are summarized on the reverse page. }

REGIONAL OFFICE OF EDUCATION #39
MACON AND PIATT COUNTIES

FINANCIAL AUDIT
For The Year Ended June 30, 2016

	FY 2016	FY 2015
TOTAL REVENUES	\$5,472,009	\$5,432,459
Local Sources	\$1,624,058	\$1,652,374
% of Total Revenues	29.68%	30.42%
State Sources	\$3,813,422	\$3,690,876
% of Total Revenues	69.69%	67.94%
Federal Sources	\$34,529	\$89,209
% of Total Revenues	.63%	1.64%
TOTAL EXPENDITURES	\$5,134,041	\$5,149,046
Salaries and Benefits	\$3,804,064	\$3,789,726
% of Total Expenditures	74.09%	73.60%
Purchased Services	\$1,205,121	\$1,223,689
% of Total Expenditures	23.47%	23.77%
All Other Expenditures	\$124,856	\$135,631
% of Total Expenditures	2.43%	2.63%
TOTAL NET POSITION	\$389,205 ¹	\$(233,709)
INVESTMENT IN CAPITAL ASSETS	\$24,513 ²	\$19,371
¹ The FY 2016 beginning net position was restated by \$284,946 due to a prior period adjustment for recognition of a capital lease and a portion of the deferred outflows of resources, net pension liability and deferred inflows of resources being reclassified to the Heartland Region fund, an agency fund. ² Capital asset amounts include debt associated with a capital lease. Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT

During Audit Period: Honorable Matthew Snyder
Currently: Honorable Matthew Snyder

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

FAILURE TO APPLY APPROPRIATE ACCOUNTING PRINCIPLES

The Regional Office of Education #39 did not properly apply the appropriate accounting principles to capital lease transactions.

Generally accepted accounting principles (GAAP) require that a lease be capitalized if any one of the following four criteria is a characteristic of the lease transaction: (1) the lease transfers ownership of the property to the lessee by the end of the lease term, (2) the lease contains bargain purchase options, (3) the lease term is equal to 75% or more of the estimated economic life of the leased property, or (4) the present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90% of the fair value of the leased property. Capital leases are treated as an acquisition of assets and the incurrence of obligations by the lessee.

The Macon and Piatt Counties Regional Office of Education #39 (ROE) did not properly record certain lease transactions and capital asset acquisitions, and as a result, did not properly apply the appropriate generally accepted accounting principles. Payments on capital leases were accounted for as operating leases and recorded as purchased services. The leases met the criteria requiring them to be capitalized due to the bargain purchase options. Auditors proposed adjusting entries to record the lease transactions in accordance with GAAP.

According to the ROE's management, the ROE generally does not keep the equipment after the lease term and, therefore, considered the recording of the lease transactions as operating expenses proper. (Finding 2016-001, pages 10-11)

The auditors recommended the ROE establish procedures to ensure lease transactions and capital asset acquisitions are properly accounted for and reported in accordance with generally accepted accounting principles. If necessary, accounting and reporting guidance should be obtained from technical resources to be in conformity with GAAP.

The ROE responded that they acknowledge that the financial statements did not include the lease liability and capital asset as in accordance with US GAAP. The ROE will include this information in its financial statements and will be alert for the issue going forward.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #39's financial statements as of June 30, 2016 are fairly presented in all material respects.

This financial report was conducted by the firm of West & Company, LLC.

SIGNED ORIGINAL ON FILE

AMEEN DADA
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:JRB